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The Effect Of Public Debt On Future Business Activities

Dr. Nadler Says National Debt of 250 To 300 Billion Dollars Need Not Have Great Adverse Effect On Our Economy. Avers Danger Lies In Attempt To Solve Debt Problem Via Currency Depreciation

Looks For Higher Price Level And Predicts Government Control Of Money Market To Keep Interest Rates Down—Warns Taxes Must Not Stifle Initiative, Corporations Must Be Permitted To Accumulate Surplus And Investor Assured Of Return

Dr. Marcus Nadler, Professor of Finance at New York University, addressed the Wholesale Druggists Association at their "Road Ahead Conference" in New York on Sept. 30, and said that one of the great problems that will confront the nation in a post-war period is the public debt. Doctor Nadler said that upon the solution of this problem will depend not merely the course of business, but the future of our economic and political institutions as well. He also pointed out that there is only one way to handle the public debt, and that is the hard way; any other way leads to disaster. Doctor Nadler's address, in which he discusses the effect of our rapidly mounting public debt on our national economy, on business activity in general, and the dangers we must guard against, follows in full:

Dr. Marcus Nadler

One of the great problems that will confront the nation in a post-war period is the public debt. Upon the solution of this prob-

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Unsound Tax Program Can Destroy Capitalistic Democracy: Hanes

John W. Hanes Declares That When Normal Tax Is So High As To Preclude Corporations Repaying Debts, Credit Is Destroyed And Wholesale Bankruptcies Ensue At First Signs Of Depression. Venture Capital Will Be Lacking Too He Avers. Suggests A Certain Percentage Of Net Income Be Exempt From All Federal Income Tax Provided That Amount Is Used To Pay Corporate Debt

John W. Hanes, former Under-Secretary of the Treasury, speaking on "Problems of Federal Taxation in Wartime" at the New School for Social Research in New York City, last week said that it seems "that our only hope for the future is dependent upon the continued functioning of our system of capitalistic democracy" and that "to strangulate it now will mean not only the danger of the loss of the war, but also an inevitable defeat in achieving the kind of peace we all desire." Mr. Hanes also said "When the corporate rates of normal and surtax reach the proposed 50% and the excess profits tax is 90% the problem ceases to be one of inequities and approaches that of danger to corporate enterprises generally" and he further declared "that venture capital will have little or no inducement to risk itself in corporate enterprise." Mr. Hanes closed his address by saying that with the proper form of corporate taxes, "businessmen would accept any tax rate that might be imposed for the duration, for they would know then that our government is interested in preserving our Amer-

John W. Hanes

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Willford I. King Would Solve The War Debt Problem By Enforced Savings

"To think of an adjective which appropriately describes the present size of the war debt, to say nothing of its prospective magnitude, is difficult. Huge, mammoth, unprecedented—all seem too mild. The debt certainly is so prodigious as to be entirely incomprehensible to the average mind," says Dr. Willford I. King, School of Commerce, New York University. "But, fortunately," Doctor King continues, "the same may be said of our natural resources and productive ability." "In view of this fact, does our national debt really constitute a serious problem?" he asks in a paper he has prepared on the subject which follows in full:

Willford I. King

Popular writers are prone to draw a picture of future generations struggling along under this huge incubus. The Keynesians, however, assure us that since we owe the debt to ourselves, it constitutes no burden whatever on the nation. Who is right?

In a way, the Keynesians have much the stronger side of the case. Clearly, almost every dollar of interest or principal paid by one inhabitant is received by another inhabitant of the nation. Obviously, cancellation of the debt

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Opposes Federal Unemployment Insurance Control

The federalization of unemployment insurance should be vigorously opposed by those who advocate the American way of life, according to M. A. Linton, President of the Provident Mutual Life Insurance Company of Philadelphia, in addressing the American Life Convention at Chicago last week. To do away with the state administration of unemployment insurance, and to transform it into a fully federalized plan administered by federal officers, as is proposed by the pending Wagner-Dingell bill, would create a huge federal machine which could not help having political repercussions no matter which party were in power, Mr. Linton said.

M. A. Linton

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Illinois Corporates-Municipals

Special section devoted exclusively to Illinois corporate and municipal securities starts on page 1490.

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Political Security, Internal Stability Essential In Solving Post-War Problems

By HON. ROBERT HENRY BRAND

Managing Director of Lazard Brothers & Co., Chairman of Board of North British & Mercantile Insurance, Ltd., London

There are three prerequisites necessary to achieving a solution for the great problems facing nations after the war, Robert Henry Brand, managing director of Lazard Brothers & Co. and Chairman of the Board of North British & Mercantile Insurance Co., Ltd., London, declared in addressing the general session of the ABA War Service Meeting the latter part of last month.

That comparative economic stability should be maintained internally in each country, and severe inflation or deflation avoided, is the most fundamental need of all, Mr. Brand asserted. Owing to the preponderant influence of the United States on the rest of the world, he told the gathering, this basic requirement is more important here than anywhere else. It can only be secured, in his opinion, by the wise control of events by the Government, by the banking system and by industry.

Robt. Henry Brand

Political security, without which confidence is undermined and enterprise is subjected to risks which are incalculable, was described by the speaker as another prerequisite.

"The second condition," he said, "is that something like internal stability, whether of production, employment, prices, relation between supply and demand, and other economic conditions, shall be maintained in the great industrial and trading countries and particularly, because of its overwhelming economic strength, in the United States.

"The third—and of course very closely related to the second—is that stability of exchanges among these nations, in other words equilibrium in the balance of payments as a whole, including loans, shall also be maintained."

Asserting that both in the United States and England there will be an intense post-war demand for products, Mr. Brand warned that "if all the gates are opened, and all controls lifted, there is likely to be a great inflationary rise of prices at once

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Treasury Outlines Plan For United Nations RFC Bank

The Treasury Department made known Oct. 8 the draft of a proposed United Nations Bank for Reconstruction and Development. It had previously been indicated in press accounts from Washington that a post-war international bank which in effect would be a world-wide Reconstruction Finance Corporation was under consideration by Treasury officials and in referring to these earlier advices in our issue of Oct. 7, page 1428, we called attention to the fact that such a plan was advocated in an article by Congressman Charles S. Dewey, which appeared on the first page of the "Chronicle" of June 24, 1943.

Under the Treasury's plans, the "Proposed United Nations Bank for Reconstruction and Development" would be capitalized at $10,000,000,000 subscribed by member countries; it is designed to "encourage private financial agencies to provide long-term capital for the sound development of the productive resources of member countries, and when necessary cooperate with and supplement private capital for such purposes."

As to the powers and operations of the bank it is stipulated

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Victory Tax Refund Bill Voted By House

The House on Oct. 11 passed a bill providing for a refund through immediate tax credits of a portion of the 5% Victory Tax, ranging from 25 to 40%.

Under the measure, according to the Associated Press, the Government would assume that all Victory Tax payers had made the necessary War Bond purchases, payments on insurance and debts necessary to qualify them for the credit.

The Associated Press accounts further explained:

Therefore, in the next tax returns all taxpayers would take the credit that originally was intended as a post-war refund.

The credit amounts to 25% for single persons, 40% for married persons, 2% for each dependent, with the rebate in no case to exceed $1,000.

The House also passed and sent to the Senate bills providing for extension of time for filing for relief under the excess profits law and removing for the duration of the war the duty on ship repairs done and equipment installed in foreign ports.

P. B. Shute Joins Milwaukee Co. Staff

(Special to The Financial Chronicle)

MILWAUKEE, WIS. — Preston B. Shute has become associated with the Milwaukee Company, 207 East Michigan Street. Mr. Shute was formerly with Morris F. Fox & Company and prior thereto was with Cromwell & Cabot, Inc., Woodruff & Co. of Chicago and the Central Republic Company.

David V. Bennett Now With Amott, Baker Co.

David V. Bennett is now associated with Amott, Baker & Co., Incorporated, 150 Broadway, New York City. Mr. Bennett was formerly an officer of Bennett, Langworthy & Co.

Pittsburgh Rys. Look 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 St., New York City. Copies of this interesting study, which is available to dealers only, may be had upon request from T. J. Feibleman & Co.

Also available are memoranda on Nu-Enamel; Oklahoma-Texas Trust; Pittsburgh, Canonsburg & Washington 5s of 1937; Washington & Canonsburg First 5s of 1932; and West End Traction 5s of 1938.

Arden Farms Attractive

Common stock of Arden Farms offers 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.

Paul Shaskan To Become Partner

Paul N. Shaskan will be admitted to partnership in Shaskan & Co., 40 Exchange Place, New York City, members of the New York Stock Exchange.

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SEC Should Adopt Program Of Self Restraint: Harold F. McGuire

In an analysis and appraisal of the work of the Securities and Exchange Commission with respect to the administration of the Securities Acts, Harold F. McGuire of the New York law firm of Wickes, Riddell, Bloomer, Jacobi and McGuire, of New York, stated in conclusion that "in summary my program for Commission action at this time—which is most respectfully submitted—is that it exercise the utmost self-restraint and all its ingenuity to avoid interference with honest business." "In thus suggesting," he said, "a program of self-effacement, to be energetically pursued in the national interest, I recognize that I am proposing a platform difficult for the Commission, or any administrative agency similarly placed, to follow. It is natural for any administrative agency to feel that the problems within its jurisdiction are of primary importance. However, I would remind the Commission that this is not a period of reform, but one in which solution of even more fundamental problems is required. Unless those problems are solved, there may be no occasion for experimentation in the future."

Harold F. McGuire

Mr. McGuire's discussion of the subject was a feature of the recent annual meeting in New York of the Controllers Institute of America, in which he observed that "Our experience over the past 10 years with the securities laws and their administration has disclosed definite defects which would call for change even were we not faced with the unique and paramount problems of the war and the peace. Those defects do

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Warns Of World Bank As International RFC

Representative Chiperfield (Rep., Ill.), warned on Oct. 9 that the international bank proposal of the Treasury constituted a world-wide RFC in which the United States might pay out gold and get only debased foreign money in return.

In reporting this, the Washington bureau of the New York "Journal-American" added:

Mr. Chiperfield declared the international bank was a fit companion for the world-wide WPA setup in the United Nations Relief and Rehabilitation Administration which is to meet here in November. He said:

"Apparently the Relief and Rehabilitation Administration is the short-term WPA; and the international bank is the long-term RFC in the internationalists' conception of the new world."

The capital of the new bank would be $10,000,000,000, of which the United States would contribute between 30 to 35%, with a roughly proportionate voting power.

Since the United States is the chief holder of the world's gold, Mr. Chiperfield said, it would contribute a far disproportionate share of the gold to the bank's capital. . . .

Mr. Chiperfield said that, since the controlling votes in the bank would be held by countries other than the United States, those other countries might continue indefinitely making loans on the sound security of United States gold and repay in debased currencies.

In effect, America would be tossing its gold into a jackpot controlled by gold-hungry nations, and would depend upon the vote of those nations to determine whether it would get the gold back.

Post-War Taxes And Unemployment

With taxes on the eve of being raised, apparently for the last time during the war, and with unemployment now practically nil, it may be pertinent to look ahead for a tentative survey of the probable situation after the war has ended.

Unemployment Prospects

In the first World War only 25% of the total output of goods and services was devoted to military purposes, compared with 50% of the gross national product that is directed to the war now; there were 4,000,000 soldiers to be demobilized compared with about 11,000,000 expected to be in the armed forces at the end of this war, which will also see millions of workers quitting war plants. The potential unemployment problem, therefore, will be much more severe after this war than after the last one.

There is general anticipation that the war with Germany will end before the war with Japan and that there will be a considerable interval between the two. Demobilization of our armed forces consequently should be protracted, rather than sudden.

Estimates are made that immediate post-war unemployment will total 15,000,000 or more, but their fallacy is that they concentrate in one brief period all the adverse factors consequent upon the war's ending, and postpone all the favorable ones to a later period. Actually, the adverse factors will operate more or less simultaneously with the favorable ones, and the transition period will already be under way when peace comes.

The Transition Period

Industries not requiring reconversion to produce civilian goods, like textiles, apparel, furniture, lumber products, and paper and allied products, will begin to level off at a lower rate of operations. Industries requiring reconversion, like the automobile industry, will probably take several months to reach the bottom of their employment levels. The relation between production and employment will be affected by a declining work-week, by declining productivity, and by the retention of employees to aid in reconversion. These factors will be particularly apparent during the transition period and in industries where considerable adjustment has to be made.

Because of high domestic and

(Continued on page 1506)

OUR REPORTER'S REPORT

Underwriters and dealers who have now been back on their regular assignments for the better part of a fortnight are convinced that there is little reason to worry over the outlook for the investment market over the balance of the year.

They have arrived at this conclusion in spite of the disturbing nature of the Treasury's latest tax proposals which would strike heavily at large institutional investors who have been the primary outlet for new issues over the last decade or more.

The cool reception accorded Secretary Morgenthau's drastic program upon its presentation to Congress presumably has served to temper any misgivings in that direction.

All hands naturally anticipate higher taxation in consequence of the immense costs of war, but there is a general feeling that the new revenue bill, which must evolve, will be shorn of many of the seemingly punitive and non-revenue features proposed by the Treasury.

Investment authorities are confident that there is plenty of money around awaiting opportunities to go to work. But they note, too, evidence of gradual, but nonetheless persistent, leaning in the direction of equity securities.

In spite of this latter indication, however, it is considered opinion

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Telegraph Merger Seen Offering Benefits

The merger of Western Union Telegraph Company and Postal Telegraph Company, offers, in the opinion of Arthur Wiesenberger & Company, 61 Broadway, New York City, members of the New York Stock Exchange, most attractive possibilities for appreciation. The firm declares that their appraisal of the situation shows Western Union stock considerably under-priced, a conclusion based not only on the benefits to accrue from the merger but upon developments within the industry itself. The immediacy of the anticipated rise is, the firm states, is not very material to the question, since the stock offers both speculative and bona fide investment possibilities.

Copies of the circular discussing the situation in detail may be had from Arthur Wiesenberger & Company upon request.

Attractive Situations

Crowell-Collier, Farnsworth, and Federal Water offer interesting possibilities according to memoranda on these situations issued by J. F. Reilly & Co., 111 Broadway, New York City. Copies of these memoranda may be had from the firm upon request.

Walter M. Hall Opens Advisory Service

Walter Merrill Hall, for many years a partner of the New York Stock Exchange firm of Callaway, Fish & Co., announces the resumption of investment advisory service and the opening of an office at 115 Broadway, New York City. Mr. Hall offers personal investment supervision, portfolio management and general market analysis for individuals and corporations.

Denver & Rio Grande Western Interesting

Pflugfelder, Bampton & Rust, 61 Broadway, New York, members of the New York Stock Exchange, have prepared a most interesting chart on the Denver & Rio Grande Western Railroad, which is creating new securities through arbitrage. Copies of the chart may be had from the firm upon request.

Dumont Laboratories Holds Luncheon

Frederick D. Gearhart, Jr., of the investment firm of Kobbe, Gearhart & Co. of New York attended a luncheon given in Passaic, N. J., last Friday by Allen B. DuMont, President of the Allen B. DuMont Laboratories, Inc. Informative talks and exhibits pertaining to the activities of the company constituted part of he affair.

Sen. Taft Denounces Proposed Internat'l Bank As Part Of New Deal Program Of Deficit Spending

Senator Robert A. Taft on Oct. 11 said that he would oppose the Administration's proposal for a world RFC bank by carrying his right against it to the Senate floor with a denunciation of the plan as "part of the general New Deal program to create new methods of deficit spending," said an Associated Press dispatch from Washington, which added:

Senator Taft, who is a member of the Senate Banking Committee which heard Secretary of the Treasury Henry Morgenthau, Jr. explain the bank plan at a recent closed meeting, told a reporter he was "opposed to making loans to other countries in the guise of investments."

"In effect," Senator Taft declared, "all of the money to be loaned abroad by the bank would come from the United States. It seems to me that after the war we are going to have to make emergency loans to other countries for working capital and rehabilitation of plants and machinery, but I believe those loans ought to be made directly by this government under authority of Congress."

As outlined by Mr. Morgenthau, the proposed international bank would have $10,000,000,000 in capital, of which the United States would furnish $3,500,000,000, Great Britain $1,000,000,000 and other countries the remainder. The bank would make loans for rebuilding of war-damaged cities and other such projects.

Senator Taft expressed the conviction that administration of the bank might be controlled by prospective borrower countries, since its affairs would be carried on by a board of directors on which all members would have one representative. Voting power, however, would be closely related to shareholding.

"While I would approve a general policy of making loans for post-war relief and rehabilitation, it seems this bank would be a permanent institution," Senator Taft said. "I disapprove heartily of any permanent international lending agency because I believe it would be a repetition of what happened after the last war when we made loans to bring about an artificial stimulation in exports.

"Any operation of that kind is bound to collapse, just as the last attempt did in 1929, and cause a worse situation than if there never had been any loans made at all."

The Ohio Senator thought that if rehabilitation and relief loans were made to other countries immediately after the war they ought to be limited to "two or three billion dollars a year for a couple of years and then scaled down to about a half billion dollars yearly."

The Effect Of War On Currency And Deposits

With $15,000,000,000 more money of individuals and business firms invested in Government obligations as a result of the Third War Loan just ended, a timely study has just been released by the National Bureau of Economic Research elucidating the various respects in which war financing bears upon inflation during the war and after it.

The most spectacular fact about the Government's war financing, the study points out, is the increase in the nation's money supply which has resulted from it. Accompanying this, and an important factor in the problem of averting inflation after the war, is a similar unprecedented increase in "liquid claims" against the Government, principally War Savings Bonds.

If redemption of these and other "liquid claims" is called for in large volume in the immediate post-war period, this could result —by recourse to governmental bank borrowing—in a further increase of the nation's money supply at the time. Thus the two phenomena, the study points out, are closely linked.

The study is entitled "The Effect of the War on Currency and Deposits" and its author is Dr. Charles R. Whittlesey, of the University of Pennsylvania. It was published by the National Bureau of Economic Research, of New York, and is one of a series prepared by that body under the general direction of Dr. Ralph A. Young, of the University of Pennsylvania, with grants from the Association of Reserve City Bankers and the Rockefeller Foundation.

The report opens with the statement that the increase of the nation's money supply which took place between June 30, 1939, and the beginning of this year—roughly $37,000,000,000—was greater than the total increases that had accumulated in the entire preceding century and a half of the nation's history.

It was a far greater percentage increase than occurred during the First World War. Yet, the study points out, the rise in prices during the present war has so far been much more moderate than in the First World War and in the Civil War, because of a variety of factors which are analyzed.

"Money Hoarding" Does Not Explain the Increase

One phenomenon of the current situation which in some quarters has been regarded as symptomatic of money hoarding—the great increase of currency in circulation, from roughly $6,000,000,000 on June 30, 1939, to roughly $16,000,000,000 on June 30, last—is a continuation of a twenty-five year trend, according to the study, greatly accentuated during the war by the monetary necessities of enormously increased production.

It is almost entirely accounted for, according to Dr. Whittlesey, by millions of more workers, higher hourly wages, more hours of work per laborer, and the consequent need for more payroll cash in plants and offices, and till

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DALLAS

PHILADELPHIA

ST. LOUIS

Seaboard Air Line Plan

L. H. Rothchild & Co., 120 Broadway, New York City, have prepared an interesting study of Special Master Taylor's plan of Reorganization for the Seaboard Air Lines; some of the ideas suggested in this study are to be decided by the court at the hearing now scheduled for Oct. 25 before Federal Judge W. C. Chestnut in Baltimore.

Copies of the L. H. Rothchild study of the Plan may be obtained from the firm upon request.

Patterson Says War Department Has Unspent Balance Of $119 Billion

Robert P. Patterson, Under-Secretary of War, told the Joint Congressional Committee on Reduction of Federal Government Expenditures on Oct. 8 that the War Department had an unexpended balance on Aug. 31 of $118,909,000,000. Of this amount, a total of slightly more than $64,000,000,000 had not been obligated for expenditure under contracts, Mr. Patterson reported.

The Under-Secretary also advised the committee that the War Department reduced its civilian personnel by 145,564 between June 30 and Aug. 31.

Senator Byrd (Dem. Va.) Chairman of the committee, commented that he thought the figure was "misleading" since testimony was lacking as to how many of the civilians had been supplanted by military personnel.

Associated Press Washington advices, from which the foregoing is quoted, also reported:

Mr. Patterson said the Department's civilian pay roll contained 1,348,803 names on June 30 and 1,203,239 on Aug. 31. Of the total reduction, he said, about 3,500 were cut off in Washington, the remainder in the field.

Senator Byrd said the committee was "disturbed" because as nearly as he could ascertain half of the War Department's civilian employees were doing clerical work, while in the Navy the ratio is one clerical employee to every five engaged in actual war production.

The Committee sought unsuccessfully to find out exactly how the reported reductions were made, how many soldiers had been put to work on jobs formerly performed by civilians, and the number of uniformed men engaged in clerical work in Washington.

The Committee's goal is a reduction of at least 10% in the total Government civilian pay roll of more than 3,000,000 men and women.

In the course of his testimony on expenditure of Army funds, Mr. Patterson said the Army's present personnel goal of 7,700,000 by the end of this year, "may have to be increased." He asserted that Gen. George C. Marshall's decision to reduce his original goal to this figure from 8,200,000 was made "without prejudice to his authority to raise the Army to 8.2 million if the situation demands."

He said it was the Army Chief of Staff's "urgent desire" that "at no time shall there be one man in uniform whose services are not required."

"It should be emphasized that the Army of 7,700,000 by Dec. 31, 1943, is the minimum which the Chief of Staff states is required to carry out the planned military operations," he testified. "It may have to be increased."

Senator Nye (Rep., N. D.) asked Mr. Patterson to what extent lend-lease aid from the United States had been transferred from one ally to another. The North Dakotan said he had heard "in the last few hours" (an apparent reference to the reports of the globe-touring Senators) that considerable aid had been so transferred. Mr. Patterson said he understood some such transfers had been made by Great Britain to Russia and Turkey.

Turning to a discussion of renegotiation of war contracts, Mr. Patterson said the War Department had recovered about $3,000,000,000 by such renegotiations—$1,000,000,000 in cash and $2,000,000,000 in the form of reduction on future deliveries. After the war, he predicted, the Department would be criticized for not cutting prices deeper through renegotiations, rather than for ordering too large reductions.

Railroad Securities

The Delaware & Hudson voluntary readjustment plan, whereby the first and refunding 4s which matured last May are to be paid 10% of principal in cash and the balance in extended 20-year 4s, is finally to be consummated. The company has announced that payment of the cash and exchange of securities will be made on Nov. 1. At the same time semi-annual interest for the period ended Nov. 1 will be paid in cash. Final consummation of the plan has stimulated a considerable amount of interest in the bonds and many rail men are convinced that materially higher prices will be witnessed as investors become more fully familiar with the improved status of the extended bonds.

The old bonds have recently been selling "flat" around 80. Deducting the $100 cash on account of principal that will be paid on Nov. 1, and the half-year's interest, this price for the old bonds represents a net cost of only $680 for $900 face value of extended 4s, or at a rate of $755 for each $1,000 extended bond. This appears as a low appraisal of the lien which has been strengthened by a reduction in principal amount and in fixed charges, and which will benefit from quite liberal sinking fund provisions.

The maximum amount of new extended bonds to be outstanding with the public will be $43,000,000. Until this has been reduced to $25,000,000 there will be an annual sinking fund equivalent to two-thirds of the consolidated net income of the railroad operating corporation and the holding company. The extension plan also provides that the holding company must dispose of its investment securities before May 1, 1946. From the proceeds of such sales, the first $5,000,000 realized will be divided equally between the sinking fund and the company for general corporate purposes. All proceeds in excess of $5,000,000 will be placed in the sinking fund.

The largest investment item consists of 304,600 shares of New York Central common stock. This alone has a present market value of more than $5,200,000. As of the end of last year, there were other smaller holdings of railroad bonds (mostly reorganization situations) which have advanced sharply in price in 1943. The largest of these, St. Paul and Frisco, alone have a present market value of about $1,170,000. Sinking fund proceeds from the sale of securities could well, in themselves, run to as much as 20% of the present market appraisal of the entire extended bond issue, to say nothing of the funds coming into the sinking fund from current earnings. It is from these potentialities that much of the current optimism stems.

In announcing final consummation of the readjustment plan, the management has also issued invitations for tenders of the old, unextended, bonds, the bonds acquired to be used to meet sinking fund requirements of the future. Tenders will be accepted up to Oct. 19. So long as the present boom in railroad traffic and earnings continues the liberal sinking fund provided will result in a necessitous rapid paring of the extended debt. It is indicated that operations at the 1941-1942 level would produce average annual funds of $3,734,000 for the sinking fund, equivalent to about 11.5% of the present market appraisal of the entire new extended issue.

The tax burden of the railroad operating company has been mounting in the current year but, nevertheless, net results in recent months have been running consistently ahead of a year ago. For the eight months through August net operating income was 5.2% above the like 1942 period and for the full year earnings should run at least as high as they did last year. The sinking fund from 1943 earnings, which the company apparently hopes to meet through the current request for tenders, may well run between $4,000,000 and $4,500,000.

Barring a sharp, and unexpected, collapse in earnings, the sinking fund from 1943 and 1944 earnings coupled with proceeds from sale of the holding company's securities could well realize the goal of reducing the extended bond issue to $25,000,000. Reduction to such a level would go far towards completely restoring the road's once high credit standing.

Chicago Brevities

The dream of the City of Chicago for many years of a subway is scheduled to become a reality this Saturday, when the first link of a system which has been under construction for nearly six years is placed in operation. Ceremonies will be held that day, during which Mayor Edward J. Kelly will cut a ribbon in the subway tubes to signify their readiness for use, and revenue operation will begin at midnight the same day. Opening of the first link of the system will mark one of the major advances in local transportation in Chicago since the city was incorporated in 1837.

The link to be placed in operation will extend from the near North Side through the downtown Loop area underneath State Street, the principal shopping thoroughfare, to a point on the near South Side. The subway will hook up with the elevated lines of the Chicago Rapid Transit Company, a portion of whose trains will use the tubes. It is estimated that some 70,000,000 passengers will be transported through the tubes in the first year of operation. Use of the system is expected to save regular users anywhere from eight to 22 minutes a day.

While the first link of the system will be placed in use, other routes, in various stages of completion, may not be placed in operation for some time. Construction on the other links has been held up because of priorities on necessary materials.

Ground Broken in 1937

Construction of the link to be placed in operation Saturday began Dec. 17, 1938, when ground was broken on the near North Side by Mayor Kelly. Cost of the route is approximately $34,000,000. Part of the cost of this link, as well as portions of the costs of routes under construction that will extend to the west and northwest sections of the city, is being paid by the Federal Government. It's contribution to the subway system totals $23,130,000. The city's share is $34,270,000 and is being financed from a traction fund that was established in 1907 for the purpose of using local transportation franchise receipts to modernize local transportation.

City officials describe the new subway in glowing terms. They say it is recognized as the most modern in the nation, if not in the world. Its ventilation, they declare, is unexcelled in any subway, and it is the first system of tunnels to use fluorescent lighting for illumination. Stations are equipped with the most modern type of escalators, which connect train platforms with mezzanine stations, and operating noises are reduced to a minimum by the use of heavy, welded running rails that rest on resilient pad insets in the tie plates. Safe operation is assured by the latest type of signal and automatic train control equipment.

Unified Transfer System

Meanwhile, another forward step in Chicago's local transportation set-up was taken this month, when a city-wide transfer system at a 10-cent fare was inaugurated on an experimental basis by the Chicago Surface (street car) Lines, the Chicago Rapid Transit (elevated lines) Company, and the Chicago Motor Coach (bus lines) Company in compliance with an order of the Illinois Commerce Commission. Previously, arrangements were in existence providing for the interchange of transfers between the bus and elevated lines and between the street car and elevated lines, but there were restrictions as to the intersections where transfers could be presented. It had been impossible to transfer from a street car to a bus, and vice versa.

Under the new setup, a street car rider can transfer to the bus or the elevated lines. Similarly, passengers originating on the bus lines may transfer to the street car or elevated lines, and persons starting their journeys on the elevated lines may transfer to the bus or street car. All three transportation mediums, however, cannot be used on the same fare.

Intersections at which transfers may be interchanged were increased under the new arrangements from 82 to 354. Of these, 186 involve the new service between the street car and bus lines. Transfer points between the elevated and the bus were increased from 25 to 45, and transfer points between the street car and the elevated were increased from 57 to 123. Persons using the street car exclusively continue to pay an 8-cent fare, although, if they desire to transfer to the elevated or the bus, they must pay 10 cents.

Unification Problem

While these forward steps were taken, the question of unifying the properties of the elevated and street car lines, both of which are undergoing reorganization in the Federal Court, still is the subject of lively discussion. The Illinois Commerce Commission earlier this year rejected a plan to unify the two properties, a decision which now is being appealed in court. Meanwhile, a five-man committee appointed by Federal Judge Michael L. Igoe, who has jurisdiction over the reorganization cases, recommended separate reorganization of the elevated and street car as a step toward complete integration and unification of all local transportation facilities. The committee informed the court there was no way to amend the original unification plan to meet the approval of the Illinois Commerce Commission.

Mayor Kelly, irked by his efforts to effect unification of the elevated and street car lines, has warned the City Council to be "prepared to act with expedition in another direction without further unnecessary delay" if efforts to achieve unification come to naught. Some talk is that the Mayor might recommend municipal ownership of the traction systems, which is being advocated by some local parties.

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Chicago Recommendations

Adams & Co., 231 South La Salle St., offer interesting investment situations in three Illinois **coal companies**, data on which may be had upon request.

A. A. Bennett & Co., 105 South La Salle St., have prepared an interesting circular on the post-war outlook for **railroads.** Copies of this circular may be had upon request from the firm.

Brailsford & Co., 208 South La Salle St., have recently published reports on the **Chicago surface lines**, the first dated Sept. 16 and the second Sept. 25. Also available for distribution is a recent report on the **Chicago, North Shore & Milwaukee Railroad.** Copies of all these circulars are available on request.

Caswell & Co., 120 South La Salle St., will send on request recent analyses of **Liberty Bakeries Corp.** $4.00 cumulative preferred; **Reliance Steel** common, and **Hammond Instrument** common.

Enyart, Van Camp & Co., 100 West Monroe St., offer their quotations and data service on **Chicago and Suburban Bank Stocks** on request.

Faroll Brothers, 208 South La Salle St., have analyses of **Merchants Distilling Corp.** and **Standard Silica** common stocks. Standard Silica was recently qualified in Missouri. Copies of these analyses may be had on request.

Hicks & Price, 231 South La Salle St., have available an illustrated up-to-date brochure on **Colorado & Southern 4½s of 1980.** Copies will be sent on request.

Ryan-Nichols & Co., 105 South La Salle St., has just prepared a special analysis of the **Struthers Wells Corp.**, which is available on request.

Now that the Third War Loan is over, and happily was more than successful, the attention of the public is again turning to corporate bonds, with the rails continuing to hold the center of attention.

Thomson & McKinnon devote considerable space to them in their this week's **"Bond Review"** with special articles on **St. Louis & San Franciscos** and **Chicago & North Westerns.** They also comment at length on **Railroad Earnings** in their current **"Stock Review of the Week,"** and have just issued a special release on **Allegheny Corp.**

Anyone interested in obtaining a copy of any of these items may obtain them, without charge, by addressing **Thomson & McKinnon, Statistical Library**, 231 So. La Salle St., Chicago.

The Future Of The Public Utility Industry In The Post-War Era

The public utility industry is unique in that it will benefit from the cessation of hostilities sacrificing but little of the gains it has derived from the war activity. With the coming of peace, the companies' costs should decline and they should then be in a position to proceed with the expansion program inaugurated prior to hostilities. They are most fortunate in that there is no physical re-adjustment necessary as is the case with most industrial companies. Their operations should continue without interruption as they did in the change over from peace to wartime activity. This industry may be said to be the only one which was prepared to immediately assume the obligations placed upon it by the large demands for its services brought about by the war.

Public utility income available for dividends has been severely depressed by an ever-increasing tax burden, but it would now appear that since a ceiling seems to have been reached on our military expenditures, the future could bring consecutively lowering national budget requirements. This means lower taxes or at least no increase in the present rates. Therefore, what little business may be lost with the coming of peace by the utility industry may be compensated for by a more favorable tax payment. Further, this loss of income from the reduction in the use of low-priced electric power for commercial purposes should, in all probability, be absorbed to a very large degree by a substantial increase in the use of power at higher rates for home consumption (light, heat, refrigeration, laundry work, etc.). With the above factors in mind, we are inclined to view favorably the purchase of well managed operating companies for the satisfactory returns currently being afforded and also the purchase of holding companies' securities whose equity is substantially above current market prices.—*Andrew F. Lynch, Statistical Department, Abraham & Co.*

Railroad Securities Look Good For Peace Time

Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock Exchange, have prepared for distribution an attractive reprint of the address of Arthur C. Knies on "Railroad Securities in Peace Time—a Basic Change in the Making," given before the Los Angeles security brokers and dealers at the Los Angeles Stock Exchange.

Cons. Natural Gas Co. Situation of Interest

Consolidated Natural Gas common w. i. offers attractive possibilities, according to Reynolds & Co., 120 Broadway, New York City, members of the New York Stock Exchange. An interesting circular upon the company may be had from Reynolds & Co. upon request.

Readers Comment On "Planned Economy And Free Enterprise" By Clyde William Phelps

In an article published in the "Chronicle" of Sept. 16, Doctor Phelps discussed in detail the extent to which governmentally-planned and directed economy has influenced what he describes as the "retreat from competition" in this country. Apropos of the views expressed in the article, the following comments have been received:

BEN STEWART
Portland, Maine

It gladdens the heart of mankind to read Doctor Phelps' so sane, so thoughtful, so hopeful an exposition of the economical and political path that leads us up and out of the abyss. Anyone who reads this article should hesitate before joining the mob and the smear campaign against our professors of economics. Professor Phelps has diagnosed the fatal malady that has sickened the whole U. S. A. and hourly threatens our very existence. Let us all read Phelps and forget our oncoming Civil War in the U. S. A.

CLARENCE H. HAINES
Watertown, Mass.

Doctor Phelps' article, "Planned Economy and Free Enterprise," in the "Chronicle" of Sept. 16 leaves me slightly bewildered as to his real viewpoint. It sounds like an epitaph on the political economy we have known and a rationalization of why "our destiny" of a planned economy will not work. May I present some views of the other side?

We have not an unlimited free enterprise system and necessarily have not had one for many years. Before going on it might be well to define free enterprise. My understanding of the term is: a system whereby any individual or group of persons, as a partnership or corporation, may at any time and anywhere promote, organize and transact any form of business, using any facilities and continuing to do so as long as they do not trespass on the private property rights of others. Because of the common welfare and the public convenience, it has become essential that some limits be placed on free enterprise which pari passu involves a "Retreat from Competition."

For example, not so many years ago there were several telephone systems in some communities, but public convenience demanded one system—"A Retreat from Competition."

Up until a short time ago almost anyone—with or without experience—could start a bank in any community. Unfortunately the outcome of such a laissez-faire system is too well known. Now there must be a definite need for a bank in a community before a charter will be granted—"A Retreat from Competition" and another milestone on the road to a planned economy!

Much of the politico-economic progress made in the past 10 years and now accepted as being for the common good was stigmatized as Socialistic only 15 years ago. Now planned economy is being stigmatized by various organized groups who mistakenly think that their corporations gain an advantage by continuing cut-throat competition in a laissez-faire economy.

Planned economy means the using of statistical surveys by a Federal bureau, with interpretation by trained economists, and the issuance of estimates for the most economical use of our production facilities. It would tend to decrease inflation and deflation of inventories and consequently lessen our employment problems.

Democracy is representative government directed by delegated authorities for the regulation of our society in the best interests of the majority. If a planned economy and a limited free enterprise furthers that end, then that is the American way of democracy.

Brown Bros. Harriman Is 125 Years Old

The firm of Brown Brothers Harriman & Co., private bankers, observed its 125th anniversary on Oct. 11. It is one of the few institutions in the country with a continuous business existence of a century and a quarter. Today, with principal offices in New York, Boston and Philadelphia conducting a complete domestic and foreign banking business, the firm's total resources are in excess of $160,000,000. In addition to its commercial banking activities, Brown Brothers Harriman & Co. are members of the principal security exchanges and act as brokers in the purchase and sale of securities as well as investment counselors.

The partners of the firm are Moreau D. Brown, Thatcher M. Brown (both direct descendants of the founders), Prescott S. Bush, Louis Curtis, E. Roland Harriman, W. Averell Harriman (recently appointed U. S. Ambassador to Russia), Ray Morris and Knight Woolley.

The firm was established in Philadelphia on Oct. 10, 1818, by Alexander Brown and three of his sons. A fourth son returned to England and founded the business which later became the well-known London banking house of Brown, Shipley & Co. In its early days, Brown Brothers engaged principally in foreign trade, but banking operations gradually became an important part of its activities and the mercantile operations were superseded by the banking functions. The New York office was opened at 191 Pearl Street in 1825, the year in which the Erie Canal was completed. In 1833 this office was moved to 59 Wall Street, at which address it has remained for the past 110 years. The Boston office was opened in 1844.

The present title of the bank dates from the merger of the businesses of Brown Brothers & Co., Harriman Brothers & Co. and W. A. Harriman & Co., Inc. The Harriman firms had been formed by W. Averell Harriman and E. Roland Harriman, the two sons of the late E. H. Harriman, a leader in American railroading and finance.

Col. Hall Appointed Chief Of Army Air Reconnaissance Staff

Colonel James Goodwin Hall, whose appointment as Chief of Reconnaissance of the Army Air Staff was announced in Washington, has been a member of the New York Stock Exchange since December, 1931. Colonel Hall was ordered to active duty in August, 1942, as a Major in the Army Air Force. He recently returned from England, where he commandad a Photo Reconnaissance and Mapping group with the Eighth Air Force.

During World War I, Colonel Hall served in the 111th Escadrille of the French Army and later as a Lieutenant in the United States Army Air Service. In 1931, he became prominent for his competition with Captain Frank M. Hawks, speed flier. Colonel Hall was born in Atlanta, Georgia. He is forty-seven years old.

Colonel Hall still holds his membership in the Exchange. His home is in Fort Worth, Texas.

Chicago Brevities

(Continued from page 1490)

COUNTY FINANCING

The move of **Cook County**, embracing the **City of Chicago**, to fund into a new bond issue its unpaid bills and judgments that exist as of Dec. 1, 1942, the end of its last fiscal year, is the subject of considerable interest in local financial quarters. An ordinance, which would authorize the county to sell an $8,346,000 flotation, has been submitted to the Board of Commissioners by Richard J. Daley, deputy comptroller of the governmental unit, and was scheduled to be approved early this week.

While the county has the contemplated issue all set up, providing for bonds maturing in 20 years and optional serially 1945-1961, it is expected that the actual sale of the issue will be delayed. The county was all set to proceed quickly a couple of weeks ago with the financing, but a stumbling block arose when the municipal bond law firm of Chapman & Cutler declined to submit a favorable legal opinion on the proposed issue until the validity of various claims to be funded was certified by the Illinois Supreme Court. This disrupted the plans of the county momentarily.

County's Financial Woes

The county has had definite financial difficulties in recent years and had more than $10,000,000 of unpaid bills and judgments on its books at the end of the last fiscal year. It obtained authority from the last session of the Legislature to fund the claims that existed as of the end of the fiscal period. The county then took steps to sell a funding issue under the terms of the Act of the Legislature, and the firm of Chapman & Cutler, as is customary, was retained to handle the legal details of the financing and to submit an approving legal opinion. The firm drafted the bond ordinance that was introduced by Mr. Daley.

While nothing on the subject has been said at meetings of the county board, it is definitely known that no approving opinion will be forthcoming until the various claims are certified by the State Supreme Court. It is expected that once the bond ordinance is approved by the County Commissioners, a friendly taxpayers' suit will be instituted in one of the county courts for an injunction to restrain the governmental unit from selling the bonds. Any decision handed down would be referred to the Supreme Court.

Court Action Sought

The suit would ask the courts to certify that the various claims were incurred for proper county purposes, were properly audited and approved by the Board of Commissioners, and were incurred prior to Dec. 1. Local financial quarters feel that this action should be taken so that no question ever can arise as to the validity of the bonds.

The reason, apparently, that underlies the insistence that court action be taken on the flotation, is an unfortunate experience that occurred on two issues of Chicago Board of Education bonds. These securities were issued to retire outstanding tax anticipation warrants. Years after the bonds were issued, the State Supreme Court ruled that bonds could not be issued to pay off tax warrants, and subsequently the validity of one of the Board of Education issues and part of another was challenged in court, with the subsequent default of interest payments. It, thus, is felt that steps should be taken to forestall any attacks on future bond issues of local governmental units.

G. S. Miller With Thomson & McKinnon

CHICAGO, ILL. — George S. Miller has become associated with Thomson & McKinnon, 231 South La Salle St. Mr. Miller, who has been in La Salle Street for 25 years, was formerly with Field, Glore & Co., and in more recent years with S. B. Chapin & Co.

Interesting Defaulted Rails

McLaughlin, Baird & Reuss, One Wall Street, New York City, have prepared an interesting circular on six selected defaulted railroad reorganization preferences. Copies of the circular discussing the situations in detail may be had upon request.

Lewis With Slayton Co.

CHICAGO, ILL. — Robert G. Lewis has become associated with Slayton & Company, Inc., whose main office is located at 111 North Fourth Street, St. Louis, Mo. Mr. Lewis was formerly with Selected Investments Co.

Real Estate Securities

4% Non-Cumulative Income Bonds With Stock Of New York Majestic Corporation

Owning And Operating The Majestic Apartments, Central Park West At 72nd St., New York City Present An Attractive Equity Situation

The property owned by the corporation has a frontage of approximately 204 feet on Central Park West, with depth of 177½ feet on 71st Street and 224 feet on 72nd Street. It is improved with a 30-story apartment building containing 1,403 rooms divided into 208 apartments in units of from two to twelve rooms. In addition, there are ten offices. The apartments are both simplex and duplex types. A special construction eliminates the usual corner columns or piers. This space, up to the 19th story, is used for glass enclosed porches, which can be transformed in the summer into open terraces. In the upper stories the "set backs" are so planned that large terrace space is provided for all apartments located on these floors. All apartments have spacious galleries and ceilings of extra heighth. There is a large solarium on the roof open in summer and enclosed with vita glass in the winter. Entrances to the buildings are provided on all three streets.

$9,839,400 of the subject bonds were issued pursuant to a plan of reorganization under Section 77B of National Bankruptcy Act. Holders of former Majestic Hotel Corp. first 6s received for each $1,000, a new $1,000 bond of this issue and 10 shares of common stock of the above corporation, evidenced by a voting trust certificate, 98,394 shares being issued, vesting 100% of the equity in the property to bondholders.

Shortly after the reorganization, the bondholders in referendum vote approved the placing of a first mortgage loan upon the property in the amount of $2,500,000, which provided for the payment of a balance of $94,295.03 of reorganization expenses and a reserve of $50,000 for first mortgage charges and sufficient funds to distribute $230 in cash as a principal reduction of each $1,000 income bond, which now is outstanding in the principal amount of $770.

Prior Lien

The original first mortgage placed upon the property in 1937 in the amount of $2,500,000 was held by the Mutual Life Insurance Co. and called for 4½% interest for the first five years, 4¾% for the next five years and for amortization payments of $50,000 per annum.

This mortgage was funded by a new loan from the Aetna Life Insurance Co. in August 1940; this mortgage runs until Dec. 29, 1947, calls for 4% interest and annual amortization of $50,000. The corporation has accelerated amortization payments, the sum of $62,500 having been paid in 1942. The balance sheet as at March 31, 1943, shows $2,250,000 outstanding, the next payment of $12,500 falling due Dec. 29, 1943.

Increased Occupancy and Earnings

We have been advised by the corporation that the annual rent roll of the property as of Oct. 1, 1943, with only one vacancy (a seven-room apartment) is $630,000 as compared to $588,000 as of Oct. 1, 1942, an increase of $42,000, and that this increase has been accomplished through additional leases rather than through any increase in rate. It would seem quite logical on this basis to assume that increased interest distributions will be the result. As distributions for December, 1942, and June, 1943, totaled ¾ of 1%, it follows that a sizable portion of the increased rent roll of $42,000 would be reflected in net profit available for distribution. The $8,825.98 earned but not distributed June 1, 1943, being less than the required ¼% multiple, must also be taken into consideration, as it has been carried forward as income in the current period. The sum of only $18,940.85 is required to pay a ¼% multiple of interest and the foregoing facts we believe substantiate our opinion that interest distributions will be increased.

Physical Condition

Since reorganization, the property has been kept in excellent physical condition. A complete Diesel steam heating plant has been paid for from earnings and during 1940-1941, the management replaced all stoves and refrigerators throughout the building. These replacements were all paid for from earnings and the result has been a substantial saving in maintenance expenses.

Provision for Sale of Property and Equity Position of Subject Bonds

Provision is made in the trust indenture that the property may be sold but for not less than $5,000,000 unless 40% in principal amount of bonds dissent thereto within 30 days after notice of such contemplated sale has been mailed to registered holders. In our opinion, the income bonds which carry 100% of the stock of the owning corporation are in a very excellent equity position. Our opinion is based on the following: At the time of the reorganization, the consensus of opinion as to value was undoubtedly $5,000,000, evidenced by the restriction in the indenture that the property could not be sold for less than $5,000,000. Also the fact that the Mutual Life Insurance Co. loaned $2,500,000 shortly thereafter gives further credence to a $5,000,000 value. As the loan has been paid down to $2,250,000 as of March 31, 1943, the equity above the mortgage would be $2,750,000. This equity value allocated to approximately $7,500,000 income bonds outstanding amounts to about 37 cents on the dollar, or about $285 for each $770 bond outstanding. This value is approximately $200 in excess of the acquisition price in the current market and will increase as first mortgage is further reduced. As it is a well known fact that realty values are on the uptrend, it would appear that the subject bonds in relation to the facts and future possibilities are at present levels underpriced.

Tomorrow's Markets Walter Whyte Says—

Market now hugging dangerous point. A minor reaction can unloosen sufficient selling to bring about a violent setback. Rally potentialities limited by stock overhead.

By WALTER WHYTE

Last week this column felt that the intangibles clouding the market were too many and readers were therefore advised to slip out of long positions. Since that advice appeared the market declined, though at no time did this decline become disorderly enough to warrant calling it a market break.

* * *

The intangibles affecting last week's market are still present. The market is still hugging a precipice from which it can fall into a crevasse or, get a new hold of itself, clamber up again.

* * *

In taking last week's position I was aware that not only would losses be incurred but that this column, which tries to be a lone wolf, was following a mass opinion. But bitter experience has taught me that one never argues with markets. One either follows them or leaves them alone. Rationalizing the stock trend too often leads to grief.

* * *

Since April 8, the market, as reflected in the familiar averages, has done little. On that day the famous "hold the line" edict was handed down by the White House. On that day too, the averages were at about 136. Ten days later the market was at 138.83. A week later it was down to 134.40. Then followed two months of creeping advance with the market climbing gradually back to just under the 138.83 highs. Then came a burst of activity and it pushed through to 142.50, reaching that figure Sept. 20. All this time, being wary of the market, I kept aloof. On the previous rally we had been long, taken profits, and I saw nothing in the market to war-

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Noyes Says Free Enterprise System Is "In Balance Right Now"

Linwood I. Noyes in an address to the Newspaper Advertising Executives Association at Chicago, on Oct. 11, said "the country is ready to swing permanently away from capitalism into some form of State socialism" unless the leaders of capital assure the people that retention of the capitalistic system would carry with it freedom and opportunity; this was revealed in an Associated Press dispatch from Chicago on the same day which gave other remarks of Mr. Noyes as follows:

"Anyone who cannot read the signs pointing in this direction is blind, indeed.

"I believe capital and management, and consequently all business—is on trial in the minds of the American people," Mr. Noyes said. "I believe our free enterprise system is in the balance right now.

"It is possible that the end of the war may bring the end of capitalism, because our economic system has been and is being traduced, in the guise of war's necessity, to the extent that it will not be recognizable when peace comes and the country and the world settle down to normal pursuits."

He said he believed most newspapers were friendly to capital because they believed in the capitalistic system. "They realize important improvements have been made and others are due, but they believe these changes should be made voluntarily, and, therefore, constructively, instead of being forced on business by any unfriendly administration and in a destructive manner."

Electric & Water Revenue Situations Attractive

An analysis of basic factors relating to both municipal revenue bonds and tax-supported bonds—both enjoying the same tax exempt feature—indicates in the opinion of Blair & Co., Inc., 44 Wall St., New York City, that electric and water revenue bonds among others, offer certain advantages that entitle them to serious consideration for almost any investment program. Because of the essential nature of service it has been possible to maintain physical plant adequate to meet post-war needs, while greatly increased revenues during the war period have facilitated an accelerated rate of debt retirement.

The bankers declare that "revenue bonds should enjoy a comparatively high degree of stability in the post-war period and in periods of depression which may follow." While tax-supported bonds enjoy a broader market and consequently demand high prices, the survey notes that steps are being taken in many States to include revenue bonds in the list of eligible investments for savings banks and trust funds.

Copies of the analysis may be had from Blair & Co., Inc., upon request.

Ease Ban On Weather Data

Lifting of censorship restrictions on weather forecasts because of "improved defense and other war conditions" was announced on Oct. 11 by Byron Price, Director of Censorship.

Relaxing the rules against publication and radio broadcast of weather forecasts is the first such action since the war began. Newspapers had been confined to publishing weather conditions of their own localities. Effective at midnight, Oct. 11, official forecasts are usable except for mention of wind direction and barometric pressure.

Allegheny Interesting

Thomson & McKinnon, 231 S. La Salle Street, Chicago, Ill., have prepared a special study of the Allegheny Corp., which the firm believes offers an interesting situation at the present time. Copies of this study may be had from Thomson & McKinnon upon request.

House Group Studying Various Tax Proposals

The House Ways and Means Committee was expected to wind up its public hearings this week on the Administration's $10,500,000,000 new revenue program calling for higher levies on individual and corporate incomes and on so-called luxury items. The Treasury's tax proposals were not received favorably by Committee members and, as a result, various substitute plans are under discussion, although the tax goal is likely to be lowered. Foremost among the possible substitutes is a proposed 10% retail sales tax which would raise about $6,000,000,000 in new revenue. However, the Administration is strongly against the sales tax and it is considered doubtful that the Committee would report out this recommendation despite the growing sentiment in Congress for such a measure. As to the Republican suggestion that the Federal Government reduce its expenses drastically in an effort to avoid a large tax bill, it is argued that this could not be done to any appreciable extent and that new taxes, therefore, are inescapable.

The Treasury witnesses' arguments against a sales tax were echoed on Oct. 7 by Fred M. Vinson, Director of Economic Stabilization, who told the Ways and Means Committee that he could not "hold-the-line" against inflation if a 10% sales tax were adopted since it would open the way for increased wages and farm prices.

Senator George (Dem., Ga.), Chairman of the Senate Finance Committee, declared on Oct. 9 that if the Victory Tax is repealed —thus removing about 9,000,000 persons from the tax rolls—the only practicable substitute would be a sales tax if this low income group was not to escape Federal taxation.

On the same day (Oct. 9), Representative Martin (Rep., Mass.), House minority leader, stated that Government economy would be made an issue in connection with any tax legislation.

Adoption of a sales tax was advocated on Oct. 10 by Representative Robertson (Dem., Va.), member of the Ways and Means Committee, while Representative Knutson (Rep., Minn.), ranking minority member of the group, issued a statement asserting that Republican members of the Committee are hopeful that necessary revenues could be raised without recourse to a sales tax and "would be very reluctant to replace the Victory Tax with the sales tax."

Representatives of the U. S. Chamber of Commerce and the New York Chamber of Commerce appeared before the Committee on Oct. 12 to urge a general sales tax.

The Treasury's tax program was referred to in our Oct. 7 issue, page 1415.

A "Peace" Stock Now Enjoying "War" Prosperity

A "peace" stock now enjoying "war" prosperity is the Class A 7% cumulative participating stock of Hearst Consolidated Publications, according to an interesting memorandum just issued by Scherck, Richter Company, Landreth Building, St. Louis, Mo. Copies of this circular discussing the situation in detail may be obtained from Scherck, Richter Company on request.

Political Security, Internal Stability Essential In Solving Post-War Prolems

(Continued from page 1486)
and a temporary boom. As demand diminishes, that boom may collapse with disastrous results."

Turning to the international monetary stabilization plans, he said that none can be successful, "except as part of a much larger policy designed as a whole to secure normal stability in the most important countries." "For," he continued, "since they aim by means of stabilizing exchanges in relation to one another in binding nations together, just as the gold standard did, so the economic changes in one nation will be transmitted to all the rest, and particularly since you are so much the most powerful nation economically your ups and downs will affect us all. Therefore we are deeply concerned with your stability and your prosperity."

Discussing the prospects of an expanding world economy, Mr. Brand told his listeners that "a truly flourishing international trade requires stable exchanges; stable exchanges require that each nation shall have sufficient liquid reserves to protect its position through seasonal or cyclical fluctuations. Moreover, international trade will flourish best under conditions of freedom and non-discrimination."

He described the different plans put forward for an international Clearing Union or for currency stabilization — the Keynes, the White and the Canadian plans—as having as their first and primary aim the desire to provide all the member nations with liquid reserves—sufficient international purchasing power. "Such reserves," he said in his remarks which he termed of a wholly personal character, "are necessary for various reasons. In the first place, international buying and selling is never absolutely balanced. Some nations have deficits, others surpluses. Temporary deficits which liquidate themselves are financed by the mechanism of short-term banking credits. On the other hand, when the deficit is more permanent, for example, where it is due to the requirements of a rapidly developing country, long-term loans from the surplus countries are necessary."

Suppose a highly-developed country were to maintain a high level of activity within its own borders, he said, its imports as all experience shows, would as a direct consequence greatly increase to the benefit, of course, of the exporting countries, the speaker explained. "But unless the rest of the world were to achieve a similar state of activity and to buy the importing country's exports to an equivalent degree, the result would be that it would face a deficit."

To avoid this, he stressed, is the main objective of the British, American and Canadian schemes. He described them as a starting point. "The provision of liquid reserves for all member countries will enable them to start off with some confidence. What happens in the longer run depends on the capacity of each member country to conduct its affairs with prudence and also with an eye to its duties as a good neighbor."

In full, Mr. Brand's address follows:

The last time I had the honor of addressing the American Bankers Association was at Atlantic City in, I think, 1917. That is 26 years ago. As in this war, I was then acting temporarily as a British Government official in Washington. In the last war I was looking after munitions; in this war, food. But my normal profession for the past 35 years has been that of private international banking, a profession which is accustomed to criticism but which I know to be a most honorable and useful one. In the course of these exceedingly troubled 24 or 25 years I should, like the rest of us, have learned a great deal more than we knew before about the world in general, and about monetary and economic affairs. But I have to confess that such is the complexity of the world, so limited is human foresight, that I feel far less competent to forecast the future now than I did 26 years ago. I may have more prudence, but in consequence possibly less power to interest you. Nevertheless, I shall venture to give you a few reflections on certain after-war economic and monetary problems which face all of us, though the subject is so large that I can do no more than sketch with the very broadest brush. It should, however, be possible to place certain problems common to all of us in perspective, to see some of the woods at any rate instead of getting lost in the trees.

What sort of a world do we face after the war? We have, in my opinion, to bear in mind that during it our peoples have had full employment and high wages. After it they will not be content with less without a very great struggle. It is perfectly true that full employment under war conditions could not be very long maintained; that it is only secured at the expense of the gradual deterioration of a nation's capital, and of sacrifices on the part of the population which in peacetime they would not endure, and that if such conditions were long continued they would lead to a breakdown. But it can be reported that the war has at least shown how immensely national production can be increased, if only there is an assured market. In wartime, this market arises from Government orders of all kinds. But in peacetime, if we could only tap it, there should also be an assured market in all the unfulfilled wants of the ordinary man and woman. Thus it will be argued that if under our present system this unfilled demand cannot be married with this potential power of supply, so much the worse for the system, and we had better try another one. So, as upholders of the present system, we shall be on our mettle.

I can perhaps divide the problem facing each great industrial country into an internal and external one. An internal market for a country's productive capacity can be found by enabling each consumer to obtain what he requires for as high standard of living as the possibilities of production coupled with its foreign trade allow. And by "obtain" I mean "earn" by work profitable to the community and not obtained by charity. That indeed is the crux of the whole problem. In wartime the Government is the market. It does not have to earn the means to buy. It takes it through taxation and loans. In peacetime the wants of millions of consumers make the market. How can they earn the means to buy? By finding employment and thus doing in one of a myriad forms services to the community. How then can each individual in the community be put in a position to perform such services for the community as will in return entitle him to such a share in its productive output as will give him a good living? For, I repeat no general solution is to be found through charity either for persons or nations. Both persons and nations must pay and be enabled to pay their way. Take, for instance, the standard of living of your Southern population which is lower than that in the North and should be raised. The problem then is, how can each consumer in the South be enabled to perform services to the community sufficiently valuable to entitle him to increase his purchases and in this way to help keep your productive capacity employed? Obviously, that is a many-sided question, into which I cannot enter here. It faces one indeed with every problem which plagued us before the war. But its basis is the consumer. Must the problem be solved by the State, as in Russia, so to speak, knocking together the heads of each citizen as consumer and producer — in other words deciding what the consumer wants and then by State enterprise doing its utmost to see that that amount is produced and distributed—or can we solve the puzzle through private enterprise, more like bees in a beehive?

A similar question arises in the external sphere. How can a nation with productive power on the one hand and wants which can only be fulfilled from abroad on the other, be enabled to pay for what it wants by selling to other nations what they want and what it can produce more efficiently and more easily than they can? We all know that the great benefits of international trade could be greatly increased, if we could only devise the framework, in which such trade could prosper. Again this is not a matter of charity but, as in the case of the individual, is to be solved by the exchange of goods and services, at bottom indeed by bilateral or multilateral barter. The exporting country cannot give away its exports for nothing; at least it will not do so for long. On the other hand, no upstanding country will accept charity. In other words, the exporting country cannot be paid except by imports. It may decide indeed it will balance its position by importing gold, or of course it may lend its exports over a long period. But I would point out, and this I believe to be important, that its power to lend will again depend ultimately on its willingness to import. For only by importing can it receive interest and redemption payments, and if it does not receive these it will not go on lending. England, for instance, could lend great sums over many years in the 19th and 20th centuries because she was also a great importer.

While there is no single or easy solution for these great problems, it is not difficult to indicate certain conditions without which they cannot be solved.

The first condition, is of course, that the world must be really at peace and that confidence in the long-term outlook should be restored. It is wonderful how soon, given a chance, optimism returns to the enterprising. Nevertheless, political insecurity undermines confidence and subjects enterprise to risks which are incalculable and beyond the capacity of any but governments to bear.

The second condition is that something like internal stability, whether of production, employment, prices, relation between supply and demand, and other economic conditions, shall be maintained in the great industrial and trading countries and particularly, because of its overwhelming economic strength, in the United States.

The third and of course very closely related to the second is that stability of exchanges among these nations, in other words equilibrium in the balance of payments as a whole, including loans, shall also be maintained.

Stability and equilibrium, whether internal or external, in this world of endless, continuous, daily, and hourly change are of course relative terms. Nevertheless, the immensely injurious effects of their opposites in the form of inflation and, perhaps still worse, deflation, booms and slumps, trade cycles, fluctuating exchanges and so on, are obvious to every one. It is difficult to see at any given moment whether all the most important economic factors are in equilibrium. I remember, for instance, that good judges thought that you were set on a permanent upward path in 1929. But in practice somehow in a very rapidly ascending scale of prosperity something gets out of step. It is the getting out of step which matters though it may be very difficult to define. If all the keys of the piano are in tune, then the tune can be played. But if even one of the keys goes wrong, then harmony is lost and confusion begins to reign.

Now if one takes first the question of internal stability in the great industrial countries after the war it is obvious that the greatest difficulties will face all of us. This war, still more than the last, though that was bad enough, will leave the waves of the world's economic ocean in the form of all sorts of disequilibria very high and they will only gradually subside. In your country and mine, for instance, we shall have a very large purchasing power in relation to the level of controlled prices and at first a very intense demand. If all the gates are opened, and all controls lifted, there is likely to be a great inflationary rise of prices at once and a temporary boom. As demand diminishes, that boom may collapse with disastrous results. And yet, with millions of men and women seeking ne wwork, a slowly diminishing control and a more moderate expansion may be exceedingly difficult politically to enforce, particularly since it will be imperative that the demobilized population shall be quickly absorbed. Take again agricultural production. In order to feed hungry occupied nations in the next few years we must necessarily step up agricultural production everywhere in reach. But when peace returns these hungry nations will at once set about with zeal producing once more the normal amount of their own foodstuffs. Thus scarcity might in certain directions before long turn into superfluity. There are indeed obviously possibilites of great ups and downs in the field of primary products, particularly foodstuffs, which will require carefully guarding against. Take again the fact that many nations have been upheld by lend-lease and mutual aid in order that they shall put forward their utmost efforts as belligerents. Immediately to adjust themselves so that they can meet out of their own exports, which may have dwindled to practically nothing, their absolutely minimum import needs to maintain their livelihood will be impossible. They must necessarily be given a little time to turn round, if chaos is to be avoided. If a man has suffered from a high, prolonged, and exhausting fever, he cannot be expected to get out of his bed and pursue his normal avocations the moment his temperature drops to normal.

These and many others will be the abnormal problems arising out of the war and are altogether apart from the longer term aim which we must also keep before us of minimizing what one may call the normal evil of the trade cycle.

That comparative stability should be maintained internally in each country, and severe inflation or deflation avoided, is the most fundamental need of all. Ow-

(Continued on page 1494)

K. H. Campbell Joins Foreign Trade Council

The National Foreign Trade Council announces that Kenneth H. Campbell joined its staff on Oct. 1 as Trade Adviser. Mr. Campbell was former Director of the Foreign Department and Manager of the Foreign Credit Interchange Bureau of the National Association of Credit Men. He was on leave of absence from the Association since April, 1942, serving the Government as Chief of the Exporters Service Division of the Board of Economic Warfare (now the Office of Economic Warfare), and since October, 1942, as Trade Relations Adviser in the same office.

Political Security, Internal Stability Essential In Solving Post-War Problems

(Continued from page 1493)

ing to the preponderant influence of your great country on the rest of the world, this is more important here than anywhere else and can only be secured by the wise control of events by the Government, by the banking system, and by industry. No international monetary schemes, such as those I refer to later on, can be successful, except as a part of a much larger policy designed as a whole to secure normal stability in the most important countries. For since they aim by means of stabilizing exchanges in relation to one another in binding nations together, just as the gold standard did, so the economic changes in one nation will be transmitted to all the rest, and particularly since you are so much the most powerful nation economically your ups and downs will affect us all. Therefore, we are deeply concerned both with your stability and your prosperity. On the other hand, by the aid they give towards stable exchanges and by facilitating international trade, such plans will make other obstacles in the way of expansion and full employment so much the easier to overcome.

It is upon this problem of the world's external monetary arrangements that I wish now to say a few words. It is, of course, as a contribution towards going some way to solving it that the British, American, and Canadian Governments have recently published certain plans for a clearing union, a stabilization fund and the like. As an international banker they naturally have the greatest interest for me, and I am sure they must have for this audience. I must make it clear, however, that officially I have had and have no concern whatever with them. The following remarks therefore are of a wholly personal character. Nor do I intend to discuss or compare any of their complex details. My object is to set out certain general considerations which must be held in mind in any examination of them.

Even supposing the first wholly abnormal post-war period is safely past, we shall face a world in which few countries have many or any liquid reserves representing an internationally acceptable means of payment. With its immense gold stock and strong creditor position the United States will of course represent the one country of impregnable liquidity. There will be, no doubt, other creditor countries also. There will be others which produce gold and which will have, therefore, to that extent an acceptable international means of payment, so long as the U. S. Treasury continues to buy gold at a fixed price. There may be others, such as some occupied countries, which will also have retained reserves of gold or dollars. But speaking generally, the great bulk of countries, including the United Kingdom, will have quite insufficient international reserves for any freedom of action. How different, for instance, is the position of the United Kingdom in this respect from that which it held when I first went into the city some 35 years ago. Then we were lending the world about £200 millions, or say $800 millions a year. We had very great liquid foreign assets. The Bank of England had only to raise the rate of interest and gold flowed in from all the world. As has so often been said, the world's standard was then a sterling standard. But two great wars have wholly changed the picture. Our liquid foreign assets are gone; our indebtedness to foreign countries or countries within the British Commonwealth grows daily at a great pace. Nevertheless, our need for imports on a very large scale and consequently our necessity to export and for some liquid international capital to finance this great foreign trade have all grown also. Other countries in their degree are in the same position.

How then is prosperous international trade to develop? How are we to get that expanding world economy, that full employment on which all public men and economists rightly lay such stress? How, for instance, are the world-acclaimed resolutions of the International Food Conferences to be carried out if the nations which need ampler food imports cannot buy them in sufficient amounts because their exports are not great enough and because the nations which produce surplus supplies of food cannot in their turn sell them?

A truly flourishing international trade requires stable exchanges; stable exchanges require that each nation shall have sufficient liquid reserves to protect its position through seasonal or cyclical fluctuations. Moreover, international trade will flourish best under conditions of freedom and non-discrimination. Every one agrees that multilateral trade is immensely to be preferred to bilateral clearing arrangements, bilateral compensation, multiple currency devices, blocked accounts and so on. But nations do not adopt and develop these methods because they like them or because they want to damage other nations, but because they feel forced to adopt them when they have no reserves, no means left both to maintain their exchanges and yet develop their foreign trade except by methods which in one way or another approximate to barter. These methods may be barbarous compared to a truly international system. I am convinced they are. But, unless we can develop some workable international system, they may be inevitable.

I take it, therefore, that all the different plans put forward for an international clearing union or for stabilization have as their first and primary aim to provide all the nations, members of such schemes, with liquid reserves, i.e., with sufficient international purchasing power.

Such reserves, on which they can come and go, are necessary for various reasons. In the first place, international buying and selling is never absolutely balanced. Some nations have deficits, others surpluses. Temporary deficits which liquidate themselves are financed by the mechanism of short-term banking credits. On the other hand, when the deficit is more permanent, for example, where it is due to the requirements of a rapidly developing country, long-term loans from the surplus countries are necessary. A good example is the case of your own country, into which England, when she was the greatest surplus country, poured loans and investment money during the 19th Century, and which helped to enable you to turn yourselves from a debtor to a creditor country.

But there is a third set of causes which an economist writer in the "London Times" recently defined as the most vital problem of our age. We all talk of an expanding economy, of full employment, and so forth. But how do we secure them? Suppose that a highly developed country, aiming at these desirable ends, were to maintain a high level of activity within its own borders. Its imports, as all experience shows, would as a direct consequence, greatly increase to the benefit, of course, of the exporting countries. But unless the rest of the world were to achieve a similar state of activity and to buy the importing country's exports to an equivalent degree, the result would be that it would face a deficit. Under the old gold standard it would have lost gold and by this method either other countries would have been encouraged to increase their activity or the country losing gold would have had to restrict its activity. The gold standard, in fact, forcibly kept them in step. But the masses who are thrown out of employment by such an automatic system, which secures, as it does, equilibrium by at any rate temporary restriction, deflation, poverty and unemployment, demand in these days that their rulers shall examine whether the intelligence of mankind is not sufficient to secure that nations who wish both to buy and sell much more than they are doing cannot find some other and more rational means of maintaining equilibrium. If this is to be possible, expansionist countries must be able to rely on some international system of credit which will allow also of expansion in other countries so that the increase in their imports from the world will be quickly balanced by the increase of their exports to the world, and so that meanwhile they will possess liquid reserves with which their imports can be for the time being financed.

This is, I repeat, presumably, the main object which the British, American, and Canadian schemes all have in mind. The provision of liquid reserves for all member countries will enable them at least to start off with some confidence. What happens in the longer run depends on the capacity of each member country to conduct its affairs with prudence and also with an eye to its duties as a good neighbor.

For it must be recognized that these plans only provide a starting point. If nothing like equilibrium between countries can be achieved and if, even after taking into account international lending, some countries remain permanently in debit and others similarly, of course, permanently in credit, then there is no reason why the creditor country or countries should not absorb all the international reserves provided by these plans just as you have over a series of years absorbed $25,000 millions of gold, and thus bring them to an end.

In the words of the British plan, "Measures would be necessary to prevent the piling up of credit or debit balances without limit and the system would have failed in the long run if it did not possess sufficient capacity for self-equilibrium to secure this."

The British plan proposes much larger and more generous international reserves than do the other two. It proposes the creation of an international currency to be called bancor and for quotas of bancor to be distributed to each member nation by the Union. Thus, by this means what are called impersonal and anonymous credits are provided. There is, therefore, no immediate new indebtedness as between one member State and another, only potential indebtedness. And indeed member countries are never indebted as between one another, but are in debit or in credit to the Clearing Union as a whole. In other words, all debits and credits are pooled. A country which is at any one moment owed by all countries together an amount equal to what it owes all other countries is "out." It will be in debit to some countries and in credit with others, but if both sides of the ledger of the Clearing Union balance it has nothing to pay or to receive. On the other hand, a country which is in debit as a whole is in debit only to the Clearing Union, and a country which is in credit as a whole looks only to the assets of the Union as its security. Those assets will, of course, be in the main the I. O. U.'s of the countries in debit as a whole. In other words, the plan is based on a real pooling principle. I believe myself, if we are to have, as we all wish to have, multilateral trade, this pooling principle is fundamental. It rests on the assumption that equilibrium, and not simply current account equilibrium, but equilibrium as a whole, including international lending, is the target, and that for one country to have year in and year out a net surplus on its international transactions as a whole to obtain payment for which it feels bound to press for the permanent transfer to it of other countries' liquid international reserves, is as undesirable as it is for another country to have a permanent deficit; in fact, that the deficit is merely the shadow of the surplus and vice versa. Under the pooling principle it would be immaterial with which country another country traded. If one's exports, whether of goods, services, or capital, with all the world balanced one's purchases, one would have accomplished one's duty. If, on the other hand, a country either ran extravagantly into an unnecessary debit which it had no means of ever meeting or meeting only by severe methods of restriction, or, to take the opposite case, if a country sold far more to the world than it bought from the world and insisted on payment by means of forcing restriction and deflation on others, then both would be acting in an anti-social manner. Thus to provide countries with liquid international reserves is only half the battle. It is necessary that both surplus countries and deficit countries should, so to speak, observe the rules of the game and keep within bounds both on the credit and debit sides. This, of course, is far easier said than done. But these plans do not create or add to the difficulties of this problem. It will exist in any case and must face us whatever we do.

Perhaps one may define the underlying idea as being that deficits are not so much a sign, so to speak, of wrong doing, and surpluses a virtue, as they are evidence of different stages of development, or at this moment of time, of temporary poverty due to war sacrifices. It is true, of course, that countries like individuals can try to live beyond their means. As the British plan says, "If indeed a country lacks the productive capacity to maintain its standard of life, then a reduction in the standard is not avoidable." But what is aimed at in all these schemes is not only that the poorer countries, while being helped, should be persuaded to live within their means but that the surpluses of the creditor countries should not be so used as to deprive the weaker countries of their liquid international resources but rather be so used as to render the whole world, including the stronger countries themselves, more prosperous. Whether any of the plans fully achieve that object only experience can show. What is clear is that the problem is twofold, not one simply of equilibrium on current account, including visible and invisible exports and imports, but is inclusive of the whole question of international lending and the use of surpluses for such long-term lending. Both the American and British plans recognize this fact and indicate that further proposals will be made in this respect.

The British plan, being more generous in the provision of the means of international payment, has aroused the criticism that it will impose an undue burden on a creditor country, of which the United States is, of course, likely to be much the largest, by enabling debtor countries in effect to draw upon it too largely. It is argued that the possession of these reserves by the debtor countries might tend towards the United States surplus on its balance of payments becoming too great and that the country would end up not only with too great stocks of gold but too great reserves of the new international currency also.

But of course there is no compulsion on the United States or any other creditor country to have a bigger surplus with the British scheme than without it. Its surplus depends on its own policy. It is true that the international reserves to be provided enable the rest of the world to buy more American and more other exports. But no country need sell unless it suits it to do so. Or, if it does and if it finds a relatively sufficient increase in imports too difficult, it can balance its exports by means of long-term loans, as England did for so many decades.

The difficulties that American critics feel arise no doubt largely from the inherent conditions of the American situation. The United States is indeed too powerful a country economically to be always sure even with the best will in the world of being able to be a good neighbor in the sense of being able to prevent its ups and downs seriously affecting smaller countries. The American national income is a large percentage in value of the national income, or national production of the whole world. The United States is very largely self-sufficient. But American industries, great and small, find it valuable to export on a large scale. On the other hand, there is no such compulsion on the United States as there is on the United Kingdom to import very largely in order to live. She has in the past balanced her position in other ways, e. g. by travellers' expenditure, or by loans, and ultimately, and despite of other methods very advantageously for the whole world, by very great purchases of gold. Now it is proposed that she should balance it also by accepting, to the extent that she wishes to have a net surplus, an international token currency. But it should be held in mind that the amount of that surplus and, therefore, the holdings of such currency are within her own power to determine and can always be disposed of by increased imports or loans, or other international services.

We none of us can have our cake and eat it. England cannot get the import she needs without exporting; the U. S. cannot export much more than she imports in the way of goods or services unless she lends on long term credit or imports gold, or accepts some other token of international indebtedness. If none of these ways are acceptable, then exports cannot be paid for and must be diminished. All attempts to collect what is uncollectable will merely bring about general restriction and deflation.

Moreover, it must be remembered that unless the capital and labor of a creditor country are already fully employed on internal production, and particularly in times of depression, an increase of exports, even if it were to add to the creditor country's surplus in the books of the Clearing Union, would have important advantages of its own. Such exports would in the first place have employed labor and capital, which would not otherwise have been employed. But more than that, through what economists call the multiplier, i. e., the additional production, direct and indirect, fostered by the expenditure of the wages of those employed in making such increased exports, the cost of the gold received in payment for them would probably be exceeded two or three times over by the increase in the national income. This advantage which has accrued in the past in respect to exports for which, for instance, you have taken in payment gold, would accrue equally if you were to take in payment an international currency.

In general indeed it must, I submit, be a truism than any system which tends to increase international trade everywhere and thus international prosperity will redound to the benefit of creditor and debtor alike. We all get rich or poor together. As a great creditor the United States can as an alternative to greater imports make larger loans. But, speaking generally, I regard it as more important to buy and sell than to borrow and lend. Of course there is room, when some nations are far more developed than others, for the richer nations to make long term loans to the poorer. (In parenthesis I may say that short term lending should be restricted to financing transactions which are in themselves short term.) But such long term lending has its own difficulties. Is it to be by the agency of government or private banks? If the former, all sorts of political questions will come up; if the latter, how far is the private investor prepared to take the risk?

Moreover, I consider certain limiting conditions should be observed in long term lending:

The first is that the borrowing country should see its way to make the loan sufficiently productive to pay in normal circumstances interest and redemption, and this in turn means that the lending country should buy sufficient imports from somewhere to enable such payment to be made.

The second is that the stream of lending should not be subject to too great variations. Here again the decades of the twenties and thirties have a lesson for us which most of you will remember well. If a borrowing country bases its whole economy on a large golden flow of lending and the flow is suddenly stopped, then it is inevitably thrown into disastrous confusion. Witness particularly the European and South American countries after 1929.

Turning now back to the main question, I should like finally to ask what is the alternative to some attempt to arrive at an international monetary agreement. There have been suggestions that what is called a key-country approach would be simple and more reasonable. By that, as I understand, is meant some stabilization agreement limited perhaps to the dollar and the pound sterling. I think that is too narrow a conception for present circumstances, though it would be better than a mass of purely bilateral arrangements. Much more of the world is concerned than the sterling area. A purely Anglo-American stabilization would leave out the great continent of Europe, which without Russia contains 350 million people and which has an international trade greater than that of Great Britain and the United States together. That this great continent should be saved from the fate which overtook it after the last war is perhaps the most important aim of post-war statesmanship. It behooves all of us, I think, to refresh our minds upon the events which then took place and upon the consequences of the chaos into which European countries were thrown by uncontrolled currency inflation. I had an opportunity both at the Peace Conference and in the years after, through the whole of the reparation and post-reparation, of watching things from the inside. I personally do not hesitate to say that it was in that period that the seeds of the present conflict were sown. It will, therefore, be of the highest importance that as soon as possible after peace all these countries should be brought back into some orderly economic relations as between themselves and with the rest of the world. This necessity, however, leads me to a further reflection. While I am all in favor of the principle of an international monetary agreement being arrived at now, I am doubtful whether a plan necessarily framed to suit more or less normal conditions will be able to bear the whole burden of the entirely abnormal needs of the immediate post-war world. It is this period which may be the most difficult to provide for. But, supposing such provision is made, it remains of the highest importance that thereafter the countries of Europe should share in the benefits and responsibilities of any international scheme. The world's peace depends more than anything else on Europe returning as soon as may be to conditions in which stability, employment, and a reasonable standard of subsistence make life tolerable. We must not force these countries into bilateralism and blocked exchanges, still less with huge unemployment and revolution. As an Englishman, I can judge of the pressures which may face these countries from what I know of the conditions of my own country. Let me describe them. To fill our stomachs, to provide the essential raw materials for our home industry, let alone our export industry, we must import on an immense scale. To secure our imports by multilateral trade is what we aim at, and what we consider to be a proper world-policy. That is no doubt why the British Government has elaborated a multilateral scheme. But failing such a plan, we must devise some other. Though it would be a second best, I have no doubt we can secure what we must have by other means. When there is a willing buyer and a willing seller, a transaction can always be concluded. There are 45 million willing buyers in the United Kingdom, and there are more than that number of willing sellers in the world of the goods they want. Moreover, the 45 million buyers can certainly produce the goods which the sellers want in turn, and which will enable them to get paid. It is not possible, therefore, when each party has the goods the other wants, that business should not be done. We have to live, we have to employ our people, and we have to maintain, if we can, our standard of living. Barter and bilateralism are crude methods and unworthy of the stage of civilization we have reached or thought we had reached. We wish to cooperate with all and, above all, with your great country. But needs must when the devil drives, and the devils of food and raw materials needs, scarcity, and unemployment will drive very hard. Our position no longer allows us the freedom of action we had 30 years ago when financially we were powerful, liquid, and safe, and had plenty of room to turn round. Now we have to find the means to live and to live within our means. I have no doubt we can do it, though we shall have a hard struggle. In the war we have been vastly helped by your lease-lend and by Canadian mutual aid. Only so could we make our total war effort, since we have thrown all our normal means of international livelihood into the common war pot. Nor shall we in consequence, when the bugles blow for peace, immediately be able to pay our way. But I know that it is the determination of the British people to do so as soon as ever possible. Both we and the rest of the world would be the better able to do that if we could all devise some means, fair to all, by which international trade could be continuously expanded. One step, if only one, to that end should be an attempt to elaborate a workable international monetary plan. No one can be blind to the difficulties. But we should remember Robert Bruce and the spider. We have to find our way out of this world of chaos and we can never do it without trying.

To convince oneself that a great scheme of international cooperation of this kind is feasible in the world, as it will be after the war, requires, no doubt, on the part of governments and peoples an act of faith and a sustained magnanimity; a certain greatness of mind. Such magnanimity is particularly demanded from the American people, since the first aim of the plans we have been considering is to assist the weaker and not the stronger, and the United States is by far the strongest. No doubt the first natural reaction of human nature is that if the weak are to be helped it must inevitably be at the expense of the strong. But that need not be so. Let me repeat ad nauseam that we all grow prosperous together and poor together. And unless an international plan of this kind is to the benefit of the United States as well as the rest of the world it will fail. Its object is not to relieve the debtor nations from paying their debts, but to enable them to pay in the only possible way in which they can pay, namely, by an increase of their foreign trade. Its object in addition is to facilitate employment in all countries by the exchange of goods; and employment and an increase of living standards we must all secure at our peril.

The United States might conceivably secure full employment for all its people as a closed economy without any international trade at all. But that is not your aim. You intend to have a great foreign trade and great exports. You can only achieve this if other nations have a great foreign trade with you. You must buy their goods as well as sell them yours. There is no other way of getting paid, and this is true even if you make them in effect long term loans of goods. The ultimate security for any evidence of international indebtedness, whether gold, bancor, unitas, a short term credit or a long term bond, is that it can be converted into real wealth, that is, into something which satisfies human wants. If the creditor wants his money's worth, he must import. There is no other way. The debtor cannot force the creditor to import. As long as he stands ready to export, he has done all he can. Thus the real security that the creditor can obtain depends on himself and not on the debtor. If the creditor is unable to import, then there is nothing the rest of the world can do except in the end not to buy his exports.

I remember many years ago after the last war a very well known English editor, Mr. J. A. Spender, telling me that he was talking to an American business friend about war debts. Mr. Spender said to him, "But which do you want? Do you want our goods or our gold? You must have one or the other." His friend's answer was, "We want neither. We want your money." Mr. Spender could only reply, "Do you think it would help you if we sent over the Acquitania full of British £1 paper notes?" All of us have learned much since those days. Foreign commerce, we know, is essentially the barter; if possible, the multilateral barter of goods. It is to facilitate such barter without adding to the burden of any nation which is the grand object of all the schemes I have been discussing.

The American people are called upon by force of circumstances to play the chief role in them. Having been fortunate enough to have spent years in your great country and to have the very closest possible ties with it, I have learned to know it well and I feel no doubt whatever that it will play its part with that breadth of outlook and magnanimity of spirit which is the proper ornament of strength.

Increased Public Purchasing Power May Support Large Post-War Retail Sales

The wartime increase in its national income received by individuals, and especially the increase in salaries and wages, has had a tremendous influence on dollar volume of retail trade according to an anlyasis of leading merchandising companies just completed by the research department of E. W. Axe & Co., Inc., 730 Fifth Avenue, New York City. Although it is not to be expected that purchasing power will remain at the wartime peak after the war, the deferred demand for consumers' durable goods will generate much post-war business activity, so that the national income will probably compare favorably with that of the immediate pre-war years.

Despite this generally favorable outlook, the investment positions of some kinds of retail trade securities are not entirely satisfactory because of the impact of rising costs on extremely narrow profit margins, the study concludes. The securities of other types of companies, on the other hand, appear to be undervalued, partly because of the adverse interpretation by investors of many Federal and State regulatory measures and necessary restrictions of recent years. Just how this works out on the basis of present market values is shown by group comparisons of the sales, earnings, inventories, and book values per $100 invested in the securities of individual companies.

Copies of this booklet may be obtained from the Tarrytown Press, P. O. Box 157, Tarrytown, N. Y., or E. W. Axe & Co., for 40 cents each; free to libraries and non-profit institutions.

Ball Named To N. Y. State Banking Board

The appointment of Raymond N. Ball, President of the Lincoln-Alliance Bank & Trust Co., of Rochester, as a member of the New York State Banking Board was announced by Governor Dewey on October 1.

Mr. Ball was appointed to fill the unexpired term of the late Perry E. Wurst of Buffalo, which runs until March 1, 1944. Mr. Ball, who is a director of several Rochester corporations, has been President of the Lincoln-Alliance Bank since October, 1929.

Mr. Wurst, who was Executive Vice-President of the Manufacturers & Traders Trust Co., Buffalo, died on September 5, as was noted in our issue of September 16, page 1124.

Willford I. King Would Solve The War Debt Problem By Enforced Savings

(Continued from first page)

would leave our mines, farms, factories, and transportation systems still fully equipped for production. Furthermore, it is indubitably true that most war costs must be paid while the conflict is on. There is no possible way to fight with future food, future guns, future planes, or future ships. We can use only the equipment already on hand—not the products of tomorrow.

Is it then true that this war places no burden whatever upon our children and our grandchildren? To say that such is the case is going too far. One heavy burden will persist for a long time. It is that many a child is doomed to grow up without a father's protecting care and guidance. Many a mother and wife will sorrow long for her missing son or husband. Our heirs will also find that, in certain respects, the war has lessened materially their economic heritage. The huge volumes of gasoline and oil burned by our planes, tanks and trucks are gone forever, and it is unlikely that any economical and satisfactory substitute for petroleum will ever be found. The war has sadly depleted our limited supply of copper. It has helped to exhaust our richest iron deposits. Many other real losses might be added to this list.

There are, however, significant offsets to these economic sacrifices. The Big Inch and the Alaskan Highway are very helpful additions to our system of transportation. Huge new plants multiply our supply of magnesium and aluminum. More important still, the war has stimulated invention and enabled us to produce more effectively than ever before. Whether, on balance, the war has placed a **net** economic burden on future generations is, therefore, a debatable question.

Not only is it doubtful that the war will weigh down future generations—its cost to the present generation is far less than the average man is led to believe when he reads about a hundred billion dollar budget. True, we have had to give up the somewhat doubtful pleasure of driving our automobiles more or less aimlessly over hundreds of miles of roads until we are thoroughly tired of the trip; but, the number of lives saved by reducing the volume of motor traffic and stopping speeding has apparently been great enough to offset our entire military and naval losses incurred to date in fighting the Germans and Italians!

Aside from pleasure driving, our sacrifices have been trivial. True, choice cuts of beef and a few fruits have become rarities. The coffee supply has been a bit skimpy. The fact remains, however, that, at no time in the nation's history has the average family been better clothed and fed than it is today in the midst of war. In the first quarter of the present year, the dollar value of sales in all retail stores in the United States was 62% greater than the average for the period 1935 to 1939, and, in the interim mentioned, the cost of living rose less than 22%.* Clearly, therefore, total civilian consumption increased rather than shrank.(1)

What we have really been doing is to support our own armed forces and assist our allies tremendously merely by making use of the spare time which millions had been wasting during the last decade. The fact that we can fight a major war on leisure time without curtailing at all our customary scale of living must cause Hitler and Hirohito to pass many sleepless nights.

And even this is not all. Substitution of work for idling, while admittedly increasing fatigue, has also renewed for many the real zest for living. The elimination of unemployment has bolstered the nation's morale no less than have the great victories won on the battle fronts.

The feeling is widespread among conservatives as well as New Dealers that the only really effective way to get full employment is to go to war. This line of reasoning exactly parallels that of the primitive man who felt that the only way to get roast pig was to burn down the house. Before anyone can fully understand the real nature of the war debt problem, he needs to familiarize himself with the fact that the question of full employment or unemployment is entirely one of the relationship between the volume of new spendable funds and the wage rate. Between 1929 and 1932, the volume of new spendable funds shrank sharply, while wage rates declined but little. The result was that millions became idle. Between 1939 and 1943, on the contrary, the volume of new spendable funds increased far faster than did wage rates. As a result, the volume of working time increased so tremendously that the **additional** hours worked have been producing goods enough to win the war. In a nation which has such amazing potentialities for production, it seems obvious that the war debt can be handled easily enough if the job is tackled intelligently. But that is a big if!

At present, one cannot predict to what size the war debt is likely to grow, for we do not know how long the war will last. In 1916, a rhymester wrote:

> But our cook's cousin has a friend
> Who know when the war is going to end.

At present, the cook's cousin's friend is hard to locate.

Today, the gross Federal debt is around $140,000,000,000. The addition in the past year has been nearly $70,000,000,000. If the rate of growth does not increase, and if the war is cleared up by August, 1945, the debt will then be around $280,000,000,000. However, inflation is likely to cause the rate of growth to be accelerated. Furthermore, if the present administration remains in power, it is proposed to take two years to demobilize the armed forces, and, presumably, the Government will continue to run a deficit during that period. If the recommendations of the National Resources Planning Board are carried out, the Federal Government will then engage in a huge construction program covering not only the United States, but all the backward nations. Such a program will doubtless keep the deficit growing indefinitely. Advocates of this program look upon an increasing public debt as no menace, and hence they see no reason for trying to stop its growth.

Even if the conservatives come into power, it is doubtful that the debt increase will be stopped before the total reaches $300,000,000,000. The President announced on July 31 that, currently, new money was costing the Government less than 2%. At this rate, the interest burdens on the $300,000,000,000 of prospective debt would be only $6,000,000,000—or half a month's national income. Another common way of figuring is to say that our national income has increased from only $40,000,000,000 in 1932 to $140,000,000,000 in 1943. Therefore we can pay the interest on the debt by using only 6% of the $100,000,000,000 increase.

A moment's consideration will show that these calculations have little significance. Any assumption that the interest rate will remain at 2% rests upon weak foundations. Unless a government continues to inflate the currency indefinitely, it has no power to control interest rates. After the last war, yields on United States bonds went above 5% and they may do so following this war. The Government may therefore find itself faced with the necessity of paying from $12,000,000,000 to $15,000,000,000 of interest on a $300,000,000,000 debt.

Since the debt is practically all held within the nation, it is completely erroneous to assume that interest on the debt constitutes a subtraction from the national income. If $15,000,000,000 are paid, $15,000,000,000 are likewise received. The payments make the citizenry as a whole neither richer nor poorer.

In this respect, the Keynesians are right. It is not the mere size of the national debt which constitutes a problem. If every citizen owned an equal share of the debt, it would indeed, be hypothetically possible to pay annual interest charges several times larger than the entire national income! However, in reality, the debt is not equally owned, and it is this fact which gives rise to the problem of how to collect the money from the thriftless who do not own bonds in order to pay the thrifty who do own them.

To many, however, this is no problem at all, for they have come to accept both of the following cardinal fallacies:

1. That we have had too much saving.

2. That over-saving is socially injurious.

A corollary to these fallacies is the feeling that, saving being anti-social, confiscation of bonds, mortgages, and bank deposits is merely a manifestation of tardy justice. This attitude is apparent in practically all wage and rate cases coming before Boards made up of New Dealers. It is enhanced by the unfortunate decay in public ethics evidenced, for example, by the Federal Government's repudiation of the gold contracts in its bonds. In general, it may be said that, to those who regard saving as a sin and who think of the words, fairness, equity, and justice merely as convenient shibboleths for catching credulous voters, there can scarcely be any problem connected with the public debt.

Persons holding such views have a very easy solution for any problem which may tentatively arise. Their solution is repudiation. It may take any one of the following forms:

1. Straightforward repudiation.

2. Repudiation by taxing the bondholders to pay themselves.

3. Repudiation by lowering the interest paid on the Government debt.

4. Repudiation by currency inflation.

It is unlikely that the debt will be directly repudiated. Such a procedure resembles too closely the methods of the highwayman and is not sufficiently genteel to appeal to the advocates of the New Order. As they see it, taxing the bondholders to pay themselves is better, for it constitutes a sort of poetic justice, in that punishment is meted out to those who were so anti-social as to save and buy war bonds. This policy is, however, difficult to execute, for it is hard to get a tax law enacted which will do the trick with precision, neatness, and dispatch.

An admittedly half-way measure which is easier to put into practice is to refund all short-term loans into long-term bonds bearing interest at say 4%. In the next period of depression, the Government can reduce the interest rate to 2%, the excuse for such action being that, in time of depression, it is only fair that those bloated plutocrats, the bondholders, share losses with the rest of the citizens. Halving the interest rate on long-term bonds is, of course, almost equivalent to repudiating half the debt.

While the three methods of repudiation just mentioned are all possibilities, repudiation by inflation is much more probable, for inflation furnishes a delightfully easy and insidious way of perpetrating robbery on a hundred-billion-dollar scale. How little even highly-educated Americans know about inflation is indicated by the question often repeated orally and in print: "Are we going to have inflation?" The inquirers are obviously completely ignorant of the fact that inflation has been going on steadily for about a decade, and, since America's entry into the war, has become a raging torrent. In 1930, all active banks in the United States held less than $4,000,000,000 of Federal securities. At present, the total is probably around $34,000,000,000. In 1930, demand deposits aggregated about $24,000,000,000. At present, the corresponding total is around $53,000,000,000. In the face of these facts, it is obvious that the correct question is not whether we are going to have inflation, but instead, how and when, if ever, the present terrific rate of inflation is to be stopped. Inflation is our Number One debt problem today and promises to remain so.

Our Planners have completely lost faith in the free price system, and are attempting to control prices by regulations and rationing. The latter process constitutes repudiation in so far as rationed articles are concerned, and the substitution therefor of a **limited** new currency consisting of small square red or blue coupons. As inflation grows more intense, the repudiation must need be extended to more and more articles. However, as long as the old-fashioned money continues to circulate in increasing volume, black markets will become harder and harder to suppress. Furthermore, it seems highly probable that, once the war is concluded, the American people will not tolerate rationing, and inflation will therefore produce its normal effect on prices. How high this will make the price level go can only be approximated very roughly.

What we do know is that, whenever the currency supply increases faster than the volume of production, prices rise. It seems improbable that physical production can attain a level materially higher than that now existing, but there is no limit to the amount of circulating medium which the Government can create by borrowing from the banks.

The reports of the United States Comptroller of the Currency show that, on June 30, 1940, demand deposits in all banks in the nation totaled slightly more than $33,000,000,000.(2) Since that date, demand deposits in reporting member banks have risen 60%.(3) Presumably, therefore, the total of demand deposits is now in the neighborhood of $53,000,000,000. In addition, the stock of pocket-book money circulating in the nation is estimated as being over $17,000,000,000.(4) It appears, therefore, that we are now using some $70,000,000,000 of circulating medium to do our money work.

In May, 1943, the Government spent $7,400,000,000. All Federal taxes yielded $1,700,000,000, War Savings Bonds sales brought $1,300,000,000, and bond sales to non-banking corporations may have reached $1,000,000,000. This left $3,400,000,000 to be financed by inflation.(5) At this rate, even if Government spending does not speed up, two more years of war may increase our volume of paper money and demand deposits by more than $81,000,000,000. If price and wage controls prove ineffective, the increase may, of course, be much greaaer.

It therefore appears likely that, if our gigantic war expenditures continue until the middle of 1945, our circulating medium will have risen from $70,000,000,000 to no less than $151,000,000,000, or 2 1/6 times the present quantity. If we actually succeed in raising enough **additional** tax revenues to cover **additional** expenditures we can consider ourselves lucky. Furthermore, the probabilities are that our growth in circulating medium will not be offset by any noticeable increase in total physical production. The tendency will therefore probably be for the price level, if uncontrolled, to be at least 2 1/6 times as high in 1945 as it is at present. If such a rise in prices occurs, it will automatically confiscate well over half of the present real worth of all bonds outstanding. In other words, inflation, if continued, merely at the present rate, is likely to mean at least 55% repudiation before the war ends. If we follow up the war with a huge program of public works and world rehabilitation, inflation, and hence repudiation, are likely to go much further.

There are two prime reasons why our war debt problems promise to be extremely troublesome. First, the present Administration is determined to avoid the levying of any considerable direct taxes on manual and clerical workers. Second, our high officials, our legislators, and the public in general, all suffer from the delusion that it is possible, in some way, to postpone to the future a considerable part of the cost of war. They do not understand that no financial legerdemain can lessen the fraction of national effort and national resources required to accomplish given results on the military front. They take it for granted that it is impossible to finance war on a sound basis. Inflation is, therefore, accepted as an easy way out.

Unfortunately, in its early stages, inflation produces results which seem very pleasant. In the end, however, it brings disaster. It robs the thrifty who have saved to accumulate a bank balance or to invest in bonds, mortgages, or life insurance, and it is these thrifty persons who furnish the capital which makes economic progress possible. Operating in conjunction with labor monopolies, inflation is the commonest cause of widespread unemployment.

For example, after the first world war, British inflation lifted wages to levels far higher than the nation could sustain when, eventually, the price level fell. The inflated wage rates were "frozen" by the labor unions. The result was that unemployment on a large scale persisted up to the beginning of the present war.

Today, the United States wage rates are far higher than it would have been possible to pay had the currency not been inflated. When, following the 1920 pattern, the inflationary process stops, the total amount of new spendable funds available to pay labor will shrink. Unless wage rates are reduced proportionately, we shall have unemployment on a vast scale. Then our fascists and socialists will shriek that capitalism has failed and will clamor for a huge public works program

* (1) U. S. *Survey of Current Business*, May, 1943, p. 8; June, 1943, p. S. 3.

(2) *Statistical Abstract of the U. S.* for 1941, p. 285.

(3) U. S. *Survey of Current Business*, Aug., 1941, p. S-13; July, 1943, p. S-15.

(4) U. S. *Survey of Current Business*, July, 1943, p. S-17.

(5) U. S. *Survey of Current Business*, July, 1943, pp. 13 and S-18.

financed by further inflation. This will eventually paralyze private enterprise and usher in their "planned economy."

The principal economic danger at the present time is, therefore, inflation. To prevent further inflation, taxes and bond sales should at once be expanded sufficiently to make Federal borrowing at the banks unnecessary.

So much for the present. What about the post-war outlook?

Let us first adopt the rather improbable hypothesis that the OPA succeeds in keeping prices and wages at present levels. To do this will call for more and more rationing. By virtually nullifying the value of the newly created circulating medium, by higher taxation, and by forced saving, sales of war bonds may be increased and the inflation of bank deposits may be slowed down. At best, however, we can scarcely expect to reach the war's end without piling up \$70,000,000,000 to \$100,000,000,000 in excess demand deposits in banks. As long as these excess deposits exist they will hang like the sword of Damocles above the nation. Only by the severest regimentation can prices be prevented from rising, especially in view of the fact that savings bonds are redeemable on demand, and that every one redeemed adds to the volume of inflation.

If we depend upon price control to protect our economy, it will be imperative for the Government to use the most drastic measures possible to retire its debt to the banks, for, until this is done, no semblance of economic freedom can be restored to the nation. Until the excess bank debt can be eliminated, either our program of price control and regimentation must continue or, inevitably, the purchasing power of all the bonds, mortgages, life insurance policies, and bank balances will be greatly diminished.

However, to raise the \$75,000,000,000 or \$100,000,000,000 necessary to liquidate the debt to the banks will likely be anything but an easy task for our fiscal authorities. However, by combining heavy taxes with the continued sale of savings bonds, it is possible, though admittedly improbable, that this floating debt may be eliminated, and the nation's price system may, after a period of years, once more be put on a sound basis.

At this point, the question may well be raised as to why the rest of the nation should pay to the banks interest on the many billions of dollars which the Government has been injecting into our circulating medium. Most conservative citizens view with horror the paper money inflation indulged in by the German government, but, at the same time, they look with complacence upon our own method of using the banks to create billions of new dollars out of nothingness. In reality, both methods are equally unsound and pernicious. Our present method has two disadvantages: first, it causes fiscal difficulties for the Government and the taxpayers; second, it places the banks and the other financial institutions in a predicament whenever interest rates rise and the values of government securities in their portfolios shrink. If, therefore, we are unwilling to finance the war on a sound basis, why will we be any worse off if we quit fooling ourselves by employing roundabout methods and simply print greenbacks to cover our deficits. The latter procedure would eliminate interest charges, and, after the war, it would be no more difficult to retire the greenbacks than to pay off the Government debt to the banks.

Let us next look at our post-war fiscal problem on the basis of the assumption that rationing and all price controls will have been abandoned before the war ends, and that our supply of circulating medium will be 2⅙ times as large as at present. Under such circumstances, we would expect both national income and ordinary governmental expenditures to be multiplied by 2⅙. Since, at present, non-war Federal expenditures are around \$6,000,000,000 per year (6), after the war they would probably rise to 2⅙ times that figure, or \$13,000,000,000. In May, 1943, realized national income is estimated to have been around \$11,100,000,000 per month (7). However, as we have seen, some \$3,400,000,000 of this was the result of current monetary inflation. This means that, if inflation were to immediately stop, the income would probably drop to around \$7,700,000,000 per month, or \$92,000,000,000 per year.

If our working force is to continue to be fully employed, an increase of 2⅙ times in our volume of circulating medium may normally be expected to result in raising the peace time income to approximately \$200,000,000,000 (2⅙ times \$92) measured of course in the depreciated currency. If, however, unemployment is allowed once again to run riot, the figure might be below \$150,000,000,000 annually.

As we have seen, the interest on the Federal debt, figured at 3⅓%, may well call for \$10,000,000,000. Adding a modest \$6,000,000,000 for debt retirement and \$13,000,000,000 for ordinary expenditures, the Secretary of the Treasury, if he seeks to balance the budget, will find himself confronted with the necessity of raising each year \$29,000,000,000 in taxes. In time of prosperity, this would take 1/7 of our hypothetical \$200,000,000,000 national income. In hard times, it might call for a fifth.

Of course, whatever is taken from the people for interest and debt retirement will be paid back to the people promptly. It will in no sense be a deduction from the national income. This fact will not, however, make the Secretary's task an easy one, for each class of the population will strive to escape paying its proportionate share of the tax.

At present, the well-to-do, that is, all persons having incomes above \$5,000 receive approximately 10% of the national income. When the war is finished, the fraction of the national income going to this class is likely to diminish rather than to increase. Clearly, then, if the debt is not to be formally repudiated, heavy taxes must be collected from the population at large. To do this is always politically difficult. There is indeed grave danger that the well-to-do—the class that provides most of the capital necessary to make the free enterprise system function—will find itself swamped with taxes voted by the less affluent majority. If such is the result, the financing of industry will necessarily devolve upon government, and a fascist or socialistic state will be the inevitable outcome.

If the orthodox policy of liquidating the debt over a long period of years is to be carried out, the procedure least likely to result in upsetting the established economic order would be to secure the required revenue by levying excise taxes on basic productive processes. Such an indirect tax is likely to be overlooked by most purchasers of goods, hence the tendency to agitate for the repeal of the tax is less than is the case when tax money must be directly turned over to the fiscal authorities. However, it is improbable that any sane tax program for paying off such a huge debt could be carried through for a long period of years without being overturned at the behest of political demagogues. The question therefore arises as to whether or not the orthodox procedure is the wisest one to follow.

The fact has been previously emphasized that, on the whole, the people owe the debt to themselves. Since this is the case, why not, as soon as the war is over, proceed to take the bull by the horns and settle the debt problem immediately? If this decision were made, the first thing to be determined would be how much of the debt ought to be paid off. Since our first serious price difficulties manifested themselves early in 1941, it might well be decided that the circulating medium should be reduced to the level prevailing at that date. This might require a contraction of a \$100,000,000,000 in the Government's indebtedness to the banks. It would probably be unwise to pay off all of the Federal bonds held outside banks, since such a procedure would disturb the portfolios of insurance companies and other institutions, and would take away a tool needed by the Government in any price stabilizing program. However, this part of the debt might call for another \$100,000,000,000 cut.

The proposed \$200,000,000,000 payment might not be far from a year's national income. On the assumption that the two figures were equal, the Government might well demand that each citizen pay immediately to the Federal Treasury an amount equal to his income for the preceding year. The man who owned his proportionate share of the war bonds could turn them over the the Treasury. He would have paid himself off. The person having less than his quota of war bonds, might sell other property and thus raise the money necessary to settle his share of the war debt. For those not possessing the property necessary to meet the tax, the Government would arrange with the banks a giant personal-loan program. Some local bank would lend to the property-short individual the money needed to pay the tax. As security, it would be given a first lien on say 15% of his wage, salary, or other income. The Government would insure the bank against the death or permanent disability of the borrower on such security.

The typical wage earner would probably have war bonds enough to make a considerable dent in the tax payment. The rest of the annual burden probably would be materially less than the average man is in the habit of assuming when he buys a new car. The banks would be provided with a new clientele and a lucrative source of revenue.

The Government, having obtained funds to liquidate the inflationary component of its debt to the banks, could then proceed to pay off the remainder of its bank debt by giving the banks newly printed paper money. This would rid the Government of interest charges on this part of the debt and would, at the same time, prevent prices in general, from falling below the agreed upon 1941 level.

Such an unorthodox but highly conservative program would accomplish the following ends:

1. Repudiation would be prevented—bonds, mortgages, insurance policies, etc., retaining their 1941 purchasing power.

2. The danger of crushing the thrifty by discriminating taxation would be avoided.

3. All price-fixing, rationing, and regimentation could be promptly abandoned.

4. The debt problem would be transferred from the field of politics to the field of private finance, and the Federal Treasury, freed from the war debt incubus, could devote itself to financing current expenses.

MORAL: Settle the war debt problems in three months rather than in three generations!

(6) U. S. *Survey of Current Business*, July, 1943, p. 10.

(7) U. S. *Survey of Current Business*, July, 1943, p. S-1.

Canadian Securities

By BRUCE WILLIAMS

From the moment that the Social Credit Party of Alberta took their ill-advised steps in failing to redeem the provincial obligations at maturity, and in scaling down interest on outstanding debt, the Dominion Government has unremittingly endeavored to bring about a just settlement. Since the death of Mr. Aberhart and in view of Alberta's position in the center of an area that has tremendous possibilities of early development in the post-war era, it is increasingly clear that now is an opportune time to force the issue.

A recent report from Edmonton indicates that the Canadian Minister of Finance is refusing to renew loans in the form of treasury bills originally made to Alberta at the time of the depression in the early thirties. This action will compel the Province to take immediate stock of its position and look more favorably on coming to terms with the holders of the provincial obligations. As already pointed out, the current trend of interest rates will also facilitate an early settlement. With its debt refunded, it will then be an easy matter for Alberta to make arrangements with regard to its debt to the Dominion Treasury.

The market during the past week was quiet but the undertone was definitely firm. Direct Dominions were inactive but steady with the 3s of 1967 more in demand at 103⅛. Nationals were bid and the question of future supply is becoming acute. The 4½s of 1957 were 117½ bid. Ontarios and Quebecs continued in the doldrums, also mainly on scarcity of offerings. There was some activity in British Columbias which were steady and virtually unchanged.

The demand for long-term Nova Scotias and New Brunswicks still persisted but again business was restricted by the lack of supply. Manitobas were definitely better on the excellent results of the past fiscal year, and the 4½s of 1956 were 104½ well bid. Saskatchewans were quiet with prices unchanged. Albertas however were definitely better, and, as anticipated, the market should now move to higher levels.

With regard to the internal issues, the expected weakening of the free rate materialized, and with the exchange at 11% discount, it was possible to make interesting purchases in this section of the market. However, from the Canadian point of view, the failure of the Foreign Exchange Control Board to permit holders in this country of called and maturing obligations to cover exchange at the official rate is somewhat difficult to understand.

Contrary to the popular conception, the so-called "free" Canadian dollar market should not be considered as the barometer of the Canadian economy. In reality, less than 1% of total dealings in Canadian exchange takes place in this market. The Canadian official idea originally was evidently to give some measure of freedom to transactions for foreign account in order to offset in some degree the severe restrictions on movements of capital which were imposed on the outbreak of war.

In practice, however, it does not operate in this way, and holders of maturing Canadian internal issues in this country are penalized in having to deal in the exceedingly narrow "free" market. The fact that these maturities are public knowledge causes potential buyers to hold off, and the unfortunate holders are compelled to operate in a body in a one-way market.

This state of affairs is also detrimental to the interests of Canada itself, because, as already mentioned, it is generally believed that weakness in the "free" market is indicative of an adverse trend in the Canadian economy, which at the present time, of course, is highly misleading. It would seem to be a wise step therefore if the Foreign Exchange Control Board would permit holders in this country of called and maturing internal obligations to cash their claims at the official rate.

Reverting to the market for external issues, the pattern previously outlined seems to be slowly materializing. The market, although quiet now, has an excellent tone, and as soon as the Fifth Victory Loan is out of the way, all portents point to a period of activity with an upward trend.

Free Mail From Canadian Armed Forces

Postmaster Albert Goldman of New York announces that pursuant to a request from the Postal Administration of Canada, correspondence mailed at sea free of postage by Canadian Naval personnel serving on His Majesty's Canadian ships, censored and bearing the censor's stamp or endorsed "On Active Service," as well as correspondence mailed free of postage at Canadian Field Post Offices by members of the Canadian Armed Forces overseas, will be delivered to addresses in the United States without collection of postal charges.

It is also announced that the free mailing privilege in question is reciprocal except that said privilege does not apply to mail from members of the Canadian forces stationed within the Dominion of Canada.

The Effect Of Public Debt On Future Business Activities

(Continued from first page)

lem will depend not merely the course of business, but the future of our economic and political institutions as well.

Let us look first at the facts. The public debt of the United States on June 30, 1930 amounted to a paltry sum of $16,000,000,000. Ten years later it amounted to $43,000,000,000. And today the public debt of the United States is over $160,000,000,000.

Nobody, of course, can tell how far the public debt will go. It will depend entirely on the duration of the war and partly on the tax measures that will be taken in the near future. It is, however, safe to say that by the time the war is over the public debt of the United States may amount to $250,000,000,000 or $300,000,000,000.

Some have said that this tremendous increase in the public debt will lead to inflation or sharp increase in prices of commodities, and a corresponding reduction of the purchasing power of the dollar. Others have said that the public debt will never be paid, nor will the debt service be met, that some way or other will be found to wipe out this public debt through a sleight of hand method. Others in Washington have said this rapidly mounting debt is no calamity at all; on the contrary, it is a blessing in disguise.

Let us, therefore, look at the public debt and try to analyze to the best of our ability what effect it can have on the national economy of the country.

First, we have to raise a question. What was the purpose for the creation of this debt? When a debt is created for productive purposes it is self-liquidating in character, and therefore does not constitute a burden on the citizens of the country. For example, the obligations contracted by the Port Authority of the City of New York do not impose any obligations on the citizens of the City of New York, because these bonds are based on self-liquidating projects. A great portion of the debt of Sweden is of this character. The government of Sweden borrowed money to build railroads, utilities, and other productive enterprises.

On the other hand, when a debt is contracted for unproductive purposes, it has to be borne by the citizens of the country. Unlike a private debt which if it is unproductive is either liquidated or reduced through foreclosure or reorganization, a public debt goes on until paid or liquidated.

Now, you know that a great portion of the public debt of the United States was contracted for non-productive purposes. During the '30s a great deal of the money, probably most of it, was spent for projects of a non-productive character. Since Pearl Harbor the greatest portion of the public debt was used for the war effort, and a great deal of money has been spent for destructive purposes. It is therefore quite evident that the public debt will have to be paid by you and me, our children, and those that follow them.

It would, however, be erroneous to assume that the entire public debt was contracted for non-productive purposes. New industries have sprung up throughout the country utilizing existing raw materials. I refer to the rubber industry, the various phases of the chemical industry, to aluminum, magnesium, and so forth. All these developments have taught us how to utilize better our national resources and will contribute to the future increase of the national wealth and national income of the country.

The merchant marine has expanded, and in all probability in the post-war period our merchant marine will play a more important role than before the war.

Thousands, nay, hundreds of thousands of young men in the armed forces are receiving a very valuable training, and that training, too, will contribute to the future wealth of the country.

At the end of the war the federal government may own billions of dollars of commodities which can be used for civilian consumption.

Above all, we have learned our lesson. You know that experience is worth money. A few years ago a great many of our citizens believed that the United States can follow a policy if isolation. We have learned our lesson, that we are a part of the world, that we must play the role which history has in store for us, and this fact in turn, in my opinion, is bound to have a favorable effect, not only on the international policies of the country, but also on international trade relations.

Hence, while a great portion of the public debt was contracted for non-productive purposes, part of it has been used in a fashion which undoubtedly has increased the national wealth of the country.

The second question that we have to ask ourselves is how the debt is distributed. Where the debt is held to a large extent by ultimate investors, that is, by individuals, firms, corporations, but not commercial banks, the debt does not create new purchasing power. It merely gives the saver an opportunity to accumulate purchasing power now when the supply of commodities available is very small, to be used later on when the supply of commodities available is very small, to be used later on when the supply of commodities available is bound to increase.

On the other hand, when the debt is held by commercial banks, it leads to an increase in the volume of deposits. Bank deposits are purchasing power in the hands of the owners of the deposits. It is particularly unfortunate that in war periods when the supply of commodities available for consumption is so small, the purchasing power of the people should increase. Hence, if the deficit of the Government is financed through the sale of its obligations to the banks, it is inflationary in character — inflationary in the sense that it creates new purchasing power at a time when this purchasing power cannot be used because of the constant decline of the supply of consumer goods.

In this country the deficit of the government was financed through the sales of obligations to ultimate investors, but at the same time too large a proportion of the debt is held by the banks, thus creating new deposits. Hence, as a result of the war, as a result of the rapidly mounting public debt, as a result of the fact that a large proportion of the government obligations are held by the banks, an inflationary gap, a surplus of purchasing power, has been created in the country.

So much by way of background. Now let us see what will be the effects of this development, and the questions I raise are these:

First, what will be the effects of the rapidly mounting public debt on the national economy of the country?

Second, on business activity in general?

Third, what dangers must we guard against in the future?

The following analysis is based on the assumption that we will handle our debt along sound economic lines, and not endeavor to solve it through sleight of hand methods.

First, the mere fact that the federal debt by the end of the war may amount to $250,000,000,000 or $300,000,000,000 means that taxes after the war are bound to remain high, even though lower than at the present time. A public debt of $250,000,000,000 or $300,000,000,000 means a debt service of five to six billions of dollars per annum. During the '20s the federal government never spent more than four billion dollars per annum. During the '30s the federal expenditures rarely amounted to more than eight billion dollars per annum. And now in the post-war period we will be confronted with the task of paying in annual debt service alone five to six billion dollars. This does not include the retiring of outstanding debts. Another five or six billion dollars will be needed for maintaining a larger army, navy and air force and the taking care of the veterans. One may reach the conclusion that a minimum federal expenditure in the post-war period may amount to at least fifteen billion dollars per annum. It is therefore quite evident that taxes are bound to remain high, even though they will be lower than they are at present.

Taxes, however, must not be too heavy, otherwise they will undermine private initiative. Taxes on business must take into consideration the fact that poor years follow good years, and that corporations must be in a position to accumulate some surplus. Taxes must take into consideration the fact that the investor is entitled to some return, otherwise there wouldn't be any venture capital.

Hence, in the post-war period, it will be your task and my task to see to it that the tax burden is equally distributed all over the country, and not merely placed on a few corporations and individuals, otherwise taxes will undermine private initiative and will make it impossible for private enterprise to provide the necessary employment.

We find, therefore, that the first effect of the rapidly mounting public debt will be high taxes.

Next, prices. Prices of commodities in the post-war period are bound to be high. Certainly they will be higher than during the '30s, and they may even be higher than during the '20s, for the following reasons:

First, the large expenditures by the government in the post-war period will necessitate a higher national income. In part at least the national income is dependent on the price level.

Second, wages in the post-war period will remain high. Even though the weekly wage earnings will decrease, I doubt very much whether it will be possible to bring about a material reduction in hourly wage rates.

In addition, the increased volume of the deposits created by the public debt, the increased savings of the people, direct as well as indirect, will constitute a tremendous volume of purchasing power in the hands of the people, and will create a demand for goods, and when the demand for goods is great prices tend to be firm.

Hence, I believe that in the immediate post-war period and the years thereafter, prices undoubtedly will be higher than they were during the '30s, and they may be higher than they were during the '20s.

Third, the attitude of the government towards business is bound to play a very important role. If the expenditures of the federal government in the post-war period amount to a minimum of fifteen billion dollars per annum, that will necessitate a high national income. In the past, for example, in 1929, when the national income of the United States amounted to about eighty-five billion dollars, we enjoyed a year of great prosperity, but if in the post-war period the national income of the United States should decline to eighty-five billion dollars per annum, it will be a year of depression, and it may make it necessary for the government to spend substantial sums for the unemployed and otherwise.

It is therefore quite evident that in the future it will be to the interest of business as well as government to see that the level of business activity and the national income remains high.

Fourth, as a result of the rapidly mounting debt, as a result of the fact that in the post-war period the government may have to pay five to six billion dollars per annum on debt service alone, it is quite evident that money rates, the cost of money, cannot go up, and that the government for a number of years to come will endeavor to control the money market in order to prevent an increase in the debt service. These, briefly, will be the effects of the rapidly mounting debt on the national economy of the country.

Now let us look for a moment on the effects on business activity.

As a result of the war, the huge expenditures by the government, and the creation of the new deposits through sale of government obligations to the banks, the savings of the people have increased rapidly. The savings are positive as well as negative. The positive savings of the people are represented, one, by actual cash in hand. The volume of currency in circulation today is nearly nineteen billion dollars, as compared with seven and a half billion in August, 1939. In the post-war period the great portion of this currency now in circulation will return to industry and trade.

Two, the savings of the people are evidenced in the form of demand deposits. They are evidenced in the form of increased investments in government obligations. In addition there are negative savings in the form of repayments of private indebtedness. At the end of the present war very few individuals will be in debt, and therefore their credit standing will be improved, and their potential borrowing capacity will be larger than before. Furthermore, an ordinary individual, when he has a certain limited income, always endeavors to set aside a fraction thereof for a rainy day. At the end of the present war most Americans will have set aside more for a rainy day than ever before, and therefore they will be in a position to spend their current income in full; add to this the huge accumulated savings in the hands of the people, and one can visualize a demand for goods that staggers the imagination.

However, the above will take place only if (1) prices of commodities do not increase sharply. If by the end of the war the price level is twice as high as it is today, then the purchasing power of that accumulated savings will be cut in half. (2) If confidence prevails and if people employed feel sure that they will keep their employment, while those who have been thrown out of the war factories feel that they will soon be employed by private industry producing consumer goods. (3) If the conversion from war to peace economy is carried out in an orderly fashion without too much intervention from the government. (4) If the controls over prices and commodities are maintained until there is a better adjustment between demand and supply.

If the above conditions are there, and if we are to handle our affairs along sound economic lines and apply good common sense, then the demand for commodities in the post-war period, based on the accumulated savings in the hands of the people during the war, we are bound to have a period of very high business activity.

The last point is the danger to guard against. A large public debt undoubtedly will induce a number of people to find ways and means as to how to solve this debt in a painless way. Gentlemen, there is only one way to handle the public debt, and that is the hard way. There is no other way, and the hard way means hard work, increased production, and a policy of economy on the part of the government. Any other way leads to disaster.

Let us assume that the public debt is solved through inflation, or a sharp reduction in the purchasing power of the currency. Isn't inflation the worst kind of tax that can be imposed on anybody? Somebody has to pay for it. And yet there undoubtedly will be people in the post-war period who will say, "Let us not pay taxes. Let us solve this debt through the printing press or through the further depreciation of the dollar." This leads not merely to the wiping out or the reduction of the liquid savings of the people, but it also will undermine the economic and social system of the country.

To sum up then, a public debt of $250,000,000,000 to $300,000,000,000 can be borne by the United States without great adverse effect on the national economy of the people, on business activity, and on purchasing power of the dollar.

The above statement is based on the following assumptions:

1. That from now on the greater portion of the deficit of the government is financed through the sale of obligations to ultimate investors and not to commercial banks.

2. As soon as the war is over the deficit of the Government be drastically curtailed and measures taken not merely to balance the budget but gradually to reduce the debt.

3. That as soon as possible measures be taken to handle our tax system in such a manner that it will produce the necessary revenue for the government, but at the same time stimulate private initiative.

Post-War Outlook For Rayon Industry Good

While wartime restrictions on production and tax imposts will limit earnings of rayon companies during the war, favorable postwar sales prospects place the industry in the "growth" category, the United Business Service, Boston, reported on October 4.

The Service further points out:

"Production of rayon yarn and staple fiber in 1943 will probably total close to 650,000,000 pounds, exceeding the 1942 record output by 4%. Potential consumer demand holds well above the industry's capacity to produce, but strict regulation of civilian shipments is likely for the duration. Increased need for rayon yarns for tire cord and for various military uses will continue to press for greater production. Plants are being expanded considerably.

"Some increases have been authorized recently in the proportion of the civilian supply of rayon going to hosiery mills. Profit margins on these sales are somewhat larger than on rayon sold for such uses as tire cord and general line fabrics. However, any resultant gain in profits will be limited both by rising costs and by the fact that earnings are already in the excess profits bracket.

"Important technical improvements in production methods, particularly relating to quality and tensil strength, have enhanced rayon's competitive position with other fibers. After the war some loss of markets to nylon and possibly silk is to be expected, but public acceptance of rayon has been so widespread that new highs in consumption are in prospect."

Unsound Tax Program Can Destroy Capitalistic Democracy: Hanes

(Continued from first page)

ican way of life—our industrial system — instead of the fear we now have, multiplied by daily evidences that our government is interested in changing our way of life to some foreign concept, which we neither like nor will we ever accept." Mr. Hanes' address in full follows:

I have been asked to talk tonight about the new tax bill, which has been presented to the Congress by the Secretary of the Treasury.

In broad outline, the Administration is proposing: (1) Increased rates and lower exemptions, to gather in an additional $6,500,000,000. They have also proposed merging the Victory Tax with the income tax.

The exemptions for married persons to be lowered from $1,200 to $1,100, and each dependent from $350 to $300.

The exemption for single persons to be $500.

(2) Mr. Morgenthau requested the Congress to raise another $1,100,000,000 from the corporation income taxes.

(3) He proposed very stiff increases in the taxes on so-called luxuries, including liquor, beer, tobacco, travel, soda-pop, and chewing gum, calculated to raise additional income up to $2,500,000,000.

(4) He proposes to raise from estate and gift taxes an additional $400,000,000.

I am not going to discuss with you this evening the proposed individual income taxes, nor the proposed sales taxes, which Mr. Morgenthau chooses to call excise taxes, nor the estate and gift taxes, except to say that I sincerely hope the Democratic majority in Congress will be successful in passing these taxes as proposed.

No man who votes for such a tax bill can possibly be returned to the 79th Congress.

I am going to confine my remarks to proposition No. 2, namely, the raising of the corporate income taxes, normal and surtax, which, in effect, is the normal tax rate, to 50%.

You have all heard, time and time again, during the past year of group after group being formed for the purpose of planning for the post-war period.

We are all agreed that our men and women returning from the armed services must be provided with jobs.

Is it not strange, therefore, that someone has not hit upon the simple method of providing our corporations, great and small, with means of providing jobs?

We all know that when hostilities have ceased, the Federal Government is going to be left with an enormous public debt.

Would it not then be desirable at that time for private debt to be reduced to the lowest possible figure?

We should provide both the corporation and the individual with some real far-reaching incentive in order to encourage both to reduce their debt as rapidly as possible during this present period of high earnings.

It is, therefore, in a spirit of post-war planning that I approach the problem of corporate taxation.

I want to keep the private capitalistic enterprise system, which has proven its ability to out-produce the rest of the world, in such a safe and sound condition that it will continue after the war to provide the American people with an even higher standard of living than it has provided in the past.

If I had not believed in the capitalistic system prior to our entry into this war, I would most assuredly believe in it now.

It seems to me that our only hope for the future is dependent upon the continued functioning of this system of capitalistic democracy.

To strangulate it now will mean not only the danger of the loss of the war, but also an inevitable defeat in achieving the kind of peace we all desire.

The greatest threat to this system of private enterprise is a failure to recognize what are the essential needs for its continued life.

Business done in a corporate form has, by and large, created the power and efficiency of our industrial system.

Corporations are an instrument or tool whereby industry can function with the maximum of efficiency and with the widest distribution of the benefits of private ownership.

Corporations, however, although many attributes of personality have been conferred upon them, are, nevertheless, only ways and means of conducting business.

If the penalty for conducting business in corporate form is sufficiently great, that form of business, however socially desirable, will be abandoned.

The real proprietors of corporate businesses are, of course, the stockholders.

In an ideal tax system, corporations would pay only a tax for the privilege of doing business in a corporate form, while the tax on the productivity of the corporation would be paid entirely by the shareholders.

For a number of years now, the federal tax system has departed from this principle.

Heavy flat taxes are laid upon corporate earnings and then further taxes are imposed upon the shareholders.

Even a low flat income tax on corporations has grave elements of inequity because that part of the corporate income going to the poorest shareholder bears the same corporate rate of tax as that going to the wealthy shareholder.

When the corporate rates of normal and surtax reach the proposed 50% and the excess profits tax is 90%, the problem ceases to become one of inequities and approaches that of danger to corporate enterprises generally.

The danger is accentuated because the rates have achieved these heights in a comparatively short period of time.

Many corporations fixed their capital structures at a period when tax rates were much lower.

Many corporations have incurred debt obligations when their earning power after taxes seemed quite adequate to pay off the debt.

The inability to meet both fixed charges and current taxes is becoming increasingly serious and unless this problem is met many corporations face ruin.

Another danger of continued increase in corporation rates is that venture capital will have little or no inducement to risk itself in corporate enterprise.

New business, which depends so much upon credit, will find it increasingly difficult to secure when even the most successful business has very little left with which to amortize debt.

Funds for the prosecution of the war, of course, must be raised.

Furthermore, taxes are a prime factor in the war against inflation.

There are three vital weaknesses in the present corporate tax law:

(1) The rate is so high that corporate credit is endangered.

(2) Depreciation allowance is so low that corporations cannot create enough reserve to pay for rehabilitation of plant and reconversion to peacetime production, and,

(3) Corporations financed with the aid of preferred stock must have this fixed interest obligation treated as a charge against earnings, rather than as an addition to earnings.

I will take them in order.

Number One—Corporate credit:

The vital factor in the corporate side of the tax bill is not the rate of taxation.

The rate is not important provided we safeguard that thing upon which our whole industrial system is founded—namely credit.

The credit of a corporation, or of an individual, means simply "ability to borrow."

Ability to borrow is founded upon ability to repay.

If the normal rate upon corporations gets so high that their ability to repay debt is impaired and their credit is destroyed at the banks—and the Federal Government must assume that function—our corporations will be forced into wholesale bankruptcies, at the first signs of depression.

This is precisely what happened to our railroads after 1929.

The rails had pursued a policy of financing through long-term bonds all their requirements for maintenance — new equipment,—and expansion—and, at the same time, paying dividends on preferred and common stock instead of retiring debt.

When business fell off, the fixed charges were so high that the railroads couldn't meet their debt payments and many of them went into bankruptcy.

Their credit was impaired—and that is bankruptcy.

There is a simple method of forcing corporations to pay debt—and it will save our industrial system.

Exempt from all Federal income taxation a certain percentage of net income, provided that amount is used to pay off corporate debt.

It is just as simple as that.

For here we will provide a two-way incentive:

(1) Incentive to repay debt.

(2) Incentive to banks to lend.

Number Two is important, because the lender of other people's money is fearful that the corporation tax rate is going to continue to rise.

How high he does not know.

But he does know that the present rate of 40% normal, and 90% excess, is already impairing the ability of corporations to repay debt.

This is especially true where the corporation has outstanding preferred stock.

The result is alredy apparent. Credit has tightened.

And it is daily becoming increasingly difficult for the small corporation to borrow money.

And as for the new enterprise, without history of earnings or a high invested capital base—it is already bankrupt, under the present rates because its ability to borrow is gone—again for the reason that its ability to repay is gone—and that is bankruptcy.

Some will say this favors those corporations which have been financed with borrowed money as opposed to those which have been financed with common stock.

Of course it will.

We are confronted by a condition, not a theory.

We must take the facts as they are, and the fact is that a vast number of corporations are in debt and have contracted to meet that debt in certain monthly, quarterly or yearly payments.

The industrial system cannot operate "half slave and half free" — and if half the corporations are in bankruptcy the other half will not be very successful in selling their products in that kind of a depression.

It is, therefore, nothing but enlightened self-interest for all of us to work with all our might to reduce to the lowest possible level all private debt.

The Treasury may say, "but this will reduce the revenue."

That is true, but only temporarily.

We should remember that it is not the maximum amount of revenue collected at a given moment that should concern us.

But, rather, the continuity of the maximum flow of funds to the Treasury that we should seek.

And, under this plan, the interest on the aggregate amount of debt payment this year will next year be includible in net income, thus increasing net tax payments.

And so on for the years to come.

It will help corporations to remain solvent, and that means continued employment and continued revenues for the Treasury over the years.

We collect little revenue from bankrupt corporations.

It is long-sighted policy from every viewpoint.

It is fiscal statesmanship.

Number Two—Depreciation:

I have always thought that our Treasury was pursuing a most short-sighted policy in limiting the amount of depreciation allowed to a corporation.

The quicker a corporation can write off its fixed assets, the sooner this allowable deduction from earnings will become a taxable source of income for the Treasury.

And, since taxes always go up, corporations would have written off assets in years of low rates and would now be paying taxes on those earnings at high rates.

So the Treasury would be the distinct gainer.

Another condition, brought about by the war, has arisen.

We are driving our productive machinery three times as hard as ever before.

The wear and tear has been accelerated and the normal life expectancy of our productive machine has been greatly lessened.

Repair and replacement has become a problem and in some cases, indeed, an impossibility.

Corporations should be allowed to accelerate depreciation charges for this reason, as well as for the reason that rapid development of synthetics and other advances made by research as a result of the war, is going to render much of our machinery obsolete for peacetime production.

This, indeed, might be called a social security program, for it will guarantee continued employment and re-absorption of manpower into the peacetime industrial machine.

Number Three — Corporations financed with the aid of preferred stock:

The present Federal tax law encourages unsound, and sometimes unwise, creation of fixed maturity debt.

This is for the simple reason that interest on bonded indebtedness is considered a subtraction from corporate earnings—and, indeed, a legitimate one—whereas interest on preferred stock is, for some strange reason, considered an addition to taxable income.

For many, many years, American industry has been expanded, with consequent benefit to labor, government and business alike, through the aid of that type of financing known as the preferred stock.

It carries a fixed rate of interest, but has no maturity date.

It is truly long-term capital, and because of that fact a premium in the form of a higher interest coupon has been exacted.

During our period of great industrial expansion, the preferred stock has filled many gaps in the financial stability of our corporate enterprises.

It is unfortunate that its creators did not name it something like "deferred bond" rather than "preferred stock."

At the time the preferred stock was devised, there were no corporate income taxes.

To me, the real tragedy is in the reluctance of those charged with fiscal responsibility in our government to recognize these changes in the game, and to recommend changes in the rules accordingly.

Preferred stock interest should be a deductible item of expense just as bond or debenture interest is a proper deductible item.

That this point of view is a fair one may be proved by the attempt of some in high position to correct the wrong by doubling it.

Namely, to cease allowing interest on borrowed capital as a legitimate cost of doing business.

If these three items were sympathetically dealt with in a proper manner, businessmen would accept any tax rate that might be imposed for the duration.

For they would know then that our government is interested in preserving our American way of life—our industries system—and would not be in fear, as they now are, multiplied by daily evidences, that our government is interested in changing our way of life to some foreign concept, which we neither like, nor will we ever accept.

Mexican Agreement On Seized Oil Properties

The State Department in Washington announced on September 29 the terms of the agreement providing for final settlement of claims by American nationals against the Mexican Government arising out of the expropriation of oil properties in 1938.

Under the agreement, Mexico will pay American firms $20,137,700, in addition to the $9,000,000 cash payment made in November, 1941.

The total of $29,137,700 represents $23,995,991 plus $5,141,709 interest at 3% on all unpaid balances from March 18, 1938, to Sept. 30, 1947, the date set for the final payment.

The payments began on September 29 with a remittance of $3,796,391, and the balance will be paid in four annual instalments of $4,085,327 each.

The agreement, the State Department said, had been reached through an exchange of notes by Adolf Berle, Jr., Acting Secretary of State, and Rafael De La Colina, Mexican Charge d'Affaires.

The $23,995,991 valuation placed on the expropriated oil properties was fixed in April, 1942, by a joint American-Mexican commission, composed of two experts, Morris L. Cooke, for the United States, and Manuel J. Zevada, for Mexico.

The Standard Oil Co. of New Jersey group has accepted the settlement under which it will receive $18,391,651, plus interest of $3,940,843. The other claimants are expected also to accept the terms of the settlement.

To Buy 1944 Cuba Sugar

The United States agreed on Sept. 22 to buy a minimum of 4,000,000 short tons of 1944 crop Cuban sugar at 2.65 cents a pound f.o.b. Cuban ports.

The new contract, the largest ever negotiated with Cuba, was signed in Washington by officials of the Commodity Credit Corporation and the Cuban Sugar Stabilization Institute.

In Associated Press accounts it was further reported:

The 1944 sugar crop is the third successive one to be sold by the Cuban Government to the United States Government. In announcing the deal the State Department asserted it was "further significant evidence of the cooperation of the two countries in the joint war effort."

The price paid was the same as last year. The crop is larger by 1,000,000 tons than the 1942 crop.

"Our Reporter On Governments"

By S. F. PORTER

And now the bank drive is through, with oversubscriptions totaling more than 2½ times . . . . $5,516,000,000 subscribed to the bond deal, $5,381,000,000 to the ⅞% certificates . . . . Allotments on a 25% basis for the bonds above $50,000 . . . . And now . . . . For weeks the banks have been waiting for a chance to pick up some of the new 10-year 2s and invest their surplus cash . . . . For weeks many of them have been nibbling at the regular lists in the hope that they could get a fair amount of new 2s at par and straighten themselves out for the next month . . . . The $3,000,000,000 flotation, though, comparing with $5,000,000 in the April drive, killed this hope . . . . The banks went in as heavily as they could over last week-end . . . . But now they're about to enter the open market and buy more bonds to even up until December comes along and the year-end readjustments take prior position. . . .

Trading in the 2s and 2½s should have begun Saturday but a gentleman's agreement among the dealers delayed transactions until Monday . . . . Then along came Columbus Day, again interfering with dealings . . . . Also, there's no questioning the fact that most dealers in Wall Street and probably elsewhere have plenty of bonds . . . . They bought heavily—in anticipation of the bank buying described above . . . .

At any rate, the bonds opened at 100.6 to 100.8 on the 2s . . . . At 100.3 to 100.5 on the 2½s . . . . Slightly below what most experts expected, but that's probably because most experts did expect a higher level . . . . Rarely are "most people right" . . . . But the premiums are around the ¼ point level on the 2s, which is exactly proper . . . . and from this level, we may look for a rise to the ½-point mark . . . . And perhaps as the month rolls on, we may get up to ¾ or even higher . . . . That might be the temporary high . . . .

The minor setback in the market earlier this week was entirely technical, according to best opinion . . . . It might even have been engineered—to get some cheap bonds . . . . But enough said on that. . . .

The last issue of 2s of 1955/51, as of this day selling at 100.13 to 100.15, reached 101 before this drive was initiated. . . .

This issue of 2s is slightly shorter—1953/51—should hit the same mark. . . . Before rumors of the next financing enter the picture, of course. . . .

THE 2½s

The reason this observer has spent more time writing about the 2s than the 2½s is the simple fact that the 2s are the big, generally available issue. . . . The 2½s can go into the portfolios of non-commercial banking investors only. . . . Corporations, of course. . . . Individuals, of course. . . . But commercial banks, no. . . . Not until 1953. . . .

Naturally, billions of the 2½s will be on the lists this week, meaning hundreds of thousands of investors will be acutely interested in their price movements from now on. . . . But the 2s still will be the major trading issue. . . . Because the banks can buy these, are buying these, will buy them and will be the prime factor in their important market fluctuations from now on. . . .

As for this columnists's personal opinion—which may be of some interest on this one point—my preference always has been for issues in which the banks are involved. . . . Because the banks do make a market most of the time. . . . And the securities they buy and trade are more active and more likely to have major movements over a period of time. . . . Until now, we've never had the problem of separate issues—some for banks, some not for them—so exact comparisons are futile. . . . But we can compare the situation on the basis of popularity. . . .

There was the old day when the 2⅞s of 1960/55 first came out, for instance. . . . You may remember that we called them "Morgues" and that their action from the start was awful. . . . They were "sticky" and unpopular and hurt the market for months. . . . The reason was at that time the banks didn't want as long a term issue and prices generally were slipping. . . . The issue remained unpopular for a long period. . . . And didn't become the leader it now is until the banks began stepping in and picking them up in large quantities. . . .

Since then the tradition of "following the banks" has been an important one. . . . Which explains the excess of space devoted to the wonderful possibilities of the 2s and the minor amount of attention devoted to the 2½s. . . .

But to get back to the 2½s, in case this policy is of no interest to you. . . .

These have been acting beautifully ever since the books on the public drive closed . . . . Price on the old 69/64s now is 100.6. . . . On the 68/63s is 100.8 . . . . On the 67/62s is 100.18 . . . . The last issue of 2½s has been the most important from the point of view of the new securities, of course, and the sharp rally in those last week was most singnificant. . . .

One dealer, in fact, believes the 2½s may get ahead of the 2s for a while, due to the lesser amount outstanding and the more or less closed market in them. . . . But the longer view is that the superiority of the 2½s won't last. . . . And the issue is good only for those who want to hold on for a fairly long period, then sell out and get back into another issue of 2½s or some other flotation. . . .

Just to sum up, though, this week's trading is telling us and next week's will tell us the success of this Third War Loan drive. . . .

It has been terrific . . . . Oversubscription far above the $18,000,000,000 mark, as predicted here right along. . . .

Premiums quoted, also as reported. . . .

And Morgenthau set with more than $21,000,000,000 to keep him rolling through the remainder of 1943. . . .

HIGH IN NOVEMBER?

With the new issues getting all the attention outside of the last four tax-exempt loans, and with the bonds rising to new high premiums steadily, the Government market naturally looks wonderful. . . . And it is in fine shape. . . . Excellent buying power shown. . . . Excellent support indicated. . . . Good backlog of demand indicated from commercial banks alone. . . .

But where do we go from here? . . .

Well, as this writer sees it, we should resume a rising trend for October and probably for early November. . . .

As for carrying into November, if the 2s—to use the issue as a key—reach up to 101—that should take place in the early days of next month. . . .

But in November. . . . The holidays start coming in to confuse the situation. . . .

And the tax bill then will be taking the headline space day after day. . . .

And year-end adjustments of portfolios with selling of various issues will enter the situation. . . .

And commercial banks will be losing Government deposits, against which they need keep no reserve and gaining regular deposits against which they must maintain reserves. . . . In short, the money markets will be in for some tightening. . . .

November and December aren't such easy months to figure out, and while this columnist is not pessimistic for the year-end, historical records would indicate some conservatism as 1943 rolls toward an end. . . .

INSIDE THE MARKET

Ever notice that we don't have nicknames for most new issues any longer. . . . Time was when each new financing was dubbed with a special identification as soon as it hit the market. . . . There were the "converts," for example. . . . The "Morgues." . . . The "Mellons." . . . Recently we've had the "new" and "old taps," but not much else. . . . Of course, we get so many new issues these days that nicknames won't do. . . . One must identify each issue by its maturity to be sure no mistake is made. . . .

The tax-exempts obviously are in a marvelous spot now, what with the tax talks going on in Washington and every observer finally convinced that exemption is going to be a swell thing to have. . . . Key issue of this list—the 1965 2¾s—selling at 112.12 against a low right before the drive started of 112. . . . There's real money in these. . . .

SEC Should Adopt Program Of Self Restraint: Harold F. McGuire

(Continued from page 1487)

not lie primarily in the broad purposes of the legislation, but in the efficiency of the machinery, statutory and administrative, for carrying them out." In part McGuire went on to say:

I think that there is general agreement upon the reasons for consideration of change in the securities legislation and its administration, as I have thus briefly stated them. The major objectives which should be accomplished by such changes are implicit in the statement of the occasions therefor. The broad questions to be considered may thus be outlined as follows:

What can be done by the Commission or by the Congress, acting in the field covered by our securities laws, or by both,

(1) to help industry and its executives to devote their maximum energies to the war effort and to the enormous problems of the post-war period, on the one hand, and to obviate the necessity of their devoting those energies to relatively unessential matters, on the other—always having due regard to the desirability of keeping security holders, actual and prospective, reasonably informed under the circumstances?

(2) to promote the team effort and cooperative spirit so vital to successful prosecution of the war effort and to the preservation, development and improvement of a healthy and efficient free enterprise system in the days that lie ahead?

(3) to facilitate, particularly in the post-war period, the flow of private funds into such enterprise on an honest but efficient basis?

(4) to facilitate the operation of liquid, honest and efficient securities markets so indispensable to the proper functioning of a free enterprise system based on private capital?

It seems plain to me that change in the existing legislation will be necessary if these objectives are to be fully accomplished. But I also think it clear that that alone will not be enough. The securities legislation, however amended, must necessarily be sufficiently flexible—if it is to be efficient—to permit a reasonable play of administrative discretion. That being so, the attitude of the Commission in administering the statutes will always be of paramount importance.

The first, and perhaps the most important, change which I would suggest, therefore, would be of some re-orientation in the Commission's viewpoint and approach. I have three points particularly in mind. . . . Without meaning to belabor the proxy regulations let us turn our attention to another series of provisions thereof which have a somewhat different emphasis. I refer to those regulations requiring statement of remuneration of, and pension plan provision for, directors, officers, employees and others in the proxy statement for any meeting called to elect directors.

As your Chairman has generally observed, examination of the proxy statements which have been prepared under these regulations indicates that the Commission has placed undue emphasis on these matters, in that the major portion of the statements consist of dollar signs and might lead the uninitiated to suppose either that the business to come before the meeting was the approval of compensation or that the principal factor to be considered in electing directors was the compensation received by them and others in the preceding fiscal year.

To be somewhat more specific we find that the Commission has selected the figure of $20,000 as the yard-stick for determining those officers whose names and compensation must be disclosed. If the purpose of these regulations be to require disclosure of whether "insiders" are unfairly diverting the corporate income to themselves, so that stockholders may act accordingly, why, we may fairly ask, was this particular figure selected? Certainly, such a salary is not unusual, nor does it indicate greed or unfairness. Under some circumstances, it might be very modest; under others, highly unreasonable. It would seem that, if the purpose stated is the motivation for the regulations, a formula which would require disclosure of compensation exceeding a much higher absolute figure, or a specified percentage of net profits or net assets, would be more appropriate.

Now, this may offhand appear to be a small matter, since it cannot generally be contended that undue burden is placed on management in compiling these compensation figures. But that is hardly the point here. The point is that corporate executives are apt to feel that the SEC, instead of requiring disclosure to stockholders of information material to them in determining the wisdom or unwisdom of corporate action, as contemplated by the Exchange Act, is "picking on" executives with a view to promoting some other social or economic reform. It is unfortunate that any agency of Government, should wittingly or unwittingly, create such an attitude in the minds of any group of our citizens at this time, when team effort and coperation in the national interest are of such vital importance.

* * *

The prospectus required to be furnished to investors affords another interesting subject for consideration. One of the primary purposes of the Securities Act is to provide the average prudent investor, through the prospectus, with information which will help him in deciding whether to purchase a security. I think that it is now generally conceded, however, and, in fact, has been for years, that the Securities Act prospectus is of such character that the average investor does not read it, or, if he did, could not understand it. As we all know, that prospectus is a bulky document, typically running to some fifty-odd pages, which is printed and distributed at great cost. It is normally replete with legal verbiage and with complicated and pessimistically footnoted financial statements. When he receives it, the average investor generally deposits it in the wastebasket. Now, this is by no means due entirely to administrative action, or lack of it. But it does result in part from the Commission's view that there be included in the prospectus information dealing with subject matters which might well be omitted and from the technical character of some of the regulations designed to elicit that information.

The foregoing illustrations, which might be multiplied if time permitted, will serve to indicate that there is meat in the criticism that the Commission's administration of the securities laws has tended in some instances to require unnecessary expenditure of time and effort by corporate management, to cause undue expense to the companies affected, to produce unnecessary irritation, to create apathy in investors or stockholders towards corporate literature, and to result in confusion. It is only fair to say in defense of the Commission, however, that it has done much, particularly in the last two years, to counteract these tendencies. But, in the light of the existing situation, we may appropriately ask of the Commission that it do more. Specifically, we may ask that it conduct a vigorous self-examination of its present forms and regulations and apply to each item therein these two tests: First, does it ask for information which is essential? Second, if the subject matter of the item cannot be eliminated, can the objective sought to be attained be accomplished in any manner which will interfere to a lesser degree than at present with other necessary activities of corporate management?

So much for the **first plank** in the platform for re-orientation of the Commission's viewpoint and approach.

The Commission has also been charged with seeking to extend its powers over subjects not confided to its jurisdiction, or with interpreting its grant of authority so broadly as to stretch it to the breaking point. This criticism, too, is not without justification.

* * *

I suggest as the second plank in a suggested platform for conduct in the Commission's affairs during the war and post-war period that, in view of the circumstances previously recited, it confine itself strictly within the limits of its authority and not seek new fields to conquer.

Closely related to the suggestion just made is the further suggestion that the Commission not engage during this period in further experimentation and programs of reform, even though clearly within the Commission's power.

Scott & Stringfellow Admit

RICHMOND, VA. — Scott & Stringfellow, Mutual Building, members of the New York and Richmond Stock Exchanges, have admitted Edward C. Anderson and James H. Scott to partnership in the firm. In the past both were partners in the firm.

Public Utility Securities

Illinois Iowa Power Preferred

Illinois Iowa Power (indirectly affiliated with North American system) was recapitalized in 1937, at which time the present $2.50 preferred stock together with the dividend arrears certificates (representing the $24 unpaid dividends) and some common stock were given to the old preferred stockholders. Due to litigation by some of these stockholders, dividends on the new issue were omitted for several years, and while extra payments were made in 1941-42, arrears amount to $8.40. The preferred is currently selling at 41⅜ on the Curb and the certificates at 9. A combined unit of the two therefore returns about 5% and has a claim on about $32 arrears. Presumably arrears on the "new" preferred would outrank the arrears on the "old" preferred although the $24 face value of the certificates has been set up in the balance sheet, as an item in "paid in surplus."

In dollar amounts the current arrears are $4,061,400 while the certificates have a face value of $11,596,680, the total amounting to $15,658,080. An analysis of the possibility of settlement of these arrears raises a number of questions in utility finance.

While the company's earnings have been good, preferred dividend requirements being earned nearly 2½ times in 1942, and the cash position is better than average, the company is over-bonded, largely due to its unfortunate investment in the Illinois Terminal Railroad. Accordingly, the problem is to scale down the funded debt, refund the bonds at lower coupon rates, dispose of the railroad and terminal properties if possible, and reach a settlement with the holders of the preferred stock and certificates.

As the first step in this overall program, the company recently sold its utility subsidiary, Des Moines Electric Light Co., to the United Light & Power system for approximately $16,000,000. This money is now being used to retire the $15,834,400 refunding 5½s of 1954. The company recently requested SEC permission to solicit proxies for a stockholders' meeting Nov. 1, at which time a refunding program would be proposed, together with a change in name to Illinois Power Co.

Assuming that the refunding can be worked out with SEC approval, as seems likely, substantial savings in interest might be effected. The issues to be refunded aggregate about $77,000,000 (including a small issue which matures this year, together with $6,000,000 debentures. A savings of 1½ points in interest would amount to about $1,159,000, equivalent to $2.40 per share on the preferred stock. This is on the assumption that the coupon rate on the refunding issue can approximate 4%.

Sale of the railroad property would, of course, be helpful in the present program, permitting a further debt reduction, but as the company is showing substantial earnings during the wartime period, in relation to a possible sale price, no immediate action seems likely. An attempt to work out a deal with the Burlington a year or so ago failed.

There is another potential source of funds which might be used either to reduce debt, or to help clear up dividend arrears. The company has sued its parent, North American Light & Power, for some $20,000,000 or more, claiming mismanagement some years ago. North American Light & Power is being dissolved under SEC orders but the question of subordinating North American Co.'s interest has delayed a settlement. Since both the Courts and the SEC are involved, together with various security interests, the triangular settlement may be delayed for some time unless a compromise can be worked out to satisfy all parties involved. There have been rumors from time to time that some progress is being effected toward such a settlement, but nothing tangible has emerged thus far.

Summarizing, the position of the preferred stock will be further strengthened if a refunding program can be consummated and a faster pace could be set in paying off arrears. The position of the certificates seems to hinge largely on a settlement of current litigation, although with preferred dividends disposed of (perhaps in several years, if the refunding is successful) a beginning could be made toward paying off the certificates.

If an advantageous settlement with North American Light & Power (or in effect North American Co.) should be worked out, this might permit a request for tenders of the certificates which presumably would require purchase at some level above the prevailing market. However, thus far North American Co. has shown little inclination to cooperate with the SEC since it maintains that the Commission has no jurisdiction to adjudicate the Illinois-Iowa claims.

Paul Linz to Be Partner

Paul Linz will become a partner in Carl M. Loeb, Rhoades & Co., 61 Broadway, New York City, members of the New York Stock Exchange and other leading exchanges. In the past Mr. Linz was a partner in the firm.

Wm. Kelleher Opens

SPOKANE, WASH. — William Kelleher has opened offices in the Paulsen Building to deal in general securities, specializing in local and Pacific Coast issues.

Investment Trusts

Back To Business

The lull in activity of investment company sponsors with respect to their own offerings while they were busy doing their part in the Third War Loan Drive has given way to a renewed burst of effort. They're back on the job. And how!

One of the many striking pieces of investment literature received this week is a colorful and highly informative chart showing business booms and depressions since 1775. This three-and-a-half-foot chart is published by **A. W. Smith & Co.,** sponsors of New England Fund and General Investors Trust.

National Income, Price Inflation, Federal Debt, and Business Activity are all graphically portrayed in this chart. Most significant for investors today is the record of decline in the purchasing power of the dollar during wartime and post-war periods.

In the War of 1812 the dollar in terms of living costs declined to 51 cents; in the Civil War the dollar declined to 44 cents; in the first World War it went down to 48 cents; at present it is worth 73 cents in terms of what it would buy in 1939.

Another highly significant fact revealed by the chart is that for the first time in the history of this nation our Federal debt has exceeded our annual national income.

Before we entered the first World War, national income was $70 billion and Federal debt was $3 billion. Today national income is estimated at $146 billion and our Federal debt is $150 billion with the prospect of mounting to $300 billion before the war is over.

* * *

Hugh W. Long & Co. has a new folder on the Railroad Industry which is both attractive and full of "meat." The record achievement of the railroads and their present position are outlined in text and charts. One chart shows the increase in railroad net income from less than $100 million in 1939 to over $900 million in 1942. At the same time the ratio of operating expense to operating revenue was reduced from 76.4% to 62.3%. Another chart compares the performance of the Railroad Series of New York Stocks, Inc. with the Dow-Jones Rail Average from May 21, 1940, to Aug. 15, 1943. In that period the Dow-Jones Rail Average was up 57.0% and the Railroad Series of New York Stocks was up 144.5%.

The investment portfolio of New York Stocks as of Oct. 1, 1943, reveals that Chicago Pneumatic Tool common was eliminated from the Machinery Industry Series during the month.

In his monthly report to shareholders of Manhattan Bond Fund, Hugh W. Long, President, announces that the Fund has purchased $200,000 par value of U. S. Treasury 2s, 1951-53. A block of 1½% Treasury Notes, series B, 1946, were already held by the Fund.

* * *

Lord, Abbett has released a new folder on American Business Shares, "A Common Sense Way to Own Your Share in American Business." Accompanying this piece is an attractive, pocket-size folder on the same Fund giving portfolio information and outlook for the individual issues held.

Other recent Lord, Abbett publications include a "Composite Summary" of Affiliated Fund, American Business Shares and the various Union Trusteed Funds; a revised folder on UBC; a Union Dealer letter on UBA entitled, "A Way to Secure **Thorough** Diversification Among Better Bonds"; and a descriptive folder on UBA.

* * *

National Securities and Research Corp. sent the following letter to dealers under date of Oct. 5, 1943:

"A telegraphic inquiry from one of our dealers has asked the following two important questions with respect to our bond funds:

(1) "Do we contemplate, or are we working upon any changes in these bond funds into Government or low yield securities.

(2) "Do we contemplate offering any such program direct to shareholders.

"In the belief that some of our dealers may have this same question in mind, we quote below from our telegraphic reply to the wire from the aforementioned dealer:

(1) " 'We are not contemplating or working on any plans of putting Governments or low yield bonds in either of our bond funds.

(2) " 'Furthermore, we would not, under any circumstances, make any offer to shareholders direct.'

"Should there be any further information desired in respect to this matter we should be very glad to hear from you."

* * *

"Post-War Taxes and Unemployment" is the title of the discussion in the October 7 issue of **Investment Timing.** A sombre picture of post-war unemployment prospects is drawn. In the last war only 25% of our national output was devoted to war purposes and there were only 4,000,000 men to be demobilized. Now 50% of our output is for military purposes and there will be about 11,000,000 men to demobilize after the war.

* * *

"The potential unemployment problem, therefore," states the article, "will be much more severe after this war than after the last one." The only real solution to this problem, according to the discussion, will be in a realistic overhauling of Federal taxes to permit private business to get into peace-time production with a minimum of financial restraint.

* * *

Keystone Corp. is out with another of its bell-ringing, quick-impression sales pieces. This time it's a simple and most attractive little folder entitled, "A Guide to Common Stock Investment." The story is built around a long-term chart of the Dow-Jones Industrial Average showing in color the familiar "Buying Range" and "Selling Range" parallel bars with the Average line fluctuating back and forth between them. At present the Average is only slightly above the indicated buying range.

Tied in with the folder is an issue of **Keynotes** describing the various classes of common stocks available through the Keystone Stock Funds. A later issue of **Keynotes** shows a 28-year chart of discount bonds and lists the reasons why they are attractive investments at current prices.

* * *

Distributors Group has released in quick succession three issues of its **Railroad News** featuring the Rail Shares of Group Securities, Inc., a group which is 100% invested in discount rail bonds. The latest issue is an excellent two-page report on "The Railroad Situation Today." It is crammed full of facts and figures supporting the opinion of the Investment Management Department of Distributors Group that **discount rail bonds as a group are better values today than they were at their 1939 lows!**

* * *

George Putnam Fund has published the Oct. 1 investment holdings of the Fund in an attractive folder which includes a discussion of "What Is a Good Investment These Days." Portfolio changes during September were as follows: **New Purchases**—Bigelow-Sanford, Cerro de Pasco, Ohio Oil, Public Service of N. J. **Additions**—Union Pacific and New England RR. 1st 5s, 1945. **Eliminations**—Boston & Maine RR. (1st "RR") 4s, 1960; Phillips Petroleum conv. deb. 1¾s, 1951; Youngstown Sheet & Tube conv. deb. 4s, 1948. **Reductions**—Northern Pacific Ry. P. L. 4s, 1997; Engineers Public Service $5.50 cum. pfd.; United Aircraft 5% cum. conv. pfd.

* * *

MIT's Brevits quotes the Department of Commerce estimate that liquid savings of individuals in the three-year period 1942-1944 will be substantially larger than the total income of individuals in the best pre-war year, 1929.

* * *

Two additional items of interest are **Hare's Ltd.'s** new folder on aviation stocks and **Selected Investment Co.'s** bulletin on the "Four Freedoms of Investment."

The Securities Salesman's Corner

Have You Ever Met This Fellow?

Some salesmen appear to possess all that anyone would need in order to become a top-notch success. Yet despite these surface indications of superior sales ability they never reach the top.

We have in mind a fellow who fits this description perfectly. He is tall, almost distinguished looking. He is friendly, jovial, poised, intelligent and has had considerable experience in life as well as in business. He is in his middle forties. He is very neat and wears his clothes well. He is earnest and is a persistent worker. He follows through and is consistent in whatever he undertakes to accomplish. He has a strong sense of moral and intellectual honesty. So far pretty good—would you not agree?

With all these good points, plus a knowledge of what he is selling, the unfortunate fact remains that this salesman barely earns a living. The only thing that keeps him going is perseverance. Instead of his being at the top of the sales organization he is at the bottom.

Unfortunately he has one great fault and he doesn't realize it. He doesn't know that he bores people. He talks too much. Or he talks about the wrong things at the wrong time. Or if he talks about the right things he does so at the wrong time. Most of us talk too much—this fellow makes a specialty of it. He's what you call an "ear-bender."

He likes to visit. He's always got a story. If you are busy, if there is something important on your mind, he'll barge right in and start to tell you a long involved tale about something in which you have not the slightest interest. He's the type of fellow nobody dislikes, he's not offensive, he's just the kind, when you see him coming you say to yourself, "here he comes again; I'd better get out of here before he corners me for another half hour."

It is this one weakness that can hold any person back. In the selling field it is a fatal drawback. Talking around a subject instead of straight into the heart of it, is one of the most positive ways to lose an order that was ever invented.

Eventually this unfortunate tendency becomes a habit. Once it attaches itself to its victim it is difficult to break. Sometimes those who have this weakness are unaware of their failing. More careful study of other people, better timing of what you have to say, giving thought and study to what you are going to say before you say it, better choice of words and a conscious effort to be brief and concise—will aid in overcoming this handicap.

There is an old adage "Silence Is Golden." For the fellow who talks too much—or just talks because he enjoys doing so, it's a pretty good rule to follow.

Our Reporter's Report

(Continued from page 1487)

that new senior obligations, which are priced right, will encounter ample demand to provide a real market for debt financing.

Price Inflation, Stocks

The driving force behind the reported leaning of investors toward high-grade equities is recognized as an outgrowth of the sharp fall in the purchasing power of the dollar over the last two or three years.

Those who depend upon their investment incomes to bolster other earnings naturally have been feeling the steady pinch and in consequence are seeking to obtain a higher return even if some element of safety must be sacrificed.

At the same time it is recognized that common stocks, unlike bonds on which the rate of return is definitely fixed, would be in a position to discount any further price inflation, by way of market appreciation.

Plenty of Competition

From all indications there will be plenty of competition, where the new securities are sold via the auction method, as in the case of utilities, as new issues now in the works come up for sale.

This was clearly indicated by the activity among officials of underwriting firms who will be in there seeking after all opportunities in the closing quarter of the year.

Some of the buying and selling department heads among Street firms were on the job Tuesday despite the bank holiday, putting the final touches to their bids to be submitted for the Atlanta Gas Light Co.'s $7,500,000 of first mortgage bonds and 20,000 shares of cumulative preferred stock.

Indicative of the high degree of competitive spirit which prevails at the moment, were conditions surrounding the bidding for these securities yesterday when the company found itself in possession of tenders from several sizable banking syndicates despite the limited size of its offering.

Utilities Versus Rails

Dealers who are in touch with the operations of large investing organizations from time to time, such as the insurance companies, find that this section of the investment world is a bit cool toward highest grades of utility issues at the moment.

Most power and light issues brought out since the turn of the year have carried low coupons, and since their appearance have been subject to price appreciation which has dropped the yield in great many instances below the 3% level which such buyers still adhere to as a minimum return.

Consequently there is a disposition in such quarters now, dealers report, to look more kindly toward some of the more attractive ralroad liens where frequently the maturity is shorter and the rate of return a good deal more to the liking of potential buyers.

Colo.-Southern Looks Good

The 4½s of 1980 of Colorado & Southern offer an attractive situation at the present time according to an interesting memorandum issued by Hicks & Price, 231 South La Salle Street, members of the New York and Chicago Stock Exchanges. Copies of this memorandum may be had from the firm upon request.

Chicago Rapid Transit Situation Of Interest

Chicago Rapid Transit Co. offers interesting possibilities according to a late brochure issued by Leason & Co., Inc., 39 South La Salle Street,, Chicago, Ill. Copies of this brochure will be sent by the company on request.

Reduction In Taxes To Stimulate Purchasing Power After War Urged By Ruml

Declares Business Is Committed To Take Initiative In Creating Jobs

Advocating reduction of taxes rather than a public works program to combat mass unemployment in the post-war period, Beardsley Ruml, Chairman of the Federal Reserve Bank of New York, asserted on Oct. 11 that the stimulus to purchasing power, when needed, may well come through reduction of taxes. Mr. Ruml, Treasurer of R. H. Macy & Co., and author of the pay-as-you-go income tax plan, expressed his views before the Steel Founders Society of America at the Waldorf-Astoria Hotel, and in his address said:

"Why not leave at home for expenditure by the individual, income that otherwise would have to be pumped out again in order to maintain high employment?

"We must not expect too much from a public works program as a general support for high employment. The most we can expect, and this is no small gain, is that public works can be planned and undertaken in such a way as to even out the activities of the construction industry throughout the year and year after year. If we could only achieve reasonable balance in the construction industry itself a great deal would have been accomplished."

The foregoing is from the New York "Times," which further reported Mr. Ruml's remarks as follows:

"Mr. Ruml pointed out that most business men agree that the elimination of mass unemployment is the first requirement for the post-war period, and declared that business is definitely committed to take the initiative and do its part in creating post-war jobs.

"'Many will go so far as to agree that unless mass unemployment can be eliminated under a system of private business enterprise, private business enterprise will be supplanted by some other arrangement for the production of goods and services,' he said.

"He asserted that it would be folly to expect business to make the transition from full wartime employment to high peacetime employment without cooperation from Government at every level, Federal, State and local.

"'In addition, we require for success in the attack by business and Government on the danger of mass unemployment,' he said, 'a commitment on the part of Government that through an explicit fiscal and monetary policy it will act when business cannot act to sustain employment and effective demand.'

"He warned that business may be properly apprehensive regarding the fiscal and monetary policy.

"'It may be apprehensive, not that the intentions of Government will be hostile or even indifferent, but that, unless the preparatory organizational work is done now, the Federal Government will be helpless in executing even the most elementary collaborating program,' he said.

"Mr. Ruml explained that the Committee for Economic Development has taken the peacetime expansion of private business as its first and single job. He said the Committee is a business man's organization set up for discharging this special responsibility of business in the post-war period 'through the expansion and stimulation of business activity on a strictly sound business basis to make the maximum business contribution to high employment and sustained employment.'

"He outlined the goals 'to shoot at' for the post-war period and named them as 'high employment and high production, maximum activity of private enterprise and effective compensatory fiscal policy, a public-works plan to contribute to a more efficient and stable construction industry, a minimum protection against the hazards of life and, finally, an improvement in the operations and provisions of our representative legislative process.'

"Congress should be encouraged to provide itself with more adequate technical and professional service, he said. He declared that Congress has not made the provision for its own needs that modern times require."

Investment Cos. Ass'n Holds Annual Election

Announcement has been made by the National Association of Investment Companies of the election to the Executive Committee of the Association of Hugh B. Baker (New York), President, Blue Ridge Corporation; Edward C. Johnson, 2nd (Boston), Vice-President and Treasurer, Incorporated Investors; Hugh W. Long (Jersey City), President, Manhattan Bond Fund, Inc.; and Jonathan B. Lovelace (Los Angeles), President, The Investment Company of America. These men were elected in the regular annual balloting of the Association for the three year term commencing October 1, 1943.

Those continuing to serve on the Committee are O. Kelley Anderson, President, Consolidated Investment Trust; George M. Gillies, Jr., President, The Adams Express Company; Merrill Griswold, Chairman, Massachusetts Investors Trust; James H. Orr, President, Railway and Light Securities Company; Cyril J. C. Quinn, Vice-President, Tri-Continental Corporation; S. L. Shelley, President, Keystone Custodian Funds, Inc.; Hardwick Stires, Vice-President, Scudder, Stevens & Clark Fund, Inc.; Richard Wagner, President, The Chicago Corporation; and Paul Bartholet, Executive Director of the Association.

By recent amendment to the Association's Charter, to become effective October 1, 1943, the scope of its activities was broadened. Henceforth the Association will concern itself with all matters of genreal interest to the investment company business, including questions of public policy. To date, the Association's efforts have been confined primarily to regulatory and other problems arising in connection with the administration of the Investment Company Act and State securities laws.

The membership of the National Association of Investment Companies comprises 120 companies with combined assets of approximately a billion and a half dollars, and includes substantially all active management companies in the field.

World Bank Plan Hailed

The Treasury Department's proposal for a $10,000,000,000 world bank for post-war reconstruction was welcomed in Lisbon, Portugal, on Oct. 8 by the newspaper Diario de Lisboa, said the Associated Press, which reported:

"It is a colossal effort that only a powerful, rich nation, full of generosity and capable of large-scale initiative, could realize," Diario said. "Peace would be another war just as dreadful and dangerous if victory should serve only to give satisfaction to plutocratic appetites."

Bank and Insurance Stocks

This Week — Insurance Stocks

By E. A. VAN DEUSEN

As was pointed out in this column on Sept. 16 and Sept. 30 respectively, fire and casualty insurance companies reported, in general, improved operating results for the first half of 1943 compared with the first half of 1942, also a very substantial growth in surplus. This week it is of interest to note how the market appraises the situation of representative fire and casualty companies, as manifested in the market action of their stocks since the close of 1942, up to and including the last day of the third quarter of 1943.

In Table I, the market prices of 35 active fire insurance stocks are shown as of Dec. 31, 1942 and as of Sept. 30, 1943, and also the respective percentage market appreciation of each. Stocks marked with an asterisk are those which comprise Standard & Poor's Weekly Fire Insurance Stock Index. It will be noted that every one of the 35 stocks has advanced appreciably over the past nine months. Firemen's Insurance (Newark) shows the largest gain, with an appreciation of 42.7%, and United States Fire the least gain, with an appreciation of 6.6%. The average appreciation of the group is 16.8%.

In Table II, the market prices of 13 active casualty and surety stocks for the same two dates are shown, together with the corresponding percent market appreciation of each. Again, all stocks show a substantial gain, Maryland Casualty leading with an appreciation of 68.8%, and Aetna Casualty and Surety trailing with 4.9% appreciation. Average appreciation of the 13 stocks is 21.5%. Stocks marked with an asterisk are those which comprise Standard & Poor's Weekly Casualty Insurance Stock Index.

TABLE I
FIRE INSURANCE STOCKS

Stock—	Market Price (asked) 12-31-42	9-30-43	Per Cent Appreciation %
*Aetna	51½	58¼	13.1
Agricultural	69½	79½	14.4
Am. Alliance	21⅛	25¼	19.5
Am. Equitable	17½	21	20.0
*Am. Insurance	14⅝	16	9.4
Balitmore Am.	7¼	8⅝	19.0
Bankers & Shippers	71¾	89½	24.7
Camden	20⅛	22⅝	12.4
*Continental	42	49⅜	17.6
City of N. Y.	16¾	20¾	23.9
*Fidelity-Phoenix	44¼	50	13.0
*Fire Association	54¼	73½	35.5
*Fireman's Fund	75¼	91½	21.6
*Firemen's Ins.	10¼	14⅝	42.7
Franklin	28⅝	31½	10.0
Glens Falls	38¾	45¼	16.8
Globe & Republic	8⅝	10¾	24.6
*Great American	27¾	31⅜	13.1
Hanover	24⅝	30¼	22.8
*Hartford	93	102	9.7
*Home	29⅜	33⅝	14.5
*Ins. Co. of N. A.	71¾	86¾	20.9
Merchant's Fire	45⅞	51	11.2
*National Fire	56¼	64¼	14.2
*National Liberty	7½	8⅞	18.3
New Brunswick	30⅜	34½	13.6
New Hampshire	42½	50¼	18.2
New York Fire	12⅝	15⅞	25.7
*North River	23½	25⅝	9.0
*Phoenix	86	92½	7.6
Prov. Washington	33⅛	39⅝	19.6
*St. Paul F. & M.	268	314	17.2
Security	37¼	39⅞	7.0
*Springfield F. & M.	124½	133	6.8
*United States Fire	49¼	52½	6.6
Average			16.8%

*These 18 stocks comprise Standard & Poor's Fire Insurance Stock Index.

TABLE II
CASUALTY & SURETY STOCKS

Stock—	Market Price (asked) 12-31-42	9-30-43	Per Cent Appreciation %
*Aetna C. & S.	142½	149½	4.9
*Am. Surety	54	61¾	14.4
*Cont. Cas.	37	43⅜	17.2
*Fid. & Dep.	128	147	14.8
*Hartford S. B.	44¼	47½	7.3
Maryland Cas.	4	6¾	68.8
*Mass. Bond	68¼	74½	9.2
*New Amst. Cas.	23⅛	30	29.7
Pacific Ind.	40⅝	51¼	26.2
*Pref. Acc.	14½	16⅞	16.4
Seaboard Surety	44⅜	55¼	24.5
Stand. Acc.	58⅝	68¾	17.3
*U. S. Fid. & Guar.	31¼	40⅛	28.4
Average			21.5%

*These 9 stocks comprise Standard & Poor's Casualty Insurance Stock Index.

It is now of interest to compare the market action of insurance stocks with the general market, as summarized below:—

PERCENT MARKET APPRECIATION
12-31-42 to 9-30-43

	%
Fire Insurance Stocks (average of 35)	16.8
Fire Insurance Stocks (S. & P. Index)	14.9
Casualty Ins. Stocks (average of 13)	21.5
Casualty Ins. Stocks (S. & P. Index)	13.7
Dow Jones Industrial Averages	17.4
Dow Jones Composite Averages	22.4

Apparently the market is placing a favorable appraisal on the outlook for the fire and casualty insurance business. The forward movement of their stocks, however, began from the 1942 market low, and not on Dec. 31, 1942; measuring from the actual low of the market on April 28, 1942, the fire stock index has appreciated 39.5%, and the casualty stock index, 43.3%. Insurance stocks have not yet reached their 1936 highs, and would have to more than double in value to approach their 1929 highs.

New York Bank Stocks Compared For 3rd Quarter

Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange, have prepared an interesting analytical comparison of New York City Bank Stocks for the quarter ended Sept. 30. Copies of this comparison may be had from the firm upon request.

DIVIDEND NOTICES

COLUMBIA GAS & ELECTRIC CORPORATION

The Board of Directors has declared this day the following dividends:

Cumulative 6% Preferred Stock, Series A
No. 68, quarterly, $1.50 per share

Cumulative Preferred Stock, 5% Series
No. 58, quarterly, $1.25 per share

5% Cumulative Preference Stock
No. 47, quarterly, $1.25 per share

Common Stock
No. 39, 10¢ per share

payable on November 15, 1943, to holders of record at close of business October 20, 1943.

DALE PARKER
October 7, 1943 *Secretary*

ELECTRIC BOAT ★ COMPANY ★
33 Pine Street New York, N. Y.

The Board of Directors has this day declared a dividend of fifty cents per share and a special dividend of twenty-five cents per share on the Capital Stock of the Company, payable December 3, 1943 to stockholders of record at the close of business November 18, 1943.

Checks will be mailed by Bankers Trust Co., 16 Wall St., New York 15, N. Y., Transfer Agent.

H. G. SMITH, Treasurer.
October 8, 1943.

JOHN MORRELL & CO.

Morrell PRIDE meats

DIVIDEND NO. 57

A dividend of twenty-five cents ($0.25), plus an extra dividend of fifty cents ($0.50) per share on the capital stock of John Morrell & Co., and a stock dividend of one (1) share of no par capital stock for each thirty-four (34) shares held, will be paid October 30, 1943 to stockholders on record October 15, 1943 as shown on the books of the company.

No fractional shares will be issued. In lieu of fractional shares, stockholders will receive one dollar and seven cents ($1.07) in cash for each share upon which a stock dividend is not paid.

Ottumwa, Iowa. Geo. A. Morrell, Treas.

NASD Fines Case To Be Heard By SEC Oct. 21

Oral argument on briefs submitted by the staff of the Securities and Exchange Commission and by the counsel for the National Association of Securities Dealers, Inc., in connection with fines imposed by the NASD upon about 70 dealers for alleged violation of a price maintenance agreement will be heard by the Commission on October 21st.

The alleged violations occurred about four years ago in connection with the original distribution of a $38,000,000 bond issue of Public Service Co. of Indiana.

The legality of price maintenance provisions in syndicate agreements has never, it is believed, been considered by a court, the present case being the first occasion the SEC has had to consider the question.

The NASD acted against the dealers involved in the alleged violations under one of its rules requiring adherance on the part of its members to "just and equitable principles of trade" as provided in the Maloney Act, from which the association draws its existence and powers.

Hearings were previously reported in the "Financial Chronicle" of September 30th, page 1296, and October 7th, page 1404.

Situation Attractive

The current situation in Struthers Wells Corporations offers attractive possibilities according to a special memorandum issued by Ryan-Nichols & Co., 105 South La Salle Street, Chicago, Ill. Copies of this interesting memorandum may be had from the firm upon request.

Municipal News & Notes

Recent Canadian press advices suggest that the Alberta provincial government is desirous of re-opening discussions with representatives of bondholders relative to establishing a program for the refunding of the province's outstanding funded debt. In this connection, it is noted that the province is now in default on some $31,000,000 in principal maturities and $22,000,000 in bond interest.

It is recalled that when the original negotiations between interested parties collapsed in 1941, there was a difference of only ½% in the interest rate the bondholders' representatives were willing to recommend and what the government was willing to pay. The former asked for a 4% coupon in a refunding plan and the government offered 3½%. However, although Alberta is now offering to pay an interest rate averaging 2.44% on its debt, both matured and unmatured, having arbitrarirly reduced the contractual rate by 50%, it is now reported that the government might be willing to agree to a 3¾% coupon in refunding negotiations.

It is not known, of course, whether the slightly higher rate would be agreeable to bondholders in view of their original request of 4% and considering that the finances of the province, generally speaking, are now considerably more favorable than was true in 1941.

Evidence of this improved position is seen in the reported refusal of the Dominion government to renew a maturity of $400,000 in provincial treasury bills that became due on Sept. 1 last. The Dominion government is said to hold $28,000,000 of such obligations, representing borrowings by the province in the depression years for unemployment relief purposes.

Up to Sept. 1, the Dominion has always renewed this debt as it matured, at a rate of 3%. With regard to the Sept. 1 maturity, however, Finance Minister Ilsley is reported to have taken the position that the province is now able to pay its debt and has rejected Alberta's request for extension of the loan. A second treasury bill for $1,600,000 became due on Oct. 1 and the general speculation is that Mr. Ilsley will insist upon payment in this instance too.

Commenting on the prospect of an early resumption of refunding discussions, the "Financial Post" of Toronto on Oct. 9 stated as follows:

One snag in a refunding plan, and which proved a major hurdle in the 1941 negotiations, is what to do about the defaulted interest. One suggestion is that the province would agree to pay this at the rate specified in the refunding plan, and might make it retroactive to June 1, 1936, when the government arbitrarily cut the coupon interest rates in half.

Undoubtedly there is stronger support for the advocates of refunding on the Social Credit side than in the earlier years of the administration. On one occasion the government caucus decided that no matter what scheme was put forward, the rate should not exceed what the government then was offering to pay, or approximately 2½%.

Later, the caucus relented and it gave the government a free hand to negotiate with the bondholders, on the understanding that it would report back to the caucus. This was followed by the opening of the fateful 1941 parleys between a joint committee from the province and the bondholders.

Unless there is some major move that would change plans, there may be a provincial general election within the next 18 months. The term of the present house expires in March, 1945.

It is claimed in some quarters that there will be a "big push" from the government side to bring about the adoption of a refunding scheme not later than next year. This then would be one of the major platform appeals that the administration would make for a renewal of confidence at the hands of the electorate.

Philadelphia Exchanges Stimulated as Deadline Nears

Stimulated by announcement that there would be no further extension beyond Oct. 30, 1943, of the exchange offer under the City of Philadelphia Refunding Plan of 1942, more than $13,000,000 principal amount of additional bonds have been exchanged during the past week, bringing total exchanges to date under the 1942 plan to more than $83,000,000 and total exchanges under the 1941 and 1942 plans to more than $166,000,000, Drexel & Co. of Philadelphia and Lehman Bros. of New York, account managers of the group of investment firms and banks which is carrying out the refunding operation, announced Oct. 13.

Under the offer of exchange, holders of certain isues of the city's bonds optional for redemption between 1944 and 1953, may exchange their bonds for new refunding bonds of 1965 or 1975 maturity which, where redeemable, have extended callable dates but bear the former rates of interest to the original callable dates and thereafter bear interest at 3¼%.

As a result of the additional exchanges six more series of the new refunding bonds of 1975 maturity have been closed out although bonds of 1965 maturity are available in these particular series.

Honor Bache Employee Retiring After 52 Years

A farewell dinner was given by the Bache Quarter Century Club to Christian Schaefer, who is retiring after 52 years of service with the firm of J. S. Bache & Co.

Twenty-nine of the 32 members of the club were present. The partners, who are not members of the club, and two former partners, Stephen D. Bayer and Fred L. Richards, were guests.

Mr. Schaefer has purchased a home in Miami, where he plans to reside. Jules S. Bache, senior partner of the firm, made Mr. Schafer honorary manager of the Bache Miami office.

The club was organized last year, and the dinner, held in the Blue Room of the Hotel Brevoort, was the second affair conducted by the club.

Rail Stocks Interesting

Certain leased line stocks of the Delaware, Lackawanna & Western Railroad offer interesting possibilities at present levels according to a discussion of the situation contained in the Oct. 1 "Railroad Securities Quotations" issued by B. W. Pizzini & Co., 55 Broadway, New York City. Copies, containing quotations on guaranteed stocks, underlying mortgage railroad bonds, reorganization railroad bonds, minority stocks and guaranteed telegraph stocks may be had from B. W. Pizzini & Co. upon request.

Attractive Situation

The 4% non-cumulative income bonds of the New York Majestic Corp. offer an attractive situation according to an interesting descriptive circular prepared by Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York City. Copies of this circular may be had from the firm upon request.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 1492)

rant reentry and jeopardizing these profits.

* * *

From the end of September to the first week of October prices went down to fluctuate between 139 to 141. At this point pessimism increased. Yet I thought I saw enough signs to advise readers to buy. But a week later the averages, instead of stopping at 138, penetrated that figure and sold down to about 136. Recalling the position of the market at the highs I asked readers to get out. For even if a rally would occur the mass of offerings at the highs would prevent any advance of more than two points or so. I even played with the idea of holding on for these possible two points in order to get out even or possibly a small profit. But with the trend broken, the odds against such a rally were increasing daily.

* * *

As this is being written the averages are at 136.20 (Wednesday noon). The important point to watch is the 135 price. Should that hold, a rally carrying stocks back to about the highs of October could occur. I am tempted to add that the 140-42 range would be penetrated if it were not for something I saw when the market was at 138. For at 138 a kind of selling came in that disturbed me. Some sources explained this selling as s w i t c h i n g. But whether it was switching or something else isn't important. The fact that it came at a critical point is enough to mean caution.

* * *

Summing it all up the conclusions are: The market is holding on by its fingernails to a figure approximating 135.

* * *

On a rally the 138 price is open to suspicion. With the market now at 136 and a fraction this gives it a leeway of two points in which to swing. Passing through the higher figure would be a good sign. Breaking the lower figure would be the opposite. To buy any stock on such a slim margin entails too many risks. Better to hold off and let the market furnish its own answer.

It is possible that with the world at war, news might suddenly appear to change the picture overnight. Possible but not probable.

* * *

The war has passed the stage where decisions made on the battlefield affect world markets. Political changes, in a larger sense, are the ones to watch.

* * *

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.*]

Third War Loan Now Is Over $18 Billion

The $15,000,000,000 Third War Loan drive, which ended at midnight on Oct. 2, has passed the $18,000,000,000 mark. The Treasury Department reported on Oct. 12 that the incomplete total then amounted to $18,439,000,000.

In praising the "remarkable results" of the loan drive, Secretary of the Treasury Morgenthau explained that, since there were about 30,000 individual issuing agents, the Treasury would not be able to issue a final tabulation until Oct. 18. He expressed the belief, however, that every State in the Union probably over-subscribed its quota.

Sales of war savings bonds in New York State passed the original $4,709,000,000 quota on Sept. 28 and the new $5,000,000,000 goal was exceeded on Oct. 1.

Total sales for the State, as reported on Oct. 6, were $5,486,446,500, it was announced by W. Randolph Burgess, Chairman of the State War Finance Committee. The figure for individual sales ($807,700,000) is above the State goal of $796,000,000. Quotas for all other classes of investors were also exceeded. Insurance companies purchased $1,253,400,000 in bonds; savings banks, $850,200,000; dealers and brokers, $606,500,000; Federal agencies and trust funds, $8,300,000; State and local governments, $107,800,000; other non-banking corporations and investors, $1,895,500,000.

Total sales of war bonds in New York City through Oct. 5 were $4,852,309,500, or 16.5% more than its quota. The original city quota was $4,165,000,000, later raised to $4,500,000,000. Invidual sales in the city, totaling $625,000,000, went above the quota of $559,873,000.

The Third War Loan drive—the largest financing operation in history—began Sept. 9.

Minister To Ethiopia

President Roosevelt nominated on Oct. 5 John J. Caldwell of Kentucky as United States Minister to Ethiopia. Mr. Caldwell has been serving as acting Minister resident and Consul-General in Ethiopia.

Treasury Plan For United Nations RFC Bank—Separate From Currency Stabilization Plan

(Continued from page 1486)

that "The bank may guarantee loans made with private capital to any member Government, and through the Government to any of its political subdivisions and to business and industrial enterprises in the member country.

"The bank may participate in loans made with private capital or make loans out of its own resources only when the borrower is unable to secure the funds from private investment sources on reasonable terms."

Further below we give the plan in detail. It is understood that Secretary of the Treasury Morgenthau had informed interested committees of the Senate and House in closed sessions on Oct. 5 regarding the proposed bank. It was explained by Harry D. White, Director of the Treasury's Division of Monetary Research and author of a previously published proposal for post-war monetary stabilization, that the Treasury had not intended to make it public until it could be submitted to other governments, but disclosures in London of what is said to be an incorrect version led the Department to release copies on Oct. 8. Mr. White emphasized that the draft is not an official document and merely represents the views of the Treasury and other departments. On Oct. 8 United Press accounts from Washington said:

"The world bank plan is separate from the currency stabilization proposal," Mr. White said; "either could function separately, but there would be close cooperation between the two should both come into existence."

Under the proposal each country would contribute a share to the fund "according to an appropriate formula." Mr. White said, however, that the formula has not been determined and that he could not estimate this country's share except that it would be "substantial."

The following is the text of the Treasury's "Guiding Principles for a Proposed United Nations Bank for Reconstruction and Development."

Purposes of the Bank

The bank will encourage private financial agencies to provide long-term capital for the sound development of the productive resources of member countries, and when necessary will cooperate with and supplement private capital for such purposes.

Capital of the Bank

The capital of the bank would amount to approximately $10,000,000,000 subscribed by member countries according to an appropriate formula. Member countries will make an initial payment of 20% on their shares.

When the bank needs additional funds for its operations, it may make calls upon the unpaid portion of subscriptions as needed, but not exceeding 20% in any one year. A large part of the capital would be reserved, in the form of uncalled subscriptions, as a surety fund against securities guaranteed or issued by the bank.

The initial and subsequent payments are to be made partly in gold and partly in local currency. The proportion paid in gold, not exceeding 20% of the payment, will be fixed by a schedule which takes into account the adequacy of the gold holdings of each member country. The local currencies held by the bank are to be repurchased by member countries with gold at the rate of 2% of the subscriptions annually.

Powers and Operations of the Bank

The bank may guarantee loans made with private capital to any member government, and through the government to any of its political subdivisions and to business and industrial enterprises in the member country.

The bank may participate in loans made with private capital or make loans out of its own resources only when the borrower is unable to secure the funds from private investment sources on reasonable terms.

The decisions of the bank will be based exclusively on economic considerations. In passing upon any application to guarantee, participate in, or make a loan, the bank shall give consideration to the soundness of the investment project or program, to the budgetary position of the member government guaranteeing the loan and to the prospective balance of payments of the member country.

All loans which the bank guarantees, participates in, or makes must fulfill the following general conditions: (a) payment of interest and principal must be fully guaranteed by the national government of the member country; (b) the investment project or program must have been investigated and approved by a competent committee; (c) the terms of the loan must be reasonable, and (d) on guaranteed loans the bank must be compensated for the risk it assumes.

The bank will impose no conditions as to the member country in which the proceeds of a loan are to be spent. When a loan is made by the bank, it will credit the account of the borrower with the amount of the loan and payments in the appropriate currency or currencies will be made from this account to meet audited expenditures. No loan may be made in the currency of any country without its approval.

Payments of principal and interest must be made in free currencies, or by agreement, in the currency in which the loan was made. In the event of an acute exchange stringency, payments of interest or principal may be made for a reasonable period in local currencies to be replaced subsequently with free currencies.

The bank will deal only with or through the governments of member countries, their central banks and fiscal agencies, and with or through international financial agencies that are owned predominantly by member governments.

However, with the approval of member countries, the bank may guarantee international loans placed in their countries, and may sell or pledge any of its own securities, or securities taken from its portfolio in the markets of such countries. With similar approval, the bank may sell gold or foreign exchange held by the bank after consultation with the International Stabilization Fund.

The resources of the bank shall be used for the benefit of the member countries.

Management of the Bank

The administration of the bank will be vested in a board of directors consisting of one director, or his alternate, appointed by each member government. The board will appoint an executive committee and an advisory council and such other committees as it finds necessary for the work of the bank. The voting power of the member countries will be closely related to their share holdings.

A country may withdraw from membership by giving one year's notice. The shares of any member country that withdraws from membership would be repurchased by the bank over an appropriate period at par or at book value if that is less than par.

One-fourth of profit should be applied to surplus until surplus equals 20% of the capital. The remaining profits will be distributed in proportion to shares held.

The Effect Of War On Currency And Deposits

(Continued from page 1488)

money in retail stores. In addition, enormous additional sums of currency are needed for the payment of the millions of men in the armed forces.

A further factor tending to the holding of larger amounts of currency by the public, says the report, is that "many of the individuals receiving increased income and dependency allowances have never been accustomed to handling their affairs through banks." Shifts in population to new surroundings, inconveniences in the way of establishing new banking connections, and the temporary nature of the residence of many workers have had a like effect.

One interesting new aspect of the larger amount of currency in circulation is that, in terms of total value, $20 bills for the first time have supplanted $10 bills throughout the country as the most widely used monetary type.

Greatest Increase in Checking Deposits

While currency in circulation increased roughly $8,000,000,000 in the three and a half year period covered by the study, the other main form of "money" used by the American people, checking deposits in the banks (including Government deposits), increased roughly $29,000,000,000 in the same period.

One of the new lessons widely learned by the American public during the Third War Loan Drive just ended was that the reason for confining the $15,000,000,000 Third War Loan to individuals and business firms was that governmental borrowing from banks is, in many respects, equivalent to the manufacture of so much paper money.

As part of his study, Dr. Whittlesey describes the process by which the volume of demand deposits in the banks, ultimately coming to the disposal of the general public, is increased by bank purchases of government obligations. This is, he points out, "one of the most ingenious operations of the entire financial system, yet it is sufficiently subtle to remain a mystery to most customers of banks, and even, it may be said, to many bankers."

Increase Here to Stay

Formerly, expansion and contraction of checking deposits automatically reflected the changing money needs of business and the public, but one of the most significant results of war financing is that, since the vastly increased deposits are now based on bank ownership of government obligations, "any automatic tendency toward early contraction of the supply of deposits has now disappeared." In short, the increased volume of deposits generated during war may be here to stay.

Currency in circulation—that is, paper money and coins—may be expected to decrease with the war's end, Dr. Whittlesey holds, for various reasons which he outlines. The main portion of the nation's money supply, however—its circulating bank deposits—are likely to remain at the high volume established by the war unless they are reduced to two developments: partial payment of the Government debt, or absorption of Government obligations now in bank portfolios by sale to individual or institutional investors.

Money Now Comparatively Idle

One notable contribution of the study being commented upon in financial circles is the emphasis given to the fact that, in spite of the spectacular increase in the nation's money supply, the money at the command of individuals and business firms has been, as a total, more idle during the war than has been generally realized.

The velocity of bank deposits in 101 leading cities, as computed by the Federal Reserve Bank of New York, declined in the three war years from 22.5 to 20.5 times per annum.

The causes of this significant phenomenon, the author finds, is that "some businesses and individuals have increased their holdings of deposits and currency in order to provide for growing tax liability, the purchase of Government bonds, debt retirement, further purchases of goods and other emergencies. Such accumulations slacken the rate at which money circulates. Heavier balances of the treasury have also had some effect."

"Inflationary Gap" Theory Criticized

This enhanced "idleness" of our total money supply during the war provides the basis in the study—together with other considerations—for some criticism of the validity of the "inflationary gap theory" which has been so much stressed in Washington legislative and administrative circles.

The total dollar figure of income received by the public may be vastly greater than the dollar value of goods available for purchase by consumers, but this mathematical "gap" has an effect in increasing the general price level only to the degree that the added money income is put to use by the recipients.

"Income retained in the form of idle balances," the author points out, "does not exert any direct influence on prices."

This frequently overlooked factor, he finds, is one of the several marked influences explaining the moderate rise in the American price level during the present war compared with previous wars, in spite of the fact that the nation's money supply has increased more during the past three and a half years than in the preceding century and a half.

After-the-War Inflation Problems

"It is likely," Dr. Whittlesey says, "that for some time after the war the task of preventing the sudden release of reserves of purchasing power—cash and liquid claims—will be one of the major problems of monetary and fiscal policy.

"The potentialities inherent in a large volume of idle balances constitute a dynamic element of considerable significance, while the possibility of exercising some degree of control over this latest force represents an important strategic problem in the battle against inflation."

Linked with this phenomenon of present unused money at the command of business firms and individuals, are so-called "liquid claims" which, under our monetary system, can be quickly converted into additional currency or checking bank deposits.

These "liquid claims"—not included by economists in the totals of our "circulating medium" or money supply, because they are not actually used by the people in purchasing property or services—consist of time deposits of large corporations and institutions, savings deposits, War Savings Bonds and various short-term Treasury certificates such as tax notes.

When these "liquid claims," quickly convertible into cash, are added to our circulating medium—that is, checking deposits and currency—the "liquid resources" at the command of the public increased, according to the study, $72,000,000,000 in the three years ending in 1942.

"The existence of a large volume of obligations payable on demand (as in the case of demand deposits and War Savings Bonds) or after a short period of time (as in the case of time deposits and short-term Treasury obligations) inevitably raises the question of the possibility of strain in case any exceptionally high proportion of the claims are liquidated at any given time.

"The basis for the present concern over these liquid claims lies in the clear fact that their volume is not only higher than ever before in their history, but is rapidly expanding."

Post-War Problems Being Created Now

A final point very strongly emphasized by Professor Whittlesey is the need for those in charge of fiscal policy to remember that post-war finances will be determined in large part by war finance.

"Probably the most important conclusion to be drawn from the analysis presented in this paper," he says of his own report, "is that the methods of borrowing employed during the war will influence what the Treasury and the banks will be able to do in the post-war period."

"Fiscal policy is construed much too narrowly if we think of it independently of the circumstances in which it is expected to operate. Not the least of these external circumstances is the volume of circulating medium."

"It is essential to recognize at all times that the policies of today are setting the stage for the policies of tomorrow. This is true in the realm of fiscal policy; it applies also with respect to central bank policy and to the policies of individual banks. We are helping to determine today both what must be done at some future time and how it can be done."

State Chamber Urges Retail Sales Tax

The adoption of retail purchases taxes for the duration of the war only, to raise approximately $5,000,000,000 and to retard inflation, was urged in the program approved Oct. 7 by the Chamber of Commerce of the State of New York. This proposal was one of the 12-point program for unified tax action approved by representatives of 21 State Chambers of Commerce at a recent meeting in Chicago. The New York Chamber has approved as a whole the principles of the program (noted in a separate item in this issue).

In taking the sales tax action, the Chamber said:

"We have studied the various alternative taxes which might be employed to obtain additional funds, and we have come to the conclusion that the most suitable sources of new revenue are taxes upon purchases at retail.

"Such taxes would check inflationary consumer spending.

"Many of our States now tax purchases at retail. Their experience proves that such taxes would be feasible.

"We are convinced, in view of the enormous increase of money in the hands of consumers, that retail purchase taxes at rates sufficiently high to produce approximately $5,000,000,000, a year, would not be over-burdensome."

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.

Cgo. Tractions Interesting

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

Competitive Bidding In Rail Securities

Reply Brief By Halsey Stuart & Co. States Study Fails To Show ICC Has Lesser Authority Than Other Regulatory Bodies

A comparison of the statutes, the legislative history and the announcements of the Interstate Commerce Commission and of other regulatory bodies, including the Securities and Exchange Commission, fails to disclose any real basis for the contention that the ICC has a lesser authority or responsibility with respect to the public interest involved than have other commissions which have required competitive bidding, Halsey, Stuart & Co. Inc. and Otis & Co. declare in a reply brief filed with the Commission in reply to the arguments advanced by the opponents of competitive bidding.

"The advice which the issuer ordinarily requires in financing, if it requires any, is just as readily obtained under competitive bidding as under private negotiation," the brief asserts. "The most important advice required in private negotiation is the adequacy of the price proposed to be paid, and this can obviously not be obtained from the underwriter. If the carriers are competent under private negotiation to obtain the advice they need with respect to the most difficult element in financing—price—they are surely competent enough to obtain the advice they need with respect to the type of securities to be issued.

"Competitive bidding relieves the regulatory body of its present great concern with price—essentially a function of the market—and enables it to consider more effectively the financial policies that underly proposed financing plans, and whether these policies conform to the standards which the Commission must maintain in the public interest."

The system which the opponents of competitive bidding favor, the brief asserts, "makes the investment banker the exclusive advisor to both borrower and lender as to conditions and prices, yet he owes no fiduciary obligation to either, and is definitely in the deal with his own financial stake for his own profit."

In answer to the claim that competitive bidding will result in less wide distribution of securities, Halsey, Stuart & Co., Inc., and Otis & Co. declare that from the record it appears that competitively sold issues have actually been distributed more widely than have negotiated issues.

Post-War Taxes And Unemployment

(Continued from page 1487)

foreign demand, a few manufacturing industries will maintain their present levels for a long time, such as food and kindred products, tobacco manufacturers, lumber and timber basic products, printing and publishing, products of petroleum and coal, and leather products.

As there will be many more individuals seeking employment than in former peace-time years, industry will have to operate at a high level of activity to absorb them. The ability of business to give "full employment" will be conditioned to a considerable degree by its ability to operate at a reasonable profit. The great postwar backlog of demand and the accumulated purchasing power built up during the war are strong helpful factors.

Tax Adjustment Needed

Corporate taxes are now at the highest point in our history, and there is general agreement that they must be reduced substantially after the war. Some large corporations have surplus and reserves adequate for conversion from war plants to peace production, but many have not; after shouldering income and excess profits taxes and the ordeal of renegotiation, many will find themselves short of adequate reserves for reconversion.

Congress must devise a tax system that while producing the large amounts of revenue the Government will require — some estimates place it at $20,000,000,000 annually—will also encourage an expanding economy able to maintain full employment, foster incentive, and encourage business men to take risks and develop new enterprises. Congress took a step in the right direction last year in ameliorating the capital gains tax, and it could go further in sympathetic consideration of those who embark on new business ventures and thus prove a factor in taking up the slack of unemployment.

Conclusion

Post-war tax measures will obviously be one of the most important factors in the success or failure in maintaining a satisfactory level of employment.

Prospects are that:

(1) Some measures to permit corporations to set aside reserves for conversion, and to provide contract cancellation relief and severance pay with government funds, seem likely. These measures will need to be passed before the war's end or very promptly at its end.

(2) Excess profits taxes will probably be abolished or greatly reduced quickly after the end of the war, and if carry-over and carry-back provisions are kept they should prove helpful.

(3) Corporate normal income tax and surtax will probably remain substantially higher than before the war for a lengthy period.

Under the above conditions, taxes should not be a bar to business in providing sufficient employment, but if tax conditions are less favorable than this they are likely to cause difficulties. The probability is that post-war taxes will not prove insurmountable as a business problem.—*From "Investment Timing" issues by the National Securities & Research Corp., New York City.*

Broker-Dealer Personnel Items

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

NEW YORK, N. Y.—**Louis L. Bucklin**, formerly with Moody's Investors Service for twelve years, is now associated wtih **Carrere & Co.**, 65 Broadway. **Captain John Carrere**, a partner of the firm, is now on active duty with the Marine Corps in the Pacific.

(Special to The Financial Chronicle)

BOSTON, MASS.—**Henry DeFord, Jr.** is now with **Kidder, Peabody & Co.**, 115 Devonshire Street.

(Special to The Financial Chronicle)

BOSTON, MASS.— **John J. Garrison** has been added to the staff of **J. Arthur Warner & Co.**, 89 Devonshire Street. Mr. Garrison was previously with Davenport & Co.

(Special to The Financial Chronicle)

CHICAGO, ILL.—**Richard E. Murphy** has become associated with **Kneeland & Co.**, 141 West Jackson Boulevard. Mr. Murphy was previously with Channer Securities Company for a number of years. In the past he had his own investment business in Chicago.

(Special to The Financial Chronicle)

CHICAGO, ILL.—**Samuel A. McMurray**, for eighteen years with Schwarz & Co., has joined the staff of **Merrill Lynch, Pierce, Fenner & Beane**, Board of Trade Building.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Levering E. Taylor** has become associated with **Blyth & Co., Inc.**, 215 West Sixth Street. Mr. Taylor was formerly San Francisco correspondent for the Mercantile-Commerce Bank and Trust Company.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**William D. Stanfield** has been added to the staff of **G. Brashears & Company**, 510 South Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**N. Milton Boore** is now with **E. F. Hutton & Company**, 623 South Spring Street. Mr. Boore was previously with J. A. Hogle & Co. and Harbison & Gregory.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—**L. H. Bullock** has rejoined the staff of **Protected Investors of America**, 130 Montgomery Street.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—**George T. Makin** has become associated with **Walston, Hoffman & Goodwin**, 265 Montgomery Street. Mr. Makin was previously with Bankamerica Company.

(Special to The Financial Chronicle)

ST. LOUIS, MO.—**William L. Cobb** has become connected with **Lamson Brothers & Company**, Merchants Exchange Building. Mr. Cobb formerly was with Edward D. Jones & Co., and Slayton & Co.

(Special to The Financial Chronicle)

ST. PETERSBURG, FLA.—**Maurice L. Foisy** has been added to the staff of **Merrill Lynch, Pierce, Fenner & Beane**, Florida National Bank Building.

Rule On Salesmen's Commissions Modified By Internal Revenue Commissioner

The Treasury ruling governing ceiling control of income of salesmen receiving income from commissions was modified on Oct. 7 by Commissioner of Internal Revenue Guy Helvering, who has granted employers of salesmen permission to pay commissions due to employees for September and October where neither the rate of commission nor other compensation has been increased since Oct. 2, 1942.

In Washington advices Oct. 8 to the New York "Times," it was pointed out:

"It was a blanket order to employers of salesmen to ignore, temporarily, the new bureau rule of Sept. 4 requiring that applications be made for payment of commissions in excess of those paid in the preceding year.

"The announcement came following a number of conferences with employers, who had protested vigorously the sudden change of rules. The brokers on stock exchanges and over-the-counter markets were said to have been especially concerned because the past year has been unusually good for them.

"Commissioner Helvering said an announcement would be made as soon as possible about what the rules will be after this month. Although he did not say so, he probably will consult with Fred M. Vinson, Director of Economic Stabilization, before reaching a decision."

An announcement in the matter by the New York Stock Exchange Department of Member Firms on Oct. 8 to members of the Exchange was issued as follows by Edward C. Gray, Director of the Department:

Compensation of Registered Employees

The Exchange is in receipt of the following communication from the Treasury Department, Washington, D. C.:

"Treasury Department,
"Washington.
"Press Service
"No. 38-97.

"For Immediate Release
"Thursday, Oct. 7, 1943.

"Commissioner of Internal Revenue Guy T. Helvering today granted employers approval to pay, without formal application, any commissions due to employees for September or October, in all cases in which neither the rate of commission nor the amount, of any other compensation, has been increased since Oct. 2, 1942.

"Except in cases where there has been an increase in the rate of commission or in the amount of any other compensation—such as base salary—Mr. Helvering has, in effect, authorized for the two months payment of commissions on the same basis permitted earlier in the year.

"The approval was granted under revised salary stabilization regulations issued Sept. 4, 1943, which required approval before the payment of commissions exceeding in dollar amount the payments in the last accounting year prior to Oct. 3, 1942.

"The Salary Stabilization Unit of the Bureau of Internal Revenue has under consideration future policy regarding the stabilization of commissions, bonuses and similar forms of compensation. These problems have been discussed in the unit this week with representative employers. A further statement to the public on these matters will be made as soon as practicable."

The New York Stock Exchange has also urged upon the Treasury Department continuance of provisions in the regulations to permit the payment of registered employees on the same basis as heretofore, or in the absence thereof issuance of a blanket approval for such continuance for all members of the Exchange.

N. Y. Analysts to Meet

Sumner T. McCall, Vice-President of the American Brake Shoe Company, will address the luncheon meeting of the New York Society of Security Analysts, Inc., on Oct. 14. Mr. McCall will speak on the American Brake Shoe Co.

On Oct. 15, J. W. McInerney of Wood, Walker & Co., will speak on the Denver & Rio Grande Western reorganization.

John L. Collyer, President of the B. F. Goodrich Co., will speak on "Rubber—Today and Tomorrow," at the Oct. 18 meeting.

G. Wyman Carroll, Jr., Assistant Superintendent of Insurance for Connecticut, will address the Association on Oct. 21 on Insurance Company stocks.

All meetings will be held at 12:30 p.m. at 56 Broad St., New York City.

Special Committee Appointed To Guard Against Federal Insurance Control

A special committee of three State insurance officials was appointed by the Executive Committee of the National Association of Insurance Commissioners on Oct. 8 to stand guard against Federal legislation which would "usurp the sovereign power of the several States or weaken the American system of free enterprise."

In Chicago advices of Oct. 8 to the New York "Times," it was further reported:

Prior to appointment of the committee, the executive group adopted a resolution declaring that the interests of the insuring public can be served best by proper supervision by State Governments, in keeping with constitutional limits as defined by the Supreme Court during the last 75 years.

The resolution urged State insurance supervisors to "continue their study of pending or proposed Federal legislation, touching the business of insurance, all to the end that they may protect the policy holders of their respective States and to guard against any attempt to usurp the sovereign powers of the several States or weaken the American system of free enterprise."

The committee consists of Thos. J. Cullen, Deputy Insurance Commissioner of New York; Paul F. Jones, Illinois Insurance Commissioner, and John Sharp Williams 3rd, Mississippi Insurance Commissioner and past President of the National Association.

Federal Insurance Control Opposed

(Continued from first page)

"Under a system of this kind there would be thousands of federal office-holders throughout the country exercising descretion about the payment of federal money as benefits to people who are out of work. The temptation to use this system to assure victory at the polls would be well nigh irresistible to any political machine, nor would any civil service rules be likely to stand up against an administration that might need the influence of a social security machine to stave off defeat," Mr. Linton said.

"Care also should be taken to go slowly in the field of temporary disability insurance," continued Mr. Linton, who was a member of the Social Security Advisory Council. "Whatever is done should be on a state basis. Rhode Island, in experimenting with sickness benefits, has already made a beginning. As life insurance companies have found out to their cost, disability is a tricky field, full of administrative pitfalls. When administered by a government agency it is likely to cost a lot of needless money through unfair claims achieved by deception, political favoritism, or collusion.

"Similar danger lies in the proposed socialization of medicine. Both the medical profession and the managers of our voluntary hospitals have come overwhelmingly to the conclusion that such a plan would involve deterioration of service as well as a vast regimentation of the doctors and hospitals, making their services subject to the control of governmental bureaucrats."

Situations of Interest

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

Repeal Of Chinese Exclusion Laws And Amendment Of Naturalization Act Urged By FDR

President Roosevelt called on Congress on Oct. 11 to pass the pending bill to permit the immigration of Chinese people into this country and to amend naturalization laws which bar Chinese residents from American citizenship.

In a special message, the President said he regarded this legislation "as important in the cause of winning the war and of establishing a secure peace." Mr. Roosevelt further said that by repealing the Chinese exclusion laws "we can correct a historic mistake and silence the distorted Japanese propaganda."

The measure, which the House Committee on Immigration and Naturalization reported favorably on Oct. 7, would repeal the Chinese exclusion acts dating back to 1882, put the Chinese on a quota basis under the Immigration Act of 1924, allowing about 100 to enter the United States annually; and amend naturalization laws to allow the Chinese citizenship.

A similar measure is pending before the Senate Immigration Committee.

The text of the President's message follows:

"There is now pending before the Congress legislation to permit the immigration of Chinese people into this country and to allow Chinese residents here to become American citizens. I regard this legislation as important in the cause of winning the war and of establishing a secure peace.

"China is our ally. For many long years she stood alone in the fight against aggression. Today we fight at her side. She has continued her gallant struggle against very great odds.

"China has understood that the strategy of victory in this world war first required the concentration of the greater part of our strength upon the European front. She has understood that the amount of supplies we could make available to her has been limited by difficulties of transportation. She knows that substantial aid will be forthcoming as soon as possible—aid not only in the form of weapons and supplies, but also in carrying out plans already made for offensive, effective action. We and our Allies will aim our forces at the heart of Japan—in ever-increasing strength until the common enemy is driven from China's soil.

"But China's resistance does not depend alone on guns and planes and on attacks on land, on the sea and from the air. It is based as much in the spirit of her people and her faith in her Allies. We owe it to the Chinese to strengthen that faith. One step in this direction is to wipe from the statute books those anachronisms in our law which forbid the immigration of Chinese people into this country and which bar Chinese residents from American citizenship.

"Nations, like individuals, make mistakes. We must be big enough to acknowledge our mistakes of the past and to correct them.

"By the repeal of the Chinese exclusion laws we can correct a historic mistake and silence the distorted Japanese propaganda. The enactment of legislation now pending before the Congress would put Chinese immigrants on a parity with those from other countries. The Chinese quota would, therefore, be only about 100 immigrants a year. There can be no reasonable apprehension that any such number of immigrants will cause unemployment or provide competition in the search for jobs.

"The extension of the privileges of citizenship to the relatively few Chinese residents in our country would operate as another meaningful display of friendship. It would be additional proof that we regard China not only as a partner in waging war but that we shall regard her as a partner in days of peace. While it would give the Chinese a preferred status over certain other Oriental people, their great contribution to the cause of decency and freedom entitles them to such preference.

"I feel confident that the Congress is in full agreement that these measures — long overdue — should be taken to correct an injustice to our friends. Action by the Congress now will be an earnest of our purpose to apply the policy of the good neighbor to our relations with other peoples."

Plastics Lectures At N. Y. Finance Institute

J. R. Townsend, Material Standard Engineer of the Bell Telephone Laboratories, was the first speaker in a series of lectures on *Synthetic Plastics*, conducted by the New York Institute of Finance on Monday afternoons from 3:30 to 5 o'clock, beginning Oct. 11, in the Board of Governors' Room of the New York Stock Exchange.

Mr. Townsend's topic was "An Engineer Looks At Plastics." Succeeding lectures will cover "Cellulose Plastics," by W. S. Landis, Vice-President of the Celanese Corporation of America; "Methacrylate Plastics," by Dr. Kenneth E. Martin, member of the Patents Department and former plastics research chemist of the Rohm & Haas Company, and "Bakelite and Vinylite," by representatives of the Union Carbide Division of the Union Carbide and Carbon Corporation. Also included in the series will be "Plastic Plywood," by Lawrence Ottinger, President of the U. S. Plywood Corporation, and "Nylon," by Theodore G. Joslin, Public Relations Director of E. I. du Pont de Nemours & Co.

The public, as well as members of the New York Stock Exchange and their partners, and investment analysts seeking authoritative information on commercial plastics, are invited to attend. Enrollment for the course may be arranged at the New York Institution of Finance, 20 Broad St., New York City. Tuition is $5.

H. O. Peet to Admit

KANSAS CITY, MO.—H. O. Peet & Co., 23 West 10th St., members of the New York Stock Exchange, will admit J. Wallace Jourdan to partnership in the firm on Oct. 21. Mr. Jourdan has been with the firm for some time as office manager.

Sees Bright Rail Future

A. A. Bennett & Co., 105 South La Salle St., Chicago, Ill., have issued an interesting circular discussing the future of railroad securities, which the firm believes will furnish important leadership. Copies of this circular discussing the situation may be had from the firm upon request.

Attractive Situation

Gisholt Machine Co. and Stromberg-Carlson, 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.

SEC Postpones Suit

MINNEAPOLIS, MINN.—Trial of the injunction suit brought by the Securities and Exchange Commission against Investor's Syndicate, two of its affiliates, and a number of its officers, has been postponed until Oct. 13. Federal Judge Gunnar H. Nordbye and attorneys for both sides agreed to delay the case to give Government attorneys more time to prepare their case.

Fraud in the sale of certificates is charged in the SEC complaint.

Calendar Of New Security Flotations

OFFERINGS

INDIANA STEEL PRODUCTS CO.

Indiana Steel Products Co., has filed a registration statement covering 30,000 shares of 6% convertible preferred stock, $20 par value, and 75,000 shares of common stock, $1 par value (reserved for conversion of 6% convertible preferred stock). By an agreement dated July 9, 1943, between the company and the underwriters, the company has agreed to sell the preferred stock to them at $18 a share.

Address — 6 North Michigan Avenue, Chicago.

The company is the largest exclusive manufacturer of permanent magnets in the United States and distributes its product directly to manufacturers of products in which permanent magnets are a component part. Among such products are: radio and sound equipment, electrical instruments, temperature and pressure controls, polarized relays, Arc back indicators, voltage regulators, traffic signal controls, magnetos, generators, etc.

Underwriters—Brailsford & Co., Chicago, and Kalman & Co., St. Paul, Minn.

Offering price to the public of the preferred stock, $20.00 a share.

Proceeds—Net proceeds from the sale of the preferred stock, estimated at $531,230 after expenses, will be used for working capital. In the opinion of the management, additional capital is required in connection with expanded production incidental to war program, and in the anticipated expanded peace time business.

Holders of the preferred stock may at their option convert such shares from date of issue to and including Dec. 31, 1946, at the rate of 2½ shares of common stock for each share of preferred stock so converted, and after that date, at the rate of two shares of common for each share of preferred.

Registration Statement No. 2-5206. Form S-2. (8-25-43).

Registration statement effective 4:30 p.m. EWT on Oct. 2 as of 5:30 p.m. EWT Sept. 19.

Offered Oct. 4 at $20 per share by Brailsford & Co. and Kalman & Co., 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.

THURSDAY, OCT. 14

DELAWARE POWER & LIGHT CO.

Delaware Power & Light Co. as constituted after the merger into it of Eastern Shore Public Service Co., Delaware, has filed a registration statement covering $15,000,000 first mortgage and collateral trust bonds 3% series to be dated Oct. 1, 1943, and due Oct. 1, 1973, and 40,000 shares of preferred stock, cumulative, par $100 per share. The dividend rate on the preferred stock is to be named by bidders when issue is offered for competitive bidding, but is not to exceed 4.4%.

Address—600 Market Street, Wilmington, Del.

Business—Is a public utility operating in the State of Delaware.

Underwriting—The bonds and stock are to be offered by the company for sale at competitive bidding and the names of the underwriters will be supplied by amendment.

Offering—Offering price of the bonds and preferred stock to the public will be furnished by post-effective amendment.

Proceeds—Net proceeds from the sale of bonds and preferred stock, together with a portion, to the extent necessary, of $6,287,063 cash received from the United Gas Improvement Co., parent of the company, in connection with the issue and sale of common stock of Delaware to U. G. I., will be applied to redeem indebtedness and preferred stocks of Delaware Power & Light Co., Eastern Shore Public Service Co. to be merged into Delaware and Maryland Light & Power Co. aggregating $24,822,913.

Registration Statement No. 2-5219. Form S-1. (9-25-43).

SATURDAY, OCT. 16

CHICAGO & SOUTHERN AIR LINES, INC.

Chicago & Southern Air Lines, Inc., has filed a registration statement for 107,989 shares of common stock, no par value. Of the shares registered, 60,000 shares, to be evidenced by voting trust certificates registered under a separate registration statement—see statement below—are to be offered by or through underwriters at a proposed maximum public offering price not exceeding $16 per share and not exceeding in the aggregate $960,000; and 47,989 shares are registered for issuance, pursuant to options, at $8 per share, being an aggregate public offering price of $383,912.

Address — Municipal Airport, Memphis, Tenn.

Business—Operates as an air carrier of passengers, mail and express between Chicago, Ill., and New Orleans, La., and between Memphis, Tenn., and Houston, Texas.

Underwriting — Principal underwriters named are Kebbon, McCormick & Co., Chicago, and I. M. Simon & Co., St. Louis.

Offering—Offering price to the public will be supplied by amendment. A new voting trust under which the common shares registered will be offered will be dated Oct. 1, 1943. The old voting trust will be terminated prior to or concurrently with the delivery of common stock to the underwriters.

Proceeds—The net proceeds may be applied to any one or more of the following purposes: Purchase of additional equipment to be used on present routes or on proposed new routes; payment or reduction of present bank loans; for working capital or other corporate purposes.

Registration Statement No. 2-5220. Form S-2. (9-27-43).

CHICAGO & SOUTHERN AIR LINES, INC.

Carleton Putnam, voting trustee, has filed a registration statement for voting trust certificates under voting trust agreement dated Oct. 1, 1943, for 500,000 shares of common stock, no par value, of Chicago and Southern Air Lines, Inc.

Address — Municipal Airport, Memphis, Tenn.

Business—Voting trust.

Underwriting — See registration statement above. Carleton Putnam, sole voting trustee, is president and a director of the company.

Offering—As soon as practicable after the effective date of the registration statement. Under the terms of the voting trust agreement there may be deposited thereunder any authorized shares of the capital stock of the corporation. It is also proposed to offer to the public voting trust certificates representing an aggregate of 60,000 shares of common stock as shown in statement above and voting trust certificates will be offered to persons exercising stock purchase options and acquiring shares of common stock pursuant thereto. The offer to holders of common stock to deposit stock under the agreement will terminate Oct. 1, 1944, unless extended by the voting trustee.

Registration Statement No. 2-5221. Form F-1. (9-27-43).

MONDAY, OCT. 25

McKESSON & ROBBINS, INC.

McKesson & Robbins, Inc., has filed a registration statement for 150,000 shares of $4 cumulative preferred stock, without par value.

Address — 155 East 44th Street, New York City.

Business—Wholesale drug business.

Underwriting — Goldman, Sachs & Co. heads the group of underwriters. Others will be named by amendment.

Offering—Price to the public will be supplied by amendment. The preferred stock will be redeemable at the company's option, in whole or in part upon at least 30 days' notice, at prices to be supplied by amendment. Initial public offering price will be plus accrued dividends from Oct. 15, 1943, to date of delivery.

Proceeds—The net proceeds from the sale of the preferred stock, with other funds of the company, will be applied to the redemption of all the presently outstanding debentures and preferred stock, which will require, exclusive of accrued interest and dividends, $6,132,000 for the redemption of the outstanding 5¼% cumulative preferred stock at $109.50 a share, and $13,071,152 for the redemption of the outstanding 15-year 3½% sinking fund debentures at 107¾% of their face amount. As of June 30, 1943, the company had outstanding $12,131,000 face amount of 15 year 3½% sinking fund debentures, due July 1, 1956, (out of $13,700,000 originally authorized) and 56,000 shares of 5¼% cumulative preferred stock, par value $100 per share (out of 100,000 shares of preferred stock originally authorized).

Registration Statement No. 2-5227. Form S-1. (10-6-43).

TUESDAY, OCT. 26

THERMOID COMPANY

Thermoid Company has filed a registration statement for $2,500,000 4¼% first mortgage bonds due Oct. 15, 1958, and 124,250 shares of common stock, $1 par value.

Address—Whitehead Road, Trenton, N. J.

Business—Manufacture and sale of various types of automotive friction and rubber products, industrial rubber products, textile products including wool yard and carpet and asbestos textile products.

Underwriting—For bonds—Blyth & Co., Inc., $600,000; Estabrook & Co., $600,000; Bitting, Jones & Co., Inc., $250,000; Hornblower & Weeks, $250,000; Paine, Webber, Jackson & Curtis, $250,000; Van Alstyne, Noel & Co., $250,000; Whiting, Weeks & Stubbs, Inc., $200,000, and Putnam & Co., $100,000. For the stock—Blyth & Co., Inc., 111,825 shares, and Van Alstyne, Noel & Co., 12,425 shares.

Offering—Prices to the public to be supplied by amendment.

Proceeds—Proceeds from sale of bonds and stock will be used to redeem at 103% of the face amount and accrued interest all of the first lien collateral trust 5% bonds due Dec. 15, 1951, outstanding in the principal amount of $2,058,000; to redeem $900,000 face amount of serial notes payable to banks, and to reimburse working capital for funds used to retire on Oct. 5, 1943, all of the $400,000 serial notes, due annually 1943-1946. Any excess will revert to the general funds of the company.

Registration Statement No. 2-5228. Form S-1. (10-7-43).

DATES OF OFFERING UNDETERMINED

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

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).

Registration statement effective 5:30 p.m. EWT on Oct. 4, 1943.

Approval by SEC.—The Securities and Exchange Commission Oct. 4 gave its approval to the proposed solicitation by the company of competitive bids for $7,500,000 of first mortgage bonds and 20.000 shares of $100 par value preferred stock. The bonds will bear a coupon rate of not more than 3½% and the stock a dividend rate of not more than 5% of par.

Awarded—Both issues awarded to Shields & Co., Oct. 13, 1943: the bonds as 3s at 100.159 and the stock at $4½ div. rate, at 100.379. Subject to the approval of the SEC, the bonds will be reoffered at 101.45 and the preferred stock at 102¼.

(This list is incomplete this week)

NAM Says Government's Policy Is Obstacle To Future Industrial Planning

Fred C. Crawford, President of the National Association of Manufacturers, said on Oct. 5 that the Government's attitude toward business after the war is the big question mark in American industry's post-war plans, it was reported in United Press advices from Cleveland on Oct. 5, which went on to say:

Mr. Crawford, also President of Thompson Products Co. here, said there are five major obstacles to intelligent post-war planning by industry, but the chief among these is the lack of a "definite government policy for termination of government contracts." One should be adopted quickly, he asserted.

Mr. Crawford said the Government also has failed to create a program for disposal of an estimated $50,000,000,000 of surplus war goods after the war, or to adopt a policy for disposal of Government-owned war plants, equipment and facilities.

"There is no definite program for the continuation of wartime controls after the war, when people will have a lot of money to spend for nonexistent goods," he said. "Some sort of control should be continued until production of goods can catch up with the demand and thereby avoid an inflationary scramble for goods that are not there."

The Government's tax policy is another obstacle to future industrial planning, he said.

Retail Sales Tax Urged By U. S. Chamber In Place Of Administration Tax Proposals

A Federal retail sales tax as a substitute for the Administration's $10,500,000,000 tax program is advocated by the U. S. Chamber of Commerce, whose spokesman, Ellsworth C. Alvord, in testifying on Oct. 12 before the House Ways and Means Committee, referred to the Administration's plan as one "supported solely by political expediency" and which, he said, "falls of its own weight." Opposition was voiced by Mr. Alvord to the proposed Treasury tax increases on incomes of individuals and corporations. According to Associated Press accounts from Washington Mr. Alvord said a tax imposed on retail sales "is the most practical" tax at this time and discriminations and administrative difficultes can be avoided if:

1. There are no exemptions.
2. A tax is imposed at a uniform rate.
3. No other Federal taxes are imposed on retail sales.
4. The tax is imposed on aggregate purchases.
5. The tax is imposed on the purchaser.
6. Fractional cents are disregarded.

From the Associated Press advices we also quote:

"The Chamber, an organization of business and commerce, made no specific recommendation as to the size of the suggested retail tax, but Mr. Alvord said a 10% levy probaly would yield in excess of $6,000,000,000 during 1944 and a 5% tax about $3,500,000,000.

"Other Chamber witnesses suggested that a program of Government economy be coupled with the tax program. House Republicans already have started a drive in this direction.

"Mr. Alvord testified that 'contrary to the expressed position of the Treasury,' it is the belief of the Chamber that a sales tax:

"1. Is capable of reasonably simple and effective administration;

"2. Is desirably deflationary;

"3. Will collect substantial revenues, without imposing unbearable burdens, from those receiving four-fifths of the national income;

"4. When viewed merely as a part of the tax system, will not impose burdens which discriminate in favor of high-income groups and against low-income groups;

"5. Will render unnecessary the tremendous increase in certain excise taxes advocated by the Treasury;

"6. Will be a highly desirable supplement, at least for the duration of the war, to present tax laws, and

"7. Will be an effective aid in stamping out black markets."

As indicative of the views of Representative Doughton respecting the sales tax, the Philadelphia "Inquirer" in advices from its Washington bureau on Oct. 12 stated:

"I don't have much doubt," Mr. Doughton said, "that a 10% sales tax would bring demands for wage increases, but would not the people be patriotically willing to absorb a 5% levy?

"A sales tax could be absorbed more easily now than previously—now that we have 100% employment."

Mr. Doughton's apparent inclination to be "converted" to a sales tax was regarded by sales tax supporters on the committee as a hopeful development, but Representative Jere Cooper D., Tenn.) who usually works closely with Doughton, turned out to be one of the principal opponents.

Joining Cooper in the opposition were Representatives Aime J. Forand (D., R. I.), and Walter Lynch (D., N. Y.), the latter favoring higher corporation taxes.

Mr. Alvord, on the other hand, proposed that the tax laws be adjusted to permit industries to accumulate reserves sufficient to finance post-war reconversion, and that there be written into the law a provision automatically repealing the excess profits tax at the end of the calendar year within which the war ends.

Green Warns Against Anti-Union Campaign In Post-War Period

William Green, President of the American Federation of Labor, cautioned business men on Oct. 7 against any anti-union campaign in the post-war period, declaring that the penalty would be destruction of the free enterprise system.

Addressing the Boston Chamber of Commerce at a luncheon, Mr. Green said, according to the Associated Press, that "all labor asks of private industry is the same right of free enterprise which we willingly accord to it. That means full recognition of the right of workers to join free and democratic unions of their own choice and full acceptance of collective bargaining." Mr. Green was further quoted as saying:

"If and when such recognition is forthcoming, there will be no need of Government laws and regulations which place artificial restrictions and handicaps on the normal and cooperative relations between labor and industry.

"But if private industry, on the contrary, persists in futile and misguided efforts to destroy the trade union movement and attempts to launch a new anti-union campaign in the post-war period, it will only destroy itself and the free enterprise system along with it."

International Money Agreement Should Not Interfere With Credit Control Policies: Dr. Agger

Adherence by the United States to an international monetary agreement should not be permitted to interfere with our freedom of action in formulating central bank and credit control policies, Dr. Eugene E. Agger, Commissioner of Banking and Insurance of New Jersey, states in a study of American Banking and Currency Stabilization issued on Oct. 11, by the Monetary Standards Inquiry in New York City.

Because changes in the monetary gold stock of the United States directly change the volume and distribution of bank reserves in this country, Dr. Agger points out, banking conditions in this country would be affected directly by any monetary stabilization plan which calls for redistribution of the nation's gold stock. Furthermore, if the board of directors of an international stabilization fund or clearing union could change the gold content of the dollar or the amount of gold in this country, bank reserves would be affected directly, he asserts.

"American banking," states Dr. Agger, who is also head of the Economics Department and Associate Director of the Graduate School of Banking at Rutgers University, "is most anxious that a successful plan of international cooperation to achieve monetary stability be devised. Any plan agreed upon, however, would have to retain reasonable independence and freedom of action for the United States."

Dr. Agger in his paper considers what would be the consequences for the banking system of the adoption of three possible monetary standards after the war—the international gold standard, international gold-silver bimetallism and an international managed money system. A return to the international gold standard, Dr. Agger says, would require the establishment of a mechanism to take the place of the London money market, which was formerly the world clearing center.

Discussing the effects on banking of an international agreement to revive international bimetallism, Dr. Agger says:

"If bimetallism were truly international in scope, there would be in each country a fixed price for the two metals (gold and silver), and there would be no separate market price for them, as there is none for gold under the gold standard.

"The fact that two metals, rather than one, would be employed as standards for the monetary system does have some interesting implications. The reserve base would be broadened, and the inauguration of the system would probably add considerably to the potentialities of credit expansion.

"As under the gold standard, so under international bimetallism, some degree of currency and credit management would be possible. There is no reason to suppose that under international bimetallism our Federal Reserve System could not exercise the same degree of supervision and control of bank reserves as it does now. The fact that ultimate reserves are gold and silver, instead of gold alone, would not materially affect such domestic currency and bank management as we already have.

"It should also be added that the adoption of international bimetallism would assume the restoration of a free market throughout practically the whole range of international economic relationships. Undue interference with international trade and investment would undermine a bimetallic monetary system as effectively as it did that based on gold."

Analyzing the plans that have been advanced for international monetary management, Dr. Agger concludes:

"The plans imply a considerable surrender of national independence in the management of currency and credit. The fixing of the value of the standard money unit and the control of foreign exchange rates represent a surrender of sovereignty in the interest of an international objective. Other provisions restrict the member countries both with respect to short-term and long-term credit operations. In general the plans may be regarded as a step toward wider international economic control. Indeed, with respect to the Keynes plan it is stated: 'The Union might become the pivot of the future economic government of the world.'"

Consolidated Natural Gas Situation Interesting

The Securities and Exchange Commission has approved the distribution of Consolidated Natural Gas Co. to the stockholders of Standard Oil Co. of New Jersey. The Public Utility Department of Hettleman & Co., 52 Wall Street, New York City, members of the New York Stock and Curb Exchanges, has prepared an interesting analysis describing in detail the properties, financial position, earnings, and prospects of Consolidated. Copies of this analysis may be had from Hettleman & Co. upon written request.

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The Business Man's Bookshelf

Brazil—A Financial and Economic Review—The Chase National Bank, Pine Street, Corner of Nassau, New York City—paper.

Capital Goods Industries and Contract Renegotiation—Machinery and Allied Products Institute, 221 North La Salle Street, Chicago—paper.

Earning Power of Railroads—Thirty-eighth Issue, 1943—James H. Oliphant & Co., 61 Broadway, New York City—leatherette.

Effect of War on Currency and Deposits, The—Charles R. Whittlesey—National Bureau of Economic Research, 1819 Broadway, New York 23, N. Y.—paper—35c.

Outlook For Retail Trade, The—E. W. Axe & Co., Inc.—The Tarrytown Press, P. O. Box 157, Tarrytown, N. Y.—paper—40c—free to public libraries and non-profit institutions.

Now Sachs & Toplitt

The firm name of Melville F. Sachs & Co. was changed to Sachs & Toplitt, effective Oct. 7. Offices of the firm are located in the Savoy-Plaza Hotel Building.