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Investors Need A War-Time Stay In The Execution Of The Utility Act "Death Sentence"

By CHARLES A. O'NEIL

The preamble of the Public Utility Act of 1935 starts by reciting that "Public-utility holding companies and their subsidiary companies are affected with a national public interest in that, among other things, (1) their securities are widely marketed and distributed by means of the mails and instrumentalities of interstate commerce and are sold to a large number of investors in different States . . ." And immediately following, the corner-stone is laid by the statement that "it is hereby declared that the national public interest, the interest of investors in the securities of holding companies and their subsidiary companies and affiliates, and the interest of consumers of electric energy and natural and manufactured gas are or may be adversely affected" by a list of so-called "abuses" none of which could arise today, and none of which points even vaguely in the direction of the "death sentence."

Charles A. O'Neil

Thus investors were prominent in the mind of Congress from the very inception of the Act. It is fitting, therefore, that investors

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Post-War Trust Investment Policies

By O. M. W. SPRAGUE

Professor of Banking and Finance, Graduate School of Business Administration, Harvard University

A warning of the possibility of a post-war inflation and its aftermath—"a precipitate decline of prices"—was sounded by O. M. W. Sprague, Professor of Banking and Finance, Graduate School of Business Administration, Harvard University, at the Trust Division session of the War Service Meeting of the American Bankers Association in New York last week.

Dr. Sprague predicted that, if inflation comes, the market for government bonds will hold up better than any other class of securities. He advised administrators of trust accounts who operate under the Prudent Investment Rule and whose portfolios "will doubtless include various issues which appreciate under the impact of inflation," to take profits on such issues if inflation comes, "more generally than has been the practice in the past."

O. M. W. Sprague

Discussing events which he believes may lead to post-war inflation, Dr. Sprague declared:

"Unlike the pre-war period, ownership in the expended currency and demand deposits is widespread throughout the community and a large fraction of the government securities issued during the war contain security for their redemption at par on demand. Here we have the purchasing power for an intense demand for a far greater quantity of civilian goods and services than will be available for many months after the return of peace.

"Patriotic restraints will be weaker than now and it may be

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AMERICAN BANKERS ASSOCIATION HOLDS 69th ANNUAL CONVENTION

A. L. M. Wiggins Elected President at War Service Meeting in New York; Other Officers and Division Officials Chosen at ABA Sessions

A. Lee M. Wiggins, president of the Bank of Hartsville, Hartsville, South Carolina, was elected president of the American Bankers Association at the 69th annual convention held in New York City, September 13th through 15th. Mr. Wiggins succeeds W. L. Hemingway, president of the Mercantile-Commerce Bank and Trust Company of St. Louis as head of the ABA.

A. L. M. Wiggins

W. R. Burgess

Wilmer J. Waller

Other officers elected at the ABA meeting, stream-lined this year because of the war, are: W. Randolph Burgess, vice-chairman of the board of the National City Bank of New York, vice-president. Wilmer J. Waller, president of the Hamilton National Bank of Washington, D. C., was chosen treasurer of the Association.

The conference of the American Bankers Association this year had a triple theme, war finance and the domestic economy; inter-American fiscal policy; and international fiscal policy. (Reports of speeches at the meeting by prominent figures in international and national finance will be found elsewhere in the Chronicle, which regrets that because of space limitations it is not possible to include all in this issue. It is hoped that in future issues it will be possible to print these also, since they likewise constitute a valuable contribution to the study of problems of post-war banking and finance.)

Annual meetings of the Association's committees and commissions were held on Sunday, September

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Bankers Must Lend Wise Counsel To Create Post-War Economy

Government War Financing and Its Effect On Our Economy Discussed

By ROBERT STRICKLAND
President of Trust Company of Georgia, Atlanta, Ga.

"That the American Bankers Association not only has a greater responsibility for the successful financing of the war than any other single group in private enterprise," was the statement made by Robert Strickland, President of the Trust Co. of Georgia, Atlanta, Ga., at the Association's War Service meeting. "It has," he said, "a larger duty to assume the initiative in devising a long-range fiscal policy for both the war and post-war period in order to assure our continuing national solvency." "Pursuant to this responsibility," Mr. Brand went on to say, "it must give unrestricted support to the Treasury in the current and in future war loans, and on all occasions advise as to the wisest, most economical and safest course of financing to be pursued, without regard to any selfish interest of the banking system. In the midst of a plethora of post-war planning for spending and borrowing its authoritative voice must be raised for earning, saving and paying. If the United States cannot plan for the preservation and solvency of its own post-war economy, it cannot pretend to assume the salvation of the world." He urged that bankers must give wise counsel to create a sound economic atmosphere, and that they must aid in bringing home to every American an understanding of what the future debt, which he estimated will reach a peak of over $300,000,000,000, means in future American life.


Robert Strickland

"With more than one-third of our citizens as direct owners of government obligations, and countless other millions indirect owners as holders of life insurance policies, of bank deposits, and other evidences of participation and ownership, it is necessary," he pointed out, "that there

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Cleve. Traders Elect; Announce Annual Party

CLEVELAND, OHIO — L. L. Longdon, Chairman of the election committee, announces at the annual election of officers of the Cleveland Security Traders Association for the 1943-44 term, the following candidates were elected: President, Corwin L. Liston, Prescott & Co.; Vice-President, Richard A. Gottron, Gillis, Russell & Co.; Secretary, Walter J. Carey, Robbins, Gunn & Co.; Treasurer, Arthur V. Grace, Cunningham & Co.


Corwin L. Liston

The annual election party of the Association will be held on Friday, Oct. 1, at the University Club, 3813 Euclid Avenue. Dinner will be at 7:30 p. m., preceded by a ball game with Larry Denison's nine. Free beer will be served to members and guests during the game and after. Dinner for guests will be three dollars per plate; no charge for members.

Reservations for the party should be made with James N. Russell, Gillis, Russell & Co.; Everett A. King, Maynard H. Murch & Co.; George Huberty, Jr., Goodbody & Co., or Harry Gawne, Merrill, Turben & Co.

Longer-Term Market Trend Seems Up

On balance, the list gained ground during yesterday's session but the performance was far from uniform. The strongest group action was rendered by the rails, partly on the premise that they had been temporarily oversold and partly in the expectation of favorable dividend developments in connection with several members. Events during the day were closely watched in the war spheres and in Washington. Some improvement in the American position in the Salerno district of Italy was noted as was further progress by the Russian forces in their remarkably successful drive to date.

It is our impression that accumulation is continuing in leisurely fashion in many deserving sections of the list. We refer particularly to those fields in which postwar prospects seem outstandingly bright in view of the pent-up demand that is being created during the war years. A recent appraisal of the outlook of the building industry forecasts a need for building units of approximately one million units a year for the decade following the war's end. It is obvious that the fulfillment of any such building program would bring years of extraordinary activity and profits to the many corporations identified with this important industry. Building material and household furnishings of all types would be required and their prosperity would, if precedent is followed, spread widely through the national economy.

Another highly important peace beneficiary promises to be the automobile industry. It has been estimated that this field may enjoy five years of record production. Automobile and truck manufacturers would be outstanding beneficiaries with innumerable accessory concerns enjoying the largest business in their peacetime history. The vast accumulation of savings in the hands of our citizens clearly indicates an ability to satisfy demands that are now being built up in these directions.

Major movements naturally require more than incidental news for sustenance. Fundamental factors remain in our opinion constructive. Thanks to an expansion in volume, industry profits for the first half of this year recorded gains both before and after taxes. Of the three major groups, the railroads recorded the largest improvement after taxes, the industrials the next sizable expansion, while the utilities registered the smallest gain. Results during the second half of this year seem likely to continue quite satisfactory notwithstanding the heavy tax load that must be borne. In view of this prospect and in consideration of the longer-term business outlook, we can see little danger of the market's major trend changing. Naturally, interruptions will occur intermittently such as the mid-summer reactionary phase, but during the progress of such corrective movements one should not lose sight of the broader market picture.—*J. S. Bache & Co. (Sept. 16-17).*

George L. White Is With Hicks & Price

(Special to The Financial Chronicle)

CHICAGO, ILL. — George L. White has become associated with Hicks & Price, 231 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. White was formerly head of George L. White & Co., Chicago investment firm.

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

B. Rudolph Represents Lord, Abbett In South

Lord, Abbett & Co., Inc., 63 Wall Street, New York City, announce the appointment of Ben A. Rudolph as Southern representative with headquarters in Atlanta, Ga., in the Citizens and Southern Building. Mr. Rudolph was formerly associated with Johnson, Lane, Space & Co., Inc., of Atlanta.

Thomas J. Doyle Is Now With Ward & Co.

Thomas J. Doyle, formerly connected with Hughes & Treat, New York, and Hall, Cherry, Wheeler & Co., Buffalo, is now associated with Ward & Co., 120 Broadway, New York City, in their statistical and research departments.

Wm. C. Roney & Co. To Be NYSE Members

DETROIT, MICH.—Wm. C. Roney & Co., Buhl Building, members of the Detroit Stock Exchange, will become members of the New York Stock Exchange as of Sept. 30, when Wm. C. Roney acquires the Exchange membership of John P. Lein of John P. Lein & Co.

Partners of Wm. C. Roney & Co. are: Wm. C. Roney, Clyde L. Hagerman, J. Edward Roney, Andrew C. Reid, general partners, and W. A. John and Joseph L. Hickey (trustee), special partners.

Edward Nadeau With Bache Co. In Detroit

(Special to The Financial Chronicle)

DETROIT, MICH.—Edward A. Nadeau has become associated with J. S. Bache & Co., Penobscot Building. Mr. Nadeau was previously with Bliss Bowman & Co. and C. G. McDonald & Co. In the past he was manager of the trading department for Marquardt, Wilson & Co. and was Detroit manager for Avery & Co.

Arthur Carroll With Hemphill, Noyes & Co.

PHILADELPHIA, PA.—Arthur W. Carroll has become associated with Hemphill, Noyes & Co., Fidelity-Philadelphia Trust Building, as Manager of the Municipal Bond Department. Mr. Carroll in the past was connected with Van Alstyne, Noel & Co. in Philadelphia.

Forming Wm. Fisher & Co.

William Fisher & Co., members of the New York Stock Exchange, will be formed with offices at 120 Broadway, New York City, on Oct. 1. Partners will be William Fisher and Warren E. Fisher, both Exchange members, who have been doing business as individual floor brokers.

Paternalism In Government Should Be Abolished

Development of Trade with Latin America Urged

By W. L. HEMINGWAY

Retiring President American Bankers Association and President of Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.

"The necessity for the abolition of paternalism in Government" was stressed by W. L. Hemingway, in his address as President at the War Service meeting of the American Bankers' Association. Mr. Hemingway, who is President of the Mercantile-Commerce Bank & Trust Co. of St. Louis, noted that "from the very beginning of our national life restrictions have been placed about the authority of our elected officials," but that "recently we have seen practically unlimited powers given to the Executive Department on the ground that they are necessary to meet the emergency." "Granted that this be true," he added, "it should be so only during the emergency."


W. L. Hemingway

"Among other things, Mr. Hemingway remarked that "no one can argue successfully that we need more money in circulation." He pointed out that "the currency outstanding exceeds 18 billions of dollars, whereas in the boom year of 1929 it was less than 5 billions. He further said that "bank deposits today are more than 88 billions as against 56 billions in 1929." Presenting the question as to "what excuse can there be then after the war for further Government spending to make work and put money in the hands of the people." Mr. Hemingway advised that "if public works are needed after the war, let them be provided by local governments—State and Municipal."

In submitting his report as President in three parts, Mr. Hemingway in his second portion referred to our Latin-American relations; he observed that "generally speaking, our foreign policy has followed a rather consistent pattern from the beginning, . . . But under the present administration those irritants that were present in our relations with

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Peace Is Bullish

If the recent market sell-off which was precipitated by the fall of Mussolini represented "fear" of an early peace, that fear seems wholly illogical. Both logic and the pattern of World War I indicate that peace is bullish, not bearish, and that it is on the forces of construction rather than on those of destruction that sound securities values must be built.

Frankly, our fear is that peace will not come nearly so soon as the more optimistically inclined believe, but, whether it comes sooner or later, it should be welcomed not only from the humanitarian but from the business standpoint.

For the purpose of this discussion we will assume that victory is practically as close as it was in early 1918. In the spring of that year it became apparent that victory for the Allies was in sight. During the balance of 1918 and almost all of 1919 the stock market moved forward strongly, this upward movement having been punctuated only by a brief and not particularly severe drop im-

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Boston Traders To Hold Annual Meeting

BOSTON, MASS.—The Boston Securities Traders Association will hold their annual meeting at the University Club, 40 Trinity Place, on Tuesday, September 28th, at 5 p.m. Checks to cover the charge of $1.75 should be mailed promptly to the Treasurer.

The committee in charge of the annual meeting are: G. Carlton Jordan, R. W. Pressprich & Co., Chairman; Harry O. Baker, Boston Safe Deposit & Trust Co.; Paul Monroe, Hunnewell & Co.; Lester Doucet, Salomon Bros. & Hutzler, and James J. Lynch, Shea & Co.

'Go West Young Dollars'—A Study Of The Future Of The Pacific Coast And Its Securities

There has been considerable public discussion and speculation as to what extent the migration of aircraft and shipyard workers to the West will be permanent and what will be done with the heavy plant expansion accomplished in that area. In view of the great interest in this question, E. F. Hutton & Company, 61 Broadway, New York City, members of the New York Stock Exchange and other leading Exchanges, has prepared an attractive booklet entitled "Go West Young Dollars," designed to acquaint investors in the East with the situation on the Pacific Coast.

The prospects for industrial developments after the war offer exciting possibilities. New and basic key industries—aluminum, magnesium, synthetic rubber, steel — will facilitate post-war progress in the Far West. The necessity of the West supplying a far greater share of its own market, and then expanding it, has been brought into sharp relief by the war.

The economy of the Western States, lopsided in the past because so largely dependent upon agricultural and natural resource products, is by virtue of its rapid industrialization gaining a balance that from a long term investor standpoint is not without significance, E. F. Hutton & Co., declares. It is a development tending to provide maturity and seasoning for existing investments, yet at the same time retaining all the appeal to risk capital inherent in the growth prospects of a virile and expanding country.

The War Production Board has reported that the increasing concentration of major industries in California points to the emergence of that State as one of the leading industrial areas in the post-war era, ranking with Texas, Ohio and Indiana as among those states headed for post-war industrial leadership.

Copies of this interesting brochure may be obtained from E. F. Hutton & Company, upon request.

House Adopts Fulbright Bill For U. S. Post-War Collaboration

In the first expression of Congressional sentiment on foreign policy after victory, the House adopted on Sept. 21, by a vote of 360 to 29, the Fulbright resolution favoring participation by the United States in post-war international peace machinery.

The measure now goes to the Senate, where it will be considered by the Foreign Relations Committee together with several other resolutions.

The Senate, jealous of its foreign relations prerogatives, is likely to sidetrack the proposal pending drafting of a substitute by the Senate Foreign Relation Committee says Edward V. Roberts, Staff Correspondent of the United Press.

The resolution, sponsored by Representative Fulbright (D. Ark.) reads as follows:

"*Resolved by the House of Representatives (the Senate concurring)*, That, the Congress hereby expresses itself as favoring the creation of appropriate international machinery with power adequate to establish and to maintain a just and lasting peace, among the nations of the world, and as favoring participation by the United States therein, through constitutional processes."

AMG Criticized By Russian Publication

The Allied Military Government of Occupied Territory and the American Board of Economic Action were criticized by the Soviet trade union publication "War and the Working Class" on Sept. 19. The publication also contends that the United States and Great Britain are trying to obtain a leading voice in the settlement of European economic problems for "Anglo-Saxon banking, industrial and commercial groups," said a United Press dispatch from Moscow on Sept. 19, which added:

It was the second attack on the Allies' administration of territory captured from the Axis that has been printed this month by the publication, which in the past frequently has mirrored the attitude of the Soviet Government.

"War and the Working Class" charged that the A. M. G. in Sicily retained the Fascist governmental machine and that it "is generally developing from foundations that have nothing in common with democratic principles."

The magazine expressed concern over "indications" that A. M. G. does not intend to limit itself to military administrative problems that may arise during the transitional period between the liberation of Axis-held countries and the reestablishment of local government.

Ins. Stock Attractive

The current situation in the Baltimore American Insurance Company of New York, whose capital stock is selling in an attractive low-price range, offers interesting possibilities according to a circular being distributed by Butler-Huff & Co. of California, 210 West Seventh Street, Los Angeles, Calif. Copies of the circular, discussing the situation in detail may be had upon request from Butler-Huff & Co.

Rock Island Interesting

Raymond & Co., 148 State St., Boston, Mass., have prepared an interesting discussion of the reorganization plan proposed for the Rock Island with particular reference to this railroad's general 4s of 1988 and the first refunding 4s of 1934. Copies of this memorandum may be had upon request.

Elected Directors

Ben Abrams, President of Emerson Radio & Phonograph Corp., announced that Ferdinand Eberstadt of F. Eberstadt & Co., and Richard C. Hunt of Chadbourne, Hunt, Jaeckel & Brown, have been elected as directors of Emerson. Charles Robbins has been elected Vice-President.

Stock Transfer Tax And Other Savings

Registrar and Transfer Company, Two Rector Street, New York City, and 15 Exchange Place, Jersey City, N. J., have prepared an interesting booklet on the advantage of their dual arrangement as transfer agent in New York and Jersey City, which arrangement is acceptable to the New York Stock Exchange and other Exchanges. Copies of the booklet will be sent by Registrar and Transfer Company upon request.

Change In Renegotiation Law Opposed By Jesse Jones And Randolph Paul

Administration opposition to revision of the War Contract Renegotiation Act so as to give industry specified profits after taxes for post-war reconversion reserves was voiced before the House Ways and Means Committee on Sept. 10 by Secretary of Commerce Jesse H. Jones and Randolph Paul, General Counsel of the Treasury.

Mr. Jones said the price adjustment statute is not the place to provide industry with reserves for post-war reconversion and peacetime production.

Mr. Paul estimated that corporation profits for 1941, 1942 and 1943 would be $24,200,000,000 after payment of taxes.

Regarding their testimony, Associated Press Washington advices of Sept. 10 stated:

Mr. Paul estimated American corporations still would hold $11,600,000,000 in cash or added investments after paying $12,600,000,000 in dividends on 1941, 1942 and 1943 profits on both government and private business.

He described the $24,200,000,000 as a "substantial sum" when compared with pre-war periods but gave no comparative figures.

In reply to a question by Representative Disney (Dem., Okla.), he estimated that stockholders would pay about $4,000,000,000 taxes on the $12,600,000,000 of dividends they received during the three-year period.

Mr. Paul and Mr. Jones, who also is head of the Reconstruction Finance Corporation, joined Army and Navy representatives in contentions that price adjustment is necessary to recapture "excessive profits" of contractors who got Government business without competitive bidding.

To an inquiry by Representative Knutson (Rep., Minn.), Mr. Jones said the taxes should not be considered a part of production costs, and that if contracts were renegotiated on that basis, "the Government, in effect, would be paying the taxes of these industries." Mr. Paul gave them a similar view.

Representative Knutson said: "It looks to me like taxes are just as much an element of cost as material or labor."

Mr. Jones testified that he thought the law should provide for renegotiation to guarantee minimum profits for efficient war production, as well as to recover "excessive profits."

He said it was "much too early" to consider means of setting up special reserves for industry reconversion, and expressed the view that "reserves for conversion should come out of profits after taxes," with such reserves "as reasonable as the taxing authorities will allow."

The Navy Department recommended that contractors doing less than $500,000 of war business annually be exempt from renegotiation, but opposed the proposals that price adjustments be made after taxes and in a manner to allow reserves for post-war reconversion and peace-time production.

Kenneth H. Rockey, Chairman of the Navy's Price Adjustment Board, supported a bill by Representative Doughton (Dem., N. C.), providing that the $100,000 exemption in the existing law be raised to $500,000, effective on 1943 business.

Mayfair House Bonds Situation Interesting

Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York City, have prepared a new descriptive report on the bonds securing the Mayfair House, 60 East 65th St., New York. Copies are available from the firm upon request.

Railroad Securities

The reorganization railroad bond market was shaken out of its doldrums in spectacular fashion around the middle of last week, and speculators found it just as difficult to buy bonds at advancing prices as they had to dispose of bonds when premature peace optimism held sway. It is probable that fighting at Salerno, with its indication that the German army is still a considerable force to contend with, had some influence on the change in speculative sentiment. There has been less talk recently of the possibility of an early end to the European war.

The direct immediate cause for the renewed buying interest, however, was apparently the unexpected speed with which the court acted in approving the final revised plan of the Denver & Rio Grande Western. This tended to focus attention on the fact that there are a number of important reorganization developments that may come to a head in the near future. The Missouri Pacific had pending its application for authority to use a part of its cash balances to pay off the whole or part of various underlying bonds and for payment of back interest on other system obligations. This request was approved over the weekend and others may have been settled between the writing of this column and its publication.

Frisco has pending a petition to make interest payments and also to settle the controversy over treatment of RFC and RCC loans through a cash compromise and Cotton Belt has asked for authority to make interest payments. St. Paul bondholders are waiting impatiently to see how the Interstate Commerce Commission is going to react to the compromise proposal filed by institutional bondholders in July. This proposal also contemplates large cash payments, and was brought forward as a means of meeting the question of "qualitative and quantitative compensation" brought up by the Supreme Court. Finally, at long last a reorganization proposal was filed for Wisconsin Central by the senior bondholders.

All of these developments or potential developments are expected to have an important influence on expediting the entire reorganization procedure. In addition to these proposals already pending, the Seaboard reorganization is finally showing signs of life, with briefs filed on September 20 and arguments to be heard in October, and Judge Hincks in adjourning the New Haven hearings to October 5 urged all parties to come to agreement on the I. C. C. plan by that date. He made it plain that if objections are waived he stands ready to approve the plan in short order. All in all, there is growing evidence of the anxiety of all parties to reorganization proceedings to get these properties out of the courts without the interminable delays that have become characteristic.

The large cash balances of the roads affords an opportunity for improving the status of the various bondholders groups, and if the use of this cash is to be sanctioned by the authorities, feasible compromises and an end to lengthy litigation become more readily workable. The courts in the recent past have shown an appreciation of the potentialities inherent in such a solution of reorganization problems and it should soon be known if the Commission is as fully aware of the value of utilization of cash to bring about satisfaction of the warring factions.

It seems too optimistic to assume that the recent turn in the market indicates any future invulnerability to periodic waves of peace psychology. Nevertheless, it does appear reasonable to view

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Real Estate Securities

INTERESTING COMPARISONS

We note that the continual rise in the prices of real estate securities has brought the bid for the bonds of several of these issues up pretty close to par. We have no doubt that this market valuation is quite justifiable. However, by the same category, we are at a loss to understand the large difference in price of comparative properties.

As an example, the bonds of the Graybar Building are currently 96¾ bid, while the bonds of the Chanin Building are only 53½ bid. In comparing both issues, it seems to us that there is too large a discrepancy in price.

Both are first mortgage leasehold bonds. Bonds outstanding of the Graybar Building amount to $7,502,000, compared to $6,059,500 for the Chanin Building. Location of both properties is equally good. The Graybar Building is at 43rd Street and Lexington Avenue adjoining the New York Central Railroad Terminal, while the Chanin Building is located on the southwest corner of 42nd Street and Lexington Avenue opposite the Terminal. The Chanin is a 55-story building built on a plot of 29,625 square feet with a rentable area of 635,000 square feet, compared to the 30-story Graybar Building built on a plot of 68,200 square feet with a rentable area of 1,000,000 square feet. 1942 interest earned on the Chanin Building was 5.46%, compared to 5.85% on the Graybar Building. Gross income of the Chanin Building for 1942 was $1,566,771, against $1,-326,338 for the Graybar Building. Chanin bonds are due in 1945 and the Graybar bonds in 1946. Graybar Building bonds paid 5% in 1942, while the Chanin Building bonds paid 4%. However, in addition to the interest paid on the Chanin Building first mortgage leasehold bonds, they also paid 2% on the second mortgage issue of $2,962,500 and 1.2% on the third mortgage issue of $2,500,000.

Another interesting example is the Hotel Taft bond, which is 94½ bid, compared to the Hotel Park Central (870 7th Avenue) bond which is 44 bid.

Both hotels are in the Times Square section of New York City. The Taft has 1,550 rooms and the Park Central has 1,600 rooms. The Hotel Taft has a funded debt of $3,437,823 consisting entirely of first mortgage bonds outstanding, while the Park Central has a funded debt of $5,255,000 consisting of an Institutional first mortgage of $1,200,000, and the bond issue general mortgage of $4,055,-000. The Taft bonds pay 5% interest, while the Park Central bonds pay 4½%. However, the Park Central bonds carry stock representing an interest in a portion of the ownership of the property. An interesting feature of the Park Central bonds is that they carry accumulated interest of 3¼ points. The probabilities of a payment in 1944 of a portion of this accumulated interest in addition to fixed interest of 4½% is good, inasmuch as current reports of the property indicate that fixed interest requirements are being earned 2¾ times. The Taft-Park Central comparison is not quite as good as the Graybar-Chanin comparison, because in the former we are comparing second mortgage bonds with first mortgage bonds, while the latter is a comparison of similar liens. However, at 94% of the $3,473,823 issue of bonds on the Taft, a value of $3,264,393 is placed on that property, while at 44% of the $4,055,-000 bond issue on the Park Central amounting to $1,784,200 plus the $1,200,000 first mortgage, a value on that property is placed at $2,984,000. Because of the difference of price range, it would appear that the chances of price enhancement of the Park Central bonds is better than that of the Taft bonds.

OUR REPORTER'S REPORT

Now that the Interstate Commerce Commission has decided upon open hearings as a basis for settling the long-smoldering controversy over the matter of competitive bidding for railroad bonds, a definite ruling on the question is expected within a reasonable time.

Bankers hope, at any rate, that that will be the case, since there are more or less persistent reports that several railroads are contemplating entering the market for sizeable refinancing operations and it would help considerably to have the air cleared in the foregoing respect.

One report current is that Southern Railway would like to do a refunding job which would call for the marketing of some $20,000,000 of new bonds.

One of its leased lines, the Atlanta & Charlotte Air Line Railway, has a total of $20,000,000 of outstanding first mortgage 4½s and 5s, series A and B falling due next July first.

The road is reported anxious to make provisions for taking up of these obligations which consist of $14,500,000 of 5 per cents and the balance in 4½ per cents.

As things now shape up, the investment fraternity is inclined to the belief that this undertaking probably will be the first, or at least among the first, to develop in the wake of the Commission's pending ruling.

Illinois Central

There is some discussion also of the possibility of Illinois Central undertaking to refinance its debt to the Reconstruction Finance Corporation. The company has been endeavoring to secure the return from the RFC of part of the collateral pledged behind the original agency loan of $37,000,000.

It has since been reduced to $20,000,000 and the road sought Interstate Commerce Commission permission to ask the Federal lending agency for the return of $81,828,884 of the $122,-668,384 securities pledged for the RFC advance.

Early in June it was reported, unofficially, that the road had further reduced its RFC indebtedness by $5,000,000, but this has not yet been confirmed.

Report has it that the road has been shopping around seeking private placement of new securities, but that the financing may ultimately come through the market.

P. Lorillard & Co.

P. Lorillard & Co. looms now as the likely first candidate for the money market once the Treasury's current Third War Loan Drive is out of the way.

The big tobacco processor has filed the necessary registration with the Securities and Exchange Commission for the sale of $29,000,000 of 20-year debentures, and 374,391 shares of common stock.

The covenant covering the debentures provides for a sinking fund sufficient to retire half the proposed issue by maturity.

The common stock would be offered to shareholders for subscription in the ratio of one new share for each five shares now held.

Reorganization Rail Bonds

Obligations of railroads in reorganization came to the fore in the listed bond market recently as rulings in the case of several such carriers came down, serving to stimulate renewed speculative interest.

Court approval of the modified plan of the Denver, Rio Grande & Western, and the Interstate Commerce Commission's refusal to reconsider its plan for the Chicago, Milwaukee, St. Paul & Pacific, beyond making adjustments ordered by the court, speeded up activity.

It was assumed that action in these cases might be expected to bring a general stepping up of programs of other roads going through the reorganization mill.

Permission to the Missouri Pacific to pay back interest on a number of its securities served to add fuel to the fire.

John E. Schramm Is With Curliss-Wright

John E. Schramm, formerly security analyst for Ward & Co., investment brokers of 120 Broadway, New York, is now with Curtiss-Wright Corporation in the office of Burdette Wright, Vice-President in Charge of the Airplane Division.

Mr. Schramm will do research work relative to the Airplane Division and is located in the Division's executive offices at Buffalo, New York.

Tomorrow's Markets Walter Whyte Says—

Stocks nibbling at old highs indicates more strength. Minor decline possible but not much damage.

By WALTER WHYTE

No matter how interesting statistics or fundamentals may be a stock market analyst has no business letting his attention wander from the action of the market into a contemplation of such extraneous subjects. The punishment meted out for such inattention is swift and sometimes severe.

* * *

Two weeks ago when the Dow averages were flirting with 137 I saw little but further grief ahead for the optimists. Last week, I refused to see anything good in either the rail or the general market and continued to advise readers that the rally, if it came, would be insignificant and was not to be followed.

* * *

Well, you know what happened. The market, which was then at about 138 did not turn tail and run to cover, instead it continued to go up until the other day it reached 142 and a high fraction.

* * *

Of course I can point to a few isolated sentences in last week's column to "prove" that "I told you so." But anybody who follows this column regularly knows that when new signs manifest themselves I have no hesitation in altering my opinion. Now having gotten that off my chest I can go on to what the market is doing now and what it's action portends.

Strictly as market action the familiar averages in getting up to and slightly above the 142 figure, have done a good piece of work. But having accomplished this there is another obstacle for them to overcome. In the middle of this year the averages got to about the same levels they are at present. It was from that point the market broke. The reasons for that original break are of no immediate concern. But what is important is that the market having rallied to that first obstacle there is no guaranty that the obstacle has been removed.

Technically the market is now in what chart readers call a double top position. I am well aware that all markets have to get into double top positions before they can get through old obstacles into new high ground. But there is always the chance that in this case the obstacle will be sufficient to turn the market down. Obviously buying stocks at such a period presents the buyer with more than the usual amount of risk. For should the market react from that point the possibility of being locked in for a long period of time is very real.

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Thomson & McKinnon Will Admit Three

As of Oct. 1, Thomson & McKinnon, 11 Wall St., New York City, members of the New York Stock Exchange and other leading Exchanges, will admit to partnership Frederick R. Horne, John J. Maloney, and John A. Reis. Mr. Horne and Mr. Maloney will have their headquarters in the firm's New York office. Mr. Reis will be in Indianapolis.

E. O. D. Campbell Opens

E. O. D. Campbell has resumed the investment business from offices at 1 Wall Street, New York City. Mr. Campbell was previously in business as an individual dealer in New York City.

Bank and Insurance Stocks

This Week—Bank Stocks

By E. A. VAN DEUSEN

An interesting memorandum was received recently by the Chronicle from Mr. W. H. Wood, Chairman of the Board of American Trust Company, Charlotte, North Carolina. Mr. Wood wrote in reference to the following paragraph which appeared in an article on bank stocks in the New York "Times" of Aug. 26, 1943:—"Bank stocks do not give the highest yields available in the market, but many investors prefer them. The price times earnings ratios of bank stocks range all the way from Chase National, which is selling at 21, and National City, which is 17, to 7.7 for the American Trust Company of Charlotte."

We now quote at length from Mr. Wood's communication:

"This means that the American Trust Company of Charlotte, North Carolina, is singled out to compare the sale of its stock, based upon its earnings, with the two largest banks in America — the Chase National Bank and the National City Bank of New York—which we think is a compliment to the Charlotte banking institution.

"It is true that the capital stocks of the Chase National Bank and the National City Bank sell respectively for 21 and 17 times their earnings, whereas the "Times" states that the American Trust Company stock sells for 7.7 of its earnings. . . . We presume that the "Times" figures were based on 1942, although we are not sure of this. If their figures related to 1942 earnings, then I think they are mistaken, because in January, 1943, our stock was then selling for about $350 per share (par value being $100 per share) which would not have been quite seven times the earnings for 1942. This would make our stock sell for even less times its earnings in relation to Chase and City National Banks. However, the great disparity in the price of our stock and that of the Chase and National City is due, to a large extent of course, to Chase and National City being located in the largest and richest city in America, with surrounding territory of immense wealth and population. Their location, therefore, is probably in the richest section of the world.

"The size of a bank does not necessarily constitute its strength or earning power. If the American Trust Company stock sold for only twelve times its net earnings for 1942, it would be selling today for at least $600 per share (par value being $100 per share), which would still be less than the selling ratios of the Chase and the National City Banks. On the dividends being paid now, the Chase National yields 3.90% on the selling price of the stock. Based upon the dividend being paid now, the National City Bank yields 2.8%. At $400 per share (par value being $100 per share), the American Trust Company, based upon dividends being paid now, yields 3.50%.

"The National City Bank stock has a par value of $12.50 per share and a book value of $33.21, and sells for about $33 per share. The Chase National Bank stock has a par value of $13.55 and a book value of $33.77, and sells for about $35 per share. The Chase National Bank stock is selling for a little more than book value, and the National City Bank stock is selling for about book value. The American Trust Company stock, at $400 per share, would be selling at less than book value—the book value being now about $500 per share."

It is perhaps of interest, apropos of Mr. Wood's remarks, to submit the following table which shows the ratios of current market to 1942 operating earnings of 28 banks, together with the total resources of each bank as of Dec. 31, 1942. Seventeen of the banks are located in New York City and 11 in other cities as noted.

	Ratio of Market to 1942 Oper. Earnings	Total Assets 12-31-42 ($000)
Chase National	20.4	4,569,496
Bank of New York	18.6	387,592
Guaranty Trust	18.6	2,995,499
Chemical Bank & Trust	17.6	1,289,984
First National (Pittsburgh)	17.3	155,245
Commercial National Bank & Trust	17.1	208,383
Central Hanover	17.0	1,643,855
Irving Trust	17.0	1,040,271
First National (Boston)	16.4	1,168,026
First National (Chicago)	15.9	1,767,082
National City	15.7	3,761,671
United States Trust	15.7	140,962
Continental Bank & Trust	15.7	107,223
New York Trust	14.8	673,169
Bankers Trust	14.3	1,625,080
Corn Exchange Bank & Trust	14.2	568,935
First National (New York)	14.2	1,014,254
Continental Illinois Nat'l Bank & Trust (Chgo.)	13.0	2,197,459
National City (Cleveland)	13.0	333,699
National Bank (Detroit)	12.7	1,036,191
Public National	12.6	265,366
Manufacturers Trust	11.5	1,419,495
Bank of Manhattan	11.4	994,538
First National (Phila.)	11.3	152,568
Bank of Am. Nat'l. Tr. & S. A. (California)	11.2	2,771,689
First National (Balti.)	8.5	264,827
Security First National (L. A.)	8.3	870,431
*American Tr. (Charlotte)	5.6	149,048

*Based on 1942 indicated earnings of $72.00 per share as reported in Moody's.

Chase heads the list with the highest ratio of 20.4, as well as the largest volume of total assets. American Trust of Charlotte is at the foot of the list with the lowest ratio, but not quite the lowest in total assets. Although investors are willing to pay a higher premium for the stocks of certain outstanding institutions of size, power and prestige, an examination of the above figures shows clearly that mere size is not the criterion. For example, Bank of New York has next to the highest market ratio, but in point of size as measured by total assets, it is in the lower

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Public Utility Securities

Associated Gas Making Progress with Reorganization Plans

Associated Gas—the billion-dollar brainchild of Howard Hopson, now in a Federal penitentiary—is making rapid progress toward reorganization, although several years may still be required to complete the realignment of system properties necessary to conform to the standards set up by the Utility Holding Company Act. Mr. Hopson developed a vast maze of holding and investment companies, and the securities of these companies and of the operating subsidiaries were interchanged until the net result was an almost unsolvable jig-saw puzzle. He also developed varied and devious schemes for exchanging weak system securities for the good ones held by the public. Thus he was able, despite the heavy over-capitalization of the top companies and the milking of system earnings under the guise of "service" charges, to keep the system out of bankruptcy long after his rival in such finance, Samuel Insull, had fled to Europe. Hopson's downfall was traceable to two factors—a gradual accumulation of unpaid Federal tax claims, and the decision of the SEC late in 1939 to cut off the upstream flow of income from some of the operating companies. Hopson then capitulated and his two principal holding companies, familiarly known as "AGECO" and "AGECORP" entered the bankruptcy courts early in 1940.

The present trustees — Stanley Clarke for AGECO and Denis J. Driscoll and Willard L. Thorp for AGECORP—have made energetic and conscientious efforts to straighten out the tangled mess left by Hopson. Moreover, they have made every effort to keep security holders well-informed, having issued 17 or more voluminous reports, including the plan of reorganization for the two top companies, released June 14th this year. New officers were appointed to the sub-holding companies, and a number of the smaller properties have been disposed of.

The system has had two setbacks—the loss of the important Manila property to the Japs (though this may prove helpful with taxes if a write-off is obtainable), and failure to effect sale of the South Carolina properties to a State power authority for some $40,000,000. On the other hand, the system got a "break" last year when Congress permitted consolidated system tax returns (so that "bad" earners could be combined with "good" earners, to bring down the average taxable income). This permitted a saving in Federal taxes of $3,400,000 and there is a possibility of a further saving of $4,500,000 if the system is permitted to deduct accrued but unpaid interest on all the numerous bond issues of the two top companies. The latter saving hinges on important litigation (which would also affect numerous large railroads now in bankruptcy) which may eventually go to the Supreme Court for settlement. However, this additional saving would be only a temporary windfall, for Associated, since it could no longer be claimed after the reorganization plan is put into effect, when almost all AGECO and AGECORP bonds will be converted into common stock.

The reorganization plan does, however, propose to retain as much Federal tax saving as possible, and will not set up a new top holding company but instead will merge the two present companies into a "surviving" corporation, thus retaining the invested capital base of both companies.

It is also hoped to include in the merger the most important sub-holding company, known as NYPANJ, which constitutes about two-thirds of the system. Many of the NYPANJ properties can probably be retained under the "death sentence" of the SEC, since as the name indicates they are located in New York and the adjacent States of New Jersey and Pennsylvania. However, while NYPANJ's finances are in healthy condition so far as its public holdings are concerned, there are many intercorporate holdings and entanglements. Hence the trustees have proposed (as a corollary program to the reorganization plan) a se-

(Continued on page 1217)

Canadian Securities

By BRUCE WILLIAMS

Recent political utterances headed by Governor Dewey's bold declaration supporting an outright military alliance with the British Commonwealth, are indications of a trend towards an objective for which, theoretically, we now have the completed edifice, but from a practical point of view, we have not yet finished digging the foundation. Undoubtedly, the best foundation is one based upon economic collaboration, thus combining a friendly relationship with mutual self-interest. Already the Pacific Coast States and Minnesota have taken steps in this direction through the formation of joint economic committees for the study of the development of territories on both sides of the border.

The New England States together with Ohio and California have made Canadian securities legal for investment by savings banks. It would seem logical that the State of New York, especially in view of Mr. Dewey's recent announcement, should give favorable attention to the efforts that have been made since 1936 to make it possible for savings banks in New York to make attractive additions to their portfolios in the shape of Canadian securities.

The past week has seen a continuance of the market quietness that has prevailed for more than a month. There were some evidences that prospective buyers were commencing to test the market and the general undertone seemed somewhat improved, but on the whole prices sagged lower. Canada 3s of 1958 were obtainable at 104, the 4s of 1960/50 at 110¼ and the 3s of 1967 at 103⅛. Canadian National 5s of October 1969 were offered at 117½, the 4¾s of 1955 at 118 and the 4½s of 1957 at 117¼.

Among the Provincial issues, British Columbia 5s of 1954 could be bought on a 3.50% basis, New Brunswick 4¾s of 1960 at a yield slightly better than 3¾% and Manitoba 4½s of 1956 at 4.10% return. There was some demand for the shorter-term Nova Scotias and the 4½s of 1952/47 changed hands on a 2.40% basis. Saskatchewans also were fairly active and the 5½s of 1946 traded at 101 and the 4½s of 1960 at 89.

Internal issues were in increased demand and the free exchange consequently improved from 9⅞% to 9¾% discount. Now that the September supply of dividend checks is exhausted, further buying of internals can cause a further hardening of the Canadian dollar in the free market. However, it must be borne in mind that the internal issues called for payment Oct. 15, next, should result in a further supply of free exchange at this time. After this date, if this supply is readily absorbed and Canadian internal issues continue in demand here, we shall no doubt see a renewal of pressure on the exchange at the Foreign Exchange Control Board's selling rate for Canadian dollars.

It is opportune to review at this time the position of the two situations which have marred the otherwise perfect record of Canadian financing in this country, namely, the Province of Alberta and the City of Montreal. With regard to the latter, there are now clear indications that this situation might be cleared up in the not too distant future.

The latest refinancing plan has just been submitted to the City Executive Committee and, if approved, there is now reason to believe that it will be accepted by the bondholders. In support of this belief, it can be stated, following a report from London, that the City of Montreal British Stockholders Committee has issued an interim report saying it was hoped, because of the general position reached in discussions on the Montreal debt, that "a plan may be submitted which we can recommend for acceptance by British stockholders." In the case of Alberta, it is generally recognized that the province is anxious to rehabilitate its financial position, if possible before the end of the war, in order that Alberta can take proper advantage of its rapidly expanding economic development.

There is also one common factor in both cases that will exert pressure on the creditors to accept plans which have been hitherto rejected. This factor is the present trend of interest rates; the previously suggested rates could be criticized on the grounds that they were out of line with the rates then current, but now the proposed rates look quite attractive.

It will be a bull point for the market in general if a solution were reached in these two cases. In any event, as it has been previously pointed out, the market has now experienced an anticipated healthy reaction. We shall soon be out of the loan drives period. At the present time there are a few stale long positions, which should enable buyers to secure bonds at favorable prices.

Although it appears at the moment that there is no undue hurry, nevertheless, between now and the end of the War Loan drive and the close of the Canadian Victory Loan in October, should be an opportune time for making purchases on a scale.

Hastings In N. Y. C.

John A. Hastings has opened offices at 420 Lexington Avenue, New York City, to engage in a general securities business.

Gairdner, Son & Co. Toronto Exchange Firm

TORONTO, ONT., CANADA—Gairdner, Son & Co., members of the Toronto Stock Exchange, has recently been organized here to conduct a brokerage business. Partners in the new Toronto Exchange firm are: J. A. Gairdner, J. P. Crysdale, G. P. Watt, A. G. Walwyn and J. H. Gairdner.

It is also announced that C. W. MacLean, R. P. Howard, and J. H. Gairdner have been elected to the Board of Directors of Gairdner & Co., investment dealers.

E. J. Allman will be Assistant Manager of the Montreal office of the company.

STANY To Present Eight Ambulances To Army And Navy

Eight ambulances will be turned over to the United States armed forces on Friday, Sept. 24, by the Security Traders Association of New York, according to Walter F. Saunders of Dominion Securities Corporation, Chairman of the Committee which carried on the drive to raise funds for the purchase of these vehicles. Formal presentation will be made at 12:30 p.m. on the steps of the Sub Treasury Building at Wall and Broad Streets by B. Winthrop Pizzini, B. W. Pizzini & Co., President of the Security Traders Association.

Representatives of the Army and Navy will be present to accept the gifts which will be driven away by four men from each service. Music will be furnished by a Navy band and George E. Price, partner in the Stock Exchange firm of Price and Davis, and a well-known stage and night club entertainer, will act as master of ceremonies.

A total of 305 individuals and firms participated in the drive. Captains of the sub-committees included: C. Jerome Aal, Abraham & Co., Chester de Willers, C. E. de Willers & Co., Michael J. Heaney, Joseph McManus & Co., Thomas A. Larkin, Goodbody & Co., John J. O'Kane, John J. O'Kane & Co., Henry Peiser, Ira Haupt & Co., Fred Preller, Eastman, Dillon & Co., Abraham Strauss, Strauss Bros., Edward Thompson, Smith, Barney & Co., and Robert Torpie, Merrill Lynch, Pierce, Fenner & Beane.

Comments On Inflation Article By Ivan Wright

Editor, "Commercial & Financial Chronicle":

I had the pleasure of reading Dr. Wright's article on inflation and am glad to note that he emphasizes several pertinent facts which have to do with this rather abstruse subject. In the first place, he says that every war has brought inflation; this, of course, is a matter of history, but John Q. Citizen seldom realizes it because from war to war he forgets all about it, and then plunges headlong without regard to consequences.

Dr. Wright also bangs on the head the false notion that going into debt is a hedge against inflation. Here again history proves the contrary, as indicated by the unfortunate experiences of investors and corporations between 1933 and 1937, as Dr. Wright points out.

He makes a good point when he says that "inflation when it gets under way will not wait on a debating society."

FRED W. ELLSWORTH,
Vice-President, The Hibernia National Bank in New Orleans.

Sept. 14, 1943.

Investment Trusts

"PEACE IS BULLISH"

Both Hugh W. Long & Co.'s **New York Letter** and Keystone Corp.'s **Keynotes** draw the conclusion expressed in the title to this column. Writes the Editor of the Long Co. **Letter:**

"Both logic and the pattern of World War I indicate that peace is bullish, not bearish, and that it is on the forces of construction rather than on those of destruction that sound securities values must be built."

The same thoughts are expressed as follows in **Keynotes:** "The history of the market during the last war, the record of the market so far during this war and the facts about our present economy do not seem to justify any fear of peace—the objective which every resource of the civilized world is straining to achieve."

Supplementing the text of the Long Co. **Letter** are charts showing the market pattern of eight leading stock groups during and after the last war. In all of them the big rise came after the signing of the Armistice in 1918 and the peak was not reached until the end of the following year.

* * *

Distributors Group has published a new folder on General Bond Shares, a Class of Group Securities, Inc., in which the increase in corporation tax rates is graphically portrayed. "How To PROTECT and INCREASE Your Income In An Era Of High Taxes" is the title of the folder. Among other things, it points out that:

"Today maximum corporation tax rates are over four times what they were in 1939—about six times what they were ten years ago! They have increased to a point where, despite our present record-breaking industrial activity, the net profit remaining after taxes has actually declined."

"By investing in securities whose claim on earnings comes **before** taxes," the investor may escape the effect of higher corporation taxes on his investment income. Current return on General Bond Shares which represents a diversified investment in discount bonds, is 6.5%.

* * *

An interesting discussion of the trend in college endowment funds toward common stocks (despite higher corporation taxes) is presented in the latest issue of MIT's **Brevits.** The bulletin cites income and inflationary considerations as probably having influenced this trend. The following figures are given on ten leading college and university endowment funds:

Percent of Security Holdings (At book values June 30, 1942)

Institutions—	Bonds	Pfd. Stocks	Common Stocks
California	66.1%	13.4%	20.5%
Cornell	35.6	19.6	44.8
Dartmouth	45.0	10.9	44.1
Harvard	49.6	11.2	39.2
Johns Hopkins	56.0	14.0	30.0
M. I. T.	39.3	4.4	56.3
Pennsylvania	52.9	28.3	18.8
*Stanford	56.8	11.8	31.4
Vanderbilt	55.0	7.2	37.8
Yale	42.0	20.4	37.6
Average	48.5%	14.1%	37.4%

*As of Aug. 31, 1942.

Recent Investment Company Literature

Lord, Abbett—A new folder on Union Preferred Stock Fund; a revised "leverage" folder on Affiliated Fund; a composite summary of the Lord, Abbett group of investing companies.

National Securities & Research Corp.—New folders on National Bond Series, National Preferred Stock Series, and International Series; a discussion of "some problems facing the returning Congress" in the latest issue of **Investment Timing;** a current information folder on all National Securities Series and First Mutual Trust Fund.

Distributors Group — Current portfolio folders on Railroad Shares and General Bond Shares of Group Securities, Inc.

Calvin Bullock—A new issue of Perspective discussing "Petroleum: Post-War Outlook."

Hugh W. Long & Co.—New folders on the Aviation and Chemical Industry Series of New York Stocks, Inc.; current portfolio folders on New York Stocks, Inc. and Manhattan Bond Fund.

Keystone Corp.—A new current data folder on Keystone Custodian Funds.

Hare's Ltd.—A new folder on Insurance Group Shares of Institutional Securities, Ltd.

Investment Company Reports

Keystone Custodian Fund Series "B3"—Net assets as of July 31, 1943, amounted to $19,481,417, equivalent to $16.97 per share, compared with $16,192,049 and (Continued on page 1218)

Bankers Urged To Continue Efforts To Curb Government Lending

Chartered Banking Must Maintain Independence If Free Enterprise Is to Survive, Says A. L. M. Wiggins, President of Bank of Hartsville, Hartsville, South Carolina, In ABA Inaugural Adress

Warning the bankers that "the American system of free enterprise cannot survive unless chartered banking maintains its independence and fulfills its lawful credit functions, the newly elected President of the American Bankers Association, A. L. M. Wiggins, in his inaugural address declared that "free enterprise under politically administered credit is not only unthinkable, it is impossible." "It therefore," he asserted, "becomes our solemn duty, as the custodians of the chartered banking systems, to continue to multiply our efforts to turn back the tide of Government lending, direct and indirect, whenever it exists only on bounties from the public treasury. The inaugural address of Mr. Wiggins, who is President of the Bank of Hartsville, at Hartsville, S. C., marked the concluding session of the Association's War Service Meeting; it follows in full:

A. L. M. Wiggins

This convention, and the 14,000 members of the American Bankers Association which it represents, have given a clear mandate to the incoming administration. It calls for the continuation of a vigorous and comprehensive effort to serve the financing and other war needs of this nation, and to follow through on the program which has been carried on with such notable success under the able guidance of President Hemingway. The mounting requirements for funds with which to prosecute the war are daily increasing the responsibility of bankers. Their leadership in war financing and their full cooperation with the Treasury is more than ever required. This cooperation will continue.

Equally clear is a mandate for prompt, courageous and vigorous action that will assure the preservation of a sound and serviceable dual chartered banking system as an essential part of the American economic way of life.

These mandates I accept.

There is no need to urge the importance of the problems we now face. We are well aware that we are living in a period of transition unparalleled in our history. Our people and our national leaders are deeply concerned with the nature and the organization of the post-war world. Banking, together with the rest of our social and economic order, has undergone revolutionary changes in methods and procedure. Further adjustments may be ahead.

May I state, therefore, some fundamentals to which I believe the overwhelming majority of American bankers now subscribe?

The American system of free enterprise cannot survive unless chartered banking maintains its independence and fulfills its lawful credit functions. Free enterprise under politically administered credit is not only unthinkable, it is impossible. It therefore becomes our solemn duty as the custodians of the chartered banking system to continue and to multiply our efforts to turn back the tide of Government lending, direct and indirect, whenever it exists only on bounties from the public treasury. Just as bad money drives out good money, so does unsound credit destroy sound credit. No Government subsidy can hide this brutal fact.

The major corollary of this proposition is that banking and private finance must return to the type of credit that accepts reasonable risks as part of the nature of the business. Government guaranteed loans of all types, although recognized as temporary expedients in times of national distress, war, or peril, have little if any place in a peace-time credit structure. Such loans have already proved to be an opiate, deadening our sense of independence and weakening our faith in our own abilities. Carried too far into the post-war period, the non-risk guaranteed loan principle will make of us feeble addicts and the vigor and independence of our banking system will perish.

The life or death question which the private credit system must soon answer is whether or not it is willing, able, and ready to take care of the credit requirements of an expanded post-war economy. Unless it does so, the Government will do the job, and our nation will take another fateful step down the road of State socialism.

Commercial banking has a forthright and affirmative answer to this question. Its liquid resources were never greater, its desire to serve never stronger and its machinery was never in better order. It is serving the nation as never before. At the same time, it is searching and finding new ways to multiply its usefulness to American business and to the American people.

We must be realists and recognize that the final arbiter of the destiny of this nation is not the Government, its Congress, its administration nor its Supreme Court. It is the will of the people! Therefore, policies, programs and efforts whether of bankers, business workers, or farmers must win approval at the bar of public opinion.

As bankers we should examine our own hearts and our own houses. If there is any lingering doubt in the mind of any of us that banking is charged with a public interest and a public responsibility, we have been blind to the recent history of this nation. The public will not approve, nor for long tolerate, any banking methods that are against the public interest. However, the notable contribution of banks in the war effort, their role in the national economy, and their assistance to industry, commerce and agriculture have earned for banking widespread public approval. Any tendencies or practices in banking which tend to weaken that approbation must be rooted out. Interest rates should be kept in line with costs and risks involved in the legitimate requirements of capital. Service charges should reflect actual costs of service rendered plus a reasonable return. Credit should be merchandised on a fair and competitive basis and never as a monopoly. Special privilege as between borrowers and lenders has no more place in a free economic society than it has in the administration of democratic government.

If we are to return to fundamentals, American commercial banking must recapture the good will and enlarge its service to savers. Saving is and always has been the rockbottom base on which capital is formed. Without it there can be no credit, and yet American banking here and there has become coldly receptive to new and increased savings accounts.

Chartered banking is confronted with serious and difficult problems. An immediate challenge is the declining income of small banks. Reduced volume of loans, low interest rates, and the competition by Government agencies for loans have resulted in a serious reduction in interest income to banks, particularly in agricultural sections. Increased deposits, alhough invested in Government securities, fail to make up the difference in income. In addition to this, the increased costs of doing business and the expense of selling and issuing war bonds have all but wiped out the net profit in many small banks. These problems of country banks require and will have foremost consideration by this Association in the year ahead.

We can say with confidence that, on the whole, the house of banking is in good order. It is not only fully meeting today's requirements, but is alert to the changing needs of the war-time economy. It is marshalling its resources of men and credit in plans and programs to anticipate the needs of the readjustment period and the dynamic post-war era to follow.

Commercial banking is seeking every opportunity to serve. However, such opportunity can come only along with the democratic freedom to achieve. We may have all other freedoms, but without the essential freedom of opportunity to achieve for the individual, whether he be farmer, merchant, manufacturer, entrepreneur, or banker, American life will stagnate to the dead level of mere existence. As bankers, we must become fully and keenly aware of the grave and fundamental issues involved. It is necessary now to come to grips with the problems before us and courageously take a stand for the principles that will determine the character of American life in the future.

Consistent with these principles, we will fight militantly and courageously the battles that must be won if the democratic freedom to achieve is to survive.

We will fight for the preservation of the dual system of chartered banks. We will fight for the rights of the banks to be freed from the suffocating hand of Government competition. In all of these efforts we seek no privilege at the expense of the public welfare. We believe that our cause is just and that it will have the support of the American people.

If I interpret correctly the temper and disposition of the bankers across this broad land, they are ready for action. In taking action, it will be our purpose to mobilize, unify and consolidated the efforts of individual bankers, and those of local, State and other association groups, to the end that we may muster our full strength in the war to protect and preserve these principles.

Bankers Urged To Adopt Investment Policy Now

By DR. MARCUS NADLER
Professor of Finance at New York University

Adoption of an investment policy which will enable them to meet any situation that may arise in the future is one of the most important problems facing the banks at the present time, Dr. Marcus Nadler, Professor of Finance, New York University, declared in an address last week before the National Bank Division of the ABA.

This policy should be correlated to any possible or anticipated movement of deposits in the immediate post-war period and should take into consideration the possibility that the end of the war may witness a period of depression, he said. While this depression will probably not be of long duration and may not be very pronounced, he feels "it may, and probably will, have an adverse effect on prices of certain obligations and values."

"If the banks adopt a sound investment policy now, they will liquidate their doubtful assets during the course of the next few months. If they strengthen their mortgages, if their Government holdings are based on the possible future movement of deposits, they will be in an exceedingly strong position and able to meet any demands that may arise in the immediate post-war period," he told the bankers.

"The volume of deposits of the banks has increased materially and will continue to mount," said Dr. Nadler, who further stated:

"At the same time the ratio of capital resources to deposits has decreased. This imposes on the banks the obligation of keeping their assets in as liquid a position as possible commensurate with necessary earnings. Exclusive of bank premises, real estate has never been an appropriate asset for a bank and certainly will not be in the immediate post-war period. As far as possible, therefore, real estate should be liquidated.

"Since a great portion of the total assets of the banks is invested in government obligations, the investment problem for most institutions narrows itself down to the handling of the government portfolio."

In considering this phase, Dr. Nadler feels there is bound to be a criss-cross movement of deposits after the war. "Some banks will lose deposits while others will gain," he predicted, depending on whether the institution is located in a war area or in centers where consumers goods are produced. Because of the uncertainty of the movement of deposits, he recommended that "every bank, particularly those operating to a large extent with demand deposits, should diversify its government holdings as to maturity."

On the subject of inflation, Dr. Nadler asserted the banks should utilize all the means at their disposal and should spare no effort in fighting the forces of inflation. "They should urge that the cost of the war be financed in so far as possible through taxes and through the sale of Government obligations to ultimate investors. It would indeed be dangerous to the banks if too large a proportion of the public debt is held by them."

He feels such a condition again would lead to recommendation for adoption of the 100% reserve banking plan as a means of solving the debt problem and alleviating the tax burden. Adoption of this plan, he declared, would wreck the banking system and would lead to the ultimate establishment of a system of government-owned banks.

Discussing competition from government lending agencies, Dr. Nadler believes that after the war efforts will be made to retain and convert these agencies so that they can function in peacetime.

"Now is the time," he observed, "to make careful studies as to the future relationship between private and government banking. These should be undertaken jointly by the government and by the banks with the view of clearly delineating the sphere of activity of each.

"Considerable thought must also be given to the future of V loans. No unanimity of opinion exists among bankers as to whether V loans should be continued in the post-war period. Undoubtedly a limited need for government-guaranteed loans will exist during the initial period of reconstruction. However, to perpetuate the system of V loans on a large scale after the war would tend to destroy the function of banks.

"In addition to the typically domestic problems that will arise out of the war and its aftermath, the banks of the country will be called upon to assist in the solution of a number of international problems in which they themselves are directly interested.

"It is their duty to advise and counsel the governmental agencies in all matters relating to currency stabilization. They must make available to these agencies their knowledge and experience and to see to it that the plans are workable and not merely visionary in character. Above all it is to their interest to prevent the newly created organizations from destroying the international transactions of the private banks."

Dr. Nadler's remarks follow in full:

The global war has affected materially our national economy and this in turn is fully reflected in the position of the banks. Holdings of Government securities have increased rapidly, the volume of real commercial loans has tended to decrease during the past year, while the volume of bank deposits has reached an unprecedented level. The ratio of capital resources to deposits is steadily decreasing and is today smaller than ever before in the history of the nation. Government lending agencies have multiplied and are offering keen competition to the private institutions. Their personnel has undergone a considerable change, the number of women employees in many banks exceeding that of the men.

These changes, while creating many serious problems, are however, greatly overshadowed by the dangers that may arise as a result of the rapidly mounting debt and the large volume of government securities held by the banks. There is a serious danger that in the post-war period efforts may be made to alleviate the debt burden through sleight-of-hand devices or through the adoption of unorthodox economic measures. There is the danger that efforts will be made to reduce the rate of interest paid by the Government on its obligations held by the banks. There is the added danger that, in order to solve the problem of the debt service, the adoption of the 100% reserve banking system will be pushed. These measures if adopted will have serious effects on the banking system of the country. Even the orthodox handling of the public debt is bound to create very serious problems for the banks. At the end of the war the floating debt of the United States will be tremendous. Since it is dangerous for any Government to operate with an exceedingly large floating debt, serious efforts will be made by the Treasury to convert the maturing obligations into those of medium or long term maturity. Since the banks hold a large portion of the short term debt of the Government, they will be particularly interested in these refunding operations, but because of the sharp reduction in the ratio of capital resources to deposits, they may be unwilling to accept in exchange for short term obligations long term or medium term bonds. It will not be possible to shift a considerable portion of the debt to other investors. On the contrary it is reasonable to assume that at the end of the war non-bank investors, notably corporations, which have placed a considerable portion of their reserves in government obligations, will endeavor to liquidate them in order to meet their post-war capital expenditures.

These will be some of the problems that will confront the banks at the end of the war. If plans are made for the sound solution of these problems, all the others that will confront the banks during and after the war can be readily solved. The purpose of the present address is to analyze the problems that confront the banks during the war and to ascertain those that will confront them at the end of hostilities. So far as possible suggestions will be made on how to remedy the pending problems.

The most important problem before the banks at present is to adopt an investment policy which will enable them to meet any situation that may arise in the future. Above all the investment policy should be correlated to any possible or anticipated movement of deposits in the immediate post-war period and should be based on the following considerations.

The end of the war may witness a period of depression. While this depression will probably not be of long duration and may not be very pronounced, it may, and probably will, have an adverse effect on prices of certain obligations and values. Now, therefore, is the time for the banks to scrutinize carefully their holdings and to liquidate those securities which are bound to suffer during any period of business reaction.

The volume of deposits of the banks has increased materially and will continue to mount. At the same time the ratio of capital resources to deposits has decreased. This imposes on the banks the obligation of keeping their assets in as liquid a position as possible commensurate with necessary earnings. Exclusive of bank premises, real estate has never been an appropriate asset for a bank and certainly will not be in the immediate post-war period. So far as possible, therefore, real estate should be liquidated. Sound mortgages have always been a good investment for banks, particularly those operating with time and savings deposits. In view, however, of the uncertain future of real estate in many sections of the country, it is advisable that banks insist on satisfactory amortization on the part of the mortgagors.

Since a great portion of the total assets of the banks is invested in government obligations, the investment problem for most institutions narrows itself down to the handling of the Government portfolio. In considering this phase, the following facts should be taken into consideration.

There is bound to be a criss-cross movement of deposits after the war, although the total volume of bank deposits in all probability will continue to increase. Some banks will lose deposits while others will gain. In those war centers where business activity is bound to decrease at the end of hostilities, as well as in rural districts which have benefited a great deal during the war, deposits will decrease. On the other hand, those centers in which consumers' goods are produced are bound to gain in deposits. Because of the uncertainty of the movement of deposits, all banks, particularly those operating to a large extent with demand deposits, should diversify their Government holdings as to maturity.

There is, however, no need to over-emphasize liquidity and to curtail earnings because of concern over a material change in interest rates. During the war the opinion is almost unanimous that no change in interest rates will take place.

For a period of time after hostilities will have come to an end, the money market will continue to be dominated by the needs of the Treasury. The latter will be confronted with the task of refunding billions of dollars of maturing obligations. There is also bound to be a deficit of the Treasury, though substantially smaller than during the war. Corporations which have invested considerable sums in Government securities will endeavor to convert them into cash in order to meet their post-war capital expenditures. It is logical to assume that a number of individuals will redeem some of their Series E bonds in order to buy durable consumers' goods.

Until the budget of the Government is balanced and provisions have been made for a gradual redemption of outstanding public debt, and until the refunding operations have been completed, no material change in interest rates is to be expected. Furthermore, it may be assumed that at the end of the war, when employment is not so plentiful as at present and the volume of consumers' goods has increased, a return flow of currency from circulation will take place. This in turn will tend to increase the amount of reserve balances of the member banks and thus prevent an increase in interest rates. These as well as other factors lead to the conclusion that a material change in interest rates is not likely in the immediate post-war period.

The investment policy of the banks, however, should not be based merely on the fact that no material losses can be sustained from holding medium or even longer term Government obligations. Rather it should be based on the policy that some banks may lose deposits and that it would be highly dangerous to the banking system as a whole if individual banks were forced to liquidate long-term Government obligations in order to meet the outflow of deposits. Each bank should have some idea of the amount of deposits it may lose in the reconstruction period, and a like amount should be kept entirely in short-term Government obligations. As pointed out before, a general reduction in deposits is not likely. On the contrary, an increase will take place; hence, those banks gaining deposits will be in the market for short-term Government securities which will be liquidated by those losing deposits. However, the former, too, because of the sharp decline in the ratio of capital resources to deposits and the uncertainty that may prevail at that time, may be unwilling to buy long and medium term Government obligations, but they will certainly be willing to buy bills and certificates as well as other short term Government obligations.

During the war the banks should endeavor so far as possible to keep all their funds fully invested. There is absolutely no risk involved in acquiring Treasury bills or certificates of indebtedness. Banks, therefore, instead of keeping idle reserves with the Federal Reserve banks, should endeavor to employ them in short term Government obligations. Every bank should endeavor to the utmost of its ability to increase its Government war loan account. This is desirable not only from the point of view of the Treasury but also because it tends to increase its earnings.

If the banks adopt a sound investment policy now, they will liquidate their doubtful assets during the course of the next few months. If they strengthen their mortgages, if their Government holdings are based on the possible future movement of deposits, they will be in an exceedingly strong position and able to meet any demands that may arise in the immediate post-war period.

The volume of loans, on the whole, will tend to decrease during the war. Loans made for the purpose of financing durable consumers' goods, as well as personal loans, may be almost entirely liquidated during the period of hostilities. Those made to merchants as well as to manufacturers of consumers' goods will also decrease because of the declining supply of goods available for consumption. On the other hand, V loans and ordinary loans made for the purpose of furthering the war effort will tend to increase. V loans may create problems, and banks would be well advised to set up reserves out of earnings derived from such loans in order to meet any contingency that may arise in the future.

The banks should utilize all the means at their disposal and should spare no effort in fighting the forces of inflation. Inflation in the sense of a sharp rise in commodity prices reduces the purchasing power of money and deposits. Should this take place, it will give the demagogue an opportunity to incite depositors against the banks. Furthermore, inflation will materially increase the need for working capital on the part of industry and trade. Because of the material reduction in the ratio of capital against deposits, and because there is no way for the banks to protect their own capital resources against inflation, it is doubtful whether they will be able to meet the needs of industry and trade that will arise if the price level should be substantially higher than it is at the present time. This situation will be further aggravated since inflation reduces the intrinsic value of the capital resources of the banks themselves because these, too, are invested either in loans or in fixed income-bearing obligations, the value of which does not increase when commodity prices rise materially.

What can banks do to fight the forces of inflation? They should urge that the cost of the war be financed in so far as possible through taxes and through the sale of Government obligations to ultimate investors. It would indeed be dangerous to the banks, as will be pointed out later, if too large a proportion of the public debt is held by them. Now more than ever banks should encourage thrift and urge the repayment of outstanding debt. Everything should be done to induce hoarders of currency to deposit it with the banks. The volume of currency in circulation today is far greater than is required for legitimate business transactions and a return flow of currency from circulation would be of material assistance in financing the war.

Banks should seek deposits, particularly time deposits, from those whose income has materially increased as a result of the war. Banks should continue to cultivate customer relationships.

In brief, the main problem that confronts the banks at present, aside from the need for the adoption of a sound investment policy, is to assist the Government in the proper financing of the war. Most banks have already adopted these policies and practically all have assisted the Treasury in financing the war effort.

The fate of the banks in the post-war period will be closely interwoven with the economic and political situation that will prevail in the United States at that time. Most of the problems confronting the banks will be caused primarily by political and

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What Is Ahead In The Americas?

By JOSEPH C. ROVENSKY

Vice-President of the Chase National Bank of New York

Discussing "What Is Ahead in the Americas?", Joseph C. Rovensky, Vice-President of the Chase National Bank of New York, told the War Service Meeting "that there is little doubt in my mind but that the countries of the Western Hemisphere are on the threshold of a great development." He pointed out, however, that "much will depend on post-war conditions and also on the degree of mutual interest which develops between our country and the various other countries of this Hemisphere with respect to post-war cooperation."

In stating that "a large number of individuals and companies in the United States are contemplating and investigating possible opportunities for post-war business in South America," Mr. Rovensky expressed the hope "that they realize that the peoples in the South American countries themselves are doing some planning and investigating of their own." "If we on our side, and they on theirs, in this Western Hemisphere," he observed, "fail to find a formula for development which will work out to our mutual interest, then we both will be the losers."

Joseph C. Rovensky

Toward the end of his remarks Mr. Rovensky indicated that it was his thought that "it is highly appropriate that the bankers of the United States should post themselves on future possibilities within this Western Hemisphere." "It might indeed," he said, "be a helpful move if the American Bankers Association should give consideration to organizing an inter-American Division."

Mr. Rovenskey's address follows in full:

In thinking about what lies ahead for the Americas in the post-war period, it is necessary for us to try to visualize what the general picture will be when peace comes. If the succession of events should develop as now seems probable, the end of the war in Europe will come first. Then, later, after victory has been achieved in the Far East, the world will be at peace again. And peace as it comes in each area will confront us with the problems of post-war reconstruction. Therefore, the road back to normal peace-time conditions will be long and will be marked by successive stages of progress. The machinery of recovery and rehabilitation will start in low gear, then go into second speed, and finally into high speed.

At home the conversion of our war industries to fit into a peacetime economy also will swing through successive stages but at a swifter pace than can be achieved in reconstruction overseas. It may be possible to commence assisting in European reconstruction while the war still is being fought in the Far East, but such assistance probably cannot be rendered on a great scale until final victory over Japan has been won.

The building of a new Far East will be a stupendous task. There will be so much to do. The Philippines, along with Australia, the Dutch East Indies and other areas will be revitalized with new hopes and new ambitions. This situation will bring us, as Americans, great opportunities and, if we accept them, great jobs to perform.

However, much will depend on the attitude of our own people. Will we really become internationally minded, and in which parts of the world will we have a greater interest? Which will seem more attractive? Which will bring the greatest opportunities? After we consider these questions in the aggregate, as a nation and as individuals, in the light of a world which has been largely torn by war, there is no doubt that we shall focus much of our attention on our neighbors in the Western Hemisphere. We shall be inspired by the forward march of the Americas, now more closely bound together than ever before.

It is important to note the changes which have occurred in inter-American relations during the war years, as the necessities of war-time have produced mixed blessings. The peoples of the Americas were forced into greater interdependence by the loss of world markets and world sources of supply. This made it necessary for us to cooperate more intelligently and more thoroughly with each other.

At the same time, scientific and technological developments have brought us substitutes and new materials, some of which are here to stay. Just as the war created a new situation in this respect, so with the coming of the peace still another pattern will develop. There will be new dislocations and new problems affecting raw materials. The marvelous development of synthetic rubber in the United States is a case in point. Many authorities have expressed the opinion that the synthetic rubber industry is here to stay. However, the supplementary natural rubber that has been produced in certain countries of the Americas under the spur of war necessity doubtless will be used within the producing countries to meet their own needs.

The production of fibres, twine, rope and burlap likewise can survive in the Americas, as well as the production of edible and inedible vegetable oils, which has been greatly accelerated during the war.

It is an exceedingly important fact that the countries to the south of us in this hemisphere constitute the only part of the world which on balance will emerge better off at the end of the war than before. As a result of the sale of vast quantities of materials needed in the war effort of the United Nations, without which our fighting machine would have been slowed down, the countries of Latin America have been able to accumulate a substantial reserve of dollar balances. These reserves of dollar exchange have mounted high because of our inability to supply in war-time much of the manufactured goods and other commodities needed by the countries to the south of us. Naturally, those countries will be more "U. S. dollarminded" than ever before. They will have incurred a deficiency of at least three years in many things which they greatly need and for which they have looked to us in the past. Naturally, they will be eager to absorb the products of our great manufacturing industries in the United States.

However, as the markets of the world gradually reopen, the natural trend will be for each country to expand its buying from those areas in which they are able to sell their products. That trend in turn depends on the kind of a world we will have and the pattern of trade that the world will adopt. If agreements and understandings cannot be reached which will make for a free world in which to trade, then man-made shackles again will restrict the free flow of goods.

There is little doubt in my mind but that the countries of the Western Hemisphere are on the threshold of a great development. But here again much will depend on post-war conditions and also on the degree of mutual interest which develops between our country and the various other countries of this hemisphere with respect to post-war cooperation.

For instance, the areas of South America that lie in the temperate zone, where the agricultural products are basically the same as those of the United States and Canada, naturally must compete with us on the world market in dispensing of whatever surplus of those commodities may be produced. This economic fact ought not to be permitted to continue as a source of irritation and misunderstanding.

The American industrial and business interests which are wisely giving consideration to the extension of their operations in South America will receive the collateral benefits of the pioneer work which our industry has done in the past in the countries to the south of us. Many pioneer companies, including Singer Sewing Machine, the Linotype, National Cash Register, and International Harvester, have made it easier for our automobiles, refrigerators, radios and aircraft to be accepted, because United States products were found to be good. The radio, the movies, the catalogues and our North American merchandise are making us all kin.

I have endeavored to draw up a hypothetical balance sheet of our inter-American relations as such a balance sheet might appear at the end of the war. On the asset side, the pluses, are the following items:

1. We have shed blood in a common cause—there can be no stronger bond.

2. We have developed a closer understanding.

3. The Latin American republics will have more U. S. dollars than ever before and they will be more dollar-minded.

4. Certain of their industries, notably the mining industry, have been materially expanded, and the production of rubber, fibres and oils has been sharply increased.

5. The nations to the south of us have greatly developed their trade with each other—a most useful trend.

6. Air transportation has conquered distances and natural barriers.

7. The peoples of the Americas to the south of us have set their sights higher. They have the ability and the ambition, as well as the resources, to go ahead.

Now, on the liability side of the ledger may be listed some minus items, as follows:

1. There will be some remnants of Nazi influence here and there working hard to poison inter-American relations.

2. There may be some degree of resentment over the inability of the United States to provide urgently needed materials to our southern neighbors during war-time.

3. There will be in some countries great expectations of liberality from the United States.

4. There will be a number of unsolved defaulted debt situations.

5. I fear that in some areas there will be a growing nationalistic trend, a feeling of self-sufficiency, tending to induce restrictive legislation affecting immigration and activities of foreign companies. This trend may retard and greatly hamper commercial and industrial developments where outside assistance would be useful.

However, one can see at a glance that on the whole this balance sheet presents a very favorable picture. It is my opinion that in this attempt to take a frank and realistic look at the inter-American scene we may find many reasons for encouragement and optimism.

A large number of individuals and companies in the United States are contemplating and investigating possible opportunities for post-war business in South America. I hope that they realize that the peoples in the South American countries themselves are doing some planning and investigating of their own. After all, each country belongs to its own people and they properly will set the pattern and decide what they think comes first. However, if we on our side and they on theirs in this Western Hemisphere fail to find a formula for development which will work out to our mutual benefit, then we both will be the losers.

All of us as business men may rightfully take pride in the outstanding achievements which capital and management from the United States have made in developing the natural resources of many countries in the Western Hemisphere. The real significance of teamwork and cooperation in that field becomes apparent when we stop to consider that millions of tons of copper in the Andes Mountains were of no practical value lying dormant deep below the surface. But the enterprise, large capital investments, and great engineering skill of men from the United States, together with rugged native workers, have made it possible to extract that copper from the mountains, transport it to factories, and fabricate it into gleaming wire and other products which serve mankind in a thousand ways. At the same time, the people of those copper mining countries in South America have benefited in wages and tax revenues that have contributed substantially to the life of their communities.

Similarly, let me remind you that it needed more than the combination of fertile soil and tropical climate to lift the banana plant from its secluded place as a rare table luxury to its position as a great staple food used by millions of people. It was the vision, the organizing genius and marketing skill of business men from the United States, together with large capital investments, which accomplished that transformation and at the same time brought about an inflow of wealth and an improvement in the living standards of those areas where the banana industry flourishes.

At this point I should like to attempt a brief appraisal of some of the problems in the area of finance and investment. Most of the countries in the Americas have substantial, long-established commercial banks of their own. Those banks handle most of the local and domestic business and there is no important conflict between them and the branches of the United States banks and other foreign banks which operate in the various countries. The North American branch banks comprise a useful part of the financial machinery in those countries and are constructive factors in developing their foreign trade. There is a need and a place for both the domestic and the foreign commercial banks and it is quite important, in accordance with the ciples of commercial banking, that these institutions, the bulk of whose funds belong to their depositors, should confine themselves to commercial banking transactions.

In the field of investment capital, involving stock participation and long term loans, the supply of accumulated local capital probably will be inadequate to meet the contempated expansion in many of the countries of the Southern Hemisphere after the war. As a result, there will be a need for considerable outside capital which is willing to make investments on a long term basis.

The exchange rates on currencies of the Americas during the wartime period have remained fairly stable, whereas the past record was spotted with wide fluctuations. With the greatly improved financial position of all those countries which have been accumulating holdings of gold and foreign exchange, the nations of the Americas should embrace the opportunity to join with the other countries of the world in a comprehensive plan of post-war monetary stabilization and the elimination of trade-retarding controls, when a satisfactory plan finally is evolved.

I am hopeful that in the years to come some of our neighboring countries will be able to work out a broader foundation for their fiscal revenues so as to eliminate the excessive duties that are now placed upon imports of essential products, such as foodstuffs in some instances. It is perfectly obvious that if there is a 100% tax on flour in areas where flour is greatest needed, that tax merely acts as a brake on improvement in the standard of living.

In trying to appraise the various types of financial operations which may be necessary in our inter-American relations in the future, I am inclined to make three general classifications:

1. The first consists of new enterprises which will be started by private business alone, financed with private funds. I hope and believe that this will comprise by far the largest classification. An example would be the development of a food processing plant in a situation where private enterprise is confident that the venture will prove to be profitable.

2. The second includes new projects financed by private capital but with some assistance from the United States and/or South American governments. An example of this type would be a hydro-electric project which would require a large amount of capital and would need some governmental assistance for a period of time until it reaches the stage of profitable operations.

3. The third includes projects not appropriate for development by private capital where government financing alone would be necessary. Examples would be drainage projects, clearing of lands, and the opening of new areas where government action must first be taken in order to create conditions under which individuals and private concerns can start new activities.

In past years the attitude of our government for rendering financial assistance to the countries south of us has been prudent and conservative. The management of the Export-Import Bank has been intelligent and farsighted. The bank has not squandered our money. It has co-operated with American industry and has been of material assistance to other countries of the Americas. On the whole, I think it has done a good job.

As we contemplate the future development which appears to be possible in the Americas to the south of us, there are certain fundamentals which should be clearly stated. In the first place, financial assistance from private sources in the United States can be obtained only on merit. I know of no magic credit formula. Long-term capital will flow only into the areas where political and economic conditions are reasonably stable, where the past record is good and where the prospects for the future are right. Under those conditions capital will seek investment at normal rates of interest.

Both from the standpoint of the nationals of South American countries and from the standpoint of our interests as citizens of the United States, I favor joint partnerships and stock participations in commercial or industrial organizations. In all ventures where a group or individuals from this country is making a South American investment I would favor a goodly participation in that enterprise by the nationals of the country where it is to be started.

I would accept as fundamental the principle that as the capital resources of the various South American countries increase, more and more of the ownership of these joint enterprises should be purchased by the citizens of those countries. I have no fears of minority or majority holdings under reasonable conditions. Much of the great expansion of transportation facilities and industries in our own country during its pioneer period was financed with the help of foreign capital.

I do not favor our going into the development of projects where our financial, technical and manufacturing assistance are not required. We must pay more attention in the first instance to what contributions can be made toward needed expansion than to what we are going to get out of it, as the long-run test is that of mutual benefit. I strongly feel that since this kind of collaboration is essential for the development of the many opportunities which exist in South America, progress will be retarded unless these basic factors are really understood and a spirit of mutual confidence and cooperation exists.

There is one type of financial mechanism which is wholly inadequate in South America. That is in the field of facilities for consumer credit, which are available only on a limited basis in a few countries of that area. During the past thirty years we have developed in the United States an effective financial machinery for consumer credit which has stood the test of good and bad times and has stimulated large scale production of many useful things. If anything like a comparable volume of sales of automobiles, radios, refrigerators and other

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Bankers Must Lend Wise Counsel To Create Post-War Economy

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be no misunderstanding that the debt is a debt—to be treated as such, and paid as such, to be renewed, extended, and refunded from time to time, as the needs of our Government require—but also to be regularly reduced and ultimately paid."

Analyzing the ability of "U.S.A., Inc.," to service an estimated $300,000,000,000 debt after the war, he said that whereas national income averaged $66.6 billion for the 20-year period from 1919 to 1938, it has materially increased in the war years, and the forecasts for 1943 range up to $140 billion.

"Even this income hasn't been sufficient to support the sort of management — administration of government—we have had. U. S. A., Inc. has lost money in operations . . . . The balanced budget, symbol of Governmental financial integrity, was last in effect in 1930.

"If we couldn't support our Government out of an annual income of $66 billion a year for the last 20 years without its being in debt $50 billion when our war preparation began, it is evident that either the income must be maintained at high levels, or expenses reduced—both, in fact—if we are to pay our debts."

Mr. Strickland termed this the challenge which government, industry, labor and every citizen must meet and solve. "Otherwise we shall be insolvent; only by meeting it honestly can we achieve that for which we fight. It must not be done by inflation, either to thus destroy the peoples' savings or to create a higher price level which will prevent an increased industrial output at home and render us noncompetitive in the markets of the world."

He advised liberal leaders in industry and a new and constructive leadership in labor to meet in a spirit of cooperation and denounce the efforts to separate them in their common purpose and interest.

Mr. Strickland's speech follows:

Can a national debt of 300 billion be paid? Will this huge obligation be met in dollars of a purchasing power comparable to that of pre-war days? These are the questions which thoughtful Americans ask themselves as they consider the economic aspects of war cost and post-war recovery.

But it is likely that 99½% of our citizens do not comprehend the great problems which the resulting debt will create for our nation, and that, every citizen for a century to come will share its consequences. It is therefore a high duty of the American Bankers Association to promote discussion of the debt and its attendant problems and to advance plans to meet them. Such discussions and plans should be widely disseminated in simple form.

Only the need for such discussion justifies any individual in presuming to present an opinion on so broad a topic—a presentation made with full knowledge of the many phases that cannot be explored so briefly.

There can be no "cold blooded" talk of debt, finance or economics so long as the drama of war and debt claims our sons—so long as the warm blood of American boys is being shed on every continent there will be no question as to the dedication of every material resource at our command to shorten the terrible conflict.

America is proud of its Army and its Navy. They are finely trained and ably led. Their equipment is superb. Our military leadership has planned wisely and executed splendidly the initial phases of the conflict. We may well heed their informed warning that great casualties, great effort, great costs lie ahead.

Happily, every portent of victory is ours. The matchelss courage of our armed forces, supported by the outpouring of our nation's wealth and the production genius of industry and of labor, are guarantees of ultimate military and naval success.

How soon that day may come is a part of the individual responsibility which each of us must accept without reservation on the home front.

How well we at home shall plan to preserve in the future the national life for which they fight is a larger part of that responsibility. If we shall avoid it as a nation, as groups, or as individuals there will be no ignominy too great and no reproach too severe, for history to place upon us.

A political leadership which proves inept, expedient, or calculating; an industrial leadership which proves selfish or incompetent; a labor leadership which proves grasping or venal; an economic leadership which proves unable to cope with new and greater problems; or a complacent citizenship—all of these will be repudiated by the scornful look of hardened young eyes whose realistic observations of men dying have given them a clear perception of values—human and divine.

The "spectator" psychology which persist among us has no place in war. No amount of cheering from side lines or bleachers can discharge our personal responsibility. As citizens we are justified in requiring competent, honest and economical administration of the entire war effort. We can with equal right demand the elimination by our Government, of every unnecessary and nonessential activity. We ourselves in our private lives must strip to essentials. We can do these things because it is our Government; we must do them because it is our Government.

It is this right and this duty alone which our sons fight to preserve, and for which we pour out both the anguish of torn hearts and the substance of our economy. It has been recently said that "the State is either all of us, or, if it is created as separate and apart from us, it is only the device of the politicians then in control."

In our place as bankers, a most important sector of war responsibility must be met. Second only to military operations and industrial production is the financing of war. It is a responsibility adequately met by bankers throughout the shining history of our nation. From the devoted service of Robert Morris in the American Revolution, in patchwork borrowing to keep Washington's tattered legions in the field; through every war of our national life, the role of the bankers has been an important one.

This responsibility will greatly surpass during this war, and in the post-war period, the challenges which our banking system has faced after each previous war in nation's history. During the war we must, in collaboration with the Government, and other groups of our economy, aid in financing the war amply and soundly. We must keep our banking structure free of speculative credit, and invest largely in the short term, low rate obligations of our nation. We must divert every idle investment dollar to the prosecution of the war.

In all the confusion of post-war planning the voice of American banking must be heard as the advocate of those measures which will insure a sound economic foundation on which to rear a structure of continued industrial progress. Such a structure on such a foundation, alone can validate the guarantees of the Four Freedoms, either at home or in the world. We must not plan first to build the walls and roof of a shelter for national security and world peace which the foundations of our post-war economy cannot support.

It is not our responsibility alone. It is shared by every man and woman in America, and literally by generations yet unborn. The traditional responsibility of bankers is to invest in sound obligations, and to safeguard the funds of their customers. To these duties we must now add that of wise counsel to create a sound economic atmosphere for our nation's future. To do this we must aid in bringing home to every American an understanding of what this debt means in future American life.

Our Congress has appropriated 330 billion for war. To June 30 we had spent 110 billions. At current spending rates these appropriations will finance the war to April, 1945.

We will owe 165 billion when the Third War Loan drive is completed this month. Current estimates are that the debt will be near 200 billion by July, 1944.

If taxes are increased to one-third of our national income we should raise near 50 billion in the fiscal year 1944-45. This should reduce borrowed funds to less that 60 billion for that fiscal year, and leave us owing about 265 billion at July 1, 1945.

To this must be added war ending costs—the stabilization of liberated and of conquered nations, the costs of gradual demobilization, reconversion of industry, of termination and adjustment of cancelled war contracts — a pure guess of 50 billion more.

These facts, and the many available estimates of others, justify us in accepting for this discussion a peak debt of over 300 billion. Should the war end sooner the debt will be smaller—if longer, an ever grater problem confronts us.

This stupendous sum dwarfs any conceivable comparison in economic experience. The current literature of finance and economics affords the opinions of many theorists who believe that this unprecedented volume of credit instruments will of itself create new functions of credit. Borrowing interminably assumes the cloak of virtue. The perpetual existence of a constantly enlarging debt becomes a guarantee of security. For fear we shall have too little debt we are to have a program of post-war construction of non-revenue producing public works, and world rehabilitation from the endless coffers of rich America—the coffers of continued borrowing.

A dynamic, expanding America, industriously returning to peace time production of goods through enterprise and initiative and paying its debts from the profits of industry, will have little labor and scant credit to spare in such non-productive work.

Finally, these proponents of prosperity through debt tell us that there is no debt because we owe it to ourselves. This doctrine can only be supported by the collectivist theory that all property belongs to the State, and that the State has no obligation to repay that which it takes from its subjects. With more than one-third of our citizens as direct owners of Government obligations, and countless other million indirect owners as holders of life insurance policies, of bank deposits, and other evidences of participation and ownership, it is necessary that there be no misunderstanding that the debt is a debt—to be treated as such, and paid as such. To be renewed, extended, and refunded from time to time, as the needs of our Government require—but also to be regularly reduced and ultimately paid. But it is not reassuring to hear of a highly-placed Government economist, on being asked as to any plans being formed to retire the debt, replying, "I have never even heard the matter discussed." If that statement implied an indifference to the obligation, or an intent to avoid the responsibility of the debt, it would be well that an authoritative voice be raised with definite assurance that no such collectivist notions will be tolerated in America.

Others of these theorists have revived such fallacies as a 30-hour week. They have reverted to the arguments used in the depression mid-thirties to support the so-called "emergency" measures of "spread work" and "share-the-work" to meet the then existing unemployment. The Brookings Institution said of it then, and could doubtless do so with even greater assurance now:

The 30-hour week is an outcropping of the idea of conforming production to a diminished demand. It would mean a productive output, even with full employment, substantially below the level of 1929.

Surely, no one will for a moment assume that the need for goods of all kinds for many years to come will not tax American production greater than in 1935, or even in the previous peak year of both production, wages, and national income of 1929. Is America to be told then in the face of world needs, and the great necessity for maintaining increased national income, that we are to work less, produce less, and remain solvent?

Rather must we, as bankers, and as advisers to the managerial system of American industry, point out to both labor and management, in a spirit of serious and sincere cooperation, that the payment of our debts rests wholly on the maximum production of goods, the establishment of new industries, the maximum individual efficiency in both management and labor, and the restoration of our Government to its historic role of an unprejudiced umpire.

More work, greater production, high pay to the efficient through incentive plans; lowered costs, lowering prices, wider distribution of goods; economy and thrift by Government and citizens alike; sustained profits and industrial expansion from earnings; balanced budgets, decreased borrowings and debt payment—these and these alone can maintain a sound standard of living; these alone will pay our national debt; these alone can guarantee a continuation of a democratic form of government for our nation; these alone will enable us to meet our international responsibilities.

There is no reason to doubt the sure success of such an effort—of such cooperation between managers and workers. We are now engaged in helping all the world with its problems, and rightly so, for they have become our own. Why is it the world wants and needs support from us? Is it because we have created what they have been unable to do? Does not this recommend the historical independence of American enterprise? Is not our enterprise and profit system of industry thus proven superior?

Such a program is not easy. It will mean a lessened return for capital, in keeping with the low money rates which the service and retirement of the huge debt requires. In the presence of these economic perplexities, and in the face of these erudite but untried theories, it is perhaps unwise to oversimplify the problem.

Is the obligation of the United

(Continued on page 1204)


For that Invasion You've wanted
As our armed forces smash against the Fortress of Europe, the least *we* can do is to give them our fullest measure of support by providing funds to pay for the planes, guns, tanks they need.
Remember, this is the Invasion you and all other Americans have been hoping for and asking for. But Invasion requires a lot of money. And now in this month of September our Government is faced with the colossal task of borrowing 15 billion dollars in the 3rd War Loan. As individuals all of us must invest to the *limit* — all we can spare will not be enough.
As to its own participation, The Home Insurance Company is glad to say that —
"All new gross premiums collected by The Home for the balance of 1943 are being invested in War Bonds— OVER and ABOVE its normal government bond purchases."
☆ THE HOME ☆
Insurance Company
NEW YORK
FIRE ★ AUTOMOBILE ★ MARINE INSURANCE

Bankers Must Lend Wise Counsel To Create Post-War Economy

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States good? Will it be met? Let us follow an old credit formula in an examination of the character, capacity, and capital of the borrower—"U. S. A., Inc."—a borrower now owing heavily, and obliged to have much greater financial support in the months of war remaining—months that may well prove the most momentous of history.

What is the character, capacity, and capital of "U. S. A., Inc."? What is the earning record? How good is the management? How dependable is the moral risk?

To determine capital let us construct a fictional balance sheet. "Fictional," not because it is unsupported in fact, but only because it cannot be wholly inclusive of either resources or liabilities. But it will serve to illustrate how we and our Government look in the conventional form of financial data.

Our physical properties are worth about 400 billion, using a rough average of academic and Government studies. Salvage of war plants, merchant marine, navy and army equipment and material may run up to 50 billion. So our productive plant and the equipment to protect it total 450 billion.

Our current assets, including deposits, currency in circulation, receivables, inventories, and our savings in Government bonds, aount to about 225 billion.

Against this we now owe about 110 billion in private debt, and 170 billion in public debt, Federal and municipal—a total of 280 billion. Of this, 100 billion is current, and 180 billion long term debt.

Our current ratio is about two and one-fourth to one; our net working capital about 125 billion, and we have a plant debt of 180 billion against a 450 billion book value.

Against total capital resources of 675 billion we owe 280 billion and have a net worth of 395 billion.

Economists, statisticians and accountants alike will shudder at this scrambling of public and private assets and debts, and would no doubt rewrite it in less understandable terms with copious qualifying footnotes. But, broadly speaking, such a balance sheet sets out the present situation of a borrower, needing in the near future, additional loans of 125 billion or more, only a moderate part of which will be reflected in increased assets.

The ratios will get thinner if the proportion of current debt—due on demand or within one year—is materially increased as we move up to a 300 billion debt. This seems to wholly justify the Treasury policy of placing all bonds possible in the longer maturities, holding short term debt to one-third or less of the total, and keeping the banks open to revolve this short term debt at low rates to maintain the liquidity of the Government bond market. The banking system can have no quarrel with such a policy which is wisely designed in the interest of the banks and the public, as well as the Treasury convenience. Nor will the Treasury have full control of this policy without the support of the banks, not only in promptly and cheerfully accepting their quota of short term debt at low rates, but in extending themselves to the utmost in inducing the investment of every idle dollar in their deposits into a Government obligation of appropriate maturity by the owner of that deposit.

So we have a full debt and extended balance sheet now. It will become more so as we progress further into the war, but if we collect more taxes, begin to exercise economy, and hold down borrowings, it need not become too extended, if the war doesn't last too long.

What about the earning record of "U. S. A. Inc"? National income averaged 66.6 billion for the 20-year period from 1919-1938. It has materially increased in the war years, and the forecasts for 1943 range up to 140 billion.

Even this income hasn't been sufficient to support the sort of management — administration of Government—we have had. "U. S. A., Inc." has lost money in operations. For 13 consecutive years—10 of them years of peace—we have spent more than we have earned. The balanced budget, symbol of governmental financial integrity, was last in effect in 1930.

If we couldn't support our Government out of an annual income of 66 billion per year for the last 20 years without its being in debt 50 billion when our war preparation began, it is evident that either the income must be maintained at high levels, or expenses reduced —both, in fact—if we are to pay our debts.

Debt service, apart from retirement, initially will be about six billion annually. The activities of the Government for other than war and debt service for the fiscal year 1943 cost four and a quarter billion. If we retire three billion of debt yearly—a 100-year amortization plan, without intervening increases—do not increase our other expenses a single dollar, and maintain our naval and military establishment on as low a basis as two billion annually, we shall have a minimum annual budget of more than 15 billion. This is more than three times as great as our 1929 budget, and nearly twice as great as our average 1933-37 annual budget.

The "tax take" of the Federal Government averaged four billion for the fiscal years 1930-39—pre-war and largely depression years. This was about 6½% of national income. Consequently it is evident that event a 15 billion post-war budget taking 15% from a minimum post-war national income of 100 billion will more than double our pre-war tax take and will require a 50% increase over our pre-war national income.

This is the challenge government, industry, labor and every working citizen must meet and solve—otherwise we shall be insolvent; only by meeting it honestly can we achieve that for which we fight. It must not be done by inflation, either to thus destroy the peoples' savings or to create a higher price level which will prevent an increased industrial output at home and render us non-competitive in the markets of the world.

Next the question of capacity comes in for consideration. How well are the industrial, commercial, and agricultural departments of "U. S. A., Inc." operated? Are the engineering and production methods okeh? Is the labor situation satisfactory? Are there good markets for the products?

Certainly the plant is modern—the finest facilities in the world, unimpaired by the destruction of war, as are some competitive plants. Managerial methods, engineering, and production supervision are the finest ever on earth. We surprised the world by speedy conversion to armament production. We have designs for a lot of new things at low prices and a lot of orders banked up to go to work on as soon as this war business is over. And a lot of new customers to sell things to at a profit.

Labor? Splendid, most skilled and efficient in the world. In fact, almost the only free labor left in any nation. By and large, the worker has been a full partner in the industrial miracle which is America. His share has brought him a greater portion of comfort in life and of unlimited opportunity than ever known anywhere in history. Certainly this well-being is nowhere else evident in today's world. The path from the bench or lathe to the "front office" has always been a short one for the industrious. Management in America is just another form of labor—with a skill more often than not gained by capable and efficient labor in shop or factory or store or on the farm.

Management and labor in America, with few exceptions in management, and a few in labor, largely confined to leaders perpetuated in power by undemocratic processes, understand each other. Whence, then, comes this claim of divergent interests, this rash of labor disputes, this alleged distruct between these partners in American enterprise? Why should it now plague and retard our united effort in the most crucial hour of our history? The answer to these questions has an important bearing on our credit analysis conclusions.

Its origin is clearly and undeniably in a class-conscious Europe, built on artificial distinctions of birth. From it we have imported these Marxian doctrines which there had fostered the very totalitarian regimes, collectivist and fascist alike, whose slimy grip on the freedom of individual man, an America made strong by the democracy of free men, now helps to break.

Liberal leaders in industry, and a new and constructive leadership in labor must meet in a spirit of cooperation and denounce this effort to separate them in their common purpose and interest. For, rest assured, when our national debt is paid, it will only be paid by the earnings of free men, in both management and labor, working as a team. If this is not accomplished, we are obliged to mark that failure down as a severe weakness in the capacity of our credit risk.

What about the "character" risk of "U. S. A., Inc."? Is the willingness and intent to repay the obligation present? Has our respect "for the promises men live by" been impaired by a generation of political management,—by national repudiation at home and abroad? Or by the speculative orgies of the business and banking communities in 1929? Or by the character weakening subsidies to favored pressure groups? Has our vaunted "standard of living" in reality softened Americans?

Is the idea to be perpetuated in America that any one who earns his way honestly and who by thrift achieves more of worldly success than his less provident neighbor, must have done so by thieving?

Here we find a weakness growing out of the vicious class psychology created in scarcely more than a decade in America where every man has always been able, if he worked, to stand on his own two feet and look every man in the eye. What he wanted he was willing — anxious — to earn. He bore malice to no man who did him no harm. He was not inoculated with the class-consciousness which his forebears left behind in Europe. His was the right to work and to win; to love and to live; to demand and receive the greatest freedom the common man has achieved in all history.

With the importation of collectivism, the prostitution of this freedom of the common man began in America. Groups were organized to bargain their way to positions of overlordship, and thus to become the means of seeking to overthrow the democracy of the individual. May we pray that in the white heat of war the souls of American boys will be made to realize the dignity of a man of courage and of integrity, and thus to stifle in our new generation the unjustified results of prejudices, sponsored by the collectivist intelligentsia who have insinuated themselves into the political and economic life of our country.

Have these views been accepted by us here at home? No true American will finally charge his fellow citizen with this opinion without overwhelming proof of such an acceptance. Rather we must believe that the expression of these views in an America never before class-conscious, is but an unsuccessful effort of those who in reality seek the overthrow and destruction of democracy.

For our part we must believe that the apparent indifference to this threat by large sections of our people is only because they have been thoughtless and neglectful of their duties, and forgetful in a bountiful America, that the price of liberty is eternal vigilance.

And so we must judge our national character risk in the light of pioneer bravery, revolutionary valor, creative genius and inherent capacity for cooperation and neighborliness.

So our credit analysis summary might well run—capital, adequate, but needing careful husbanding in view of our debts, both public and private; earning record, spotty; financial management, poor. Capacity—splendid; character, fundamentally sound, but not yet alert to common danger. Prospects. with better management, excellent.

"U. S. A., Inc." is a solvent, well-established business. Its record of growth is remarkable. The political management for the past 25 years has been shortsighted; its fiancial policies for 13 years have been expedient and makeshift. With a fine record for 150 years, however, and great resources, vitality, and opportunity, and

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Over There
it's in every
fighting man's thoughts
Herbert Bohnert
Over Here
it's front page
news
Industry is helping win the war...
industry must help build a peacetime world
After the war is decisively won...
what kind of world is essential for a just and durable peace?
This question is being asked today everywhere in the world. No expert is needed to tell you the answer.
It must be a world as peaceful and neighborly as your own town; a world in which decent people can bring up their children decently. It must be a busy world where factories and farms are working and where there are jobs for all.
How can such a world be brought into being? The surest way is to think and talk about it. Full and complete discussions on the porches of this country, over its fences, in churches, schools, clubs, and always at meals—that is how the terms of A JUST AND DURABLE PEACE can be formulated.
In your discussions keep in mind this fact; your terms of peace must be such that the people of other lands can agree with them. There must be provision in your plans for sustained production and for consumption of that production.
Only a world peace that squares with the conscience of men of good will can be just. Only a just peace can endure.
THE INTERNATIONAL NICKEL COMPANY, INC.
Subsidiary of The International Nickel Company of Canada, Limited
New York, N. Y.
Awarded to
Huntington Works

Bankers Must Lend Wise Counsel To Create Post-War Economy

(Continued from page 1204)

with improvement on the part of the management and renewed interest by the shareholders, it is a fine business and ought to be preserved.

Can the debt be paid? Certainly it can be paid. The resources and energies of the American people, directed into channels of full production, guarantee the ability to pay. It will call for a renewed valuation of the dignity of labor; a revivied thrift and economy; a discarding of foolish notions that dollar marks and price tags represent a standard of living, rather than the comforts of life which we produce. Production, not profits, must come first. Profits in plenty for capital, management and labor alike will follow "as the night the day."

It will require that no politician be allowed to defraud the rank and file of American citizens by tampering with the integrity of our national obligations, or by devices to control production, prices, or purchasing power a single day beyond the period required to reconvert industry to peace time production.

It will require the substitution of civic integrity for political trickery.

It will mean that elemental justice is not to be lost in a maze of legislative interpretation and sophistry.

It will mean that we shall have the substance and not merely the form of democracy in all of our relations, labor organizations included.

It will require a re-examination of our system of taxation. Neither business nor persons of large income will be responsible for this consideration. It will be necessary for the Government to do so if it is to receive adequate revenues. Business and wealth will have lost their capacity to produce taxes if our present confiscatory rates of income and inheritance taxes continue to destroy the power to earn, and necessitate the virtual liquidation of growing enterprises in each generation.

It is likely that a gross transactions tax on the transfer of all goods and services will alone produce adequate revenues and not destroy the tax creating ability of industry as will a continuance of confiscatory income taxes into the post-war period. Such a transactions tax, in combination with sales taxes, might well be by statute allocated first to debt service and retirement.

It will mean that Government must cease to persecute. Tax procedure must be simplified and a sense of fairness in dealings with taxpayers restored. Congressional intent must be more simply stated and judicial interpretation become less technical. The Securities and Exchange Commission must simplify its procedure, abandon its inquisitorial methods, and pursue courses which will attract venture capital, without permitting fraud. The National Labor boards must become judicial bodies, without prejudice to either employer or employee.

It will require that all Federal procedures be simplified, and that hundreds of thousands of unnecessary Government workers be released for productive labor in private industry.

It will mean freezing all Government bureaus from the dominance of pressure groups, so that all citizens may obtain simple justice promptly, and without the interference in administrative bureaus of the influence of any pressure group, or political favorite.

Too often criticism is not accompanied by specific suggestions for direct action—in conclusion these suggestions are offered for your reflection and consideration.

The American Bankers Association not only has a greater responsibility for the successful financing of the war than any other single group in private enterprise. It has a larger duty to assume the initiative in devising a long range fiescal policy for both the war and post-war period in order to assure our continuing national solvency.

Pursuant to this responsibility it must give unrestricted support to the Treasury in the current and in future war loans, and on all occasions advise as to the wisest, most economical and safest course of financing to be pursued, without regard to any selfish interest of the banking system.

In the midst of a plethora of post-war planning for spending and borrowing its authoritative voice must be raised for earning, saving and paying. If the United States cannot plan for the preservation and solvency of its own post-war economy, it cannot pretend to assume the salvation of the world.

In discharge of its longer term duty the Association should now establish, under the guidance of its Economic Policy Commission a suitable staff to prepare, publish and submit to the Treasury Department, and to the proper committees of Congress, continuing studies and recommendations concerning the fiscal problems of the United States for a period of years. Such procedure will afford opportunity to seek cooperative collaboration with constructive leadership in the fields of industrial production, general business, agriculture, life insurance, investment banking, and organized labor and, finally, will necessitate a study of present and alternative systems of taxation, tax limitation, allocation, and budgetary control of Government in the future.

Banking cannot be content to serve only as opponents of current destructive trends. We must become active, constructive proponents of a revised, sound financial program. In such manner alone can we meet the responsibility of financial leadership which we must now assert or abdicate.

This Association should record its desire, and pledge its whole effort to secure the election to office, particularly to our Congress, of men pledged to serve our whole citizenship, and who will eschew allegiance to any pressure group, or minority bloc. This grave hour affords no ground for self-seeking by any group on the American sense. The United States needs a Congress and an administration of its Government, now and in the post-war period, which will consider in fairness, and seek equitable solution for the problems of every group and class of our citizens, impartially and without prejudice. Whether we are bankers or laborers, farmers or white collar workers, doctors or lawyers, business men or politicians, and whether organized or unorganized, all of us have a right to be treated by our Government as free American citizens.

As one writer has said so well—

It will take a new honoring of first principles to get back to self-faith and to re-establish the integrity of our nation. To do this, to turn our backs on political opportunists and to resist the "inevitableness" of collectivism, requires a courage which is equivalent to the courage of America's pioneers.

It requires sacrificial devotion, spiritual and intellectual conviction, and a genuine respect for the dignity of one's self as a man, for one's own work, one's place as the head of a family, as a member of a community, and as a citizen of a stable and prosperous nation.

Men are the essential element of the nation which will be precisely what they are.

Paternalism In Government Should Be Abolished

(Continued from page 1191)

the other American nations have been removed." "Great credit," he declared, "is due to the President and Mr. Hull for their far-sighted diplomacy resulting in the well-known Good-Neighbor Policy," stating that after the last World War we failed to make the most of our opportunity in the development of trade with Latin America, particularly in the banking field," he reminded the bankers that "now again opportunity knocks at our door" and that "we should not fail this time."

In his remarks in the third part of his report, Mr. Hemingway had the following to say in part:

By reason of the rivalries of the Old World the old order has passed and the struggles of two world wars have thrust us into a position of leadership. It may be true that this great responsibility has come too soon, that we are not prepared by either experience or training to render the full service the world needs from us today, but we cannot escape it. Shrink as we may, we must face the facts. In this great work that lies ahead of us a sound financial program must be the foundation on which to build the structure of peace and goodwill throughout the world.

If national budgets go unbalanced and currencies remain redeemable only at the will of government there can be no stability to world trade, no permanent prosperity and no lasting peace. It therefore behooves the bankers of this country, as experts in these matters of money and finance, to point the way for the Statesmen to follow in shaping the peace. I do not mean that we should attempt to write the terms of the peace but only that we give our counsel and advice on those matters with which we are familiar by reason of our calling.

In order to be prepared to give this assistance I have, with the approval of the Executive Council, appointed a committee of able bankers which is now at work studying and analyzing the needs of the several countries so that they may recommend plans for the stabilization of currencies, the establishment, where necessary, of sound banking systems and the maintenance of an international exchange based on gold which will assure exporters and importers everywhere a stable money, so necessary for the free flow of goods from one country to another.

If after the victory the world is again to be a place where peace and plenty dwell, we, as the richest and strongest of the nations, must use our wealth and our strength to help restore the less fortunate countries. We should be generous, we must be practical. We can help the world back to prosperity again only if we use our resources wisely. To do this there must be cooperation with the other nations and especially with those that comprise the British Commonwealth of Nations.

From the first part of Mr. Hemingway's address as President, we quote:

It seems to me that the best preparation we can make for the future is to secure the recognition by our fellow citizens of certain principles which will be used as criteria in the consideration of any question which may arise. Among these are the preservation of the integrity of contracts, the inviolability of the right of a person to own property and the protection of his enjoyment in its use, and the repudiation of the principle that the government can create wealth and can direct the affairs of its citizens better than they themselves can. We know that, unless these truths are recognized by the great majority of our people, the system of private enterprise is doomed, and the American way of life, which has been the envy of the world, will be destroyed by enemies from within while we are fighting to defend ourselves from enemies from without.

A continuation of government deficits coupled with bureaucratic control of the daily lives of our people can only lead to state socialism and dictatorship, the very thing we are fighting to destroy in other lands. We already have instances of the encroachment of government on the private enterprise system under the guise of emergency in the establishment of government lending agencies. There is danger of these becoming permanent.

This is especially true in the field of agricultural credits. Due to the long and deep depression in agriculture, drastic methods were used to revive it and relief in various forms was administered. Happily the patient has recovered and is in good health again. Therefore there should now be no great difficulty in devising a program that will ensure the farmer all reasonable financial assistance, and at the same time provide for a continuance of banking in the field of private enterprise, thus relieving the heavily burdened Treasury of the necessity of providing funds for some twenty-three lending agencies. To make clear the Association's policy on this subject, after approval by the Interim Committee, the Agricultural Commission and the Food-for-Freedom Committee, I issued at St. Louis on January 20 of this year a statement which in part reads as follows:

We recognize the right of farmers or any other group to establish, operate, and maintain cooperative credit enterprises. We believe, however, that such institutions should be operated on a self-supporting basis and that income should be adequate to cover the costs of operation, including credit losses. Continuing losses of any such institutions should not be subsidized out of the Federal Treasury.

We believe that the present subsidies enjoyed by the Production Credit Association in the form of government capital should be returned to the United States Treasury, as soon as practicable.

This policy should be adhered to.

We have been told on many occasions that the bankers are looked to for advice and guidance, and that they are regarded as leaders in their communities. Let us accept then this leadership and boldly denounce as unsound those men and measures which lead to the destruction of our American economy, and let us again proclaim that energy and enterprise, self-denial and thrift provide the only road to individual and national prosperity. The same rules that apply to the conduct of the individual hold true for the government. Neither can waste money without injury. Each must live within the income provided or in the end face disaster. During an emergency old rules may be temporarily suspended. The great depression saw the abandonment of sacred principles under the stress of emergency. The global war left us no choice but that of arming to win. It is hoped that our youthful strength and great resources will enable us to survive these two great blows, but certainly we cannot expect to weather another emergency if we follow the same course of excessive spending and taxing.

And again let us emphasize the necessity for the abolition of paternalism in government. The American people have always had a sound government because they were jealous of the power of government. From the very beginning of our national life restrictions have been placed about the authority of our elected officials. But recently we have seen practically unlimited powers given to the Executive Department on the ground that they are necessary to meet the emergency. Granting that this be true, it should be so only during the emergency.

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Missing . . .

"Missing in action." You know what that can mean.

Mom says you must be brave. "It's what your father would expect of us," she tells you when it's bedtime and your chin starts to feel shaky. Then she kisses you extra hard and turns her head away so you can't see her eyes.

You've never let her see you cry. Not once, since that telegram came and she twisted it all up in a ball, then smoothed it and put it in the desk.

But, lying in bed, you play "Pretend"—pretend you can hear his step as he comes up to your room—pretend you can feel a stubble brush your forehead. And sometimes, in the dark, you can almost smell a cigarette-y suit close to your face.

Later you dream—dreams that you don't tell about. And in the morning you wake up with that funny, empty feeling in your stomach.

* * *

Poor little guy. We—all of us—wish there were something we could do. Perhaps there is. Why shouldn't it be this?

We can resolve that the plans your father had for you shall remain within your reach, that you shall have the chance to grow and learn, that your opportunities will be bounded only by your own get-up-and-go, that you will progress and prosper in direct relation to your own ability—in a land of freedom and opportunity.

Those are the things your Dad valued, the things for which he gave his life. Though some may strive to change all that—provide you with the "benefits" of an all-powerful government, the "advantages" of regimentation, the "blessings" of bureaucracy—we can resolve they won't succeed.

* * *

You, son, won't read these words, and if you did, they wouldn't mean much to you now. But your father's friends—known and unknown—are making you a promise, just the same.

You may never hear it from their lips. But if you were older you would read it in their faces—recognize it in their spirit. They are determined to keep America free. To keep it a land in which government is the servant, not the master of the people. To keep it the kind of America your Dad wanted to preserve—for you.

CHESAPEAKE AND OHIO RAILWAY

CLEVELAND, OHIO

Paternalism In Government Should Be Abolished

(Continued from page 1206)

A year ago in this building I stated that we would support our Commander-in-Chief to the limit in the war effort. A glance at the activities of the banks and bankers is ample proof of our compliance with that statement. In every way we have helped the nation's war program and we will continue to assist our valiant President. Although some of us are of opposite political faith, and others of us have opposed many of the President's policies, nevertheless we have wholeheartedly worked in the ranks with our fellow Americans in furtherance of his war program. Although we have felt at times that the methods and measures adopted have been ill-advised, yet we have, like good soldiers, carried on. We have sold bonds, kept books in terms of sugar, gasoline, and other ration points, and now we are acting as tax collectors, all on a basis of no profit to ourselves and often at considerable expense. But the obligation to serve does not rest solely upon us. There is also an obligation binding the President, and that is that he not permit men in his administration to take advantage of the war emergency to permanently fasten upon us an economy alien to our traditions. I think it not amiss for us also to ask him to see that politics is shoved into the background. For the second time in our generation destiny has placed a president of the United States in a unique position to render great service not only to his own country but to all mankind. Let us pray that this opportunity will not be lost.

A year ago I also offered our assistance to the Secretary of the Treasury in his task of financing the war. That offer was accepted, and, as you know, our Association has worked closely with the Treasury in the drives for the sale of bonds. We have been glad to render this service to our government and to our country. But we have a further obligation and that is to see, insofar as in us lies the power, that the integrity of the government bonds is preserved. While we are prepared to continue to finance the war, no matter how long the road may be, I hope this convention will make known in no uncertain terms that the banks will not accept the responsibility for the consequences if a third emergency is declared after the war and another program of government spending is undertaken.

No one can argue successfully that we need more money in circulation. The currency outstanding exceeds 18 billions of dollars, whereas in the boom year of 1929 it was less than 5 billions. Bank deposits today are more than 88 billions as against 56 billions in 1929. What excuse can there be then after the war for further government spending to make work and put money in the hands of the people? The only reason is that of political expediency. If public works are needed after the war, let them be provided by local governments — state and municipal. These governments have been paying their debts and are in good credit, therefore are able to pay for what they want and need. Furthermore, and this is important, there is a check on these expenditures because the people have to vote the bonds at an election held for the purpose.

It is time for the people of this straining our resources to fight this war, and if we are to have a country to realize that we are return to economic health it must be by the orthodox way of work and save. And in addition to economic health if we are to preserve in this land the American way of life that our forefathers established for us we need a genuine understanding of spiritual values. We have been living face to face with the fundamentals of life and learning to appraise things at their true values and we have certainly learned that man cannot live by bread alone.

Any reference to the Treasury immediately brings to mind the present drive for the sale of the Third War Loan. Bankers everywhere are hard at work acting as state chairmen, committeemen, salesmen, in fact in every capacity, to make this drive a huge success. Let us all redouble our efforts and show our boys on the fighting fronts that, proud of their courage and skill, we are fighting the battle of the home front and that they can count on us to back the attack so that a glorious victory will soon be won.

And let us all determine that when the war has been won and we have brought our boys home they will find a country where the government is the servant of its people and not its master, where the bureaucrats no longer direct the lives of the people by departmental regulations, where no class of the people is soothed into obeying the planners in Washington by bounties from the Federal Treasury, where the powers of local government are no longer usurped by the Federal Government, in a word, the kind of government that has brought us to world leadership.

In his remarks as to Latin-America in the second part of his address Mr. Hemingway had the following to say in part:

It seems axiomatic that unless we can conduct our affairs at home intelligently we cannot hope to gain success abroad, and I think it was clearly brought out this morning that the biggest problem facing us is the relation of business to government. This also extends into our foreign relations.

One of the most important functions of government is the conduct of our relations with foreign countries. Generally speaking, our foreign policy has followed a rather consistent pattern from the beginning, regardless of which political party was in power, but under the present administration those irritants that were present in our relations with the other American nations have been removed. Great credit is due to the President and Mr. Hull for their far-sighted diplomacy resulting in the well-known Good Neighbor Policy.

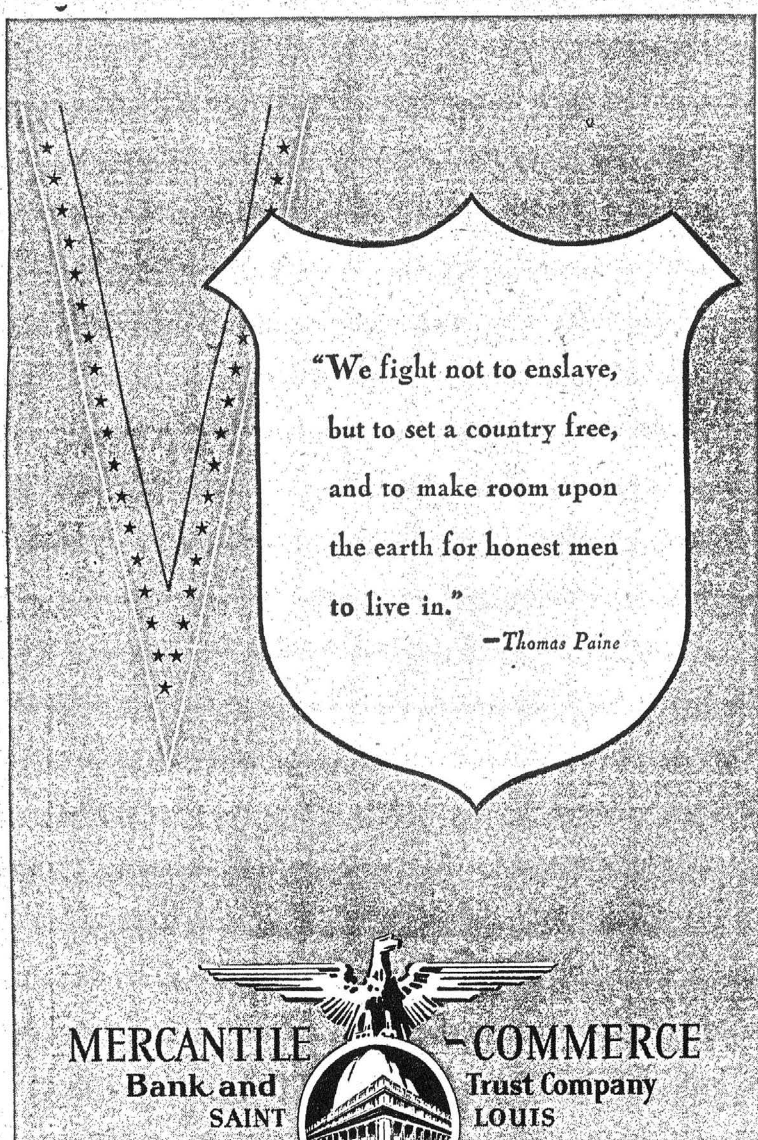
In that field also the relations between government and banking must be wisely determined or a great opportunity to develop hemisphere solidarity may be lost. Each has a place in any program for expansion of our political and economic influence, and by pulling together great progress can be made. In fact, each should supplement the work of the other. It seems to me that the division should be on the basis of the character of financing that is to be done. If it is of a purely political nature or for military reasons it should be left solely to government, but if it falls into the regular routine of business it should be in the hands of the banks. Naturally, it will be in the borderline cases that misunderstanding may arise and it is in the determination of those cases that there is need for a sympathetic understanding and unity of purpose if we are to get the best results. Twice before we have had a chance to improve our trade with our southern neighbors, but each time we failed.

The first impetus to a closer relationship with Latin America was after the Spanish-American War. At that time a great interest was aroused to develop closer cultural and trade relations with the other American republics, but it was abortive. Our own internal affairs so occupied us that we did not succeed in meeting the competition of the great European nations.

Again during the last World War the inability of the European nations to carry on their trade with Latin America brought about a larger business with us and after the war we attempted to develop this business on a large scale. Again we failed to make the most of our opportunity due to unwise methods, quickly and loosely developed, particularly in the banking field. Now again opportunity knocks at our door. We should not fail this time because conditions are very different now.

The use of the aeroplane now puts within each reach places that used to be very inaccessible and makes possible the development of areas hitherto undeveloped with a resultant growth in the production of all kinds of products, some of which will flow into the arteries of trade for the first time. This also means the building up of closer business and personal relations between the peoples of all the American nations. We will be drawn together in a way never before dreamed of and a great volume of trade can and will be developed between nations of this hemisphere which will result in greater prosperity for all.

To make the most of these opportunities there must be free discussion between the people of the various countries thus opening up the different points of view.



What Is Ahead In The Americas?

(Continued from page 1201)

equipment is to be anticipated in South America, then the facilities for financing consumer credit on an instalment basis will have to be greatly augmented. This is one problem to which the financial minds of our country and the other American countries might well apply themselves.

The approach to the further development of commercial relationships among the American publics has been greatly assisted by the establishment of the Office of the Coordinator of Inter-American Affairs, as well as that of the Inter-American Development Commission, which two offices work in close collaboration. Both are under the able direction of Nelson A. Rockefeller. The facilities of those offices are available for the use of bankers and business men.

In conclusion, let me say that I think it is highly appropriate that the bankers of the United States should post themselves on future possibilities within this western hemisphere. It might indeed be a helpful move if the American Bankers Association should give consideration to organizing an inter-American division.

It is significant that this Association is devoting an entire session of this convention to the discussion of inter-American relations. That is more than a straw in the wind. It is significant also that a distinguished Canadian banker was invited to address us at this session, representing the great nation to the north of us with which we enjoy so close and so friendly a relationship. It is equally encouraging to have with us as a guest speaker at our session today a prominent member of the banking fraternity in Mexico, our neighbor to the south which likewise is standing side by side with us in the grim battle against the forces of the Axis.

The membership of the American Bankers Association represents more than a cross section of the people of our nation. It represents responsible leadership in local communities and it is that type of leadership which must give impetus to the sound policies and wise financial statesmanship of our country in the post-war world. We face immense responsibilities and great opportunities in that period. We must ask ourselves this one primary question: How good a job are we going to do?

The flying fish with a steel lung

FIRST it flies. Then it swims. And anything it hits goes boom!

It's Uncle Sam's aerial torpedo. The kind our torpedo bombers are using these days to deal out grief to Axis ships.

Inside this "flying fish" is a steel lung, full of compressed air. When the torpedo is released, the compressed air drives it viciously toward its target.

A special kind of steel is needed to make the steel lung. It has to be thin and light to help reduce to a minimum the load the torpedo plane must carry. And it has to be very strong—to withstand air pressure of many hundreds of pounds per square inch.

The special steel for the lungs of aerial torpedoes is just one of the many developments that have emerged from United States Steel laboratories to help win the war.

You've read about some of the others: special steel springs for torpedoes and bombs; portable steel landing mats for bombers; new steels for aviation; tin plate, made with only a fraction of the precious tin once needed.

Will they benefit *you* after the war?

You can be sure they will. For then the new steels inspired by war will be ready to serve you in a thousand peacetime products . . . from lawn mowers to skyscrapers. You'll find that the U·S·S Label means more than ever on the goods you buy. And that no other material rivals steel in usefulness and long-range economy.

NEW STEELS FOR AMERICA

BUY WAR BONDS EVERY PAY DAY

The money you loan builds America's war strength. Yours again to spend in years to come . . . for new comforts, products of steel, things for better living.

USS STEELS

AMERICAN BRIDGE COMPANY · AMERICAN STEEL & WIRE COMPANY · BOYLE MANUFACTURING COMPANY · CARNEGIE-ILLINOIS STEEL CORPORATION · COLUMBIA STEEL COMPANY · CYCLONE FENCE DIVISION · FEDERAL SHIPBUILDING & DRY DOCK COMPANY · NATIONAL TUBE COMPANY · OIL WELL SUPPLY COMPANY TENNESSEE COAL, IRON & RAILROAD COMPANY · TUBULAR ALLOY STEEL CORPORATION · UNITED STATES STEEL EXPORT COMPANY · UNITED STATES STEEL SUPPLY COMPANY · UNIVERSAL ATLAS CEMENT COMPANY · VIRGINIA BRIDGE COMPANY

Bankers Urged To Adopt Investment Policy Now

(Continued from page 1199)

economic agitators who will endeavor to alleviate the burden of the public debt at the expense of the banking system. Some problems will be internal and their solution will depend upon the ability of the banks to adjust their activities to the then prevailing economic conditions. If the banks are aware of these problems and study them carefully now, they will be in a position to meet and overcome them when they arise.

The rapidly mounting public debt is bound to create serious problems for the banks. Nobody, of course, can tell what the public debt will be at the end of the war nor what the debt service may amount to. One may, however, assume that the annual debt service in the post-war period may reach the staggering sum of four to six billion dollars. Efforts will be made to reduce this debt service, particularly if an undue proportion of the total public debt is held by relatively few institutions. Efforts will also be made to liquidate the public debt or drastically reduce it through unorthodox means. If a large portion of the debt is held by the banks and a few insurance companies and a considerable portion of the total debt service is paid them by the Government, those who have in the past advocated the adoption of the 100% reserve banking plan will again recommend it with renewed vigor as a means of solving the debt problem and alleviating the tax burden. The introduction of this plan would wreck the banking system and would lead to the ultimate establishment of a system of Government-owned banks. It has already been advocated that the Government reduce the interest paid to the banking institutions. Such a development would drastically curtail the earnings of the banks and would force many out of existence. Then there are those who advocate that the burden of the public debt be alleviated either through the issue of paper money or the further revaluation of the dollar, the resulting gold profit to be used for the purpose of retiring public debt. Such a development would lead to the most violent kind of inflation, wipe out or materially reduce the liquid wealth of the nation and destroy the middle class, which in turn would be followed by serious economic and political changes.

What can the banks do to combat these dangers? In the first place, every effort should be made by them to distribute Government securities among the public at large. The wider these are distributed the smaller will be the danger of inflation during the war and the less will the people be influenced by demagogues or misguided advocates of new banking theories or of ways to liquidate the debt without the payment of taxes. Education is a powerful weapon and the people at large should be educated and be made aware of the ultimate consequences of these schemes. The public must be educated now to the fact that there is no easy solution to the debt problem that this can be achieved only through increased work and thrift and that inflation is the most unsound form of taxation that can be imposed on any nation. The process of education should start now and it should not be delayed until it may be too late.

During the decade prior to the outbreak of the war the number of Government lending agencies has grown rapidly, and in many fields of economic activity the private commercial banks are encountering considerable competition from them. Obviously a bank operating with private deposits cannot compete with agencies operating with taxpayers' money. Under the stress of war the number of these Governmental agencies has tended further to increase and efforts will be made after the war to retain and convert them so that they can function in peace time. So long as hostilities continue and the national economy is dominated by the war effort, there is little the banks can do about this situation. Now is the time to make careful studies as to the future relationship between private and Government banking. These should be undertaken jointly by the Government and by the banks with the view of clearly delineating the sphere of activity of each. In this connection the banks should bear in mind that if they fail to meet the legitimate needs for bank credit or if their charges are too high, the Government is bound to step in and replace them. The delineation of activities should apply to agricultural credit, short term as well as long term, to industrial and commercial credits, and to the financing of foreign transactions.

Considerable thought must also be given to the future of V loans. No unanimity of opinion exists among bankers as to whether V loans should be continued in the post-war period. Undoubtedly a limited need for Government-guaranteed loans will exist during the initial period of reconstruction. However, to perpetuate the system of V loans on a large scale after the war would tend to destroy the function of the banks. Careful studies, therefore, should be made now to determine how V loans should be ultimately liquidated and whether there may be a limited need for the continuation of these loans for a period after the war.

The problems discussed up to now will be thrust to a large extent on the banks and can be solved only through concerted action on the part of all. There are, however, a number of problems which will confront each individual bank separately and which each will have to solve for itself. First, there will be the necessity of adjusting the lending activities of the bank to economic conditions as they prevail after the war. There will be a need for loans to finance the sale of huge amounts of durable consumers' goods. The question arises as to whether the banks will aggressively seek this type of loan or whether this business will fall to a large extent to non-banking agencies. Second, there may be a considerable demand for bank credit by industries for reconversion purposes. The demand for this type of loan will depend to a large extent upon the price level and upon the liquidation of Government war contracts. Will the banks be willing to perform this traditional function, or will they, because of the sharp decline in the ratio of capital resources to deposits, adopt an extremely conservative policy? Third, one may expect that the volume of corporate securities offered in the market in the post-war period will be considerable. Will the banks adopt the same policy they did during the '20's and acquire large amounts of corporate bonds, thus furnishing the corporations the necessary working capital, or will they refrain from investing to any large extent in corporate bonds, thus making it necessary for corporations to have more recourse to bank credit? These problems will confront almost every bank in the country.

In addition, the larger banks, particularly those located in the financial centers, will be faced with the task of financing a considerable portion of the volume of international trade. It is quite evident that British institutions will not be in the same position to finance international trade as they were during the '20's or '30's. The same applies with even greater force to the banks of France, the Netherlands and other Continental European countries. Hence, the large banks of the United States will be called upon to perform the functions previously carried out to a large extent by those of the financial centers of Europe. On the whole, the experience of American banks with international business has not been entirely satisfactory and, as is well known, some types of transactions, particularly with Germany, have led to considerable losses.

The question arises, therefore, whether the large banks of the country will make the necessary preparations to meet this demand. Certain phases of international business are risky. Others, particularly those which restrict themselves primarily to the financing of the movement of commodities from one country to another, can be handled with a great deal of safety. Since international trade will have to be financed, if the banks of the country are not ready to do it, then it will be performed by the Government, and thus another phase of banking activity will have been lost to the private banks.

One of the most important problems that will confront the banks at the end of the war will be the handling of their Government securities. Let us visualize for a moment what the situation may be at that time. The amount of Government obligations held by the banks will be large. In addition, as heretofore pointed out, there is bound to be a considerable criss-cross movement of deposits from one section of the country to another. A number of corporations which had invested their surplus funds in Government securities will liquidate them in order to obtain the necessary cash for reconstruction and post-war expansion. Individuals who will have accumulated a considerable amount of series E bonds may also endeavor to redeem part of them in order to tide themselves over the relatively short period of unemployment which will follow the conclusion of hostilities, or for the purpose of buying durable consumers' goods and homes. Furthermore, at that time the Government may still be confronted with a deficit and may still have to have recourse to the open market for funds.

In addition, with the war over, there might be a widespread feeling that a material increase in interest rates may take place. It is, therefore, quite evident that under such circumstances the liquidation of medium and long term Government obligations by the banks would cause considerable embarrassment to the Treasury, to the reserve banks, as well as to the banks themselves. It would be necessary only for a few important banks to begin to liquidate part of their longer term Government obligations to set in motion a wave of selling which would be highly undesirable. It is, therefore, of the utmost importance that banks formulate their policies now in such a manner that the sale of medium and long term Government securities will not be necessary at the end of the war, irrespective of what conditions may prevail at that time. In holding such securities, the banks should bear in mind that there is absolutely no risk attached to them. The holders of such securities are certain to receive interest and principal on the due date. During the war the Treasury has refrained from offering the banks long term obligations, and the longest maturity of Government bonds offered them is ten years. By the end of the war, therefore, these securities will have a relatively short maturity. There would, therefore, be no excuse for individual banks to sell medium term or long term government obligations. Should one or the other large bank endeavor to do so, it would cause considerable resentment on the part of the monetary authorities and would afford additional ammunition to all those who may be devising schemes to alleviate the burden of public debt at the expense of the banks.

The time to reduce Government security holdings by the banks will be when the pent-up demand for commodities and the huge accumulation of purchasing power in the hands of the people create a high level of business activity and when the Treasury ceases to be dependent on the open market. At that time the liquidation of Government securities by banks will be wholesome because it will reduce the volume of bank deposits and thus counteract its increase created through new commercial loans.

Closely connected with this problem is the policy that banks should adopt toward the huge refunding operations that are bound to take place in the immediate post war period. At the end of the war the floating debt of the United States, consisting of Treasury bills, certificates of indebtedness, maturing notes and bonds, will be large indeed. A considerable portion of the floating debt will be held by the banks. It is quite certain that the Treasury will endeavor to refund its floating debt or a considerable portion thereof into medium and long term obligations, because it has long been recognized that an excessive floating debt is a serious danger to the financial stability of any country. Since the banks will hold a considerable portion of this floating debt, they will be vitally interested in how the refunding is carried out. Because of the decline in the ratio of capital resources to deposits, because of the uncertainty of the movement of deposits, and because of the uncertainty as to the future demand for bank credit on the part of industry and trade, the banks will endeavor to maintain a short position in Government obligations. They may, therefore, not be willing or able to convert their short term securities into long or medium term obligations.

It is also quite evident that it will be impossible to shift any substantial amounts of Government securities then held by the banks to ultimate investors, for, as was pointed out before, corporations as well as individuals may be sellers of Government securities. The amount of Government obligations that insurance companies and savings banks can acquire is definitely limited. Under these circumstances, therefore, it is clear that the banks will have to take new obligations in exchange for maturing bills, certificates and other Government obligations.

This problem, too, deserves the careful attention of the banks. Since the call market has ceased to play the important role in the money market that it did during the 20's and in view of the drastic reduction in the volume of commercial paper and bankers' acceptances, a substantially larger amount of short term Government obligations is necessary in order to maintain the liquidity of the banks as well as of the money market. Hence, a considerable floating debt will be necessary in the post-war period. The best solution to this problem would be for the Treasury, in cooperation with the banks after the war, to find a formula for converting gradually the short term into medium term government obligations. Through such a measure the liquidity of the banks could be maintained and yet at the same time the excessive floating debt could be gradually reduced.

In addition to the typically domestic problems that will arise out of the war and its aftermath, the banks of the country will be called upon to assist in the solution of a number of international problems in which they themselves are directly interested. Studies have already been made by various Governments concerning the stabilization of currencies. Although the plans so far are only tentative in character, and are subject to further modification, they clearly indicate what is in the minds of the respective Governments and how the future stabilization of currencies is visualized. It is already certain that some international organization will be established for the purpose of enabling foreign countries to stabilize their own currencies. There is a general desire to prevent currency wars and the depreciation of currencies by individual countries without regard to its effect on the national economies of other countries.

Closely connected with the stabilization of the currencies is the establishment of a sound relationship between the pound sterling and the dollar. Upon this relationship will depend not merely the value of the pound in terms of the United States currency but also the currencies of all British countries as well as those of several European and Latin American nations. The problem is a difficult one and will involve careful study not merely of the cost of production and of prices in each individual country, but also of the changed international economic position of Great Britain. It is of the utmost importance to the future peace of the world, and particularly to the future smooth working of international trade and finance, that close financial cooperation exist between the United States and the British Commonwealth of Nations. Although the problem of establishing a sound relationship between the pound and the dollar is a difficult one, it can be solved if each country will refrain from adopting a position which would be beneficial to itself but harmful to others.

The banks have a vital interest in these developments. It is their duty to advise and counsel the Governmental agencies in all matters relating to currency stabilization. They must make available to these agencies their knowledge and experience and see to it that the plans are workable and not merely visionary in character. Above all, it is to their interest to prevent the newly created organizations from destroying the international transactions of the private banks. They also should work for the removal of the various impediments imposed during the last decade on the international movement of funds and trade. It is not sufficient for the banks merely to criticize the va-

(Continued on page 1212)

Post-War Trust Investment Policies

(Continued from first page)

anticipated that people will feel an almost irresistible urge to supply themselves with comforts and luxuries which they have been fairly willing to go without during the conflict itself. An inflationary price movement does not necessarily require as an initiating force an investment demand. Inflation, if it comes, will be initiated and carried far by the demand of consumers."

Reviewing methods of holding inflationary tendencies in leash, he finds price controls as the only practical means. "Obviously," he said, "price controls will be even more difficult than now during a period of slowly expanding production for civilian use. Who, for example, are to be the fortunate purchasers of say, the first two million new passenger cars at the time when there may well be a demand for eight million units? Whether the public itself will support a continuance of price controls is obviously one of the definite uncertainties of the future."

It is clear that all those who are at all concerned over the situation, he told the bankers, "strongly favor the continuance of governmental control, and certainly no group should be more definitely in favor of such controls than you who are charged with the administration of trust funds." So far as trust accounts are concerned he warned administrators that they cannot hedge income successfully, against a period of extreme inflation "and that if you attempt to do so the chances are that the outcome will be loss of principal."

The speaker outlined two fairly distinct types of inflation—one due to an intense investment demand, and the other due to an intense consumer demand, as to which he said:

"The investment type may last somewhat longer than the consumer type of inflation and it is the consumer type that we have to envisage as a possibilty following the return of peace. Inflation may then effect, "we can imagine, an increase of say, 100% in prices. I think we may also feel certain that the inflationary movement would not persist for many years, perhaps two, or at the most, three years. Then would come the collapse with a precipitate decline in prices, perhaps to the level that obtained when the movement started.

"If I am right in my assumption that the inflationary splurge would not be of long duration, then it may be presumed that the return on securities with a good coverage, including utilities, would not be reduced. During that period the recipient of income from trust funds would doubtless suffer as would many classes of wage-earners.

"One of the uncertainties arising out of inflation is due to the impossibility of knowing what particular companies will do when subjected to the inflationary virus. A consumer's spree is apt quickly to spread over into a producer's spree. Producers acquire enlarged quantities of raw materials in response to rapidly increasing orders, and distributors do the same, in the expectation that prices will advance still further, and that the demand will also further increase. This was the situation as it developed generally following the last war, when inflation also spread over into real estate and in particular into farm lands.'"

Dr. Sprague's address follows in full:

However hopeful we may be about the post-war world, the conditions which will then obtain are so uncertain that you can hardly expect me to reach definite conclusions about investment policies in the handling of trust funds. I shall do no more than examine certain factors, of which account must presumably be taken without venturing to be very positive about their practical application. The three factors which I propose to examine are government bond investment, the course of interest rates, and inflation. And finally, if time serves, I may venture to call attention to certain social and technological developments that may change the position of particular investment issues.

When you return home I suppose all of you will be actively engaged in the current war bond campaign and I presume that you will invest some part of all available cash funds belonging to your various accounts in government securities. No doubt you did this during previous bond sales and will continue to do so in future bond campaigns to the end of the war. Certainly, the same considerations that have led you personally to subscribe to war loans apply to the trust accounts which you administer now. There is surely no class or group in the community that even in its own purely selfish interest would be well advised to hold aloof. At the end of the war, then, we may presume that some portion of all trust accounts will have been invested in government bonds, and I think we may also assume that this condition will also continue for an indefinite period thereafter. In one interesting respect this will create a favorable situation for the beneficiaries of trust funds. In the past necessity of full investment, advantage could seldom be taken of bargain situations in the security market. A fund with a fair amount of Governments can benefit in such situations for I assume the market for government securities will be maintained in all circumstances—something that could hardly be said of other bonds, even those of the very highest rating.

I now come to the rate of interest, a matter of importance, not merely to holders of Government securities, but to holders of all other securities yielding a fixed return. During the years immediately preceding the war, interest rates declined to an abnormally low level. In part this was due to the easy money policy adopted by the Government as one of the means of dealing with the depression. There was a large increase of the volume of credit, both in the form of demand deposits and currency, but there was no response of prices. The mere increase in deposits and currency did not serve to bring about inflation. The explanation in the main seems to be that there was no adequate investment demand for funds and it was mainly with investors that the increased volume of funds found lodgment. The germs of the inflationary disease were abundantly present, but the body economic seems to have been immunized by the general absence of business confidence during those years.

During the war there has been an immense demand for funds on the part of the Government, far in excess of current savings. Consequently, it has been necessary for the Government to secure many billions from the banks, including the Federal Reserve banks, involving an unexampled further increase in the volume of demand deposits and currency. By this means it has been possible for the Government to finance the war with no increase in interest rates. This was a wise policy. There is no reason to believe that any significant amount of additional saving would have occurred had the Government offered a higher rate of return on its issue. Successive higher rates would have affected unfavorably all non-governmental outstanding issues of bonds and the better class of preferred stocks. Moreover, if one considers the long future, it may well be that the low rate of interest safeguards the principal of the bonds. Let us suppose that by the end of the war the total Government debt reaches $300,000,000,000. At an average cost to the Government of 2%, servicing the debt with moderate repayments would absorb a revenue of between $6,000,000,000 and $7,000,000,000 annually. Revenue required to meet this charge together with necessary Government expenditures for other purposes can, I think, be readily forthcoming without intolerable strain upon taxpayers. Suppose now that the rate were 4% and the annual debt charge $12,000,000,000. It requires no stretch of the imagination to envisage political action of one sort and another directed toward reducing the burden arising out of financing the war.

You will notice in what I have just said that I anticipate a further massive increase in the Government debt, and the question may well present itself: can the Government maintain current rates if it becomes necessary to increase the debt to anything like the figure I have mentioned—$300,000,000,000? I think there is no question about the answer, even if the possibilities of further expansion of credit were amply sufficient to take care of whatever amount may be required over and above what may be forthcoming from actual savings. It may very well prove necessary to reduce reserve quantities of member banks to what they were in 1936 and 1937. Doubtless, also, the Federal Reserve banks will hold a much greater total of Governments at the end of the war than now. There is also the possibility of reinforcing the Federal Reserve banks with gold certificates by making use of the so-called two billions of gold profit derived from depreciating the dollar in 1933. Maintenance of something like the present scale of interest rates, then, until the end of the war, seems to me one of the most definite certainties in the present situation.

In spite of the unprecedented increase that has taken place in the volume of demand deposits and the currency in circulation, and the further increase in prospect I do not anticipate an inflationary movement of prices during the continuance of the war. The body economic will continue to enjoy immunity in spite of the further rapid multiplication of inflationary germs. Patriotic restraints, rationing, price ceilings, and other Government policies seem to me altogether likely to maintain prices and costs in the neighborhood of present levels during the remainder of the con-

Bankers Should Adopt Investment Policy Now

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rious reports and plans. What is more important is to point out specifically wherein the individual currency stabilization plans are weak and are bound to fail, and to make constructive suggestions to improve them and to coordinate them at the same time with the facilities of the private institutions which have been engaged in international financial transactions for decades.

It is also the duty of the banks to give considerable thought to the question of restoring sound currency conditions at home. This implies such questions as the use of gold as a monetary metal and the removal of legislation passed during the depression of the '30's affecting the monetary system. All these questions are bound to have a direct effect on the operations of the banks and should be carefully studied by the banks as a whole with a view to making sound recommendations to the monetary authorities.

The war started by the Germans in the expectation that it would be over in a few months has entered its fifth year. While our enemies are still strong and will put up stiff resistance before they are forced to surrender, they are retreating on all fronts and their armor is beginning to crack. Victory will be ours because the fighting men of the United Nations know what they are fighting for—not for world conquest or for Lebensraum, not for glory—but that they and their children may follow peaceful ways and enjoy the fruits of their labor. In this fight they are backed by the might of American industry.

Many miracles have happened during the long struggle, but perhaps the greatest of all, at which people will continue to marvel in the future, is the rapid and efficient conversion of American industry into the arsenal of democracy. This feat has clearly demonstrated the vitality and inherent strength of the system of private enterprise which was described as decadent and moribund by so many during the period of the depression. American ingenuity, management and labor have forged, and are continuing to forge, the weapons which will destroy the enemies of humanity—the so-called master races, white and yellow—which have drenched the earth in blood.

The banks of the country have played an important and honorable role in this titanic struggle. They have stood ready at all times to meet the tremendous needs of the Treasury. They have played an important role in providing financial resources for industry and in the distribution of Government securities among the people of the country.

The time is not far distant when swords will be converted into plowshares and tanks into automobiles. A nation that could become within a relatively short time the arsenal of democracy and convert millions of peace-loving farmers, laborers and white collar people into formidable fighting men should not find it very difficult to return to its peaceful pursuits.

In this process of reconversion the banks of the country will have important functions to perform. Their ability to perform them will depend to a large extent upon the measures they take now. Above all, the banks should not forget that upon the solution of some of the problems which will confront them after the war will depend not merely their own future but that of the economic and political system of our country. Hence, while our energies are devoted to crushing the enemy, let us at the same time not forget the future. The problems that will confront us will be great indeed but they can be solved if all of us approach them in a spirit of good-will and understanding and work on the principle that what is best for the country as a whole is best for the individual.

flict. That has been the experience of countries that were in the war two years before we became engaged, and I see no reason to believe that our experience will change from the existing pattern.

After this long series of preliminary observations, I finally come to my subject proper, the post-war period. Can and will interest rates continue to be stable at the present low level, and will inflation be escaped? Here we enter a field crowded with uncertainties. Unlike the pre-war period, ownership in the expended currency and demand deposits is widespread throughout the community and a large fraction of the Government securities issued during the war contain security for their redemption at par on demand. Here we have the purchasing power for an intense demand for a far greater quantity of civilian goods and services than will be available for many months after the return of peace. Patriotic restraints will be weaker than now and it may be anticipated that people will feel an almost irresistible urge to supply themselves with comforts and luxuries which they have been fairly willing to go without during the conflict itself. An inflationary price movement does not necessarily require as an initiating force an investment demand. Inflation, if it comes, will be initiated and carried far by the demand of consumers. A demand of this sort cannot be restrained by monetary means. Credit contraction would not serve. Moreover, we may well be confident that this means of control will not even be tried, since it would involve a calamitous shrinkage in all bond values, including Government. Without doubt the Government will seek to maintain an active market for Government bonds on reasonably stable prices. The only practicable means of holding inflationary tendencies in leash is a continuance of price controls. Obviously, price controls will be even more difficult than now during a period of slowly expanding production for civilian use. Who, for example, are to be the fortunate purchasers of say, the first two million new passenger cars at the time when there may well be a demand for eight million units? Whether the public itself will support a continuance of price controls is obviously one of the definite uncertainties of the future. On the other hand, it is clear that all those who are at all concerned about satisfactory functioning economically in the future strongly favor the continuance of governmental control, and certainly no group should be more definitely in favor of such controls than you who are charged with the administration of trust funds. There are few individuals who seem able to fish successfully in troubled investment waters, and certainly you cannot expect to do so in the administration of trust funds.

I now come to the question of what to do about it in the event that the country should be so unfortunate as to pass through a period of inflation. So far as trust accounts are concerned I would say that you cannot hedge income successfully, against a period of extreme inflation, and that if you attempt to do so the chances are that the outcome will be loss of principal. As I see the matter, there are two fairly distinct types of inflation. One is due to an intense investment demand, and the other due to an intense consumer demand. The investment type may last somewhat longer than the consumer type of inflation and it is the consumer type that we have to envisage as a possibility following the return of peace. Inflation may then effect, we can imagine, an increase of say, 100% in prices. I think we may also feel certain that the inflationary movement would not persist for many years, perhaps two, or at the most, three years. Then would come the collapse with a precipitate decline of prices, perhaps even to the level that obtained when the movement started. If I am right in my assumption that the inflationary splurge would be of short duration then it may be presumed that the return on securities with a good coverage including utilities would not be reduced. During that period the recipient of income from trust funds would doubtless suffer as would many classes of wage-earners. That seems to be one of the inevitable consequences of inflation. If you seek to enlarge income step by step with the upward movement of prices you will be investing in companies that are with large profits but in companies that are likely to be seriously damaged when the collapse comes. For those of you who operate under the Prudent Investment Rule, portfolios will doubtless include various issues which appreciate under the impact of inflation. Profits on such issues should be taken if inflation comes, more generally than I think has been the practice in the past. To quote observation often heard in the London market, "Let the other fellow have the last crown—he'll earn it if he gets it."

It would probably be somewhat helpful in the management of trust accounts if some part of the profit from security sales, especially in periods of inflation, could be allocated to the income beneficiary. In any event, I feel that a portfolio containing a fair amount of government bonds will be in a good position to take advantage of bargain situations when the collapse from inflation occurs, since at that time we may feel confident the market for Governments will hold up better than any other class of securities.

One of the uncertainties arising out of inflation is due to the impossibility of knowing what particular companies will do when subjected to the inflationary virus. A consumer's spree is apt to spread quickly over into a producer's spree. Producers acquire enlarged quantities of raw materials in response to rapidly increasing orders, and distributors do the same, in the expectation that prices will advance still further, and that the demand will also further increase. This was the situation as it developed generally following the last war, when inflation also spread over into real estate and in particular into farm lands.

In a country with a small number of banks it is possible to impose some check on a spree of producers through concerted action. In this country we cannot rely upon effective restrain being exercised by the commercial banks. Owing to the multiplicity of banks, something like 15,000 in number, it may almost be said that borrowers have the whip hand, each bank fearing to lose desirable accounts. In the case of the farm lands it may be hoped

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Investors Need A War-Time Stay In Execution Of The "Death Sentence"

(Continued from first page)

again should be in the mind of Congress when a particular section of the Act operates in a way which probably was not contemplated by many of its supporters, and certainly under circumstances beyond imagining by any of them in the peaceful days of 1935. Execution of the "death-sentence" on the terms now prescribed by the Securities and Exchange Commission, and in the utterly abnormal war period, would result in losses to investors that would be literally irreparable.

What is the "death sentence"? The Public Utility Act of 1935 consists of two parts. Title I has to do with holding company systems, and is administered by the Securities and Exchange Commission. Title II, which is administered by the Federal Power Commission, constitutes an amendment to the Federal Water Power Act originally adopted in 1920, and has to do with operating companies; with licensed hydro-electric projects on navigable streams, interstate transmission of energy, accounting matters, etc. This is an interesting story, in itself, but its telling has no place here.

Title I is generally known as the Holding Company Act. It consists of 33 sections, some of more and some of less importance, and it might be added that some are more enthusiastically enforced by the SEC than others. By far the most important and controversial is Section 11, in which the "death sentence" is expressed chiefly in two major subsections, Section 11 (b) and (1) is already famous as the territorial specification. Its object is to recast each holding company into a single integrated unit, with certain permissible adjuncts. The equally famous Section 11 (b) (2) relates to corporate structures. It sets forth the "grandfather" specification that no holding company system shall include more than three tiers of companies; for example, an operating company topped by one intermediate holding-company parent, topped in turn by the final holding-company grandparent. A quick mental attempt to fit into this pattern any of the larger holding-company systems as they exist today will make clear why Section 11 came to be known as the "death sentence."

Now to go back a bit. Mention was made above of the trinity of interests named in the Act—the interest of the public, and of investors, and of consumers. This reference occurs many, many times throughout the Act. Frequently all three are mentioned, seldom less than two. Accordingly, it seems well to take a quick look at the effect of the death sentence on the other two classes of interests before examing the interests of investors.

So far as the public interest is concerned, there is only one standard for measurement today—the war. To disturb those already doing a war job would be to risk a let-down in the war effort. The utility industry, as it stands now, is making an outstanding contribution to the war effort. Since execution of the death sentence now would radically change established relationships within a large segment of the industry, it would jeopardize an important cog in the war machine. It must, then, be against the public interest.

Consumers are concerned with the best possible service at the lowest possible rates. Execution of the death sentence means, in most cases, distribution of operating company common stocks to the investing public at large. No new investor is likely to hold as much as 10% of any one issue after distribution, because he would then be a holding company. And with utility common stocks spread so thin, no one will have a sufficient investment in the typical operating company to justify the expense of close supervision of its affairs. Because utilities do not compete with each other directly, and because each is influenced by many factors peculiar to itself, there are no ready means of comparing results.

On the contrary, a critical survey of utility operations is a highly specialized and technical matter. And in the absence of close and continuing supervision there would almost certainly be deterioration in many phases of the companies' performance. The industry is dynamic to the point where this deterioration would be serious in a very few years. The consumer would no longer get the best possible service at the lowest possible rates, and the public interest is involved because the national economy would suffer, in peace time as well as war time, from inferior utility operation. Certainly this problem is serious enough to warrant calm study, which obviously is impossible under the turbulent conditions of war.

To carry the point further, two instances may be cited. On April 29, 1943, the SEC approved the sale of Houston Lighting & Power Company common stock at competitive bidding as a step toward dissolution of National Power & Light Company, but on the condition that the Houston company cancelled its existing contract, and did not thereafter enter into any future contract, with the service company then assisting it in a managerial and supervisory capacity. Again, on Sept. 1, 1943, in approving the sale of Idaho Power Company common stock to the public, the Commission specifically required the utility to do the same thing. Yet these service companies, under Commission orders, operate on a non-profit basis, so that any contribution they make to operating clients is a clear gain. Nevertheless, these two utilities, among others, were forced by the SEC to sever established relationships in the present war emergency, and to face the many technical problems which the war will continue to force upon them without the expert advice and judgment to which they owe, in considerable part, their past success. It is difficult to see how this sort of thing contributes to the interest of consumers.

Investors, obviously, are affected by both the public interest and consumer interest in the death sentence. They are not a separate group, but rather part of the general public and the users of utility services. But they do have additional reasons for requiring a war-time stay in the execution of the death sentence.

It will be remembered that the Holding Company Act was designed in the "interest of investors in the securities of holding companies and their subsidiary companies and affiliates," among others. It is simpler first to consider the holders of subsidiary or operating company securities. These, of course, are principally senior securities, bonds and preferred stocks, since their common stocks are very largely owned by the holding units. But while operating company senior securities have undoubtedly been benefitted in the past by the operation of certain sections of the Act, they would be injured by execution of the death sentence today.

Utility senior securities are at the peak of their investment standing right now, and are the most highly regarded investment medium of any large industry. The principal investors in operating utility bonds are insurance companies, which means, indirectly, most individuals in the country. Insurance company holdings of these bonds are so huge that they would be difficult to market over any reasonable period of time at any reasonable prices. Accordingly, the insurance companies, by virtue of this condition alone and aside from any internal policies, are likely to remain large holders of utility bonds for many years. As such, they and their policyholders must be concerned about anything that tends toward deterioration of the utility industry. With the adverse effect of the death sentence in this direction already discussed, it becomes apparent that investors in operating utility senior securities need a stay on the death sentence until after the war.

But the most immediate interest in execution of the death sentence in the present emergency lies with the investor in holding company common stocks. His need for a stay is urgent. The typical holding company has outstanding debentures and preferred stock as well as common stock, and these debentures and preferred shares must be retired as the first step in dissolution. How can they be paid off? Generally, not in kind; not by the distribution of subsidiary common stocks, if reason and experience are any guide.

Take the case of National Power & Light Company. After retiring its debentures out of cash on hand, it offered Houston Lighting & Power Company common stock in exchange for its own preferred shares. Although the exchange offer was held open for a long period of time, and the paid help of security dealers finally was enlisted, only about half the holders of National Preferred, on the basis of shares held, accepted the offer, and only about half the Houston common stock was distributed. The other half had to be sold to underwriters for distribution to the public. And the effect on National's common stock holders was adverse. Where it received $51.85 per share for the Houston common at competitive bidding, that stock now is selling at 61. By being forced to dispose of Houston common when it did, National Power & Light and its common stockholders have lost about $2,500,000 in four months, and when the entire transaction is considered that loss runs to over $5,000,000 today.

United Gas Improvement Company is another example. Last December it proposed a plan of liquidation at SEC insistence, which was approved by the Commission and is now well along toward consummation. The plan was extremely ingenious. United Gas Improvement had no outstanding debt, but it did have $76,500,000 of $5 preferred stock at its liquidating value of $100 a share, which was redeemable at $110. This stock obviously had to be satisfied before liquidation could progress to the point of distribution of assets to the common stock. Under the doctrine upheld by the United States Supreme Court a few months later in the United Light & Power debenture case, U. G. I. probably could have paid off its preferred stock at $100 a share. But the company did not have $76,500,000 in cash, so an alternative had to be found.

An extremely ingenious exchange offer was evolved, which gave U. G. I. preferred stockholders part cash and the balance in new $1-dividend preference common stock of Philadelphia Electric Company. The new stock was made convertible into the same company's regular common on a sliding scale, starting at share for share. Taking the stated value of the new preference common as the base, the initial conversion was at $20 per share for Philadelphia Electric common. These conversion prices, however, could not have been picked out of thin air. To be worth anything they had to be related to the then market price of Philadelphia Electric's regular common. The initial price certainly had to be close enough to promise action within a reasonable period of time. The conclusion cannot be escaped, then, that the offer to U. G. I. preferred holders of payment in cash and kind was equivalent to the sale of an asset at a price related to the market price of that asset.

To see the whole picture it is necessary to imagine oneself back in December, 1942. Utility preferred and common stocks had moved up somewhat in price during the preceding few months, but their prospects were far from clear. To show investor sentiment it might be pointed out that neither Moody's nor Standard & Poor's, the two largest and best known statistical and advisory services, had yet made any general purchase recommendations as to public utility stocks. "Preference common" stocks, moreover, were a classification which, while perhaps not entirely unknown, were at least so rare as to be difficult to appraise. And, finally, the Philadelphia Electric regular common, into which the new preference common was to be convertible, was worth about $14 or $15 a share in the market. All in all, it looked at that time as if the cash and securities offered U. G. I. preferred stockholders might be worth an aggregate more nearly $105 than $110 a share. As to the plan itself, it was regarded as favorable to U. G. I. common, because it offered a better work-out than previously had seemed possible, and as holding out enough prospects to preferred holders to forestall violent objection.

What is the situation now? Philadelphia Electric preference common is selling at about $25 a share and the regular common at around $20, thus making the overall offer to U. G. I. preferred holders worth $115 per share today. Assuming the old preferred could have been retired at $110 a share in cash, the excess price paid on the basis of current markets is $3,750,000. And if retirement could have been made at $100 a share, the excess is $11,-250,000. These sums measure the loss to U. G. I. common stockholders in a period of a few months, because execution of the death sentence required the sale of an asset at market prices prevailing at the time of that execution. Moreover, this loss resulted under the terms of a plan which, at the time of its proposal, was so well received that it boosted the price of U. G. I. common to new levels.

The fault certainly does not lie with the U. G. I. plan. Where does it lie? The answer to this question exposes the root of the reason why it is completely unfair to utility investors to execute the death sentence in any period like the present. When a utility company is sold, it is like anything else offered for sale; it will bring only what the market will afford at the time. Sale by a holding company of its subsidiaries means sale of the latter's common stocks. So the market for utility common stocks determines the amount the holding company will realize.

Let's look at the record. Like all other stocks, utilities sold at fantastic prices in the hectic 1920s. A fair summary of the record must start by admitting that fact and conceding that the levels attained then are of no significance now. But it is equally fair to say that by 1932, utilities, again like other stocks, had been hammered down to rock-bottom levels. The Dow-Jones utility average made a low of 16.53 in 1932. Thereafter the high point of that average was 37.73 in 1933; 31.03 in 1934; 29.78 in 1935; 36.08 in 1936; 37.54 in 1937; 25.19 in 1938; 27.10 in 1939; 26.45 in 1940; 20.65 in 1941; and 14.94 in 1942. Today the average stands around 21.54.

This is, indeed, a sorry record. After an initial recovery from the appraisal-without-hope in 1932, utility stocks have sagged down and down without major interruption until last year. Never since 1933 has the average been as high as it was in that year. The highest average as late as 1942 was lower than the lowest average in 1932. And it might be added that the lowest last year was 10.58, which was less than two-thirds of the lowest in the calamitous days of 1932. Anybody connected with any business knows that such a market provides no reasonable opportunity to sell. It does not matter whether a man is the head of a large corporation, or a farmer, or the operator of the corner peanut machine, he would hang on for all he was worth until the market had a chance to right itself, and he could realize a price in keeping with the fair market value of his property.

Utility stocks, of course, are not in a vacuum. They sell in the same markets, on the same exchanges and to the same investors as do other stocks. Hence it is important to consider the market value of utility stocks in relation to the values of other classes of stocks. The Dow-Jones industrial average sold down to 41.22 in 1933. Never since has it even approached that figure. The highest in the meantime was 194.40 in 1937, near five times the 1932 low. It stands now around 138, more than three times the record low. Lest that record be considered biased and misrepresentative, consider the railroad stocks. Their index low in 1932 was 13.23; the average now is 34.22, or more than two and one-half times the 1932 figure. And when judging that record, remember the reams and reams of paper, and the hours and hours of discussion, devoted to proving that railroading is a "doomed industry!"

On the basis of the record there can be no doubt that forced sale of utility stocks at this time would unjustly penalize the holder, both positively in the dollars he would receive and relatively as compared with other components in the national economy.

Why have utility stocks fared so badly? Is there reason to think they can do better in the future? If the answer is in the negative, sale at this time is as good as any. But if it is in the affirmative, holding company stockholders are entitled to a chance to realize on that improvement.

No extended argument is needed to show that utilities constitute a basically sound and growing industry. Their market expanded almost without interruption all during the depression period and after, when the prices of their stocks crumbled. New uses are constantly being developed for the services they render. Their ability to meet the demands made upon them never has been questioned by informed and unprejudiced observers. In his letter of July 24, J. A. Krug, Director of the Office of War Utilities, said of the electric utility industry, "the installed generating capacity, together with the capacity now under construction, is ample to meet all foreseeable electric demands." By retirement of senior securities, capital structures are markedly better than they were. Accounting methods have been standardized and improved in certain respects. Rates are declining steadily. Management is better, by force of circumstances if nothing else. And utility bonds command the highest prices of any large industry and are most sought after by experienced investors.

But if the difficulty is not fundamental, what is it? In the 1930s new concepts of regulation were introduced in the utility field. The Public Utility Act of 1935, administered by the SEC as to Title I and by the Federal Power Commission as to Title II, was by far the most important. Being new, the concepts had to be experimental to a large extent. Legislation in which they were embodied had to be written as framework only, the substance to be filled in by administrative bodies. At best, legislation of this character will create uncertainties in the minds of investors. The records of administrative bodies, moreover, have not always been of the best. For instance, the Securities and Exchange Commission, a five-man body, has had 15 different members in its eight years of existence, and it has had six different chairmen. Numerous changes in Commission policy and interpretation of the Holding Company Act have been the logical result.

With reference to the death sentence specifically, the Commission's early ideas, when the Act was fresh out of Congress, ran to the belief that swaps of operating properties between holding company systems would result in practical integration of systems without inconvenience or loss to investors. But the Commission's present ideas are much more extreme. A very narrow interpretation is put on the death sentence, making liquidation the only course possible in the great majority of cases. Thus, the uncertainties in the monds of investors grew into actual fears. And the greatest fear soon came to be that of future developments in enforcement which, on the record, could only be worse than those of the past. Is it any wonder that utility stocks were offered for sale in large volume in a market containing few buyers, and therefore declined in price?

That alone was not bad enough.

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Municipal News & Notes

A banking group headed by Blyth & Co., Inc., Kaiser & Co. and John Nuveen & Co. was the successful bidder for the $6,000,000 Imperial Irrigation District, Calif., electric revenue bonds, eighth issue, which were offered at competitive sale last Friday. The banking group has deferred reoffering of the bonds, so as to cooperate with the Third War Loan drive currently under way. The $6,000,000 bonds are dated Oct. 1, 1943, and mature on July 1 from 1945 to 1973, inclusive.

The purpose of the issue is to acquire the electric power system of the California Electric Power Co., located primarily in Imperial Valley and in that part of Coachella Valley in Riverside County which is irrigated by water from the All-American Canal. Power facilities of the Canal consist of a number of low-head drops at which ultimately there can be developed some 90,000 kilowatts of hydroelectric power. Proceeds from the sale of the bonds will be applied chiefly to purchases of properties and to consolidations and improvements.

Associated with Blyth & Co., Inc., Kaiser & Co. and John Nuveen & Co. are: Stranahan, Harris & Co., Inc.; B. J. Van Ingen & Co., Inc.; Blair & Co., Inc.; E. H. Rollins & Sons, Inc.; A. C. Allyn & Co., Inc.; Otis & Co.; Dean Witter & Co.; Weeden & Co.; Paine Webber, Jackson & Curtis; Stone & Webster and Blodget, Inc.; Estabrook & Co.; Barcus Kindred & Co.; Braun, Bosworth & Co.; R. S. Dickson & Co., Inc.; The Illinois Co. of Chicago; First of Michigan Corp.; Bosworth, Chanute, Loughridge Co.; Allison-Williams Co.; Boettcher & Co.; McDonald-Coolidge & Co.; Stone & Youngberg; Ryan Sutherland & Co.; Peters, Writer & Christensen, Inc.; Mullaney, Ross & Co.; Newburger, Loeb & Co.; First Cleveland Corp.; Cruttenden & Co.; Thomas & Co.; Moore, Leonard & Lynch; Martin, Burns & Corbett; Kalman & Co.; J. M. Dain & Co.; Thos. Kamp & Co.; Fox Reusch & Co.; Dahlberg, Durand & Co. and F. Brittain Kennedy & Co.

State Legislatures Increase Municipal Revenue Sources

Municipalities of a dozen States were benefited this year by the passage of legislation providing for new or increased shares of State-collected taxes and the development of new sources of independent local revenue, the American Municipal Association reported Sept. 23.

Cities and counties in Arkansas will receive for the first time a share of State sales tax collections. Allocations will be based on population except in the case of towns of less than 500, which will receive a flat sum of $200 a year. Alabama cities have been granted 20% of the profits of the State liquor monopoly to be allocated on the basis of the ratio of profits earned by a municipality's store to total profits of all State liquor stores.

The 1943 Kansas Legislature provided for distribution of 75% of net revenues from cigarette stamp-tax collections to cities and counties. Amounts will be paid monthly to counties according to population ratio; half of the money will then go to cities within the county. Oregon cities will receive allocations from road-users revenues for the first time, and municipalities will be given approximately $135,000 extra annually from increases in customer liquor permit costs. South Carolina cities and towns will receive about $300,000 a year from motor vehicle license fees, and Washington municipalities will share State-collected liquor and motor vehicle excise taxes. A new Wisconsin measure allocates to municipalities 75% of drivers' license fees when examinations are conducted locally. The North Carolina Legislature reappropriated to municipalities $1,000,000 annually of State-collected highway funds for construction and maintenance of city and town streets.

California and Washington enacted legislation providing for direct appropriations to local governments to enable them to meet emergency war conditions, and the latter State abandoned the entire field of admissions taxes, turning over $1,000,000 a year to cities. Florida authorized municipalities to impose and collect reasonable charges for garbage and refuse disposal and for the use of all municipally-owned facilities, while Minnesota and Washington have authorized cities to impose reasonable rates for garbage collection, the Association said.

Other financial aids provided for cities this year include a Wisconsin act requiring the State to construct and reconstruct all portions of the State trunk highway system located within cities and villages; a Tennessee measure exempting cities from payment of taxes on gasoline bought in 3,200-gallon lots; and an Arkansas act allowing issuance of free automobile licenses for vehicles owned by counties, cities and incorporated villages.

The Securities Salesman's Corner

Uncovering New Accounts Through a Newspaper Advertising Campaign

Before you can get new accounts the first job is to locate them. This week we'd like to pass on some ideas that have proved successful for a progressive dealer in a medium-sized Southern community who has used local newspaper advertising to uncover a very high type of prospect.

The ads appeared once a week beginning last spring. They were always the same size—two-column by six inches. The layouts also followed the same pattern every week. The series is now in its 45th week—consistent advertising is bringing results, even though the campaign was conducted throughout the summer months when business is ordinarily less active than in the fall and winter.

The ads themselves were designed to gain attention BY THE USE OF UNUSUAL HEADLINES. Next the subject-matter was based upon a HUMAN APPEAL. Statistics, figures, involved analytical statements were never given prominence, but in their stead plain talk about subjects that people could understand continued to be used week after week. Here is a sample of one of the ads the firm ran last spring—its timeliness and the manner in which the subject was presented is indicative of why such ads created interest, good-will, and eventually led to action on the part of many investors who read them:

(Important Notice)

TO THE HOLDERS OF

XYZ PREFERRED STOCK.

On April 1st these shares will be retired at $____ share, and further dividends from this investment will cease.

But there is something else that will go right on—as it always has—in good times or bad—in war or peace—when your income is high or low—it's

THE COST OF LIVING.

Today, more than ever before, your income should be continued. Living costs and taxes are rising daily.

Other Sound Investments Are Available.

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Call or Write Today for Further Information.

These suggestions are only a few of the attractive investments we can submit to you for the reinvestment of the proceeds from your ____________ preferred stock.

Tel. Number NAME OF FIRM St. Address

CITY AND STATE.

In each instance the firm's telephone number is played up in a prominent position. Attention is always called to the fact that more information is available and the reader is invited to CALL or WRITE. When the replies to the ads come in they are shown every courtesy and consideration. From here on it's a matter of selling the firm as is the case in every other contact with a new prospective customer.

A newspaper campaign should uncover new accounts. That is its main purpose—to attract inquiries, either by telephone, by mail, or by a call at the office of the investment dealer himself. The next thing it should do is to build confidence and good-will on the part of the firm's old customers, who when they read the ads will be favorably impressed. New accounts are the lifeblood of every business—it is imperative that a sufficient number of new customers are added every month if a business expects to grow. Advertising, either direct mail or in the newspapers, will uncover the prospects, but you must make it HUMAN, INTERESTING, CONVINCING, and KEEP AT IT UNTIL YOU GET RESULTS. It can be done very successfully—once you follow these principles.

Post-War Trust Investment Policies

(Continued from page 1215)

that mortgage amortization — one of the most desirable financial developments of the last few years—may help to check the increase in farm values.

Whether we shall escape inflation is a matter about which one cannot feel particularly hopeful. Certainly free enterprise alone promises little in this direction. Free enterprise is not competent to meet a situation created during a period of total war, which has involved an unexampled increase in the purchasing medium. We shall only escape inflation in the event that the community is determined to prevent it and up to the present time it cannot be said that there is evidence of a determined purpose manifest throughout the community to accomplish this desirable end. Although this is not the occasion for a political speech, I think I may be pardoned if I call attention to one of the recommendations of the Republican Advisory Council on Domestic Issues. It is suggested in the report of the Council that "as promptly as possible rationing, price fixing, and all other emergency powers be terminated." The phrase "as promptly as possible" may mean immediately upon the return of peace. If that policy is adopted then let us all prepare for the deluge of inflation. If "as promptly as possible" means as soon as advisable, then the way is open for careful consideration of the appropriate timing for the elimination of rationing and price fixing. I should then say that the appropriate timing must depend upon the length of time required to reorganize industry until it is able to produce adequate supplies of civilian goods. This seems to me the most important single question of policy confronting the country in the realm of domestic affairs during the period immediately following the war.

As I said at the outset, I had it in mind to discuss certain other matters, particularly certain investment consequences of rapid technological advance. But it hardly seemed worthwhile to discuss such matters if it should be our fate to pass through the period of social and economic disorganization that would follow a year or two of wild inflation. Moreover, I understand that my remarks here are more or less in the nature of a prelude to a free discussion from the floor, and I fancy that I have already expressed a sufficient number of disputable opinions to provide an adequate basis for a general discussion.

Peace Is Bullish

(Continued from page 1191)

mediately following the Armistice.

While we recognize that the pattern of the previous conflict is unlikely to be followed exactly either in extent or in time, like causes usually give rise to similar effects. The dominant factors in the post-war picture seem to us to be:

1. Huge pent-up demands for both durable and consumers goods.
2. Substantial relief from excess profits taxes and profit limitations.
3. Unprecedented public purchasing power.

Naturally, there will be a period of dislocation and readjustment occasioned by the necessity for the conversion of war-time facilities to peace-time uses. In few, if any, industries should this require longer than six months and, in many, production should be practically uninterrupted. With the lesson of World War I as a guide, this prospect may have but little effect on investment sentiment, which is likely, we believe, to give primary thought to the longer-term period of promise rather than to the relatively brief period of readjustment. — From *"The New York Letter,"* issued by *Hugh W. Long & Co.*

American Bankers Association Holds 69th Annual Meeting

(Continued from first page)

12th, prior to the opening of the formal sessions.

Officers of the Association's Divisional groups were also elected at annual meetings held on September 13th as part of the ABA conference.

National Bank Division

F. Raymond Peterson, president and chairman of the board of the First National Bank of Paterson, N. J., was elected president of the National Bank Division. R. Otis McClintock, president of the First National Bank and Trust Company of Tulsa, Okla., was chosen vice-president of this division. In addition, eight members were elected to the division's Executive Committee. They are: Carl K. Withers, president of the Lincoln National Bank of Newark, N. J.; Charles A. Boone, executive vice-president of the First-Huntington National Bank of Huntington, West Virginia; Thomas R. Hefty, president of the First National Bank of Madison, Wis.; John Curran, vice-president of the Anglo-California National Bank of San Francisco, Calif.; George P. Shotwell, president of the Williamsport National Bank of Williamsport, Pa.; Kendall G. Seaton, president of the Second National Bank of Ashland, Ky.; Gordon D. Palmer, president of the First National Bank of Tuscaloosa, Ala.; and Taylor S. Abernathy, vice-president of the First National Bank of Kansas City, Mo.

State Bank Division

The State Bank Division of the ABA elected Wood Netherland, vice-president of the Mercantile-Commerce Bank and Trust Company of St. Louis, Mo., president. Claude F. Pack, president of the Home State Bank of Kansas City, Kan., was named vice-president. The following eight members were elected to the division's Executive Committee: De Witt C. Ray, president of the Liberty State Bank of Dallas, Tex.; James C. Wilson, president of the First Bank and Trust Company of Perth Amboy, N. J.; A. T. Hibbard, president of the Union Bank and Trust Company, Helena, Mont.; C. H. Martin, president, Security Trust and Savings Bank of San Diego, Calif.; G. Carlton Hill, vice-president of the Fifth-Third Union Trust Comany of Cincinnati, Ohio; R. E. Gormley, vice-president of the Georgia Savings Bank and Trust Company of Atlanta, Ga.; A. R. Vogtsberger, vice-president of the Bank of Menomonie, Menomonie, Wis.; and Ellwood Brooks, president of the Central Savings Bank and Trust Company of Denver, Colo.

Savings Division

Fred F. Lawrence, treasurer of the Maine Savings Bank, Portland, Maine, was elected president of the Savings Division of the ABA. H. R. Templeton, vice-president of the Cleveland Trust Company, Cleveland, Ohio, was elected vice-president. The following seven members were elected to the division's Executive Committee: Myron F. Converse, president of the Worcester Five Cent Savings Bank of Worcester, Mass.; Earl B. Schwulst, first vice-president of the Bowery Savings Bank, New York City; L. A. Tobie, president, Meriden Savings Bank, Meriden, Conn.; George W. Owen, Jr., vice-president and cashier, Hibernia National Bank, New Orleans, La.; George Eccles, president, First Security Bank, Ogden, Utah; Mervin B. France, first vice-president, Society for Savings, Cleveland, Ohio; and Fred F. Spellissey, vice-president, Market Street National Bank, Philadelphia, Pa.

Trust Division

Henry A. Theis, vice-president of the Guaranty Trust Company of New York City, was elected president of the Trust division of the ABA. Frederick A. Carroll, vice-president and trust officer of the National Shawmut Bank of Boston, was named vice-president, and James W. Allison, vice-president of the Equitable Trust Company of Wilmington, Dela., was made chairman of the executive committee. Five others elected to membership on the executive committee were: R. M. Alton, vice-president in charge of Trust Department, United States National Bank, Portland, Oreg. (on military leave of absence); Chester R. Davis, vice-president and trust officer, Chicago Title and Trust Company, Chicago, Ill.; W. H. Goodman, vice-president and trust officer, Florida National Bank, Jacksonville, Fla.; T. Stanley Holland, vice-president and trust officer, American Security and Trust Company, Washington, D. C.; and Howard C. Lawrence, executive vice-president, The Michigan Trust Company, Grand Rapids, Mich.

Public Utility Securities

(Continued from page 1195)

ries of thirteen steps to "unscramble" the NYPANJ system and retire the small amount of its securities held by the public. Merger of NYPANJ with the new top company would greatly strengthen the setup, but in view of the uncertainty regarding completion of this rehabilitation program over the near future (because of the legal work involved) the trustees did not make their plan dependent on the inclusion of NYPANJ.

In any event, the ability of NYPANJ to contribute income to the new top company has been greatly improved by recent removal of the SEC dividend embargo on Metropolitan Edison, which is currently earning about $2,754,000 after preferred dividends. A substantial embargo still exists against dividend payments by the second largest system company, New York State Electric & Gas, due to requirements set up by the Public Service Commission of New York.

The trustees' plan, which has been approved by the Special Master appointed by the Federal Court and is now being considered by the Court and the SEC, is comparatively simple in scope, though necessarily complex in detail. It provides for new funded debt of about $19,000,000, as contrasted with the present top companies' debt structure of some $218,000,000) plus 7,500,000 shares of new common stock. The new stock is given an estimated book value, in the pro-forma balance sheet for the new company, of about $11.30.

Based on the pro-forma income account, net income would amount to about 65 cents a share after allowance for 5% interest on the new debt. This income statement, however, withholds from the top company net income amounting to an additional 55 cents a share (due to various restrictions, or estimated use of cash by the operating companies), making total equity earnings of about $1.20. To describe the terms for exchange of old securities for new common would require too much space, but the largest issue, AGECORP 4/78, receives 30 shares for each $100 bond, making the equity earnings per bond about $36. The bonds are selling currently around 23½ or about 6½ times such earnings. Operating economies and refunding savings are expected to swell future earnings, but Federal taxes remain the most important factor.

Need Wartime Stay On "Death Sentence"

(Continued from page 1213)

When World War II broke out in 1939, and increasingly as history unfolded, investors were forced to consider their position when, as and if this country became involved. For public utilities are traditionally in an unfavorable position during a war period. The reasons are obvious—costs go up, selling prices are fixed by regulation, and profits go down. Thereby, something new was added to the reasons why utility stocks should be sold, and they hit a new low average price in April, 1942.

These being the reasons for present market levels, the question may now be considered, "Are they permanent?" The concensus of investor opinion is that they are not, and the proof of that opinion is that investors have bought utility common stocks in such volume that the Dow-Jones average has doubled in less than 18 months. What is more, it is possible to see why. From a long-range point of view it is apparent that the body of administrative regulations has distorted the framework of the new regulatory concepts into a shape unrecognizable by its legislative creators. And such a condition is most likely to be corrected whenever the legislative body finds time to re-appraise its creature. When that happens, regulation is likely to swing from its extreme, punitive position to a normal, workable status.

With respect to the war, it began to be seen in 1942 that the United Nations were emerging from the defensive phase and reaching a point where they could take the offensive. That meant that the time of peace became a factor to be considered, and utility stocks could be appraised shorn of their depressing, war-time status. An Act of Congress, moreover, contributed in no small way to the change in sentiment. The 1942 tax law recognized the special position of public utilities, and embodied an adjustment in their favor. To those who remembered vividly how the utilities had been "kicked around" for years by a creature of Congress, this action was far more important in its implications than in its immediate effect.

To sum up, then, there is reason to believe that the market for utilities will improve over a period of time. To execute the death sentence as interpreted by the SEC now, is to enforce liquidation of the typical holding company—to force the sale of its assets in a market unquestionably low from the historical viewpoint, and almost as surely low as compared with any more normal period in the future. When a holding company sells its assets, the investors in its stock are automatically being sold out, too. Granting that a normal period is recognized only in retrospect, the fact remains that a war period is abnormal, by its very terms. A stay of execution on the death sentence for the duration of the abnormal period is necessary to accomplish one of the purposes of the Holding Company Act—protection of the investor.

FIC Banks Place Debs.

An offering of $23,900,000 0.85% consolidated debentures of the Federal Intermediate Credit Banks was made Sept. 20, at par, by Charles R. Dunn, New York, fiscal agents for the banks. The debentures are dated Oct. 1, 1943 and mature July 1, 1944. The proceeds from the sale of the debentures will be used to pay off $30,215,000 debentures maturing Oct. 1, 1943, the balance of $6,315,000 being met from cash on hand. At the close of business Oct. 1, 1943, the banks will have a total of $274,495,000 debentures outstanding.

Allies Not to Recognize Transfer to Neutrals of German Rights In Italy

Argentina and European neutral countries have been warned by the United States and Great Britain that they will not recognize the transfer to neutral ownership of any enemy-owned rights or interests in property in Italy, said an International News Service report from Washington on Sept. 21, which added:

The action has been taken following receipt of reliable information that an important German industrial firm has been trying to dispose of its stock in its Italian affiliate to a neutral concern.

A State Department announcement also said that certain concerns in neutral countries contemplate acquiring or purporting to acquire enemy-owned shares in Italian companies and other enemy assets in Italy.

Seaboard Air Line Ry. Situation Interesting

L. H. Rothchild & Co., 120 Broadway, New York City, have prepared a brief study on the proposal to retire the receivers' certificates and other outstanding bonds of the Seaboard Air Line Railway, analyzing the result of such action on various outstanding issues. Copies of this interesting analysis may be had from the firm upon request.

Cons. Textile Attracive

Consolidate Textile offers interesting possibilities at current levels, according to a memorandum issued by J. F. Reilly & Co., 111 Broadway, New York City. Copies of this memorandum may be had from the firm upon request.

Wittich Back From Coast

Wilbur Wittich, manager of the New York office of Wyeth & Co., 40 Wall St., has returned from a visit to the firm's home office, 647 South Spring St., Los Angeles, California.

Rail Situation Interesting

The current situation in Denver & Rio Grande cons. 4s of 1936 offer interesting possibilities, according to a circular being distributed by Pflugfelder, Bampton & Rust, 61 Broadway, New York City, members of the New York Stock Exchange. Copies of this circular may be had upon request from the firm.

MacBoyle Lewis Goes To Cruttenden & Co.

CHICAGO, ILL. — MacBoyle Lewis has become associated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges, as manager of the sales department, it is announced. He was formerly with Salomon Bros. & Hutzler in Chicago.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 1194)

But fortunately the market gives us other handles to grasp. For one thing the market seldom acts as a unit. And for another nobody buys (or sells) the market. Our interest while being academically in market action is concerned primarily with individual stock action. And there certain things become clear.

* * *

Ordinarily a market which has no intention of going to new highs, seldom has more than a few stocks making new highs in advance of the market as a unit. The opposite is true if a new high is indicated. If you take a look at any complete stock market table you will see any number of stocks have already made new highs. In addition to such signals you will also find that few stocks carry through on any down tendencies. Buying of one kind or another comes in at the psychological moment and either stops the potential decline dead in its tracks or is sufficient to turn the retreat into an advance. It is in this latter group that danger of serious losses is comparatively small. Such stocks are not too close to old resistance levels to make them too dangerous and are close enough to old support points to permit of reasonable stop levels. I have a few such stocks in mind but before I recommend them I would like to point out that current general market action indicates a setback of say 2 or so points.

* * *

Here are the stocks, and the prices at which they should be bought. Allegheny-Ludlum Steel, buy at 27, stop at 26. Allis Chalmers, buy at 38, stop at 36. Atlantic Refining, buy at 27, stop at 26. Commercial Solvents, buy at 14½, stop at 13. U. S. Pipe & Foundry, buy at 34, stop at 32. White Motors, buy at 21, stop at 19. Yellow Truck, buy at 17, stop at 16. Youngstown Sheet & Tube, buy at 36, stop at 35.

* * *

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.]

Truman Charges Some Corporations Conducted Advertising Campaigns At Expense Of Govt.

The allegation that some corporations have conducted extensive campaigns of promotional advertising chiefly at the expense of the Federal Government was made on Sept. 17 by Senator Truman (Dem., Mo.) in an article in "The Progressive," La Follette weekly magazine.

The Senator, who is Chairman of the committee investigating the national defense program, declared that it was "only natural" that companies which, in peacetime "spent millions of dollars to establish good-will and acquaint the consumer with their product are anxious to continue their advertising campaigns and keep their names before the public."

In special advices from Madison, Wis., Sept. 17 to the New York "Times," it was further reported:

"This practice would be perfectly proper if the corporations paid for their advertising out of profits after taxes and renegotiation," he wrote. "Yet here is what is happening with respect to advertising. The bulk of this expense is being borne not by the corporations but by the Federal Government. This is so because these advertising costs are being treated as an expense of doing business before computing profits on which the Government is entitled to receive excess profits taxes at the highest rate. In other words, the advertising costs the corporations practically nothing because the taxpayer foots the bill."

Asserting that "for the most part American advertising has told the truth" and that "most advertising claims are fair and justified," Senator Truman said, however, that some corporations had published advertising to offset "just criticism" leveled at them by the Senate committee or other agencies. . . .

Disclaiming any intention of suggesting that "American articles of war are inferior and that advertising claims are by and large to be distrusted," he continued:

"Shoutings in self-praise at the taxpayers' expense are not healthy. The Bureau of Internal Revenue should investigate these advertising costs and determine the amounts the Government is entitled to receive as income taxes. The agencies in charge of renegotiation should also investigate and determine the amounts to be returned as excessive profits.

"Some advertising is proper and a legitimate expense of doing business. But advertising expenditures should be paid by the company down to the last dollar, and in any event, should not be greater than those incurred before the war. On top of that, advertising references to contributions to the war effort should be carefully scrutinized. The taxpayer should not pay the cost of spreading unfounded claims."

Speculative Opportunities

Denver & Rio Grande Western Railway, and the Nassau & Suffolk Lighting Company both offer interesting speculative opportunities according to circulars being distributed by Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange and other leading exchanges. Copies of these circulars, discussing each situation in detail, may be had from the firm 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.

House Delays Hearings On New Tax Program

Hearings on a new tax bill, which were scheduled to begin Sept. 20 before the House Ways and Means Committee, have been postponed but may be brought under way the latter part of next week. It is understood that the Administration decided to wait until after the results of the current $15,000,000,000 Third War Loan drive are known before presenting its program for raising additional revenue. There have also been reports of conflicting tax views as delaying the Treasury Department's tax program whereby it seeks to raise $12,000,000,000 in new revenue—a goal which many Congressional tax experts doubt can be achieved.

The House Committee for the past two weeks has been holding hearings as to possible changes in the war contract renegotiation law. The group has also launched studies into methods of simplifying Federal income tax returns.

Senator George (Dem., Ga.), Chairman of the Senate Finance Committee, proposed on Sept. 15 that the Victory Tax be combined with the 6% normal income tax rate in the interest of simplification. He said this might involve an increase in the normal rate to 10% and perhaps lower personal exemptions. This merger of the Victory and normal tax was endorsed by Representative Doughton (Dem., N. C.), Chairman of the House Ways and Means Committee.

Also under discussion are plans for a sharp increase in social security taxes and compulsory savings.

Universal Service Advocated By President Of U. S. Chamber

In an address prepared for the American Legion convention, Eric A. Johnston, President of the U. S. Chamber of Commerce, advocated universal service as a means of making replacements in the country's peacetime force, according to an Associated Press dispatch from Omaha, Neb., on Sept. 21, which also quoted Mr. Johnston as follows:

"It has been regarded as one of the old world measures that we didn't want in the United States, but I am also keenly aware that the conditions which confront us today are far different from those of years gone by. The bomber has shriveled distances and made oceans into lakes. Our armed forces must be adequate to insure our peace in a world where time and space have new meaning.

"Soldiers marching home from the war must march into a land of opportunity."

Gearhart Visits Harvill Plants In California

Frederick D. Gearhart Jr. of Kobbe, Gearhart & Co., Inc., 45 Nassau St., New York City, has just returned from California, where he inspected the properties and plants of the Harvill Corp. Harvill is one of the larger aircraft diecasting concerns which supplies many of the parts used in our modern war planes. Mr. Gearhart also discussed the post-war prospects of the company.

Gov. Bricker Warns Of 'One Party Peace'

Asserting that "we do not want a one-man or a one-party peace," Governor John W. Bricker of Ohio urged on Sept. 17 that this country's peace negotiations be conducted by a bi-partisan delegation representing various departments of government and sectional life.

In a radio address commemorating Constitution Day and delivered before the National Society of the Sons of the American Revolution at Philadelphia, Governor Bricker declared that this country's foreign policy should be based upon the necessity for preservation of our national identity and freedom of action. He also urged caution in the final drafting of peace treaties at the war's end.

Associated Press Philadelphia advices reported as follows regarding his remarks:

"No man is wise enough now to state with exactitude what this nation's obligations to others may be at the conclusion of the war, or how they may best be carried out," he said.

"Our foreign policy should be based upon the absolute necessity for the preservation of our identity as a nation and on our traditional freedom of action at all times."

"Never again," he said, "should our peace negotiations be directed by those from only one political party, from any one department of government, or any one section of our national life.

"We do not want a one-man or a one-party peace. If we believe in collaboration among the nations, we must put it in practice among Americans."

This country's position in the creation of world stability should be made known "beyond the shadow of a doubt" lest distrust and hatred arise from encouraging hopes or making promises that cannot be fulfilled, he said, adding: "If we do not know our own minds, we shall exhibit before the world a picture of vacillation and opportunism. "Double talk and double dealing are not in the great traditions of American diplomacy."

Investment Trusts

(Continued from page 1196)

$15.54 per share six months earlier.

Keystone Custodian Fund Series "S4"—Net assets on July 31, 1943, were $4,179,597 or $3.98 per share, as compared with $2,524,115 or $3.17 per share on January 31, 1943.

Scudder, Stevens & Clark Fund—Net assets as of August 31, 1943, totalled $16,567,223, equal to $90.07 per share, compared with $12,507,259 or $74.08 per share a year earlier.

Dividends

Group Securities, Inc.—Following dividends payable Sept. 30, 1943, to stock of record Sept. 17:

Class of Shares—	Reg.	Extra	Total
Agricultural	.05	.02	.07
Automobile	.015	.085	.10
Aviation	.05	.06	.11
Building	.02	.04	.06
Chemical	.04	.02	.06
Electrical Equipment	.09	--	.09
Food	.04	.01	.05
Fully Administered	.04	.04	.08
General Bond	.065	.055	.12
Industrial Mach.	.08	--	.08
Investing Company	--	.03	.03
Low Priced	.03	.03	.06
Merchandising	.05	.02	.07
Mining	.06	--	.06
Petroleum	.02	.06	.08
Railroad	.04	.04	.08
Railroad Equip.	.03	--	.03
Steel	.04	--	.04
Tobacco	.04	--	.04
Utilities	.02	--	.02

George Putnam Fund—A dividend of 15 cents per share payable Oct. 15, 1943, to stock of record Sept. 30.

Scudder, Stevens & Clark Fund—A dividend of 75 cents per share payable Sept. 20, 1943, to stock of record Sept. 9.

Swiss Deny Germany Demands Transit

Rumors abroad that Switzerland had received an ultimatum demanding transit privileges for the German Wehrmacht through Swiss territory were categorically denied in high Government circles on Sept. 17, according to a telephone message to the New York "Times" from Berne, Switzerland, on the same day, which also reported as follows regarding the rumor:

Investigation of their origin brought indications that they grew from a misinterpretation of a recent Swiss broadcast to North America.

Though it is admitted semi-officially that, with German forces in complete control of northern Italy, Switzerland is more cut off from the world than ever, it is emphasized that the Swiss early in the war adopted a stand of complete neutrality under which they informed all belligerents that there would be no passage across Swiss territory.

The recent mobilization measures, quietly carried out with the capitulation of the Badoglio Government in Italy, would appear adequately to confirm this stand.

Capt. John Bodfish Dies In California

Captain John Bodfish, of Chicago, who was stationed at Spadre, California, with the Desert Training Center, died in Pomona, California, on September 19th. He was on leave of absence as Treasurer and Secretary of the First Federal Savings and Loan Association of Chicago, and resided on Butterfield Road, near Flossmoor, Illinois.

Captain Bodfish's death occurred as a result of complications following an appendectomy two weeks ago. The body is being taken to Chicago for burial on September 24th.

A graduate of the University of Chicago, with an MBA degree, he was 27 years old. He volunteered in the Medical Administrative Corps, Army of the United States, was commissioned a First Lieutenant, and went to Camp Robinson in January, 1943, being transferred to Spadre some months later.

He is survived by his widow, the former Jeanette Havens, two daughters, Jean Havens and Margaret; his father, John H. Bodfish of Columbus, Ohio; two brothers, Morton Bodfish, Chicago, and Lieut. Robert V. Bodfish, of the U. S. Marines Corps, and one sister, Mrs. William Ohl, Youngstown, Ohio.

Security Analysts to Hear

Capt. Sergei N. Kournakoff will address the New York Society of Security Analysts, Inc., on Friday, Sept. 24, on "How the Red Army Fights."

On Monday, Sept. 27, there will be a discussion of post-war prospects of the utility industry under the leadership of E. R. Sterling of Merrill Lynch, Pierce, Fenner & Beane.

B. Earl Puckett, President of Allied Stores Corporation, will speak on the corporation at the Analysts meeting scheduled for Wednesday, Sept. 29.

No meeting will be held on Friday, Oct. 1.

The Analysts Society meets at 12:30 p.m. at 56 Broad Street, New York City.

Post-War Rail Prospects

McLaughlin, Baird & Reuss, One 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.

Calkins A Director Of N. Y. Reserve Bank

The Board of Governors of the Federal Reserve System announced on Sept. 14 the appointment of Robert D. Calkins, Dean of the School of Business, Columbia University, New York, as a Class C Director of the Federal Reserve Bank of New York for the unexpired portion of the term ending on Dec. 31, 1943. Mr. Calkins fills the vacancy which occurred in August, 1942, when Randolph Paul resigned upon becoming General Counsel of the Treasury.

The Board also announced that William I. Myers, a Class C Director, had been designated Deputy Chairman of the bank for the remainder of the current year. Mr. Myers is head of the Department of Agricultural Economics at Cornell University.

Railroad Securities

(Continued from page 1193)

this most recent upward surge of prices as more than a flash in the pan. Even in the days before the war was a factor in security price swings it had been demonstrated that specific reorganization developments were the key to price trends of individual reorganization railroad bonds. Progress in reorganization has traditionally been a sufficient incentive for advancing prices for bonds of the road involved even in periods of general market weakness. Now that there is the prospect of more rapid reorganization progress for a large number of roads, there is a widespread feeling among rail men that market stagnation is a virtual impossibility. This is particularly true inasmuch as even though earnings in many instances have been dropping below year earlier levels they are still abnormally high and cash will continue to accumulate at a rapid rate for a considerable time to come at least.

Bank & Insurance Stocks

(Continued from page 1195)

third of the list. On the other hand, Bank of America National Trust and Savings Association is near the top in point of size but close to the bottom as regards market ratio.

Neither size, current earnings, dividends nor book value, necessarily determine the market's appraisal of an institution, nor the degree with which it is favored by investors; more often the determinant is something more intangible and even elusive. We are glad of this opportunity to give space in this column to Mr. Wood's remarks.

Trend Of Deposits Of Reserve Member Banks

M. A. Schapiro & Co., One Wall Street, New York City, have prepared a most interesting table of the trend of deposits of the member banks of the Federal Reserve System since Dec. 31, 1941, with data on 30 selected member banks. Copies of the table, with a discussion of the possible future changes in the situation, may be had from M. A. Schapiro & Co. upon written request.

Empire Sheet & Tin Plate Situation Attractive

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

Calendar Of New Security Flotations

OFFERINGS

REPUBLIC DRILL & TOOL CO.

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

Address—322 South Green Street, Chicago.

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

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

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

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

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

Registration statement effective 5:30 p.m. EWT on Sept. 15, 1943.

Offered Sept. 22, 1943 at 100 and int. by Wyeth & Co. and Bond & Goodwin, Inc.

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

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

Offerings will rarely be made before the day following.

MONDAY, OCT. 4

DERBY GAS & ELECTRIC CORP.

Derby Gas & Electric Corp., a subsidiary of Ogden Corp., registered 91,577 shares of its common stock without par value with the SEC. This stock is already issued and outstanding, and the shares are not being offered by or for the account of the company. They are to be sold by Ogden Corp., as part of its plan to dispose of its public utility investments in accordance with the Public Utility Holding Company Act of 1935.

Address — One Exchange Place, Jersey City, N. J.

Business — The company is engaged primarily in the generation, distribution and sale of electric energy and manufactured gas.

Underwriting—Ogden Corp., after the registration becomes effective, will publicly invite sealed proposals for the purchase or underwriting of these shares. The result of the bid opening will be filed by amendment later.

Offering—Terms will be filed by amendment later.

Registration Statement No. 2-5313. Form S-1. (9-15-43).

JULIUS GARFINCKEL & CO., INC.

Julius Garfinckel & Co., Inc., filed a registration with the SEC covering 60,000 shares of 5½% preferred stock, par value $25 a share, and 19,990 shares of common stock, $1 par value.

Address—Washington, D. C.

Business — The company operates a specialty department store at 14th and F Streets, N. W., Washington, D. C., dealing primarily in women's wear and accessories, but includes various other retail and service departments, the more important being men's and boys' furnishings and clothing, semi-precious and precious jewelry, linens and blankets, glassware, china and lamps, stationery and luggage, and fur storage vaults.

Proceeds — To redeem an unspecified number of the company's cumulative convertible 6% preferred stock on its redemption date Oct. 8, at $27.50 a share plus accrued dividends from Oct. 1.

Underwriting—J. G. White & Co., Inc., for the 5½% preferred stock.

Offering—The common stock shares will be sold only to the holders of the company's outstanding bearer warrants which entitle them to purchase at $12.50 a share on or before Sept. 1, 1944, an aggregate of 19,990 shares of $1 par common stock, fully paid and non-assessable.

Registration Statement No. 2-5214. Form S-1. (9-15-43).

SUNDAY, OCT. 17

P. LORILLARD CO.

P. Lorillard Co. registered $20,000,000 debentures and 374,391 shares of common stock, par value $10 per share.

Address—119 West 40th St., N. Y. City.

Business — Manufactures cigars, cigarettes, tobacco, etc.

Underwriters—Principal underwriters are Lehman Brothers and Smith Barney & Co.

Purpose—Proceeds will be used to retire $19,000,000 short-term bank loans and $5,209,600 7% bonds due Oct. 1, 1944. Balance will be added to working capital for general corporate purposes.

Offering—It is expected that the common stock will be offered to common stockholders in ratio of one-fifth share of new stock for each share of present stock. The debentures will be offered to the public by underwriters. Price of stock and debentures will be supplied by amendment.

Registration Statement filed Sept. 21, 1943.

DATES OF OFFERING UNDETERMINED

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

AMERICAN EXPORT AIRLINES, INC.

American Export Airlines, Inc., has filed a registration statement for 43,888 shares of capital stock, par value $3 per share.

Address—25 Broadway, New York.

Business—Is now engaged in air transport operations between the United States and Europe, and conducts operations between the United States and certain military bases in the Caribbean, and South America under contract with the Navy.

Underwriting—No underwriters.

Offering—The shares are issuable upon the exercise of capital stock purchase warrants of the airlines company attached to 7,900 shares of 5% cumulative preferred stock of its parent, American Export Lines, Inc., a steamship company. The warrants are exercisable by the transfer to the airlines company of the shares of preferred stock attached to the warrants in payment of the purchase price. At the date of the prospectus holders of preferred stock of the steamship company are entitled to receive 5 5/9 shares at the price of $18 per share for each share of the steamship company preferred stock.

Purpose—Upon the exercise of any warrants the airlines company is required to surrender to the steamship company all shares of preferred stock of the steamship company it may acquire, and each share of preferred is to be paid for by cancelling $100 of the indebtedness owed by the airlines company to the steamship company. The steamship company sold privately in 1940 10,000 shares of its preferred stock with warrants of the airlines company attached and advanced the gross proceeds of the sale, $1,000,000, to the airlines company. The steamship company through the sinking fund provision is retiring 2,100 shares of the preferred stock so that warrants attached to these shares become void.

Registration Statement No. 2-5203. Form S-1. (8-19-43).

Amendment filed Sept. 4, 1943, to defer effective date.

ARDEN FARMS CO.

Arden Farms Co. has filed a registration statement for 26,000 shares of preferred stock, without par value.

Address—1900 West Slauson Avenue, Los Angeles, Cal.

Business—The buying and selling of ice cream, the processing of milk, and the general business of buying and selling milk, butter, cottage cheese, eggs and various related products at wholesale and retail in the States of Washington, Oregon and California.

Underwriting—There are no underwriters. Company proposes through certain of its employees and through security dealers to solicit the exercise of option warrants, and the company proposes to pay the expenses of such employees in connection with such solicitation. If all such shares are not sold company will reimburse security dealers for their out-of-pocket expenses. If all such shares are sold the company will instead pay such dealers $1 for each share sold through the exercise of warrants procured by such dealer.

Offering—Company has granted to holders of its preferred stock, rights to subscribe for shares of preferred stock now being registered at the rate of one share for each 2½ shares held. Subscription price will be filed by amendment. After the expiration of the warrants the company proposes to sell such of the shares of preferred as are not subscribed through the exercise of warrants, to the public at such price as may be fixed by the board

Proceeds—Net proceeds will be applied to the prepayment, so far as they suffice, of the company's notes outstanding in the principal amount of $1,050,000.

Registration Statement No. 2-5166. Form S-1. (6-29-43).

Amendment filed July 20 fixing offering price to stock holders at $40 per share, unsubscribed portion to public at $40 per share or more as may be fixed by board of directors.

Registration statement effective 4:45 p.m. EWT on July 26, 1943, as of 5:30 p.m. EWT July 18, 1943.

Of the 26,000 shares registered 23,823 shares were subscribed for by stockholders at $40 per share leaving 2,177 shares to be sold publicly at $42 per share.

ATLANTA GAS LIGHT CO.

Atlanta Gas Light Co., a subsidiary of Consolidated Electric & Gas Co., filed a registration statement with the SEC, for $7,500,000 of first mortgage bonds, series due 1963, and 20,000 shares of 5% cumulative preferred stock, par value $100 a share, on which sealed bids will be asked.

Address—243 Peachtree St., Atlanta, Ga.

Business—Company is an operating utility company engaged primarily in the business of purchasing, distributing and selling natural gas in 20 municipalities in Georgia, and manufacturing, distributing and selling artificial gas in five municipalities in Georgia and two in South Carolina. Incidental to the promotion of its business, the company also engages in the merchandising of gas appliances. It has been engaged in the sale of gas continuously since 1856, except when its plant was damaged during the Civil War.

Proceeds—Net proceeds, exclusive of accrued interest and dividends, will be applied to the extent that funds are available to the redemption of $5,875,000 principal amount of general mortgage bonds, series due 1955, 4½%, at 104, and $2,150,000 principal amount of general mortgage bonds, 3½%, series due 1961, at 104½, and to the redemption of 13,000 shares of 6% cumulative preferred stock at $110 a share.

Underwriting—To be filed by amendment.

Registration Statement No. 2-5211. Form S-1. (8-31-43).

CALIFORNIA ELECTRIC POWER CO.

California Electric Power Co. has registered $16,000,000 first mortgage bonds, 3¾% Series due 1968, and 40,000 shares 5¼% convertible prior preferred stock, par value $100 per share.

Address—3771 Eighth Street, Riverside, Cal.

Business—Engaged in the generation, transmission, distribution and sale of electric energy.

Underwriting—Principal underwriter for the bonds is Dillon, Read & Co., New York, and for the preferred stock Stone & Webster and Blodget, Inc., and Bosworth, Chanute, Loughridge & Co., Denver. Other underwriters will be named by amendment.

Offering—Price of both bonds and prior preferred stock will be supplied by amendment.

Proceeds—Proceeds, together with funds received by the company from the sale of certain of its electric properties, will be used to redeeem all of the first trust mortgage gold bonds, 5% series of 1956 to be outstanding after giving effect to the surrender of certain bonds in the face amount of $641,300. Balance of proceeds will be used to pay the balance then due on the 3% installment note held by Bank of America National Trust & Savings Association. Upon the payment of such note, $641,000 face amount of the company's first mortgage trust gold bonds pledged by the company as security for such note will be surrended for cancellation.

Registration Statement No. 2-5172. Form S-1. (6-29-43).

Amendment filed Sept. 11, 1943, to defer effective date.

(This list is incomplete this week)

War Tax Symposium At Social Research School

The New School for Social Research, 66 West 12th Street, New York City, announces a 12 weeks symposium on "Federal Taxation in Wartime" in which outstanding tax experts will take part. The series of which Alex M. Hamburg, Tax Counsel of New York City, is Chairman, will begin on Sept. 28. Among the major problems to be dealt with are Federal taxation in war and peace; the current tax act of 1943; tax legislation proposals; correlation of income, estate and gift taxes.

Randolph Paul, General Counsel of the Treasury Department, Gerhard Colm, principal fiscal analyst, U. S. Bureau of the Budget, John W. Hanes, former Under Secretary of the Treasury, and other tax experts are among the speakers. Leo C. Cherne, Secretary of the Reseaerch Institute of America, will lead the series on Sept. 28 with a talk on corporate profits and the excess profits tax. A general discussion will follow each lecture.

Attractive Situations

Gisholt Machine Co., Stromberg-Carlson, Dictaphone Corp., and Haloid Co. offer attractive situations, according to memoranda prepared by Herzog & Co., 170 Broadway, New York City. Copies of these interesting memoranda may be obtained upon request from Herzog & Co.

C. H. Christ In Kenmore

(Special to The Financial Chronicle)

KENMORE, N. Y.—C. Herman Christ is now conducting an investment business from offices at 79 Wardman Road.

Wall St. Cashiers Outing

The Cashiers Association of Wall Street, Inc., announces that its annual outing will be held on Saturday, Sept. 25, at the Montclair Athletic Club, Montclair, New Jersey. The outing was scheduled originally for Sept. 11.

STANY Bowling Season Opens September 30

The bowling season of the Security Traders Association of New York opens on September 30th.

Teams will bowl every Thursday night at the Bowlmore Alleys on University Place near 14th Street. Games start at 5:30 p.m. and finish about 8:00 p.m.

All games are on a handicap basis and all members of the Association are welcome—both experts and beginners.

Those interested should communicate with one of the following who will give full details on teams and arrangements. Friday, September 24th, is the deadline to sign up with the committee. Tom Gleason, Chairman, Kirchofer & Arnold, Inc., Hanover 2-8260; George Leone, Frank C. Masterson & Co., Hanover 2-9470; Charles King, Charles King & Co., Whitehall 4-8980.

NYSE Acts To Curb War Bond 'Free Riding'

The New York Stock Exchange notified its members on Sept. 15 of a ruling designed to discourage speculation or "free riding" in United States Government securities offered in the Third War Loan drive.

Following is the statement issued to members by Emil Schram, President of the Exchange:

"In conformance with the spirit of a notice given by the Federal Reserve Bank of New York to banks and trust companies within the Second Reserve District, the New York Stock Exchange has ruled that, for a period of 15 days after the Third War Loan bonds are delivered to subscribers, no member firm may carry on margin Third War Loan bonds for which it has subscribed unless the customer (1) agrees to pay off the debit balance against such bonds within a period of six months or less and (2) does not contemplate selling the security prior to making such full payment."

Attractive Situation

Buckley Brothers, 1529 Walnut St., Philadelphia, Pa., members of the New York and Philadelphia Stock Exchanges, have prepared an interesting memorandum on the common stock of Liberty Aircraft Products, which offers an attractive situation at current levels, the firm believes. Copies of this memorandum may be had from Buckley Brothers on request.

Amer. Tourists Satisfy Buying Urge In Mexico

American tourists are crowding Mexico, buying up everything from "gin and electrical appliances to bobby pins and elastics," Arch Black, export manager for Norge Division of Borg-Warner Corporation, revealed today following his return from an extensive trip through Mexico.

"The people of Mexico are not feeling the war as acutely as are the people of the United States, as rationing has not gone into effect there," Mr. Black said. "There is plenty of everything and, although they appreciate the influx of American dollars, the Mexicans are getting a little peeved because American tourists are thronging through the country buying these surpluses of goods they can't get in the United States. Some distributors even claim to have reshipped American-made small electrical appliances again into the States."

Mr. Black believes that electrification of many countries and islands where naval and military bases have been built and which thus have been expanded considerably, will offer new profitable markets for electrical appliances after the war.

"A trend towards industrialization of Mexico, Brazil and other countries is creating a higher standard of living," Mr. Black added. "This, of course, makes new markets."

Pittsburgh Rys. Looks Good

The current situation in Pittsburgh Railways System, particularly certain of the underlying bonds, offers attractive possibilities for appreciation according to a study prepared by T. J. Feibleman & Company, 41 Broad Street, New York City. Copies of this interesting study, which is available to dealers only, may be had upon request from T. J. Feibleman & Co.

Robt Huff Visits NYC

Robert H. Huff, President of Butler-Huff & Co. of California, 210 West Seventh St., Los Angeles, California, is spending several weeks in New York City and can be reached at the office of Huff, Geyer & Hecht, Inc., 67 Wall St., New York.

Stafford Shields Admits

Stafford, Shields & Robinson, 39 Broadway, New York, members of the New York Stock Exchange will admit Margaret V. Stafford to partnership in the firm on Oct. 1.

"Our Reporter On Governments"

By S. F. PORTER

Of course, the market is dull and apparently lifeless. . . . Naturally, some of the taxables are drifting to lower levels and there seems to be pressure on the intermediate groups. . . . Obviously, the big news in the Government mart today is the continuing war loan drive and equally as obviously, every trend and everything that happens may be traced directly to the influence of that campaign. . . . What is news, really, is the way the market is holding up in the face of the subscription total. . . . What you should be watching is (1) the progress of the subscription figures; (2) the way the long-term tax-exempts act during this drive and (3) your own position in relation to possible temporary switches. . . . Otherwise, what is happening in the market now may be brushed off as the result of a special development which will be over in another fortnight or so. . . .

As for the progress of the drive, this observer still believes the statistics you're receiving may be taken with some degree of salt. . . . For the simple reason that the big orders are being "spotted" to give the war finance committees some ammunition every week. . . . And if the major sales were reported all at once, there might be a tendency among individuals to say "the Government's getting it from somewhere else, so why should I bother lending my few dollars?" . . . Whether true or not, that's a possibility the committees cannot be overlooking and thus the belief that the announcements will run in a gradual upward trend. . . . For instance, at the end of the first week the total was $5,000,000,000, or one-third the goal. . . . As of this writing, the total is around $11,000,000,000, or more than two-thirds. . . . By the middle of next week we should be in sight of the $15,000,000,000 objective and on our way to the oversubscription of a billion or two. . . .

Gossip at the American Bankers Association's 69th annual convention held in New York last week, incidentally, was that $20,000,000,000 might be obtained by a terrific last-spurt campaign. . . . That seems a bit on the high side and this observer continues to stick to the prediction made here weeks before the campaign opened. . . . And that was the $15,000,000,000 plus, maybe a billion or two or possibly three is the maximum to be looked for. . . .

That would be wonderful, though! . . . Wonderful for the Treasury and wonderful for the market. . . . A tonic to all outstanding issues for the time being—and peculiarly enough, particularly to the tax-exempts. . . .

As for the effect of a heavy oversubscription on the bank loan to follow this campaign, informed sources believe the offering will total $3,000,000,000 to $4,000,000,000, regardless of the excellence of the public response. . . . Reasons being Secretary Morgenthau promised the banks an offering and can't back out now and also that he would prefer to postpone the fourth War Loan drive rather than take less cash now. . . .

It may be that there won't be another bank offering after this October one for six to eight months, says one dealer. . . . Which would compel the commercial banks to enter the open market after a while. . . .

And which would stimulate the outstanding taxables into an advance following the tax exempts. . . .

POSSIBLE SWITCHES

If you own the 2½% bonds of 12/15/53/49, now selling at 107.2 to yield 1.10% after taxes or

If you own the 2½% bonds of 9/15/52/50, now selling at 107.19 to yield the equivalent of 1.12% after corporate taxes,

Then you may be aided by a switch from these securities into the new 2s of 1953/51 or into the outstanding 2s of 1952/50. . . .

You get a better yield after taxes on these 2s, for the outstanding 2s of 1952/50 are selling at a price to yield 1.14% and the new 2s will return a better yield for a while. . . .

And you are getting out of a high-premium bond and into a bond selling close to par, which affords you considerable protection in the event of an unexpected slump. . . .

Even though the tax-exempts are marvelous bonds to hold, the question of the yield-after-taxes is of sufficient importance to justify switch by certain sources from the exempts into the taxables in order to get a slightly better after-taxes yield and a closer-to-par bond. . . .

Here's another:

If you own the 2¼% bonds of 6/15/56/54, selling at 107.8 to yield 1.26% after taxes, you may

Switch into the 2⅞% bonds of 3/15/60/55, selling at 112.14 to yield 1.39% after taxes. . . .

These are exempt bonds and as such, we may anticipate that the call date is equivalent to the maturity date. . . . Which means that the "real" maturity of the 2¼s is 1954 and the "real" maturity of the 2⅞s is 1955. . . .

The yield on the 2⅞s is superior by 13 basis points. . . . The cost is up, admittedly, but if your cash position can stand it, you may find it advisable to freeze your profit in the 2¼s and pick up the 2⅞s for yield and a possible advance in the coming months. . . .

Of course, the best switch this department has recommended in years holds as true as ever. . . . If you need tax-exemption and own short-term tax-exempts, get out of those and into the longer-term exempts as rapidly as you can comfortably manage. . . . For the obvious reason that the exemption will become more valuable as more and more exempts are called and paid off. . . . And because the traditional theory that short-terms give safety is upside down in this instance. . . . The most attractive exempt bond is the one which you'll be able to hold the longest. . . .

THE CASH IS THERE!

Most detailed reports to date indicate the public is not coming through to the extent hoped. . . . Drive is going over and will go over, yes. . . . But individual subscriptions are lagging, if the New York results are any criterion. . . . Insurance companies and corporations, reached by experienced financial salesmen, are the backlog of this campaign as they have been of every other in the memory of the experts. . . . And the commercial banks, in October, will supply the cash needed to round out Morgenthau's cash hoard. . . .

Surely, the inflation implications here are discouraging. . . . But what's even more discouraging is the fact that individuals have the money, have the ready cash to go in and just simply are not responding to the 100% limit. . . .

For instance, there's the SEC report of a few days ago indicating liquid savings in the second quarter of 1943 remained at $9,100,000,000, the same as in the first quarter and comparing with total liquid savings in 1942 of $29,400,000,000. . . . In the three months covered, individuals added $2,900,000,000 to their cash and deposits, $4,200,000,000 to their Government bond holdings, $800,000,000 to their equity in life insurance, and paid off $50,000,000 of mortgage debt and $200,000,000 of consumer debt. . . .

And this despite tax payments! . . . They money is there, all right. . . . But we haven't tapped it yet. . . .

INSIDE THE MARKET

Savings deposits of individuals in various regions of the U. S. being analyzed by the SEC, according to one authoritative report. . . . Forced savings? Or freezing of savings accounts? Or just curiously for the next drive? Who knows. . . . But the fact that the survey is being made is highly significant. . . .

Taxable bonds may slip off some more during this drive due to sales by individuals, small firms and corporations wishing to make a good showing on subscription to new loan. . . . So they sell outstanding bonds, buy bigger block of new ones. . . .

Belief is there'll be less of a shift of funds away from big investing centers than in former drives, due to fact that selling is more decentralized this time and somewhat greater individual subscriptions in war centers will help maintain customary fund distribution. . . .

R. J. Foster Now Is With Chas. Scranton

(Special to The Financial Chronicle)

NEW HAVEN, CONN.—Rufus James Foster has become associated with Chas. W. Scranton & Co., 209 Church Street, members of the New York Stock Exchange. Mr. Foster was formerly with Dick & Merle-Smith in New York City, and prior thereto was manager of the bond department for Shields & Co. and Foster & Co., Inc.

Rupert Bauer Joins Dean Witter & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Rupert F. Bauer has become associated with Dean Witter & Co., 634 South Spring Street. Mr. Bauer was previously with the California Bank as manager of the trading department.

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