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Outsmarting Inflation

By Dr. MELCHIOR PALYI, Chicago

From Monetary Inflation To Price Inflation

The volume of money in this country is approaching $200 billions. This includes the media of exchange in circulation (outside the Treasury and the central bank) and bank deposits as well as deposits in savings institutions. It also includes the large volume of potential money consisting of short-term obligations of the Treasury (outside the banks) and its obligations redeemable on short notice. What is more, the flood is rising at the monthly rate of some $5 billions, and will continue to do so for the duration. Nor is there any certainty how long this process will last. As a matter of fact, we expect "some" Federal deficit to continue for

Dr. Melchior Palyi

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In This Issue

Special material and items of interest with reference to dealer activities in the States of Connecticut, Michigan and Missouri appear in this issue.

Wages and Inflation

Sees Wages As Heart Of Inflation Problem—If "Little Steel" Formula Is Violated No Dangerous Rise In Prices Will Ensue Unless Wage Policy Is Wrecked By Insistence Of Aggressive And Powerful Groups Upon Preferred Treatment

Feels War With Germany Will Terminate In Spring With Smaller "Inflationary Gap" Following—Holds Wage And Price Level Of 50 Or 60% Above Pre-War Desirable

Discussing "Wages and Inflation," Sumner H. Slichter, Lamont University Professor, Harvard University, on Nov. 10 declared that "the real danger of inflation springs from the possibility that the National wage policy will be wrecked by the insistence of aggressive and powerful groups upon preferred treatment." According to Prof. Slichter "experience shows that some groups in the community are willing to withhold supplies from the men at the front in order to gain a few additional cents per hour for themselves." "Yielding to pressure for preferential treatment," said Professor Slichter, "would quickly produce chaos."

Prof. S. H. Slichter

"Regardless of what the National wage policy is, regardless of whether we like it or not," he added, "it must be applied without fear or favor to all groups, large and small, weak or powerful. That is the keynote of any anti-inflationary policy."

Professor Slichter's address, delivered before the Academy of

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Need Does Not Exist For Forced Limitation Of Profits On Transactions In Securities

The SEC Bureaucrats have been persistently nurturing, in a variety of ways, the false notion that dealers in securities are different than merchants in other lines of business with a view to justifying their attempts to dictate to them regarding what profits they may or may not take when consummating transactions in stocks and bonds. Indeed, they have been so successful in this direction that some investment dealers are showing signs of swallowing this utterly fallacious doctrine, as witness the NASD's 5% profit decree. There is no denying the fact that dealers in securities are different than merchants in other lines such as those handling rugs, furniture, jewelry or what have you. BUT NOT IN THE WAY THE PROPONENTS OF PROFIT LIMITATION WOULD HAVE YOU BELIEVE! ONE big difference lies in the fact that dealers in securities are handling a known quantity, so to speak. Consequently, if an investor is interested in buying 100 shares of the common stock of the ABC Corporation (or any other stock or bond) he can, if he sees fit, readily "shop around" and "check his market" to determine if his dealer proposes doing the right thing by him. And he does not even have to go out of his home or office to do this. He can do it right over the telephone. The reason, of course, being that 100 shares of the common stock of the ABC Corporation is a known quantity, both he and any dealer knowing precisely what is sought and that holds true irrespective of whether the dealer is located in New

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The News Behind The News

By PAUL MALLON

Stalin's victory speech gave people here a better understanding of the Hull-Stalin-Eden declarations than the generalized text of those documents.

He implemented them clearly, calmly, confidently.

The impending victory, he said, had freed Russia, and he forecast freedom for conquered and occupied nations of Europe under governments to be chosen by their own people, which would be his conception of democracy.

Paul Mallon

But he attributed victory primarily to his own collectivist-socialist system. He said the collectivism of Russian farms had proved to be a superior system, because it had furnished the necessary food. This collectivism is a pooling of land, implements, labor and harvest, a pure communism.

For industry, he said his socialist system equally had proved its superiority in producing the weapons of war in its swift transition from peace to war, its re-

(Continued on page 2015)

A Reappraisal of Railroad Credit

McGinnis Declares Railroad Securities Are Not War Babies And Not Too High

Expressing himself as optimistic as to the future of railroad securities, "whether border-lined, high-grade or defaulted issues," Patrick B. McGinnis, of Pflugfelder, Bampton & Rust, of New York, at the conclusion of an address in Los Angeles on Nov. 5, in which he offered "A Reappraisal of Railroad Credit," summed up his presentments as follows:

"I have tried to show you the prices are not high, they are not war babies, that the stabilization of rates has been established through regulation, and that the reorganization and purchase of bonds has cut the debt down where even if we go back, the debt will still be covered; I have shown you the increased efficiency of management over all the old periods, and I have tried to point out that the railroads will have no more problems after the war and less problems than most. I have pointed out that there is no fear of bankruptcy, that is, we have no possibilities of bankruptcy. There may be fears of it. There will certainly again never be any under Section 77, in my opinion.

Patrick B. McGinnis

"Last but not least, I think it has not always been recognized that railroads are the backbone of the transportation system of this country and that without them our war effort would have certainly been greatly handicapped. If I have left any those thoughts with you, then I have accomplished what I came to accomplish."

Mr. McGinnis delivered his

(Continued on page 2003)

Expand Private Enterprise To Prevent Unemployment, Lewis H. Brown Proposes

Urges Decentralization Of Federal Government And Modification Of Tax Laws

Declaring that too many of our leaders "are still thinking in the defeatist terms of the 1930's" as they approach the post-war employment problem, Lewis H. Brown, President of Johns-Manville Corp., told an audience at the New York "Herald Tribune" Forum on Nov. 16 that there is nothing in this problem that is impossible of solution if the American people are actually determined to prevent unemployment rather than "wating until the machine has stalled" and then trying to find a cure.

"At a time when employment is at the highest point in history and when our people are aroused to dreams of great achievement as a result of the new - found productive power of this free nation, leaders already are talking in terms of curing unemployment, rather than preventing it," he said. "Although tremendous pent-up needs, plus the enormous demands made possible by high wages and war savings, point to the dangers of a post-war boom during the transition period, the defeatists already see our economic machine as stalled and needing artificial stimulants."

Lewis H. Brown

Mr. Brown declared that to assume that we will inevitably have 35,000,000 or 19,000,000 or even 9,000,000 unemployed in the transition period "can only be based upon a philosophy of despair or a desire for another 'emergency' that will justify a continuance of our trend toward more bureaucracy, and dictatorship of the Federal Government over the individual.

(Continued on page 2014)

Jas. B. Walker, Jr. With Goldman, Sachs

Announcement has been made that James Blaine Walker, Jr., has become associated with Goldman, Sachs & Co., 30 Pine Street, New York City, members of the New York Stock Exchange. Prior to his recent service in government he had been with Stone & Webster and Blodget, Incorporated.

The last two years Mr. Walker spent with the War Production Board in Washington. His first service there was with the Bureau of Industry Advisory Committees. More recently Mr. Walker has been Orders Officer of the War Production Board, having supervision over the preparation and issuance of the Conservation and Limitation orders of the W. P. B.

G. E. Beardsley With Mason, Moran & Co.

(Special to The Financial Chronicle)

CHICAGO, ILL. — George E. Beardsley has become associated with Mason, Moran & Co., 135 South La Salle Street. Mr. Beardsley was formerly with Kneeland & Co. in their Municipal Department. Prior thereto he was with Thompson Ross Securities Co.

What Does The Future Hold For The Airlines?

The prodigious rise of American air transportation from the incubator stage to one of the country's foremost industries and its outlook for the future are reviewed in the 1943 edition of "Airlines," published by Merrill Lynch, Pierce, Fenner & Beane, 70 Pine St., New York City, members of the New York Stock Exchange. The questions of the future of the airlines, rates, post-war competition, and cargo planes are discussed in this new survey, which realistically appraises the industry's prospects after the war. Copies of the attractive 36-page illustrated brochure, which contains analyses of 18 of the leading companies in the airline industry, may be had upon request from Merrill Lynch, Pierce, Fenner & Beane.

Midland Data Available

Doyle, O Connor & Co., 135 S. La Salle Street, Chicago, Ill. have compiled late information on Midland Utilities Debenture 6s of 1938, following the reorganization plan completed with Midland United. Copies of this interesting analysis may be had upon request.

Dean Witter To Admit

SAN FRANCISCO, CALIF. — Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges and other leading exchanges, will admit Shirley Houghton to partnership in their firm as of November 24th.

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NASD Seen Enforcing Profit Limitation Decree Despite Avalanche Of Opposition

At a meeting on Tuesday of officials in this district of the National Association of Securities Dealers, Inc., Henry G. Riter, 3rd, Chairman of the Board of the Association and a partner in the New York Stock Exchange firm of Riter & Co., made it clear that come hell or high water, the destructive and arbitrarily enacted 5% profit limitation decree would stand and that the Association was prepared to fight any organized opposition to the scheme. Wallace H. Fulton, Executive Director of the Association, was also present.

That the Association WILL HAVE to fight such organized opposition would seem to be a foregone conclusion. As a matter of fact, dealers in each section of the country obviously have no alternative than to band together and, through legal counsel, petition the SEC to rescind the profit limitation decree on the ground that it was illegally promulgated and wholly inconsistent with the provisions of the Maloney Act and the by-laws of the Association.

(Also see editorial starting on cover page in this issue.)

As was pointed out in an editorial in the November 4th issue of the "Chronicle," the Maloney Act, under which the NASD came into being, states that an association shall not be registered unless it appears to the Commission that

"(5) The rules of the association assure a fair representation of its members in the adoption of any rule of the association or amendment thereto, the selection of its officers and directors and in all other phases of the administration of its affairs."

We quote further from this editorial:

(Continued on page 2017)

More Dealer Comments On NASD Rule

DEALER NO. 17

I have read your editorial in the Nov. 4th issue of the "Chronicle," wherein you state that the limitation on dealer profits proposed by the Executive Committee of the N. A. S. D. is both unsound and unjust. I wish to congratulate you upon your stand in this instance. I am sure that most dealers throughout the country will agree with your viewpoint, i.e. (a) that 5% is too small a gross markup for the average dealer upon which he can conduct his business on a profitable basis, (b) and that the manner in which the decree has been laid before the members of the Association is both undemocratic and in violation of the expressed provisions of the Maloney Act itself.

However, I would like to go even farther and state that I am one dealer who believes that there should be no limitation upon profits except the limitation **I wish to place upon them myself.** Any time I have to subject my profits to the limitations of others, no matter who they might be, I have lost control of my business. I am the best judge of the profit to which I am entitled. I know best how much work and effort I've put into a particular sale, an individual account, an analysis of a security, or how much I **need to run my business in a profitable manner and to pay my bills.** Any TIME AN AMERICAN BUSINESS MAN ISN'T THE BEST

(Continued on page 1997)

The Effect Of Issuing Securities For New Capital Upon The Company's Common Stock Price

By JOHN H. MYERS*

"Which way and how far is the price of XYZ common going to go?" That question is being asked hundreds of times daily. If anyone knew the answer, he could become a very wealthy man indeed. But, not knowing, all of us study the various factors, evaluate them, reach a decision, and act accordingly. In this process of reasoning, one depends to a certain extent upon his knowledge (based on facts, hunches, or prejudice) of how the market has reacted to similar situations in the past. This article is a summary of a fairly elaborate statistical investigation on the market action in response to one certain type of situation—the issuance of securities to raise new capital. It is based on 130 cases of expansion by industrial companies between 1927 and 1940. Railroad and public utility companies could not be included as separate classifications because there was so little new financing by these concerns during this period; the few cases which could have been considered would not give sufficient basis for any sound conclusions. The companies used, then, are such ones as National Steel, Inland Steel, Texas Corp., Skelly Oil, Firestone, Safeway Stores, Continental Can, General Foods, Philip Morris, Willys Overland, J. I. Case and R. K. O.; all trading or manufacturing companies of investment interest;

John H. Myers

*Editor's Note—Mr. Myers is Assistant Professor of Statistics and Accounting, the University of Buffalo.

(Continued on page 2008)

Lewis Haney's Study Of New Deal Theories Draws Further Comment

Comments continue to be received regarding the article written by Lewis H. Haney, Professor of Economics, New York University, which appeared in the "Chronicle" of Oct. 7 under the heading "The Theories Of The New Deal Economists." Dr. Haney asserted that the "theories of the typical New Deal economists" rest upon "an extensive set of unreal assumptions" and have been "readily adopted by a government which, under the guise of extremely idealistic reforms, seeks through spending to gain control over the economic life of the nation."

Some of the letters adduced by Dr. Haney's article were given in these columns on Oct. 28 and Nov. 4; others are given herewith:

HON. FRED L. CRAWFORD
Representative In Congress From Michigan

The article by Mr. Lewis H. Haney, published in your Thursday, Oct. 7, 1943, issue, is the most powerful analysis of the New Deal economic philosophy I have found anywhere. This contribution by Mr. Haney is of profound value to the people of this country. I wish there were some way to get every president of every corporation with a capital structure in excess of $10,000 now operating in this country to not only read but to thoroughly understand Mr. Haney's presentation. It is impossible for me to express my appreciation for such literature at this particular hour.

F. L. Crawford

Mr. Haney has in a very simple manner pre-

(Continued on page 2010)

Urges Sales Tax to Combat Inflation

Roswell Magill Says New Taxes Must Come From Lower Income Groups

Says Even With Sales Tax, Higher Income Groups Would Still Bear Chief Tax Burden

If new taxes are to be effective in combating inflation, they must be collected from the lower income groups that now possess the bulk of the inflationary income, Roswell Magill told the Academy of Political Science at the Hotel Astor in New York City on Nov. 10. Mr. Magill is a partner in the law firm of Cravath, de Gersdorff, Swaine & Wood, and was formerly Under Secretary of the United States Treasury.

Roswell Magill

To help prevent inflation and to back the price control program, he recommended that the Federal Government impose a retail sales tax of 10%, increase excise and sales taxes on luxury items, raise income tax exemptions to $1,000 for single persons and to $2,000 for married couples so that those with incomes under such amounts would pay only sales taxes, and grant a limited income tax exemption for net annual savings.

According to United States Treasury estimates, Mr. Magill said, excess spending power in the current fiscal year will be $63,000,000,000, and can only be absorbed by taxes and savings. The Treasury has estimated that four-fifths of the entire income of the nation is going to people earning less than $5,000 a year, who pay only one-third of the income taxes, while two-thirds of such taxes come from persons earning $5,000 or more, who receive only one-fifth of the total income. The Secretary of the Treasury has stated that the dangerous dollars are in the hands of the lower income group.

"A general retail sales tax," Mr. Magill said, "would strike more directly at the inflationary problem than any form of income taxes." A sales tax, he stated, is not unfair to lower income groups if it is not the sole tax in the system. Even with a sales tax in effect, he said, by far the greater part of the tax burden would still be borne by people with higher incomes.

"Our Federal tax system," he stated, "is now more largely composed of taxes other than sales taxes, than the tax systems of the other great English-speaking countries. Great Britain, Canada

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Profit Potentialities

The "Rock Island" reorganization offers attractive profit potentialities according to a detailed circular on the situation issued by McLaughlin, Baird & Reuss, 1 Wall Street, New York City, members of the New York Stock Exchange. Copies of this interesting circular may be had upon request from McLaughlin, Baird & Reuss upon request.

Safeway Stores Seek Supreme Court Ruling On OPA Failure To Act On Protests

The United States Supreme Court was asked by Safeway Stores, Inc., on Nov. 9 to decide whether a company protesting Office of Price Administration regulations has a right to carry its complaint to the United States Emergency Court of Appeals when the Price Administrator fails to act within the time required by law.

In its petition, said the Associated Press, the grocery chain said its complaints were dismissed by the emergency court on the ground that an appeal was not permitted until the Price Administrator had denied the protest in whole or in part.

Attorneys for Safeway contended that the "failure and refusal of the Administrator to act in accordance with law were arbitrary and capricious and constituted, in fact and in contemplation of law, a denial of the protests."

From Washington advices of Nov. 9 to the New York "Times," we take the following:

"In a brief filed with the court Elisha Hanson and Eliot C. Lovett, Safeway lawyers, challenged the power of OPA to prevent court review of protests. The petition sought review and reversal of an Oct. 12 decision by the emergency court of appeals, which, the attorneys alleged, allows the Price Administrator to freeze complaints indefinitely in his office by neither granting nor denying a citizen's legal protest. . . .

"The Price Administrator moves to dismiss the complaint on the ground the action could not be taken before he had actually denied the protests. Supporting this position the emergency court said the jurisdiction 'of this court may be invoked only by a complainant when his protest has been denied by the Price Administrator.'

"Messrs. Hanson and Lovett told the Supreme Court that OPA's withholding relief by inaction is 'capable of more far-reaching adverse effect because under the Administrator's own theory, now adopted by the emergency court, the protestant has no right to judicial review until positive action is taken. For all a protestant knows, that may never occur.'

"This brief also asserted that 'by dilatory tactics such as the Administrator admits he employed in this case, contrary to the express mandate of the act but sanctioned by the emergency court, the Administrator may cause immeasurable and irreparable loss to a protestant even to such an extent as to put him out of business.'

"They said that, since the law does not afford recovery of loss suffered by imposition of unlawful regulations, an injured citizen's 'only hope is to shorten the period of his loss by a reasonably speedy administrative action and, failing in that, to obtain relief by judicial review at the earliest possible moment.'"

Twin City Federal Leads In National Thrift Group Gains

A gain of $3,643,396 in total assets was registered by the Twin City Federal Savings and Loan Association of Minneapolis and St. Paul for the first six months of 1943, according to a recent press release sent out by Morton Bodfish, Executive Vice-President of the United States Savings and Loan League.

This gain is the largest shown by any member of this group. With total resources now over $25,000,000, the Twin City Federal Savings and Loan Association is the fourth largest Federal savings and loan association in the United States.

Railroad Securities

The junior bond issues of Chicago, Milwaukee, St. Paul & Pacific have continued as the leaders, in point of volume traded, of the reorganization group of railroad securities, and during recent recessions many rail men have pointed to the 5s, 1975 as affording particularly interesting speculative potentialities. During the peace break in the market last week the bonds sold as low as 36 compared with a previous 1943 high of 44⅛. At such levels the price risks, even in a real peace market, are far outweighed by the price enhancement possibilities inherent in potential reorganization developments.

The Interstate Commerce Commission has had the proposed modifications to the St. Paul reorganization plan under consideration for about four months, and certainly it appears reasonable to expect a decision some time in the near future. The proposals presented in July do not contemplate any deviation from the principles set forth in the Commission's original plan for reorganization. Also they represent the compromise ideas of major bondholders' groups. It is felt, therefore, that there is an excellent chance of affirmative action by the ICC.

In effect the proposal presented by the bondholders merely provides for moving the effective date of the plan forward from Jan. 1, 1939, which is obviously unrealistic, to Jan. 1, 1944. This would allow distribution of war earnings to bondholders on the basis of the interest rates on their old bonds for the interim. On behalf of the proposal it is also claimed that this distribution of cash would meet the major criticism of the Supreme Court on the old plan, the question of qualitative and quantitative compensation to lien holders for the loss of their lien positions.

Under the compromise proposal holders of the 5s, 1975 would receive $225.78 in cash, representing interest for the five years 1939-1943, inclusive, less the small interest disbursement made last year. Taking the recent price of 39 for the old bonds the contemplated cash payment would reduce the "net" cost to 16½, or $165 per $1,000 bond. Even without the factor of war stimulated earnings and the present speculative enthusiasm for reorganization securities this would represent a low evaluation of the securities to be received. Under present earnings and market conditions this prospective "net" cost represents a valuation little short of ridiculous of the prospective new securities.

In addition to the cash, the 5s, 1975 are allocated $179 in new Series "B" Income bonds, $832 in new 5% preferred and 1.83 shares of common. Moreover, these securities would be of better quality than those in the original ICC plan inasmuch as fixed charges would be lower than the level proposed by the Commission. On any reasonable basis it is indicated that under present market conditions the new Income "B" bonds should sell at least at 45, the new preferred at 30 and the common at 15. Even such realistic prices for the new securities would work out to a value of $357.65 for the 5s, 1975 ex the requested cash distribution, or more than 100% above the indicated "net" cost of the bonds at recent market levels.

If by any chance the Commission turns down the bondholders' proposals the 5s, 1975 would still be reasonably priced on the basis of the original reorganization. They would receive $179 in Series "B" Incomes, $717 in preferred and 2.99 shares of common. The value of these new securities would be enhanced materially by retention in the treasury of the more than $50,000,000 cash proposed for distribution under the bondholders' plan. With the implication of this cash backlog the "B" Incomes should sell at least at 60, the preferred at 45 and the common at 20 which would give a value of 49 to the 5s, 1975, or more than 25% above the recent market.

Missouri Brevities

Ely & Walker Dry Goods Delisting

The Securities and Exchange Commission is permitting **Ely & Walker Dry Goods Company, St. Louis,** to withdraw from listing and registration on the St. Louis Stock Exchange its Preferred and Common stocks, thereby reversing its previous position when the original application was denied, July 10, 1943. The principal reason given by the company in asking for delisting was the disclosure of confidential information; in addition, however, the record of transfers revealed that a high percentage of transactions in the company's securities occurred off the Exchange. St. Louis unlisted traders believe that this development may bring forth other applications for delisting of inactive issues and are confident that the delisting of Ely & Walker issues will result in increased activity.

Ely & Walker Dry Goods Co. was established in 1878 and has had a long record of successful operations. Capitalization consists of 14,647 shares 7% cumulative first preferred stock, $100 par, non-callable, quoted around 124 bid; 13,953 shares 6% cumulative second preferred, $100 par, non-callable, quoted around 107 bid; 215,949 shares common stock, $25 par, quoted 26¾ bid, 28 asked. Net income in the year ended Nov. 30, 1942, totaled $1,028,520, equivalent to $3.90 per share of common, after allowing for preferred dividends, compared with $1,004,310 and $3.76 per share in the preceding year. Dividends this year have totaled $2 per share, the same as in 1942.

Chicago and Southern Air Lines Offering

Missouri dealers participated in the Chicago and Southern Air Lines, Inc., offering of common stock, v. t. c., which was made by means of prospectus on Nov. 10, 1943. The offering was quickly oversubscribed and trading has been fairly active since the books were closed at prices fractionally above the original offering price of 12½ per share. I. M. Simon & Co. of St. Louis, members of the New York Stock Exchange, was one of the principal underwriters.

Kansas City Public Service Earnings

Total revenues of Kansas City Public Service Co. for the nine months to Sept. 30, 1943, amounted to $8,748,720, an increase of 40.92% over the corresponding period of 1942. Net income of $1,219,961 compares with $387,775, or an increase of $832,186. Financial condition of the company has shown tremendous improvement in recent years and dealers active in the company's securities believe that dividends on the preferred stock may be inaugurated shortly.

St. Louis Traders Elect New Officers

ST. LOUIS, MO.—The Security Traders Club of St. Louis held its annual election and dinner at the Mark Twain Hotel on November 10th. New officers installed at the dinner are: President: Emmet J. Brennan, Brennan, Kinsella & Co.; First Vice-President, Joseph G. Petersen, Eckhardt-Petersen & Co.; Second Vice-President, Ray Bond, Bankers Bond & Securities Co.; Third Vice-President, James M. Canavan, Smith, Moore & Co.; Secretary, Elmer Barkau, Taussig, Day & Co.; Treasurer, Rudy Graf, G. H. Walker & Co.; National Committeeman, Bert Horning, Stifel, Nicolaus & Co.

Departing from the custom of previous administrations, Henry J. Richter, Scherck, Richter & Co., retiring president, prepared a three-page report covering the activities of the club during the past year and distributed this report to the members by mail, thereby eliminating the possibility of the membership being subjected to numerous tiresome speeches as is sometimes experienced at affairs of this nature. The membership appeared unanimous in their wholehearted acceptance of this innovation and feel that they have a much better idea of the accomplishments of the Club during the past twelve months.

To Pay On St. Louis Joint Land Bank Bonds

S. L. Cantley, Receiver of the St. Louis Joint Stock Land Bank, announced on Nov. 4 that "a further dividend, designated as dividend number 6, in the amount equal to 10% of the face amount of farm loan bonds issued by the St. Louis Joint Stock Land Bank of St. Louis, or by the Central Illinois Joint Stock Land Bank of Greenville, and the unmatured interest accrued thereon up to but not including June 1, 1932, and 10% of unpaid interest matured on the St. Louis Bank and Greenville Bank bonds on or before June 1, 1932, has been declared as of the close of business Nov. 20, 1943." The announcement further says:

"This dividend is being distributed out of the proceeds derived from the liquidation of the pledged assets of the respective banks, in compliance with the decree entered by the United States District Court at St. Louis on Sept. 23, 1942, in the case of Andrews, et al. v. St. Louis Joint Stock Land Bank et al., and is payable to persons who, at the close of business on Nov. 20, 1943, are registered holders of the Receiver's Certificates as to the delivery of bonds, coupons and/or checks for unpaid matured interest on registered bonds to the Receiver and of the making of proof of claim thereon, and to all other persons having claims against the bank, which are based upon the aforesaid bonds, coupons and checks, if, as, and when, such persons deliver their respective obligations to the Receiver and make the required proof of claim relative thereto."

Real Estate Securities

An Example Of Unusual Values In Real Estate Bonds

In our research to determine the relative desirability of various issues of real estate securities, we found that a great many bonds have been selling at noticeably depressed prices which, in our judgment, are considerably below their true or intrinsic values. At these prices, in many instances, such securities have been offering very high yields. Further investigation has also disclosed that notwithstanding these attractive conditions, there has been very limited public interest in the acquisition of real estate bonds, except among the owners of some of the underlying properties, a few professional traders and the immediate customers of the firms specializing in real estate securities. We believe that the absence of a more active market for this type of security has been due to nothing else than the lack of dissemination of information concerning their real values and attractive yields. How correct we are in this assumption is best borne out by the fact that the majority of issues discussed in this column have done better in price marketwise after information concerning them was published here.

An example of a bond selling far below what the writer believes is its intrinsic value is the bond known as 320 East 57th Street Corporation. The bonds are secured by a first mortgage on the land owned in fee located on the south side of 57th Street, between First and Second Avenues, New York City, together with the 15-story and penthouse apartment building erected thereon, containing 313 rooms divided into 91 apartments of from two to six rooms. The small units predominate, most of the floors having 2/4-room apartments with two baths and 4/3-room apartments and bath. The small suites are the best marketable at the present time as is evidenced by the fact that the property is currently 100% rented. Incidentally, the property is free from fuel worries inasmuch as steam is provided by the New York Steam Corporation.

Bonds may be purchased at a price that places a value of less than $275,000 for the entire first mortgage bond issue, yet the property was assessed for 1942-43 at $765,000 and at the time of reorganization of the bond issue during the real estate depression year of 1935, the property was appraised by the Cruikshank Company, one of New York City's leading real estate brokers, at $375,000.

The original bond issue was $925,000, which was reduced by Sinking Fund operation to $837,700 by the time reorganization was necessary. The owners of the property thought so well of it that they bought and cancelled $100,000 worth of bonds in order to retain the equity, bringing the issue down to $737,700. Subsequently, $32,700 more bonds were retired by Sinking Fund operation leaving $705,000 bonds presently outstanding.

Arrangement is made for fixed interest plus additional interest as well. Sinking Fund operation is also provided for, earnings permitting. Fixed rate of interest is 3% until the issue is reduced to $600,000; 3½% until reduced to $450,000 and 4% thereafter to maturity Feb. 1, 1952. As much as 6% interest must be paid, however, if there are enough earnings. Actually, the average interest paid for the past six years was 3.9% on the bonds, or a yield of over 10% at current market prices. Payments per $1,000 were as follows:

1938	$45	1941	$37
1939	40	1942	40
1940	40	1943	31

Regular interest is paid February and August 1st and the additional interest February 1st. We are advised that the drop in payment of extra interest February, 1943, was occasioned by an unusual amount of vacancies (reported at one time to be as many as 16 apartments) due among other reasons to cancellation of leases because of tenants entering the armed services. A better extra interest payment in February, 1944, might be hoped for inasmuch as the owners informed the writer that the property is now 100% rented.

Customers Brokers Ass'n To Hear Talk On Inflation

The Association of Customers' Brokers announces that on Tuesday, Nov. 23, Dr. Ivan Wright, Professor of Economics, of Brooklyn College, and Benjamin Graham of the Graham-Newman Corporation, will address a meeting of the Association on "Inflation and Inflation Hedges."

On Tuesday, Dec. 14, David B. Smith, Director of Research of the Philco Corporation, will speak on "Electronics."

Both meetings will be held in the Board of Governors' Room of the New York Stock Exchange at 3:45 p.m.

Qualified In Missouri

Faroll Brothers, 208 South La Salle Street, Chicago, Ill., members of the New York and Chicago Stock Exchanges, have prepared recent data on Standard Silica Corporation common and Merchants Distilling Corporation common. Both of these stocks were recently qualified for sales in Missouri. Copies of the analyses of these two issues may be had upon request from Faroll Brothers.

Connecticut Brevities

Continuous machine gun fire has been made possible by an invention of James A. Hendley of the **Russell Manufacturing Company** of Middletown. A link attachment eliminates the pause for reloading between firing due to the fact that two or more already-loaded belts can be run continuously through the gun. These links may be placed while the gun is in action.

This same company recently perfected a new shoe-sole material, namely, "trolene-ized leather," which will shortly have a nation-wide distribution. This new sole, developed by Gustav Walters, utilizes parts of the hide formerly not used. Tests prove that these various parts, processed by a chemical compound, prove comparable to high-grade leather.

* * *

Bridgeport Brass Co. showed net earnings of $1,099,830 or $1.07 per share for the period ended Sept. 30, 1943, against $1,656,007 or $1.65 per share a year ago. The 1943 net figure is after a $941,300 reserve for contingencies. Taxes to Sept. 30, 1943, amounted to $4,683,670 after $481,900 post-war refund credit. The company now operates 24 hours a day, seven days a week.

* * *

Hamilton Standard Propellers Division of United Aircraft, together with its licensees, now produces approximately 76% of America's aircraft propellers which are used by more than 30 Army and Navy warplanes. This concern has shown an increase of 24 times its September, 1939, output. Even at that time Hamilton Standard was the largest propeller producer in the world.

* * *

Yale & Towne Manufacturing Co. showed net profit of $343,980 for the quarter ended Sept. 30, 1943 (after charges and Federal taxes and reserve for renegotiation). This is equal to 70 cents a share on the common, against 56 cents for the corresponding quarter a year ago. Net profit for the nine months ending Sept. 30, 1943, totalled $1,000,932, or $2.06 a share compared with $844,608 or $1.73 for the corresponding period in 1942. Federal income taxes and excess profits tax provision for the same periods were $3,002,797 and $1,970,-752, respectively.

* * *

The Hartford-Empire Co. has developed a new glass container that will mean a substantial saving of tons of vital war materials. This so-called "glascan" has a glass cap and a non-rubber gasket which is the result of two years' research by The Hartford-Empire Co. and its subsidiary, the Plax Corp. The results of their experiments were handed over, without charge, to the Government, the glass industry and the rubber industry as a war-time contribution. It is expected that food packers will market approximately 300,000 packed "glascans" in the near future.

* * *

Preliminary figures for the nine months ended Oct. 2 show a decline in earnings of **Bigelow-Sanford Carpet Co.** Earnings on the common were approximately 39 cents a share against $3 for the first nine months of 1942. Sales for the first nine months of this year show a decline from $31,967,350 in 1942's corresponding period to $27,644,124.

* * *

For the first nine months of this year **Southern New England Telephone Co.** reported net earnings of $2,090,370 against $2,450,216 for the same period a year ago. On a per share basis, the corresponding figures are $5.22 and $6.12.

* * *

Niles-Bement-Pond Co. of West Hartford recently acquired the **Chandler-Evans Corp.** of South Meriden. This latter company is engaged in the manufacture of fuel pumps and carburetors for aircraft. Treasury stock of Niles-Bement-Pond Co. was given in exchange for the outstanding stock of Chandler-Evans.

* * *

At a recent meeting of the directors of **Niles-Bement-Pond Co.**, Clayton R. Burt, formerly President and General Manager, was elected Chairman of the Board, and Charles W. Deeds, President of Chandler-Evans Corp., succeeds Mr. Burt as President and General Manager of Niles-Bement-Pond.

* * *

The most recent earnings report of **The Connecticut Light & Power Co.** shows $2.26 a share for the 12 months ended Sept. 30, compared to $2.58 for the corresponding period last year. Taxes increased about 40% or $3.01 a share against $2.19.

* * *

As of Sept. 30, 1943, **The Hartford-Connecticut Trust Co.** had a book value of $43.28 a share, an increase of 92 cents per share over the previous quarter.

* * *

Deposits of **The Hartford National Bank & Trust Co.** reached an all-time peak of $175,590,000. As of Sept. 30, book value stood at $21.77 a share, against a value of $21.66 on June 30.

* * *

The National Fire Insurance Co. has plans for the organization of a new casualty insurance company to write limited lines.

* * *

Recent additions to the **List of Legal Investments for Connecticut** include: Burlington, Vt.; Hagerstown, Md.; Kingston, N. Y.; Los Angeles, Cal.; Newburgh, N. Y.; Rome, Ga.; Shreveport, La.; Utica, N. Y., and Watertown, N. Y. Corporate bonds added were: Connecticut River Power Co. 1st $3\frac{3}{4}$s due Feb. 15, 1961; Delaware Power & Light 1st 3s due Oct. 1, 1973, and Pennsylvania Electric Co. 1st $3\frac{1}{8}$s due Sept. 1, 1973.

Conn. Traders Ass'n Elects Murray Pres.

HARTFORD, CONN. — At the annual meeting of the Connecticut Security Traders Association, Frank J. Murray, Day, Stoddard & Williams, New Haven, was elected president for the ensuing year.

Other officers chosen were: First vice-president, Richard W. Wilde, Conning Co. and Ballard, Hartford; second vice-president, James W. English, Cooley and Co., Hartford; secretary - treasurer, John E. Graham, Brainard Judd & Co., Hartford.

Named to the board of governors were Andrew L. Takus, Putnam & Co., Aaron Cook, Putnam & Co., Robert C. Calvert, Tifft Bros., and Henry C. Robinson, H. C. Robinson & Co., all of Hartford.

With Coburn & Middlebrook

(Special to The Financial Chronicle)

HARTFORD, CONN.—Henry J. Gerardi is now connected with Coburn & Middlebrook, 66 Pearl Street.

The Insurance Industry And The Anti-Trust Situation

The current issue of "News & Views," prepared by Butler-Huff & Co., of California, 210 West Seventh Street, Los Angeles, Calif., contains a most interesting discussion of the insurance anti-trust situation up to the present time. Copies of this discussion, together with interesting developments in the insurance field, may be had from Butler-Huff & Co., upon request.

Public Utility Securities

Public Service of New Jersey Faces Readjustments

Public Service, one of the old-time utility leaders of the Big Board, has had a run of bad luck marketwise in the past two years. The company was hard hit by Federal Taxes, which increased from $9,368,302 in 1940 to $23,340,435 in 1942 (the increase being equivalent to about $2.54 a share on the common stock). Due to the substantial capital leverage for the holding company equity, the percentage of the revenue dollar left for common stockholders dropped from 12 cents in 1936 to $9\frac{1}{2}$ cents in 1940 and 4 cents in 1942. Coverage of fixed charges and preferred dividends declined from 1.67 in 1936 to 1.27 in 1942, despite a 36% gain in revenues.

Several months ago United Gas Improvement, as a step in its dissolution program, distributed a large block of Public Service to its own stockholders (including United Corp.). At that time it was anticipated that United Corp. might also offer some of its increased holdings to its own preferred stockholders—as part of an exchange tender program — but this proved incorrect or premature.

The Public Service system has been handicapped by having a huge amount of non-callable bonds and preferred stock outstanding, with high coupon and dividend rates. Recently, there have been some rumors that the parent company might dissolve by merging with its principal subsidiary, Public Service Electric & Gas. By so doing, it could (presumably) retire all four issues of its own non-callable preferred stock at 100 or less (due to recent market declines, two of them are now selling below par). It might also be desirable to retire the non-callable Perpetual 6s, secured largely by the 7% preferred stock of Public Service Electric & Gas, and cancel the preferred stock.

These senior securities of the parent company aggregate about $177,000,000, from which may be deducted the $20,000,000 subsidiary preferred to be cancelled, leaving a net amount of $157,000,-000. How could this best be retired if the company decided to put through a merger plan? Despite any necessary plant write-offs, the operating company's credit position seems sound enough to warrant the issuance of a fair-sized amount of debenture $3\frac{3}{4}$s or 4s to replace the parent company Perpetual 6s, and perhaps raise additional cash. Possibly, however, a secured bank loan could be worked out more profitably, retaining the present 7% stock as security.

Some new preferred and common might be tendered along with cash to the holders of the old parent company preferred issues, it is conjectured. Doubtless the SEC would have to be consulted regarding the new setup, but the problem might not prove insuperable, and there should be substantial savings available in interest and preferred dividends (though these would be largely absorbed by excess profits taxes, for the present). United Corp., as the largest stockholder, should be interested in any plans for streamlining the Public Service setup.

It has been known for some time that both the SEC and the FPC have been looking over the Public Service books. Recently the FPC (supported by the local State Commission) dropped its bombshell—a statement that plant account was overstated by some $105,000,000 and that a considerable part of this should be written off the books of Public Service Electric & Gas. Chairman McCarter announced the company's intention to fight the orders of the two commissions through the highest courts having jurisdiction. However, the company, as a precaution, plans to set up a capital surplus item of $26,205,800 through reduction of the stated value of common stock from $196,205,800 to $170,000,000. Obviously there would be no great difficulty in absorbing the full $105,000,000 by making a still further reduction in the value assigned to the no par common shares, but this might pave the way for a corresponding cut in the rate base and eventually a sharp reduction in residential rates. While there is no immediate indication that the local commission plans to cut rates, it is perhaps the fear of such an outcome which prompts the management to contest the write-offs so vigorously. Moreover, the reduction would go far toward wiping out the equity of the parent company's common stock in the consolidated balance sheet—now carried at about $142,000,000.

The FPC blast highlights the efforts of Federal agencies to force utilities to eliminate "write-ups," and also to restore so-called "aboriginal cost"— the exact cost when the plant was built, even though this may go back to 50 years for some items, when construction costs and land values were only a fraction of present

(Continued on page 2014)

Ass'n Of S. E. Firms Elects Governors

The Association of Stock Exchange Firms, at its annual meeting held on Nov. 15, unanimously elected the following Board of Governors and Nominating Committee, which is the slate proposed by the outgoing Nominating Committee headed by Albert H. Gordon of Kidder, Peabody & Co.

Board of Governors—(To serve for three years): Wm. Wymond Cabell, Branch, Cabell & Co., Richmond; William W. Cumberland, Wellington & Co., New York; M. Livingston Delafield, Delafield & Delafield, New York; Albert P. Everts, Paine, Webber, Jackson & Curtis, Boston; Charles S. Garland, Alex. Brown & Sons, Baltimore; M. Donald Grant, Fahnestock & Co., New York; James M. Hutton, Jr., W. E. Hutton & Co., Cincinnati; Joseph Klingenstein, Wertheim & Co., New York; Arthur F. Lindley, Clement, Curtis & Co., Chicago; Leonard D. Newborg, Hallgarten & Co., New York. (To serve for two years): Sydney P. Bradshaw, Clark, Dodge & Co., New York.

Nominating Committee: Sydney P. Clark, E. W. Clark & Co., Philadelphia; F. Dewey Everett, Hornblower & Weeks, New York; Russell E. Gardner, Reinholdt & Gardner, St. Louis; Harold W. McEvoy, Winslow, Douglas & McEvoy, New York; Reuben Thorson, Paine, Webber, Jackson & Curtis, Chicago.

Approximately 200 members of the Association attended the meeting, which was held in the Board of Governors' Room of the Exchange. The new Board of the Association convened in its first meeting yesterday (Nov. 17) and will also meet today (Nov. 18) in Richmond, Va., to elect officers of the Association for the coming year. The three previous meetings have been held in New York, St. Paul and Boston.

Michigan Brevities

Top piece of news for the month was the naming of the National Bank of Detroit and the Central Hanover Bank & Trust Co. of New York as clearing agents for the giant $250,000,000 Chrysler Corporation VT loan.

Detroit financial circles considered it especially significant because this is the largest loan of its type on which an "outside New York" bank was a clearing agent.

Chrysler's banking connections throughout the country, consisting of nearly 100 banks, will participate in the revolving credit which will unfreeze the firm's working capital.

The credit will be available until March 2, 1947 and carries the usual ½ of 1% commitment fee for the unused portion of the credit.

The Chrysler loan is the largest of the VT variety and is second in size only to the General Motors billion dollar V loan credit.

* * *

Election of Reginald MacArthur, partner of Miller, Kenower & Co., as chairman of the Michigan Group of the Investment Bankers Association was announced.

Other officers are George C. Dillman, Harrison, Ripley & Co., Inc., Vice-Chairman, and Harrison E. Thurston, Watling Lerchen & Co., Secretary-Treasurer.

These officers and Alonzo C. Allen, Blyth & Co., Inc.; Fred Bargman, Braun, Bosworth & Co.; Merle Bowyer, Paine Webber, Jackson & Curtis; Douglas H. Campbell, First of Michigan Corp.; Harold R. Chapel, Crouse, Bennett, Smith & Co.; William Moore, MacDonald, Moore & Co.; Charles A. Parcells & Co., ex-officio, and Philip K. Watson, Campbell McCarty & Co., Inc., Governor of the Michigan Group, constitute the executive committee.

MacArthur's committee appointments follow:

Municipal securities — Douglas H. Campbell, chairman; William M. Adams, Braun, Bosworth; Harold W. Rademaker, Detroit Trust Co.; Jones B. Shannon, Miller, Kenower; and Harrison E. Thurston.

Business conduct — Ralph Forden, chairman, Watkins & Forden; Harold R. Chapel and Betrand Leppel, Charles A. Parcells Co.

Education — Merle Bowyer, chairman; Ralph A. Crookston, Hornblower & Weeks; and Ray H. Murray, National Bank of Detroit.

Legislative — William Moore, chairman; Willim S. Gilbreath, Jr., First of Michigan; and Harry W. Kerr, Crouse, Bennett, Smith & Co.

Membership—Fred A. Bargman, chairman; R. W. Mittel, Paine, Webber and Jackson; and Philip K. Watson.

Meetings and Entertainment—George C. Dillman, chairman; Cyrus H. King, Merrill Lynch; and Howard Parshall, Commonwealth Bank.

Publicity — Alonzo C. Allen, chairman; Ray W. Davis; E. H. Rollins & Sons; and Wayne Spade, Merrill Lynch.

* * *

The Bond Club of Detroit has elected H. Russell Hastings to the board to fill the vacancy created by the appointment of Charles C. Bechtel of H. V. Sattley as captain of the Allied Military Government in Occupied Territory.

Gossip: There was considerable interest in the Detroit unlisted market in Trenton Valley Distillers common. The company was reorganized about two years ago and now manufactures industrial alcohol. Trade circles hear that a three-year contract was signed with a chemical company whereby that company would purchase the wheat germ, which is removed prior to conversion into alcohol. Trenton Valley is now operated by Boekeler Associates under a contract which extends six months beyond the duration of the war.

* * *

Stockholders of Detrola Corp. and International Machine Tool of Cleveland were told of plans to merge the two companies into the International Detrola Corporation, last week.

International would issue an additional 152,000 shares and Detrola stockholders would receive one share for each 1.8 shares now held. When completed, International would have 490,000 shares outstanding.

Detrola stockholders vote in Detroit on Nov. 27.

* * *

Appointment of W. H. Maxwell as general sales manager of the Wolverine Tube division of Calumet & Hecla, was announced in Detroit by Vice-President Otto Z. Klopsch.

At the same time he promoted R. F. Moody to assistant general sales manager.

* * *

On the banking front, deposits of Michigan's 25 largest banking institutions expanded over a quarter billion dollars during the third quarter, plus the first 18 days of October, totaling $2,840,000,000.

For the year through Oct. 18, the rise was $522,259,000,000.

Doremus & Co. Adds Edwin Gahan To Staff

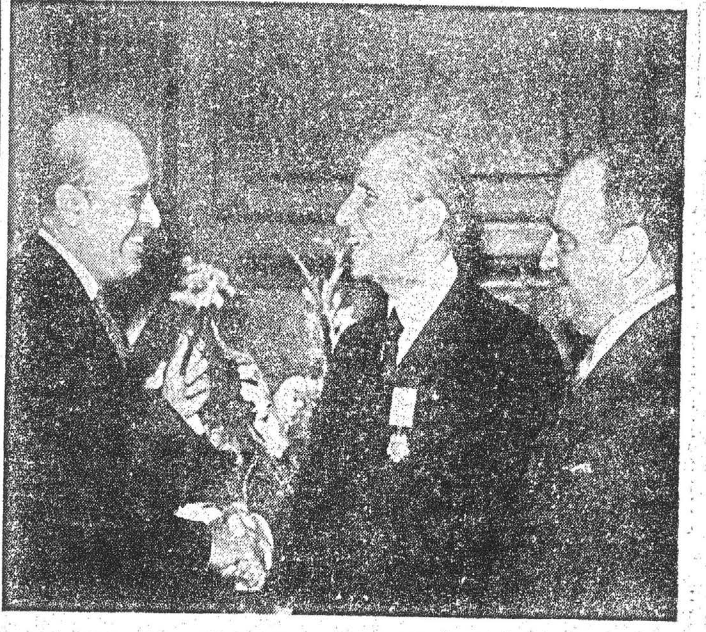
William H. Long, Jr., President of Doremus & Company announces that in further expanding the Public Relations Department of that agency, Edwin F. Gahan, formerly of the New York Times, has become associated with the New York office, 120 Broadway. Mr. Gahan was a member of the business news staff of the New York Times for 3½ years.

George Currier Opens

COLUMBUS, OHIO—George T. Currier is engaging in the investment business as an individual dealer from offices at 997 Mt. Vernon Avenue. He was formerly a partner in the firm of Koch & Currier which has been dissolved. Associated with Mr. Currier will be William A. Schoellkopf and Harry A. Miller, both previously with Koch & Currier.

Jerome S. Hess Awarded Aztec Eagle

Jerome S. Hess, of the law firm of Hardin, Hess & Eder, has been awarded the Aztec Eagle by the Mexican Government in recognition of valuable services he has rendered as counsel to Mexico entailing financial and legal problems of international importance. Presentation of the award was made by the Hon. Rafael de la Colina, Minister of Mexico to the United States, at a reception at the University Club. John B. Glenn, President of Pan American Trust Co., and Frederick E. Hasler, Chairman of the Continental Bank and Trust Co., and President of the Pan American Society, were the hosts.



PRESENTATION OF AZTEC EAGLE TO JEROME S. HESS
Reading from left to right: Hon. Eduardo Suarez, Minister of Finance of Mexico; Jerome S. Hess, of the law firm of Hardin, Hess & Eder, New York City; Hon. Rafael de la Colina, Mexican Minister.

Hasler Urges Newspapers Unite In Post-War Demand to End Nationalism—Stresses Free Press

The newspapers of the American nations were urged on Nov. 3 by Frederick E. Hasler, President of the Pan American Society, to unite in demanding of the peace conference that there be "an end to selfish nationalism and special privilege and the beginning of an era in which the principle of 'live and let live' shall guide nations and people alike." At the same time Mr. Hasler declared that "independence and freedom cannot flourish in a country which does not permit freedom of the press."

Addressing a luncheon, given by the society at the Waldorf Astoria Hotel in New York City, in honor of a group of journalists from Costa Rica, Dominican Republic, Nicaragua and El Salvador who have made a tour of American war centers, Mr. Hasler, who presided, said:

"The newspapers have a deep responsibility in the designing of the kind of a world we are going to live in after the war ends. That responsibility is to accurately reflect and interpret to the Peace Conference what is in the minds and hearts of the people—the soldiers on the battlefront, the toilers in the factories, the mothers in our homes—in regard to the world of tomorrow.

"True, the free press of the world will not have an official delegate at the peace table, but nevertheless it will be an invisible power behind the scenes voicing the protest of the common people against further exploitation and presenting their demands for the policing of the world to prevent further outbreaks of international gangsterism and for equal opportunity to enjoy a higher standard of living.

"The newspapers of the American nations taken as a whole are the mightiest champions of peace and freedom and equal opportunity in the world today. Their combined voice can exert a greater influence at the peace table than that of any statesman, be he even a Roosevelt or a Churchill. Let this voice ring loud and clear to demand the end to selfish nationalism and special privilege and the beginning of an era in which the principal of 'live and let live' shall guide nations and people alike!"

Mr. Hasler further said:

"Like our own country, these nations won their independence the hard way. In the light of our past experiences we know that the precious thing we call freedom is secured only at great cost and that its preservation calls for eternal vigilance and the courage to sacrifice even life itself, if necessary.

"Being experienced journalists and familiar with the international scene, our guests know all too well that independence and freedom cannot flourish in a country which does not permit freedom of the press. Once this freedom is curbed—and it can be curbed only by show of force and military power, as I regret to say, is currently the case in one of the Pan American nations—once this takes place order and democracy give way to unrest and revolt against oppressive use of governmental authority.

"To my mind, an attempt to curb the freedom of the press in any of th American republics is as dangerous to the stability of the government as the waving of a red flag in the face of a belligerent bull is dangerous to the life and limb of the flag-waver. Either is an open invitation to disaster. Not only must we have a strong and critical press, but one which can lift itself above petty politics and personal jealousies.

Newspapers today are the most potent force for shaping human destiny that the world has ever known. Their editorial columns wield an influence which is eagerly sought by those interested in the common good and equally feared by those who seek special privileges."

Lehigh Valley Interesting

Raymond & Co., 148 State St., Boston, Mass., have prepared an interesting new discussion of the Lehigh Valley 4s of 2003. Copies of this memorandum may be had upon request.

NASD Seen Enforcing Profit Limitation Decree Despite Avalanche Of Opposition

(Continued from page 1991)

JUDGE OF HIS OWN POSITION IN THESE MATTERS HE'D BETTER GET OUT OF BUSINESS. As an illustration, let me show you a series of trades I made with one of my clients. Notice the profits I made in some cases. **I am proud** to admit that percentage-wise they amounted to very much more than 5%. But also notice that the customer has enjoyed an appreciation in the value of his holdings that is far and above the general average. This sort of thing just didn't happen, it wasn't an accident. There was thought, planning, investigation, and years of training behind the analysis of these particular securities WHICH PROMPTED RECOMMENDATION TO THE CLIENT. Here is a list of speculative, low-priced securities I sold to this client:

	Cost Me	Sold to Client	Approx. Price Today
M.O.P. 5¼ (serial)	⅞	1½	16
Botany Worsted A	2	2½	5
St. Paul K.C. S.L. 4½/41	6	7	27
Choc. Okla. Gulf 5/52	10	12	51
Bendix Home Appl. Com.	⅞	1¼	5

Now compare the above results with a hypothetical case such as the following: Assume that a dealer opens an account and let us assume for the sake of argument that he sells this customer $10,000 worth of securities. He makes a gross of 2% or $200. So far so good. Eventually these investments turn out to be unprofitable and they decline in value about 20%. Our dealer then goes back and trades those securities he originally sold for others and makes another 2%, or another $160 gross. He's made a total of $360 at 2%, and according to this latest ruling of the N. A. S. D. Board of Governors everything's just too perfect for words to describe. But the CUSTOMER IS OUT $2,000 or 20% of his principal. In fact, if this dealer were careless enough, or sufficiently inefficient and callous toward the welfare of his client so that he continued to trade his customer in and out of various securities (ALL ON A 2% BASIS) he might eventually cause his customer to lose practically all of his original investment, AND UNDER SUCH A RULING IT STILL WOULD BE PERFECTLY OK JUST AS LONG AS HE DID IT AT THE RATE OF 2% PER TRANSACTION.

Arbitrary limitation of profits in actual practice cannot work. In theory such a procedure sounds fine, but it is contrary to every concept of individual responsibility, personal integrity and the rights of every American citizen to buy what he pleases, and sell it to his customers at a price he thinks WILL CAUSE HIS CUSTOMER TO RETURN AGAIN AND DO BUSINESS WITH HIM IN THE FUTURE. A satisfied customer is what counts—no arbitrary limitation upon profits can bring this about. Personal integrity, knowledge of the securities you sell, and your own conscience are the only guides to fair dealing. Any other artificial rules are silly.

DEALER NO. 18

It is not our intention to direct our criticism solely toward the "5% Profit Limitation Decree" until we know more about its intended application.

The letter containing the "decree" was too vague for the average broker-dealer to interpret all of its implications with reasonable accuracy.

The average broker-dealer firm, excluding selling group participants, concerns itself largely with the following four types of transactions:

1. Agency.
2. Transactions that develop as a result of solicitation and service without benefit of option or commitment.
3. Transactions that develop as a result of solicitation and service and are confirmed from long position or against options.
4. Transactions that develop as securities are sold to make possible certain transactions in classes two and three.

The problem arises as to where the 5% applies.

The method used to arrive at the 5% conclusion was an obvious "easy out" and contributes directly to the vagueness and confusion of the decree.

Unlike many of our well and favorably known broker-dealers we hold to the opinion that, as an industry, we must have maximum fixed spreads or percentages based on cost or market on all principal transactions and it is our considered judgment that we will have no "peace of mind" within the industry until we are all operating under "fixed maximums."

Our leadership is quite capable of making or causing to be made, a comprehensive survey of this vital situation with proper emphasis on the problems of the small broker-dealer, and, free from pressure from any source, should arrive at a conclusion that will stand the light of scrutiny and reason.

It is therefore our hope that the Board of Governors of the NASD will rescind or hold in abeyance the 5% limitation decree pending a conclusion based on a more thorough study.

DEALER NO. 19

Marvin & Co. of Philadelphia give us their permission to publish the following letter, which they sent to Henry G. Riter, 3rd, Chairman of the National Association of Securities Dealers:

Referring to your notice, published on Oct. 25th, setting forth the Board of Governors' conclusions in the matter of setting limits on profits taken by securities dealers, members of the Association.

It would seem to me that your method of arriving at your percentages, upon which you base your conclusions, is wrong in that you include many large firms that are, at least part of the time, wholesalers for many small firms and who constantly give the lion's share of concessions or mark-ups to the smaller firms, in recognition of the fact that it costs more in any business to retail than to wholesale.

There are thousands of small dealers who would be forced out of business if they were limited to a gross spread which in larger firms yields a much greater net than many times the same gross would yield small dealers.

With no intention to question the integrity or honesty of purpose of the Association's Board and Committees, I believe that a division of "NASD" should be formed to consist exclusively of small over-the-counter firms; so that men of like business standing and philosophy could approach the Association's problems more realistically and in consultation and cooperation with larger "member" firms, would accomplish your avowed purpose with little or no hardship to any legitimate dealer.

DEALER NO. 20

Am I wrong in the assumption that the NASD is an organization of the dealer by the dealer and for the dealer, or is it an adjunct of the New Deal philosophy of business.

Must we construct defenses against ourselves?

DEALER NO. 21

I would like to take this opportunity to congratulate you on what you are trying to do for us—the little dealers—but I am afraid it is a voice crying in the wilderness since, for some time, I have felt that the NASD is guilty of over-stepping its bounds and, in its over-zealous solicitude for the buying public, betraying the little dealer, who had every desire and intention of abiding by the rules and practices of fair play, wanting only reasonable profits and confidence and faith in the organization of which we are members.

Thanking you for splendid championship for our cause.

P. S.—Should you use this expression of my views, I do not wish to have my name used.

DEALER NO. 22

Recently I was charged by the NASD for making exorbitant profits, and was called to a hearing before the governors of this district on October 8. I have just received their decision in my case, and they fined me a nominal amount.

Their main point of contention was not so much the amount of profits charged as it was the customer relation. They stressed the point in a case where, for instance, I bought a stock at 85½ and sold at 89½, whether, had the customer known I was making four points, it would have been satisfactory to him.

I believe your contention that the small dealer cannot operate on 5% is fully justified, although I do feel that there are many abuses in the brokerage business among the small dealers, and it would be much better for all of us if the business were done on a reasonable basis. I do not feel any ill will toward the NASD for my particular case, inasmuch as I expostulated with my salesman many times for taking what I thought were too large profits. These profits ranged up to 25% in an exceptional case on a $2 stock, but in the main, profits were held around ten to twelve per cent. As a result of this NASD interference, I have restricted my business entirely to investment trusts. When I take in a security for sale, I do it at net cost.

Please do not use my name.

DEALER NO. 23

Most of our business is in Municipal Bonds so the 5% markup would seem like a tremendous profit to us. For that reason I am not in a position to judge whether or not 5% or 10% markup is justified by stock dealers; however, I am firmly convinced that the attempts by the NASD and the SEC to regulate business are prompted more by the desire of the men in those organizations to obtain more power than their desire to protect the public, and I hope that you will stay in there and fight them until the battle is won.

Won't it be a wonderful day when you can again speak of the United States Government without using all the letters of the alphabet and speak of the men at the head of the Government without using hell and damn?

DEALER NO. 24

I have been following with great interest the battle you are putting up against what you call "the profit limitation decree of the NASD." and I am not sure that I am totally in sympathy with your approach to the question. I have not discussed this with any one else, but it has always seemed to me that the NASD was trying to work out some sort of self-regulation that would forestall the SEC from forcing investment dealers to handle all over-the-counter transactions on an agency basis.

Ours is a very small firm, but it has always been our policy to limit our profits on unlisted transactions to 5% or less. It seems to me that the cases in which a profit of over 5% would be justified are very rare, except on transactions involving very small amounts of money.

I am writing you this letter only because you seem to be counting noses on this question, and I should like to be counted among those who are inclined to favor the policy as set forth by the NASD as an alternate preferable to having our business put under further restriction by the SEC.

DEALER NO. 25

We are in thorough sympathy with the "Chronicle's" fight against the profit limitation decree of the NASD.

It appears that an insurmountable obstacle would be placed in the pathway of the small dealer.

P. S.—We prefer that our name not be used in connection with the above.

DEALER NO. 26

I have read with a great deal of interest your two articles appearing in the last two issues, and it seems to me that the only way out for the small dealers is to form an association of their own.

As stated in your last article, the large dealer is dependent to a large extent on the many small dealers scattered throughout the length and breadth of the country in the distribution of his underwritings, and in the marketing of over-the-counter securities he specializes in. The small dealers are certainly in the majority, so there is no reason why they should be dictated to by the large ones, and especially by the autocratic policies of the NASD.

Just what good has the NASD been to the small dealer? We have belonged to it ever since it started, so we have paid in a lot in the way of dues but fail to find where it has been worth five cents to our business, during all this time. We fail to see wherein it has accomplished the things for which it was created. It has no doubt done some good, as it would be difficult to spend all of the money that it has received in dues without bringing about some things of value to the industry, but by far the larger portion of anything accomplished was for the benefit of the large dealer.

If a poll were taken of the industry and all the dealers replied honestly to the following questions, what do you think their answers would be, especially the small dealers?

"Enumerate fully the benefits you have received from belonging to the NASD? Do you feel these benefits have equaled, or exceeded, the dues you have paid in, and the time and trouble taken?"

In our honest and considered opinion your paper has done much

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NASD Seen Enforcing Profit Limitation Decree Despite Avalanche Of Opposition

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more in behalf of the small dealer, and for his protection, than the NASD has ever done. Then just why should he be "forced" to pay in his dues year after year? The only reason is that he "must" in order to do business with the big dealer and participate in his underwritings and distributions. This is neither just or equitable.

If you publish the enclosed letter in the Chronicle, please do not use our name or state the city. Just say "an Indiana Dealer."

The writer has just and sufficient reasons for disliking the one-sided and autocratic methods employed by the NASD. There is nothing helpful, or fair, or just or equitable about them. I speak from experience I assure you, and can prove everything I say.

DEALER NO. 27

We wish to congratulate you on your demonstration of courage and desire for fair play in the phamplet just issued by you, being a reprint from the article in your paper under date of November 4 "CAN THE SMALL DEALER IN SECURITIES BE FORCED OUT OF BUSINESS IN DEFIANCE OF THE WILL OF CONGRESS."

The writer has been asking himself for quite some time now, "Was the NASD Inc. created to help the security dealer or to make his business more technical and troublesome."

After having our dues increased, for what I don't know, it would be rather disastrous if the Association is responsible for a cut in our earnings at a time when we are still hopeful of making up for some of the losses we have suffered in recent years.

DEALER NO. 28

We received your undated letter, enclosing a reprint of article in the "Chronicle" of Nov. 4 in regard to recent NASD letter. You ask for an expression of opinions on the subject and you indicate that The Chronicle is leading in a movement "to defeat this scheme." Therefore, we give you our views briefly as follows:

In the first place, in our opinion, you misrepresent the facts when you call the NASD letter a "5% profit limitation decree." It is not a 5% profit limitation and it is not a decree.

Also, you imply that the interpretation of a rule, as given in the NASD letter, was put over on the membership in an illegal or improper manner. We do not agree with this viewpoint and we maintain that the facts in the situation contradict it very effectively. The caption of your article is in itself a "red herring" apparently intended to arouse opposition, and it certainly raises a question which is not justified by the contents of the letter or any facts connected therewith.

Your article also gives the impression that a large number of dealers "are thoughly aroused," etc. We believe this impression or viewpoint is not in accordance with the facts.

It is not our desire to go into any lengthy discussion of the matter, because we believe it would serve no useful purpose. However, we simply desire to add that it appears your paper has departed from the high standards which were maintained by The Chronicle for so many years past. You now seem to be engaging in partisan propaganda pure and simple, rather than reporting financial news and unbiased opinions. (Editor's Note—This letter was written by a Governor of the NASD.)

DEALER NO. 29

It is indeed gratifying to see you take up the fight for the small dealers regarding the new NASD 5% profit limitation. My partner, who is now in the Army, and I have been in this business for a long time, and over the years have gathered together a clientele who, for the most part, are very loyal, even to the extent that they seem to feel that we should be the ones to determine what the fair profit on a transaction should be.

Our transactions are all probably "riskless," to the extent that we never buy anything unless we think we know where we can sell it; but even so, we seem to get "stuck" with something every so often. One year, during the last half of the year, we lost all the profits of the first six months' work.

We have become quite versatile in our dealings with our clients: we help them with their Income Tax Returns; cash their coupons and at times even make out their wills, all without charge.

Whenever we sell securities to our clients, it is always with the understanding that we will watch them and keep them posted—we ourselves doing most of the worrying.

Better not use our name. There is obviously a well-organized move on to eliminate the small dealers, and as long as they may be successful, we don't want to be eliminated first.

DEALER NO. 30

I am writing concerning your article in the November 4th issue concerning the NASD attempt to curb profits.

The communication sent to dealers seems to reach the conclusion that a definite limitation of profits is not practicable. It is true that the survey seems to show that a 5% profit as a ceiling would be in line with the general practice. However, the communication does not seem to establish that ceiling. In our own case it would be adequate, except, possibly, for small items, and our report to the NASD covering 30 days business brought forth no comment.

We are disturbed by the tendency on the part of the SEC to insist on a disclosure of profit on unlisted items which, to the average customer, would seem out of line however reasonable it might be, especially in relation to the net.

We are also in full sympathy with your attempt to oppose legislation sponsored by any commission without authorization from Congress.

DEALER NO. 31

Please be advised that we do not wish to have our name used in this matter.

We are against the profit limitation decree. I do feel, however, that it is wrong for dealers to make excess profits. A few unscrupulous dealers have done so, and this has undoubtedly hurt the rest of us. I know one dealer who made 25 points on a bond, selling it to an aged widow, buying the bond at the market price of around 45 and selling it immediately to her at 70, on the same day when the market price remained around 45.

Someone should have authority to prevent anything of that kind. Previous to the SEC and the NASD the Attorney General's office of the State of New York and the State Commissions of other States could take action against a dealer where practices of this nature were reported.

Between the unconscionable profit quoted above and no profit on a security is a figure which would be considered fair among most dealers.

A dealer doing an institutional business could not make an excessive profit if he tried, because his institutions are very careful themselves on price. The same holds true of a very large private investor. Furthermore, blocks of stocks and bonds sold to large buyers, although carrying a small profit, show a large profit in the aggregate on account of the size of the sale.

In other words, if you sell a bond to a man, making 4 points, or $40.00, that does not compare to the profit made on a 25-bond sale with only half a point, or $125.00, profit. There may be just as much and possibly more work in selling the one bond as there was in selling the 25 bonds. For this reason, an investment house which is doing a private investor business, such as our own, could not follow certain accounts investing only $500 or $1,000 at a time if we were limited to the scale of profit existing for larger institutional buyers. The result would be we would not be allowed to cover such small buyers and they would not be followed by any reputable house which would be limited in its profit to a figure making such solicitation impossible, on account of the expense.

Most dealers feel that a 10% limit and 5 points maximum markup is sufficient in any case to cover small or large accounts of any nature. I think that 10% and a maximum of 4 points would be enough.

I do believe that 5% on a straight sale is not large enough, unless there is a trade and up to 5% is allowed on both sides of the trade.

As a matter of fact, every good dealer knows that large profit spreads on business simply put an umbrella over competition. If you make an excessive profit on a customer, that customer is usually gone, or the loss of good will is such that you will do a decreased amount of business and you will be checked carefully as to your prices on subsequent business.

Of course, the smaller the profit, the more active the account becomes because the quicker profits are set up in the account and investors like to take profits.

In summing up, I wish to state that I am against this 5% profit limitation as inadequate compensation in many cases. I believe a 10% limit is sufficient in the case of most dealers and I would not object to a limit of that amount.

DEALER NO. 32

I want to commend the "Chronicle" for its fearless and thorough defense not only of the securities business, but of the American Democratic Tradition.

I have read both the Memorial to the Senate by Benjamin M. Anderson and your editorial regarding the "5% Profit Limitation."

From my own observation I would characterize the American Public as being a crazy race; we always go to extremes. In order to overcome the "evils of liquor" we had prohibition. This law made us all criminals and scofflaws and finally, when an attempt was made to enforce the unpopular law, we repealed it.

We apparently have the same situation with securities. There was a need for regulation but the regulatory board, in the usual bureaucratic manner has gone berserk and has done more to hurt the financial growth of the country than any other single governmental body. I do not think that the securities business, both trading and underwriting, should be irresponsible but I think we should have regulation by law and not by individuals. I think Professor Anderson's comments very constructive and the banks, exchanges, and security dealers would do well to try to accomplish this. Labor, the farmers and others are represented in Washington and we should not be ashamed to pursue the same policy.

Under date of June 25, 1942, you published a letter that I wrote regarding the NASD. At that time I was not a member and I am happy to relate I am not a member now. It was my opinion that the NASD was trying to force the small dealer out of business and it seems to be pursuing that policy with a great deal of vigor. As an offshoot, and really a branch of the SEC, the NASD is also resorting to regulation by individuals and not by law. In view of its origin and sponsorship, this is not surprising.

I can end this letter no more appropriately than I did the one referred to above; WHY DO WE HAVE AN NASD?

DEALER NO. 33

I am glad of the opportunity to express to you my views about the attempt of the NASD to limit profits of dealers.

1. Is it true that the NASD is dominated by its officers who represent stock exchange firms?
2. Is this whole agitation part of an attempt to curtail the over-the-counter business by exchange houses?
3. Why did the NASD include principal sales of **listed** securities in their compilation showing 71% of the sales carried a profit of under 5%? If they did, were they concealing the true figure on over-the-counter business?
4. What percentage of the transactions came from stock exchange houses? What percentage included municipal and other low-profit bonds?
5. Why do they not furnish the members who pay the dues a complete break-down of these profit items?
6. Is the main idea of this profit limitation to protect the public? Then why is it fair to charge the public 9% on purchases of investment trust shares?
7. Is the main idea on the other hand, to allow a fair profit to the dealers? Then why not find out their average cost of doing business, according to volume turned over?
8. Is it a healthy thing to discourage and penalize small firms from entering the investment business? Will the public gain or lose in the long run from lack of competition?

These questions will show you the way I am looking at this profit limitation, as well as many of my friends in the business.

Please do not publish my name to this letter, I am ashamed to say that, but under present conditions of the NASD and SEC, they can make it too tough for a small dealer to dare to oppose them openly.—A SMALL BUT HONEST DEALER.

DEALER NO. 34

First I wish to thank you for fighting the battles for the small dealers. You did this when the NASD tried to put most of us out of business by putting a $5,000 capitalization on each of us in order to remain in business as a member of their association. As this was against the Constitution, of course, the SEC threw it out. Now comes

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Outsmarting Inflation

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"some" time beyond, to be financed presumably on the same pattern as at present. We also expect the banking channels of commercial and consumers' credit to re-open, adding more fuel to the fire. It is safe to assume that before stabilization is accomplished, a total volume of $300 to $350 billions of purchasing power, or at least $2,500 to $3,000 per capita will darken our financial horizon. The estimate may have to be raised if the end of the "duration" should be more than two years ahead, or if prices should rise substantially in the meantime.

It is the largest volume of purchasing power, total or per capita, that has ever been accumulated by any nation, far out of proportion to the monetary inflation that sweeps other countries. As a matter of fact, in its size and tempo, this process outdoes anything the Germans did in the heyday of their record inflation. The way to measure inflations in different currencies is by translating the available amount of purchasing power into comparable terms. Let us assume, for the sake of comparison, that the dollar is worth only about 1/60th of a standard ounce of gold—the approximate level at which dollar notes sell now on the free markets of Bombay, Alexandria, Buenos Aires, Lisbon, etc.—thus reducing the "real" value of the outstanding dollar volume to roughly $100 billions (at $35 per ounce of gold). The volume of inflated German money in circulation, including giro-deposits in the Reichsbank and on postal checking accounts, reached its peak value of some 26 billion gold-marks, i.e., 40 billion paper-marks at a gold price of 138% of par, at the end of September, 1918, equivalent to $11.3 billions. It declined from there on. (The depreciation of the currency progressed from that point faster than "money printing" did.) In other words, we have already accumulated eight times more purchasing power—dormant as it may be at present — than Germany ever did. Unless the dollar depreciates from here on, which we do not expect, we may have ere long a 15 or 20 times "bigger and better" monetary volume than the German printing press has ever been able to produce.

So far, however, the monetary flood did not succeed in breaking the psychological dams which protect our price system. The rise of prices that has occurred is far less pronounced than in the last war, and certainly bears no proportion to the growth of volume in actual and potential purchasing power. It is easily explained by war-time shortages and related phenomena, which are temporary by nature and may disappear when the war is over. But the accumulated mass of money is going to stay with us. So will the problem: whether or not the inflated monetary volume will some day ignite the price system. Or can one "control" a monetary inflation of such dimensions?

Two Sets of Problems

Two sets of problems face us under these circumstances. One has to do with stopping the flood: balancing the national budget. The other has to do with absorbing the purchasing power accumulated by that time. Balancing the budget is a preliminary to stabilization proper, which has to be brought about by the additional process of "neutralizing" the vast amount of prefabricated purchasing power. The two problems are closely interrelated, but the first, remote as it may seem, is by a long shot easier to accomplish than the second. If the first is burdened with the unpleasant prospect of a deflation, the second might have even more serious economic and social implications. It is the second one, in particular, which makes all talk about "controlled inflation" futile.

Inflation may be controlled, as it has been time and again, when the increase in monetary volume is easily absorbed by the economic system because of the willingness of the public, and of business, to "hoard" liquidity. But after enormous liquid holdings have been piled up, and the cash savings of the nation reach far beyond what the public cares to hold permanently, control by monetary manipulations becomes ineffective. Small wonder that the Controlled Inflation talk of the 1930's has almost vanished from the intellectual market place. Instead, theories are prevalent at present, the gist of which is the claim that there are ways and means to outsmart the vastly inflated volume of effective demand. The idea is that we can have an overexpanded money supply, use it to raise living standards and to turn the wheels of employment, and avoid at the same time the evil distortion of prices and incomes.

Outproducing Inflation

The most popular, and crudest, fallacy along that line is the proposition that the money flood is easily offset by the sum total of available assets. Two centuries ago, John Law argued that Louisiana was worth infinitely more than the few hundred million livres he was printing. (Which is certainly true; the trouble was that Louisiana was unsaleable at the time.) When the Assemblee Nationale issued the first 400 million livres of assignats in April, 1790, the orators assured the public that every livre was five-fold secured by the 2,000 million livres worth of landed domain confiscated by the revolutionary government. As a matter of fact, the "mortgage" turned out to be even better than that, land values rose promptly as did all other values, creating the "need" for more money, and a runaway inflation was the result. The same crude idea and the same arbitrary valuation of the assets of the nation—including those underground—underlies Mr. Eccles' recent oratory to the same effect.

In a more sophisticated edition, the argument runs in terms of technological progress and the expansion of production facilities. According to this version, it is the current production of goods, once it is converted for peace-time demand, that guarantees to offset the increased volume of purchasing power. If so, we might be able to carry a $3,000 billion national debt—which means virtually as much effective demand—as well as one of $300 millions. Indeed, if this were true, the monetary volume could be inflated to any extent.

The Meaning of Full Employment

Briefly, full employment is supposed to cure the congestion of the monetary channels. It is the magic device (or magic word) that solves all problems at one stroke. No more business cycles, social issues or fiscal worries, and no worry about the overexpanded volume of purchasing power. The magic nature of Full Employment is shown by the fact that none of its protagonists bothers with defining what it means—does it include, e.g., all the women, minors and aged people, etc., employed in war-time?—or to explain how it would be compatible with such "minor" matters as: Freedom of the worker to choose his location and occupation; Freedom of the consumer and of the investor to use their purchasing power; Freedom of the entrepreneur to buy and sell, to

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their second try and a vicious one also; it lines right up only in a different way to put the small fellow out of business.

I presume that not one small dealer has a position on any of the regional committees. The whole set up is controlled by the large houses and we who are subscribers to the latest assesment of $49.50 a year now, are at their mercy. From an association of helpful protection it has become one of almost personal persecution. As far as doing business as only being registered under the SEC and as not as a member of the NASD, the SEC investigators come around just the same for routine inspection, so where is the real advantage in belonging to the NASD. Not any except to be able to distribute investment trust shares and some other issues.

I am heartily in favor of forming another association if one is needed whereby the small dealer has some say in the forming of rules and regulations, which now he is not even considered but told to take it and like it or else get out.

The whole set up is very plain to all of us that the ones in power are trying to hand over all the over-the-counter business to the large wealthy firms. They have no regard to local securities markets, and evidently do not realize this market would dry up, as no dealer can spend the time and energy necessary to find markets for closed corporations stocks on a 5% profit. This market alone constitutes millions of dollars from the East Coast to the West Coast.

I realize that your publication is the oldest of its kind and highly respected, so perhaps you can do us a lot of good. I don't know of any other source that is even thinking of sponsoring our cause. The manufacturers have an association which is nation-wide in membership, but they are not telling their members what profit to put on their sales. This is the kind of an association the NASD should be, and could be if the men at the head of it were not tied up with the big boys, to throw all the business to them.

Many thanks for trying to help us and I trust this letter will also help the cause along in arriving at a fair decision. Kindly do not use my name in conjunction with this letter to you. Sincere best wishes.

DEALER NO. 35

The NASD should realize this applies to all. "One Nation Invisible."

DEALER NO. 36

It is with a great deal of interest that I have read your article of Nov. 4; also, the article by Benjamin M. Anderson, Ph. D., under date of Oct. 21, 1943.

I am particularly interested in knowing whether a copy of these two articles has been placed in the hands of our Congressmen and Senators. I, of course, realize this would involve considerable expense. However, I would like to suggest that if it has not already been done, it might be a good idea for each investment dealer in the various States to see that a copy be placed in the possession of their Senators and Congressmen which might be done at a very small expense by purchasing the articles through you.

I am offering the above as a suggestion and feel there is a possibility that this might be one way of helping a good cause along. Would be interested in hearing from you.

DEALER NO. 37

We are a small investment banking house, and are members of the National Association of Securities Dealers. We submitted information relative to our transactions as recently requested by the Association and subsequently received a copy of the letter sent by the NASD to its members. After carefully reading the letter we feel there is nothing in it which in any way places a limitation of 5% on the amount of profit which can be taken by members. It merely sets forth that the average charge made by a percentage of the members was 5%. We feel there are certain limits to the charges a dealer can make which might be considered fair and equitable. There are some instances where this charge may be in excess of 5% but we also feel there are other instances where the charges should be considerably less than 5%.

DEALER NO. 38

Again the "Chronicle" comes to the aid of the small dealer—this time in the matter of profit limitations. We dealers outside of the larger financial centers are fortunate in having such a publication to champion our cause. You are to be congratulated on your attitude, not only in this, but other matters in connection with the welfare of the small dealer.

We have felt all along that the NASD was not serving the best interest of the small dealer in many ways, and this question of limiting profits is just another instance of its being run for the benefit of the dealers located in the large financial centers, who do a large volume, and can well afford to work on a smaller margin of profit. As far as our small organization is concerned, I believe our average profit is much less than 5% on our total transactions, but there are times when it is not. It has run as high as 10% on so-called "riskless" transactions, but in those particular cases I think it was justified due to the circumstances involved. I don't like the word riskless anyhow, because we have very few transactions that are riskless. Many times we will verbally confirm securities to customers at a price, and have the market change on us before we can buy it. We certainly have a degree of risk there. Again, due to the difference in time between the Coast and the East, we often make a trade with the customer after the Eastern or Middle Western markets are closed. The prices at which we confirm such trades include what we feel is a fair profit to ourselves. Now we are unable to buy or sell these securities to local or Pacific Coast dealers, and are forced to await our opening the following morning, at which time it is 11:30 a.m. in New York, and 10:30 a.m. in the Middle West. In other words, we have been short or long, or both, overnight. Are these riskless transactions? Sometimes it works to our disadvantage and we make less than 5%, but if it works the other way we might make more than 5%. Is it fair for us to be censored on such a transaction? It's a so-called "riskless transaction" but we are taking a risk.

Again, what about the customer who says he will take so many shares of a certain stock? We confirm it at a price, and after we have bought the stock to fill the order, he decides he would rather have something else. We don't have many of these, but we do have a few. Can these be said to be "riskless transactions"?

Why should profits be limited to 5% on transactions of this kind, and yet the SEC allows a dealer to make 5% or more on an investment trust, where the customer pays a load of 7% to 9%? The dealer takes no risk there, and the cost to the customer is a good deal over 5%. Why the difference?

While we are on the subject of discriminating against the small dealer on the part of the NASD, I would like to have someone answer this question for me. On page B-10, Section 3, Paragraph A and B of the By-laws of the NASD is the definition of a broker and dealer, and in each case specifically states, "but does not include a bank." Then, under Rules of Fair Practice, page C-13, Section 25(a), it states, "No member shall deal with any non-member broker or dealer except at the same prices, for the same commissions or fees, and on the same terms and conditions as are by such member accorded to the general public."

I know of any number of cases where the banks are treated by a certain large Eastern underwriting house with an extensive wire system the same as they would treat a member broker or dealer. In other words, they will buy or sell unlisted securities to the banks at the same price they will sell them to us or any other member dealer or broker. We complained to the NASD about this, and while it seems to us to be in direct violation of the rules of fair practice, nothing was done about it. I know certain members of that firm were on the Board of Governors at the time, and one of them is now represented on the Board. Perhaps that accounts for it. There are other small dealers here who feel the same way as we do about it.

In one particular case, we put in many weeks of work and time selling a particular bank on buying a certain class of securities in which they have had a continuing interest ever since. But do we get the business now? Only a very small part of it. The greater part goes to Blank & Co., who sell it to them at the same price at which we can buy it.

Should you decide to publish this letter, I would appreciate your not using my name or the name of my firm, and as all local dealers would readily identify us, including the house of Blank & Co., it would be preferable not to head it * * * (name of city omitted by Editor), but merely say West Coast or Pacific Coast dealer.

Thank you again for your forthright comments in favor of the small dealers.

DEALER NO. 39

The small dealer, and the not so small, can be and is being forced out of business. It applies not only to the securities business but to other and all kinds of business. It is a part of the sinister efforts of the so called New Deal administration to control all business to the point of exclusion of free enterprise and private initiative.

With reference to the limitation of members profits an interesting side-light is the letter sent to members by the NASD before Oct. 1 boosting the annual assessment 50% because the executive personnel would require $321,000 for total expenses. Whew! 321 thousand for a little association of approximately 2,200 members for the fiscal year beginning Oct. 1, 1943.

If by any chance you should publish this letter I beg to request that my name not be given as I am not quite ready yet to go way out on a limb.

DEALER NO. 40

It is heartening to read the first of the hundreds of letters which your publication will receive pertaining to the profit ruling of the NASD. Most of them reveal facts that must be obvious to the individuals responsible for this ruling, assuming that they are all experienced in the securities business and thus fully aware of the problems of the legion of small and large dealers comprising the membership of the Association. The "Chronicle" is rendering a distinct public service in opening its columns to a discussion of this ruling. Let us hope that the Governors of the NASD will read these letters and become better acquainted with those whom they are presumed to represent.

Quite obviously this 5% figure is something that must have been pulled out of the hat. I cannot subscribe to any theory that a man or group of men may be considered qualified to determine and decide upon any fixed percentage of profit as a solution to this problem. I recognize that the problem exists, but it is apparent that the NASD is trying to solve it in much the same way as was attempted a generation or so ago in the treatment of another public issue. As I recall it, a minority group once became powerful and in their effort to abolish excesses in drinking they gave us prohibition. The results of that move are now a matter of history.

It is something of a coincidence that this office has recently carried out two transactions which reveal the fallacy of any attempt to fix profits and be fair minded or consistent in the process. In the first case this writer studied and revised a large portfolio for a widow. The revision involved the sale of a small part of her securities and the purchase of a similar amount for a total turnover of some $36,000. The assignment involved a considerable amount of study and reference to costly services and the application of our own years of experience to this client's individual requirements. Proper execution of the various orders involved likewise called for the utilization of equally costly quotaton and wire services.

The client upon completion of the transaction expressed her gratification in writing both to this office as well as to her attorneys. If we were to charge 5% on the business we would have profited to the extent of some $1,800. Quite obviously we accepted something less than one-fifth of that amount as our gross and we were satisfied.

At about the same time one of our smaller clients, and we have a great many in this group, favored us with an order for 15 shares of stock selling at $12 per share. This order, by the way, came to us by a member of our sales department to whom we paid the customary commission. A 5% mark-up on 15 shares of a $12 stock gave us $9 gross profit. From this $9 our salesman received $5.40, leaving us $3.60 for our own remuneration. And this $3.60 is a gross figure. We have projected our fixed monthly overhead against a definite number of transactions over a six months' period and find that the actual clearance cost of every transaction which transpires in this office runs slightly over $5. The conclusion to which we are therefore forced is that the small investor has no place with us unless we are willing to accept his or her business on a complimentary basis and at a dollars and cents loss. These are not hypothetical cases but actual transactions. May I, therefore, inquire through your columns as to what extent the public is protected under this ruling. Are we to inform the small investors that because of arbitrary and unstudied rulings from those in high authority that we cannot accept their business?

This company is composed of individuals of 15 years experience and over. We serve a list of clients having confidence in our judgment and integrity. These clients have been consistently improved

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Outsmarting Inflation

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hire and fire; Freedom of the taxpayer from exposing his welfare to political misuse; Freedom for all of us from bureaucratic totalitarianism.

Leaving these questions aside, let us assume Full Employment will prevail after the war. To be useful in controlling or overcoming the inflation hazard, it has to accomplish two things. On the supply side, it must not give an impetus to costs to rise. On the demand side, it will either have to absorb the excess purchasing power of the public, which will be the hangover from the years of an unbalanced budget, or must keep it somehow from being disbursed.

Costs Under Full Employment

As to costs, Full Employment means the full utilization of all plant capacities, the reduction of overhead per unit of output, and an incentive, in theory at least, to utilize technological inventions. All of which should tend to lower costs and to counteract inflationary price trends. But this holds only for the period until employment reaches its maximum. From there on, the law of diminishing returns becomes operative, and the opposite development is bound to take place. Costs of obsolescence, losses due to accidents and wear and tear, etc., rise as resources are over-exploited or actually exhausted. Labor costs in particular, tend to rise due to the employment of less efficient workers, and to the overstrain of all of them. Moreover, such a situation gives labor an excellent bargaining position which the unions surely will not miss, especially so when war-time inhibitions (if any) will be out of the way. In short, Full Employment causes in the longer run, from the side of costs, the very inflationary course which it is supposed to combat, to say nothing of the costs of mal-investments which it is likely to foster.

In addition, it is bound to be accompanied by high taxation. (The protagonists of Full Employment claim that it creates a large national income, which in turn permits the balancing of the national budget, if not the partial repayment of debt, out of tax proceeds.) But a high level of business taxes is necessarily inflationary in effect; it raises costs directly by the process of shifting the burden on the consumer—a very promising process under full employment conditions — and indirectly by inviting wasteful extravagances in management.

Production Volume vs. Volume of Money

However, the essential question is the absorption of

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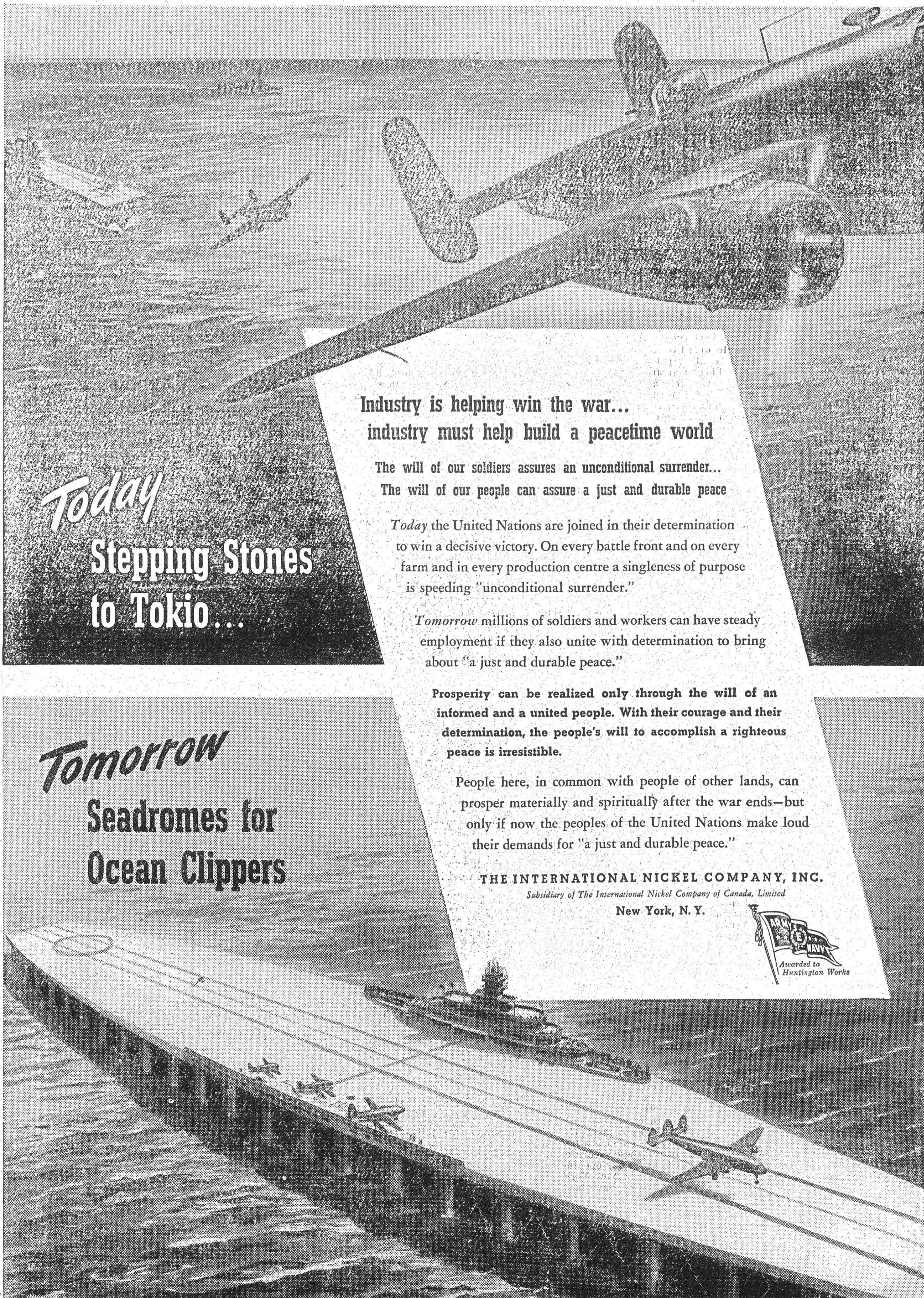
Today
Stepping Stones
to Tokio...
Tomorrow
Seadromes for
Ocean Clippers
Industry is helping win the war...
industry must help build a peacetime world
The will of our soldiers assures an unconditional surrender...
The will of our people can assure a just and durable peace
Today the United Nations are joined in their determination to win a decisive victory. On every battle front and on every farm and in every production centre a singleness of purpose is speeding "unconditional surrender."
Tomorrow millions of soldiers and workers can have steady employment if they also unite with determination to bring about "a just and durable peace."
Prosperity can be realized only through the will of an informed and a united people. With their courage and their determination, the people's will to accomplish a righteous peace is irresistible.
People here, in common with people of other lands, can prosper materially and spiritually after the war ends—but only if now the peoples of the United Nations make loud their demands for "a just and durable peace."
THE INTERNATIONAL NICKEL COMPANY, INC.
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Wages and Inflation

(Continued from first page)

Political Science, at the Hotel Astor in New York, follows in full:

I

For the first time in American history payrolls this year will surpass $100 billion. Over 75 cents of every dollar paid out to individuals will go into payrolls, as compared with 9 cents going to property owners in the form of dividends, rent or interest, 9 cents going to farmers, and slightly more than 6 cents going to the self-employed. Since 1939, payrolls have more than doubled. During the same period payments to nonagricultural property owners (dividends, interest payments, and rents) had risen by 15 per cent. The rise in payrolls has been 24 times as large as the rise in payments to property owners and has been four times as important as all other causes of larger incomes put together. Of the major economic groups in the community only the farmers have had a proportionately greater increase in income than wage earners and the average annual return of farmers is still little more than half that of factory workers. Plainly if larger incomes threaten inflation, wages represent the heart of the problem.

Wages may mean either wage rate or payrolls. What part have changes in wage rates or in payrolls played in creating the problem of inflation? Up to now the record of price control has been reasonably good. The index of the cost of living has risen only 25% in three years although income payments have doubled. What part has wage policy played in achieving this result? What problems are ahead? The unions are preparing a drive on the "Little Steel" formula. Is the national wage policy about to break down? If so, will there be a disorderly and dangerous rise in prices? What is likely to happen to payrolls and wage rates after the war? Is there need for a national wage policy after the war? If so, what should it be and how should it be implemented?

II

Wage rates have increased considerably less than the published figures seem to indicate. According to the United States Bureau of Labor Statistics, hourly earnings in manufacturing have increased from 63.3 cents in 1939 to 96.3 cents in July, 1943, or 52.1%. These hourly earning figures, however, are affected by penalty overtime. When overtime is eliminated, the increase was from 62.2 cents in 1939 to 90.3 cents in July, 1943 or 45.2%. Even these figures, however, are not satisfactory. Since they are weighted averages, they are affected by the movement of men from low-paying industries into higher-paying industries. This movement has been very large because the war industries pay more than civilian industries. When the figures are corrected for shifts from low-paying to high-paying industries, average straight time hourly earnings in July, 1943, are found to be 82.3 cents—an increase of 32.3%. This is far less than the increase of 52.1% which seems to be indicated by the currently published figures. In fifteen manufacturing industries, employing about 10 million workers, the increase in straight time hourly earnings was from 72.3 cents in 1939 to 86.2 cents in July, 1943, or 19.2%. This latter figure is corrected for shifts from low-paying industries to high-paying ones. For all nonagricultural workers the increase in price of labor between 1939 and July, 1943, was a little more than 20%.

III

Why have payrolls increased? Increases in wage rates have had far less effect on payrolls than the public imagines. Had every wage rate in every plant in the United States been frozen in 1939, payrolls still would have doubled. Of the increase of approximately $60 billion in payrolls in the last four years, less than one-fifth, or about $11 billion, is attributable to the rise in the price of labor. The biggest source of increase has been more people at work. This accounts for over one-third of the rise or about $21.2 billion. The next largest source of greater payrolls has been the movement from low-paying to high-paying plants and industries. It accounts for $15.2 billion of the increase. The opportunity which the war has given men to move into better paying jobs has been equivalent to a 33% wage increase. About $7.2 billion of the increase in payrolls is explained by the longer working weeks and $2 billion by penalty overtime.

This analysis shows that only a small part of the problem of inflation can be met by wage policy. It does not follow, however, that wage policy has been of negligible importance. Had the price of labor risen 75 or 100% in four years, as it did in the First World War, the prices of finished goods and the cost of living would of necessity have risen in the same proportion, and the cost of living would have been 50 to 100% above its present level.

The national wage policy has been denounced by some persons as inflationary on the ground that raising wages to meet increases in the cost of living would, in turn, cause the cost of living to rise, thus creating a vicious spiral. Nevertheless, for the last two years the rate at which wages have risen has gradually been decreasing. The decline in the rate at which straight-time hourly earnings (corrected for shifts from low-wage to high-wage industries) are increasing started before the nation had a wage policy and the institution of the policy has not accelerated the decline in the rate of increase. Must we conclude that the policy has had no effect? Probably not, for pressures on wage rates may have been growing. It does mean, however, that the most important restraint on wage increase has been the opportunity to move into higher-paying jobs. The next most important restraint has been the strong hostility of the public toward strikes. Both of these influences affected wages before the country had a wage policy. Curiously enough, the most important development of all, the Little Steel formula, was followed by a temporary rise in the rate of increase in straight-time hourly earnings. Likewise, the increase in the quarter following the Hold-the-Line Order of April, 1943, was slightly more than during the quarter preceding it. Regardless of how it has been accomplished, however, reasonably effective control has been established over the price of labor.

IV

Has the national wage policy been fair to the workers and to the community? The answer seems on the whole to be: "Yes." Largely because of improved working conditions which have enabled piece workers to increase their earnings and fictitious upgrading of time workers, the average straight-time hourly earnings of factory workers have risen faster than the index of the cost of living since January, 1941—27.7% up to August, 1943, as compared with 22.5% in the index of the cost of living.

V

Although the wage policy is essentially fair, three basic changes should be made in it:

1. The connection between wages and the cost of living should be continued beyond May, 1942.

2. The linkage with the cost of living should be with the straight-time hourly earnings rather than rates. To a considerable extent this is already the practice.

3. Time workers should be given an opportunity as separate groups to obtain wage adjustments when their straight-time hourly earnings have fallen short of the rise in the cost of living.

If the Little Steel formula were revised as I have suggested, payrolls would increase between 1943 and 1944 by about $7 billion—about one-third of the increase between 1942 and 1943. Straight-time hourly earnings would rise about 5%. The reason for the moderate increase in payrolls is that three of the principal causes for the recent rise in payrolls are disappearing. The size of the working force is no longer increasing. Little further increase is expected to be made in the hours of work, and the large movement from the low-paying plants and industries to high-paying plants and industries is about over. If the war against Germany continues throughout most of next year, the supply of consumer goods will be smaller than this year. But even if the cost of living rises by 4% or 5%, the "inflationary gap" will be roughly $8 billion greater than in 1943. This, however, does not mean inflation. The public has already demonstrated a marked disposition not to reach for goods at fancy prices and to conserve its purchasing power until the kind of goods which it wishes to buy are available. If the war against Germany ends by spring, which seems likely, the "inflationary gap" next year will be considerably less than this year.

VI

The foregoing analysis suggests that the real danger of a disorderly rise in prices does not spring from the increase in the inflationary gap or the slow increase in prices which would be produced either by the present wage policy or by the proposed modifications of the policy. The real danger of inflation springs from the possibility that the national wage policy will be wrecked by the insistence of aggressive and powerful groups upon preferred treatment. Experience shows that some groups in the community are willing to withhold supplies from the men at the front in order to gain a few additional cents per hour for themselves. Yielding to pressure for preferential treatment would quickly produce chaos.

General prohibitions against strikes have never worked satisfactorily. Even worse than mere prohibitions of strikes, however, would be rewards for strikes (or threats of strikes) by giving favored treatment to groups which are tough enough to insist upon it. Regardless of what the national wage policy is, regardless of whether we like it or not, it must be applied without fear or favor to all groups, large and small, weak or powerful. That is the keystone of any anti-inflationary policy. The War Labor Board and the Railroad Emergency Boards are bound from time to time to make decisions with which many people disagree. If the country is to have a stable wage policy which is enforced regardless of threats, the arbitrating bodies must have more support from Mr. Byrnes, from Mr. Vinson, from the President, and especially from the public than they have thus far received.

VII

What will happen to payrolls and to wage rates after the war? If wage rates after the war remain unchanged, payrolls will drop by over $20 billion. This drop will come about because of a shrinkage of about 3.8 billion in the size of the working force, of about 4% in the length of working hours, and a large shift from high-paying to low-paying jobs. If payrolls reach $105 billion in 1944, they may be expected to drop in two years to $83 billion. This is about 17% below the present level of payrolls, but over double the prewar level.

What will happen to the price of labor after the war? Demands for wage increases will be numerous and insistent. Whether they are successful or unsuccessful will depend upon business conditions. For the first several years after the war, at least, conditions are likely to be favorable to wage increases.

It would be in the general interest of the country to achieve a wage and price level of about 50 or 60% above prewar. There are three reasons for this:

1. Higher wages and prices would increase the yield of given income tax rates, thus facilitating a reduction of taxes.

2. Distortions in the wage and price structure, which are an inevitable result of the war, would be more easily corrected by raising low wages and low prices than by reducing high wages and high prices.

3. A higher price level would be equivalent to a reduction in the tariff. In fact, it would be the least painful way to reduce the tariff. It would make it easier for foreign countries to earn dollar exchange and would thus help the United States spread hope and opportunity throughout the world.

VIII

Should the movement of wages after the war be left solely to bargaining between employers and unions? Or should the country retain a national wage policy, and a national price policy as well, for several years after the guns are silent?

The pressure suddenly and completely to scrap annoying and burdensome war controls will be terrific. There is no assurance, however, that leaving the determination of wages to the bargaining of employers and unions will reduce distortions in the wage structure. Bargaining power may be so distributed that the distortions are aggravated. Furthermore, there is no assurance that strong pressure for wage increases would have the desired effect upon prices. If the bargaining power of unions is too strong relative to the ability of employers to pass on wage increases, the pressure for higher wages may be deflationary. If employers find it easy to raise prices, the pressure for higher wages may push up prices so rapidly as to generate speculative excesses. If prices rise as a result of wage increases, there is no assurance that the rise will stop at about the right point in relation to foreign price levels.

The national interest in the reduction of distortions in the wage and price structure and in controlling the rate at which wages and prices rise and the amount that they rise is very great. It does not seem worthy of a nation of grownups not to establish machinery for implementing the national interest in these matters. But how would the national interest be enforced? That is the crucial question. Even in time of war, with keen hostility by the public to strikes, the government finds great difficulty in enforcing its wage policy against unions which are determined to get preferred treatment. In time of peace, with the public weary of controls, the difficulties of enforcement will be greater than ever. For some years after the war the nation will have to trust to luck to get the adjustments in wages which the national interest requires.

This does not mean that the country will never have a national wage policy—except in time of war. On the contrary, our economic institutions require such a policy, and it is only a question of time before the public recognizes this need. At present there is a glaring gap in our institutions. This gap springs from the fact that the level of employment depends upon decisions and policies of many economic groups which are too small to be much concerned about the level of employment. Policy making which ignores the national interest in the volume of employment can be tolerated only when employment (for independent reasons) is high. Hence, though the wage policy of the war will be scrapped soon after peace returns, it is only a question of time before the country again establishes a national wage policy to control the operation of collective bargaining.

Outsmarting Inflation

(Continued from page 2000)

the purchasing power accumulated in the form of liquid savings during the unbalanced budget period. What happens to that excess liquidity in a post-war Full Employment set-up? Evidently, whatever the dollar-size of the national product, it must be equal to the paid-out national income. Every dollar's worth of goods or services presupposes that a dollar has been spent on wages, rents, interests, etc. The larger the national output produced, the larger the national income paid out. Discrepancies between the two sides of the equation due to changes in inventory holdings and in the hoarding and dishoarding of money may be disregarded at present. If so, income produced and income disbursed are equal — by definition— whatever their size. People's earnings serve to purchase the goods and services produced; the goods and services coming on the market are taken up by the current income of the population.

That would be the skeleton of a Full Employment economy—if there wouldn't be a fantastic volume of savings carried over into it. Suppose that we enter the first peace-year with $300 billions of liquid reserves. Suppose that $50 or $100 billions will be disbursed on the markets as effective demand and used as down-payments for consumers' loans. Obviously, to the extent that this is done, more purchasing power flows into the markets than what is currently created by production. The additional $100 billions disbursed out of liquid reserves and turning around, says, 2½ times a year, adds a volume of effective demand amounting to $250 billions to the currently produced national income. If the latter is equal to $150 billions per annum, then $150 plus $250 billions, or a total of $400 billions, bids for the goods and services worth (at given prices) only $150 billions. The balance between effective demand and effective supply is completely up-

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A Reappraisal of Railroad Credit

(Continued from page 1990)

speech on the floor of the Los Angeles Stock Exchange, and in introducing the speaker, McClarty Harbison, President of the Exchange, referred to him as "one of the outstanding speakers in his field today." The talk, Mr. Harbison indicated, was sponsored by the Bancamerica Company and his own firm, Harbison & Gregory. Except for the concluding portion quoted above, the speech of Mr. McGinnis, follows in full.

Railroad securities have been for the last thirteen years considered by the public and by the fiduciaries as speculative securities. It is true there was an exception for a few months in 1936 and 1937 but, generally speaking, over the last thirteen years, railroad securities, bonds and stocks, almost regardless of the name of the company, have been recognized as speculative securities. Despite the many changes that have occurred, railroad securities are selling in the corporate field at the lowest prices and the highest yield. There are more sellers than buyers in railroad securities.

My effort this afternoon will be to try to convince you that this pessimistic attitude toward railroad securities is unjustified because of the many changes that have occurred in railroads in the last thirteen years both from the operating and financial standpoint. I will emphasize at the start I am not trying to draw conclusions because of the war or because of war earnings. The only assumption I make in asking you to listen to me is that you are interested in corporate securities, utilities, industrials or rails. If you are interested in keeping your funds in cash, in governments or municipals, I see nothing in my speech that will interest you, but, if you are a corporate investor or a dealer or a salesman, selling corporate securities, I think it should interest you.

Why do we consider railroad securities speculative? A great many factors add up to give the public that psychology. The past record of the industry, the bankruptcies, the fear of bankruptcies, the truck competition have all contributed to that point of view. Despite all of this that you hear, the past record of rails has been a record of America so far as business is concerned. We will talk about the financial factors later. Look at the national income for the last 20 years, year by year, and look at the gross income of the American railroads and you will find that almost consistently the railroads had gross revenues of about 6% of the national income. So far as business is concerned, railroads go up and down with the United States. Likewise, so does Steel, Motors and so forth. As a business, the foundations have been in line with the foundations of this country. That, sometimes, is hard to prove but one good thing we get from the SEC are the reports they issue on certain listed corporations. I studied those reports for the years 1935 to 1939 to find out if there was something wrong with the railroads as a business, forgetting some of the other aspects, and you find figures something like this, taking the year 1937. That was the best year we had in the period 1930 to 1939.

In that year out of each dollar that the railroads took in they saved 18 cents for interest on their bonds, dividends and surplus. That is 18 cents out of each dollar. Compare that with other industries. This approximate figure is true in 1935, 1936, 1938 and 1939. There is no other group of listed securities with the exception of the chemical industry that saved as much money out of each dollar as did the railroad business. For example, the steel industry in 1937 saved 8.1 cents out of each dollar for interest, dividends and surplus. The automobile industry saved 9 cents. The motion picture industry saved 9.6 cents. The oil industry in which you are so interested out here saved 12 cents. The railroads head the list in conjunction with the chemicals.

Now I say, why should the railroads be the forgotten infant in the corporate field? Why should they be speculative and not be on a credit basis like the chemical industry. The reasons are many but primarily financial. It is true, of course, that the railroads have changed in a great many ways. They have changed in the last few years from a monopoly in transportation which they had in the '20s to a part in the transportation industry, by far the larger part in normal times, still doing about 65% of all of the transportation business in the country. It is not hard to visualize that over the last 25 years the introduction of 30,000,000 automobiles, 5,000,000 trucks, pipe lines and improvements would affect transportation in the Mississippi and Ohio waterways but what is the thing that made the securities unpopular? It might be from a superficial examination but I will try to show you that it was not; in other words, competition did come in and reduced the rates but railroad management through efficiency made up for the most of that in net.

The financial decline in railroad securities in my opinion was primarily caused by the unregulated trucks which broke the railroad rate structure. When trucks first came in you could go in business with small capital and a bank that would be glad to loan you the rest, go out and buy yourself three or four trucks, you had to file no tariffs, and just go up to a fellow and say, "Here, I will carry that for you cheaper than the railroads will charge you." Naturally, being in a depression, they started out by having cheaper labor and all of the traffic men were interested in saving every nickel possible they could on freight. As a result, the trucks while they were unregulated, cracked the rate structure of the rails and that was the primary reason in my opinion for the decline in railroad credit.

That was for this reason. In 1941, for the 12 months ending Sept. 30, they did the same business as they did in 1928. What is the railroads' business? It is the business of moving freight and passengers. The term we use on freight is how many ton miles do they carry and how many passenger miles do they carry. When you add the two up you get the amount of business the railroads do. I use this 12 months in 1941 because the number of units, ton miles plus passenger miles, was about the same, 528 billion traffic units. In 1928 the gross was 6 billion and in 1941 the gross was 5 billion. There was the same business but because of the decline in the rate structure, caused primarily by the unregulated trucks, the railroads did the same business but took in a billion dollars less gross.

In the year 1928 the net railroad operating income, that is, what you have left, was $1,100,000,000 so, obviously, if something had not happened to railroad management over that period, and the net was forced to absorb the decrease in gross, the rails would have been out of business but that did not happen. For the 12 months ending Sept. 1941 the net railroad operating income of Class I railroads was $990,000,000, so that management, through its efficiency, made this possible.

The efficiency is there because they did the same business and they are in much better shape financially. They produced $990,000,000 with a billion dollars less gross. Despite the fact that they lost a billion dollars, because of the decline in the rate structure, the net changed only about $100,000,000.

How did they do it? In 1928 the railroads employed 1,660,000 men and women. For the 12 months that I am talking about in 1941 they employed 1,140,000 people. The railroads did the same business and used 520,000 less employees. Some people said at that point, "How about the compensation?" I will give you the figures on that. The compensation in 1928 was $2,826,000,000. For that period in 1941 it was $2,331,000,000 which is a decrease of about half a billion dollars. So here is an industry that we always hear about as being old-fashioned, run by a bunch of old-fogies and so forth, yet, in a ten year period, they were able to do the same amount of business and spend a half billion less dollars in doing it.

Their maintenance figures were down. Most people compare maintenance in the '20s with the '30s. It should not be done for this reason. We have about 235,000 miles of roadbed in this country. Over that roadbed there are about 386,000 miles of rails but 10% of that mileage carries 50% of the business. You do not see the density out here in the West like you do in the East. The Pennsylvania some days will carry as many tons as all of your transcontinentals put together. The branch lines are no longer required to be maintained in anything like the shape they were maintained when there were no trucks. As a result it is no longer necessary to spend as much money on maintenance. Then, too, all the mechanization which appears on the railroads helps to bring the expenses down and that was the answer. Railroad management was able to make up for the unregulated rates which caused a decline in their credit.

Those figures I just give you for the years 1928 and 1941 are true in other years, too, but I am not going to repeat them. I tested them to make sure there was no hitch and there is none. The railroads have many mechanized tools, too, now. There is the central traffic control, the "Sperry" car and so forth, which I will be glad to tell you about if you want to hear about them in the forum later. Those are efficiency factors.

If we look at the railroads from that standpoint it is not surprising that when the war effort demanded that the railroads do the work which they are doing, they were able to do it. I think they have been the greatest single factor in our war effort. They have accomplished their effort with such efficiency as was required of them; as a matter of fact, we found this out about the railroads —that the volume that they are capable of handling is unlimited, absolutely unlimited. They were called upon last year to take 40% more business than they did in 1929. They were called upon to do it with 500,000 less freight cars, with 25,000 less locomotives and with 14,000 less passenger cars and they were able to do it and do it well. We may complain now when we travel by train but don't forget that we caused that condition by abandoning railroads as a mode of traveling before the war. The War Production Board, probably for good reasons, has prohibited the production of any

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A Reappraisal Of Railroad Credit

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more passenger cars so that, naturally, we will get along the best we can.

What change has come about? First, there was a change in the economic aspect; in other words, can this rate thing happen again? The trucks were regulated by the Motor Carrier Act of 1935 but it was such a young industry that it was not until 1939 the first real regulation of trucks occurred. Now, as you all know, they are regulated by the Interstate Commerce Commission. They have to file tariffs and they have to file routes. You cannot go in the trucking business now unless you have just cause and it is pretty hard to do. It is practically impossible, because, even if you wanted to, the profit motive is gone because last year the trucking industry, reporting to the ICC saved less than two cents out of each dollar. The operating ratio of the Class I trucking companies last year was about 98.3%. When you get down there, there is not much incentive for investment in trucking concerns.

The other thing that has happened is the gas tax which was unheard of in the early '20s. The average now is around 7 cents a gallon. As I said before, during the depression, when these trucks started, they were able to employ labor at almost any price. Now they are organized and it is not easy. The rates have been stabilized since 1939.

Up to this point I have tried to point out to you that if the railroads did not have heavy debt they would be a good business risk. Compared to any other business in this country, as a business risk, they are all right. Now, how about the financial risk? The financial factors on a railroad are, first, business which is ton miles multiplied by rates producing gross earnings, gross earning handled by management producing net earnings. That is a combination of credit factors. I call it ton miles and earnings—both affected directly by rates and management. The third most important financial factor is the capital structure. What is capital structure? The easiest way to understand it is by an illustration of a mortgage on your house. How much equity did you put up? If you bought a house for $20,000 and had a mortgage for $18,000 and you put up $2,000 you know what your equity is. You are not as good a risk as the man down the street who put up $10,000 and who has a $10,000 mortgage on his house. The capital structure is the next important factor in determining railroad credit.

The fourth factor is maturities and I will use again an individual example. If you had an obligation to pay $5,000 every six months and the man down the street has no maturities and has the same income as you, naturally, he is the better risk. Then there is your fifth factor, current position—net quick assets. Why is that important? It is important because it reflects the financial policy of the management.

In trying to break down the problem so I could see it and try to point it out to other people, I looked at the industry and said, here you have 136 Class I railroads but, of the 136, 56 of these railroads do 93% of the business so I ignored the balance, the difference between 56 and 136 because, generally speaking, particularly in any kind of audience at all, we are not interested in some little railroad that does a million dollars worth of business. I took these 56 and looked at them. I ended up by having 18 with good credit right through the depression. True, sometimes their securities sold down, like everything else did in 1932 and 1933, but they retained their credit. Twelve of these railroads became borderlines. What does that mean? Borderline means that the companies escaped bankruptcy by subsidy loans from some government agency. Twenty-six of these railroads became bankrupt. An illustration of one that escaped bankruptcy out here is Southern Pacific and one that went in bankruptcy is Western Pacific. What characteristics did the 18 have that the 26 and the 12 did not have? What characteristic did the Southern Pacific have that the Atchison or Santa Fe, as you call it out here, did not have? What characteristic did the Western Pacific have that the Union Pacific did not have? A lot—and I will go over them. I ask it and put it that way because mentioning those four railroads, the Union Pacific, the Western Pacific, the Southern Pacific and the Santa Fe, they all were affected by the same trucks and they were all affected by the same decline in the rate structure and yet you know without my telling you the difference in the last ten years between those four railroads.

The first thing I looked at was the ton miles. It is true they all declined with the depression, with the competition and so forth but the relative decline was no greater with Western Pacific than it was with Union Pacific and vice versa. You look up the gross business and the relative decline was about the same for all of them. There was a difference, however, in the net of the railroads relatively and that was caused by management. There again using these 56 railroads, the good ones, that is, the ones that retained their credit, in the period 1925 to 1929, they were saving 22 cents out of each dollar. During the period 1925 to 1929 the good ones were saving 22 cents of each dollar. The border-lines were saving 22 cents so there was really no difference in the management. The bankrupt carriers, however, were only saving about 17 cents so there was a reflection that the management of the roads which subsequently became bankrupt was not as good as those that retained their credit. It is a very fine point however, and not enough to have caused the disparity between the securities.

The most important thing was the capital structure. These good credit railroads, illustrated by the Santa Fe, had 54% of their capitalization in bonds and 46% in stocks. The border-lines, illustrated out here by the Southern Pacific, had 67% in bonds and 33% in stocks. The 26 that went into bankruptcy had 74% in bonds and 26% in stocks and on top of that tremendous difference in capitalization, in 1925 to 1929, the directors of the roads which subsequently went bankrupt paid out 88% of each dollar they took in on interest and dividends. The roads which retained their credit paid out 68% so that the good roads were saving 30 cents out of each dollar despite the fact they were in the wildest period in the financial history we ever had. The roads that retained their credit were saving 30 cents out of each dollar and the roads which subsequently went bankrupt were saving about 10 cents. So when they hit the depression, they hit it with practically no cash. When the Santa Fe hit it, they hit it with a large amount of cash. These are the big differences—the big differences in the 26 that went bankrupt and the 12 that became border-line.

Has anything happened to correct the financial situation? Has anything happened which would put the 26 bankrupt companies and the 12 border-lines back up with the so-called high class credits? It has. In order to take these 26 railroads and these 12 and get them back up where their credits can be reappraised and where you can restore them and take them out of the speculative class, we have to get rid of that maturity problem. We have to get rid of that tremendous debt overhanging them and you have to change their financial policy which has been done. I have studied this I think as much as any man in the country and I can tell you there is not a road in bankruptcy today that has ever had a decent capitalization back to the beginning of the railroads. Not a one! The railroads which were properly reorganized in 1895 were the Santa Fe, the Norfolk Western, Reading and Union Pacific, and have been ever since that day your leading railroad credits. The obvious cause of bankruptcy is that they could not carry the financial load. It was too heavy so they went into bankruptcy. The border-lines could not carry it so they were subsidized by the RFC and stayed out of bankruptcy. The good credit railroads retained their credit and came through despite the lowering of gross and lowering of net on the coverage. In the worst years they covered their fixed charges 1½ times.

To illustrate how much out of gear the fixed charges were, the fixed charges on those bankrupt roads were 222 million dollars. Those 26 roads were doing and still are doing about 28% of all the business. The fixed charges on those 18 good credit railroads was 188 million dollars but they were doing 40% of all the business. The thing had to be changed drastically and it was.

In 1933 the Interstate Commerce Commission for the first time in history was given the authority to reorganize railroads. Up to that point the ICC had charge of the rates and other things but they had nothing to do with the reorganization of railroads. In 1933 a new bankruptcy act came out which was called Section 77 and the ICC was then put in charge of railroad reorganization. They took these 26 railroads and are reorganizing them on the basis of a capital structure which will be better than the 18 which survived the vicissitudes of the last 13 years. Briefly, they are doing this job, cutting the fixed charges of these 26 railroads from 222 million dollars down to 80 million dollars. As they are still doing about 28% of the business they will be carrying new fixed charges so that as a group they will be from the capital structure standpoint far better off than the group of 18 which retained their credit.

In the meantime, the border-line railroads have also been reducing their debt in the open market by paying off the RFC and by paying off their short maturities. You can see out here what a job Southern Pacific has done in the last four years. They got out of the banks, they got out of the RFC and they got rid of most of their short maturities. That illustrates the amount of work the border-lines have been doing. The New York Central and the Illinois Central and all of them have been trying to get their house in order so that they will be as good as those that came through the last ten years with good credit.

If you read the financial news you have probably seen recently that a railroad with a good credit like Atchison have called their loan issue of 28 million. I hate to use so many figures, but I will have to in order to emphasize this debt reduction. The total net funded debt of the American railroads according to the ICC, on January 1st, 1942, that is, the end of 1941, was $9,600,000,000 excluding equipments. The fixed debt of these 26 railroads in bankruptcy, including a few more smaller ones, was 4.7 billion. The reorganization fixed debt will be reduced to 1.6 billion so the ICC is removing 3.1 billion of fixed debt. That is not an assumption or thought on my part. That is not a theory. It is a fact. It is true, of course, that some railroads have not completed their reorganization—a good many of them—but there is one thing we do know from the ICC, that even though they changed the situation a little, they are not in my opinion going to increase the fixed charges. You can come in with some changes if you want to, but you cannot increase the amount of the fixed interest bearing bonds.

According to the ICC, last year, the solvent railroads, border-line and good ones, retired 324 million dollars of debt in the open market so that their reorganization will be complete and most of them are in the final form. **That means that the figure** 9.6 billion will have been reduced to 6.2 billion. That is a reduction of debt of about 35%. That is no fantasy. That is not an assumption. It is a fact when the reorganizations are completed.

Now this year I think that the border-lines and solvent companies will retire another 500 million dollars worth of debt. Why? Because I know 16 railroad companies that have already retired 236 million dollars. If you go along and assume with me you are going to have good business in the forseeable future and assume that next year the railroads will do almost as much by the end of 1944 as they are doing now, the fixed debt of the American railroads will be down from 9.6 billion to 5.2 billion, a reduction of close to 46%.

Up to this point I have tried to point out to you that the fundamental factors affecting the credit of railroads have changed. The railroads management's efficiency has made up for the decline in rates. The unregulated trucks are now regulated. The financial house is in order, therefore, in my opinion, they should no longer be regarded as speculative securities. I think railroad credit will definitely be restored

(Continued on page 2006)

A Reappraisal Of Railroad Credit

(Continued from page 2005)

and recognized as such over the next three, four or five years, perhaps, sooner, but it will be definitely restored. When the Atchison was reorganized in 1895 and the new first mortgage bonds came out and the new income bonds came out, and the preferreds and the commons, they used to kick around at low prices. Gradually they became seasoned and entered their place in the capital structure of the American corporations. I have tried to point out to you the restoration of the railroads' credits, calling upon everyone to reappraise the railroad credits whether you are an individual, a bank or an insurance company, to see if most of them have now the characteristics for the future which 18 of them always had.

Getting down now to the individual situations, investing in corporate securities, whether it is in industrials or utilities or in rails, the minute you buy a security you are forecasting. When you take off the high-sounding descriptions, investing is nothing but intelligent crystal-gazing. Your broker, when you buy something from him, is just trying to forecast something—it may be income, it may be appreciation, it may be a yield of 2.56 on some utility bond or it may be a yield of 8½% on the new Wabash incomes, but it is forecasting. What controls the prices in buying and selling? What happened in rails? Up to March 1931 the fiduciaries in this country, the banks, insurance companies, savings banks and trustees were the market for railroad securities. I have been in this business all my life and I had never thought of calling individuals to ask them to buy railroad bonds up to 1932, because it was too much work. All you had to do to sell them was to call up some institution and sell them. As a result they were the market for railroad securities. I am speaking now of railroad bonds. After 1931 the buyers who held about 70% of all these bonds became the sellers. They sold them consistently and they are still selling them on balance. This year they have sold about 180 million par value on balance. That is from the big life insurance companies but don't let that fool you. I bought a lot of Erie bonds in 1940 at 35 and 40 cents on the dollar. I bought these from institutions. I sold them back to institutions this year at par. Those were Erie prior lien 4s. In January 1938 they were rated AA. They went in bankruptcy on January 18, 1938. January 19th they were rated C. You can see that a rating prediction is nothing, ratings follow prices. They do not predict anything. The bonds sold down to 32. They stayed there for about a year and a half. Everybody knew they were going to get a $1,000 bond and that is just what you got. They are now back at par and you can usually sell them to most institutions.

There you had a technical situation added to a psychological situation. You had to go out and try to educate the country to buy railroad bonds. I have to come out here and tell you to buy them when you know insurance companies and banks are selling them. They are selling them on balance and they have been doing so for ten years. That is the system. That is the stylish system of investing. You know, if you had been absolutely inconsistent with the fashion over the last ten years you would have made money. A few years ago you could buy good utility bonds for 30 or 40 cents on the dollar. Here is just one illustration but it is only symbolic of what happened. The West Texas Utilities 5s of '57. You could buy them in 1934 at 50 cents on the dollar. It was not stylish to buy utility bonds because of the T.V.A. You are offered these same bonds today as 3⅛s at above par. They are now stylish. What tires me with investing is that if you go in for corporate bonds today, you are not offered rails but you are offered a 3¼% utility bond callable at 107½, selling at 110, yield 2.75—that is good. Does anyone tell you where that bond is going to sell in a 5% money market. I know where it is going to sell. It is going to sell at 65.

That is what you have—you have a fashion in investing and if you follow the fashion you may lose every time. It is absolutely unfashionable to buy railroad bonds. If you will go back in history in the municipals when the State of Arkansas bonds were selling 35 cents on the dollar, no one told you to buy them. I say our system of rating securities in rails is wrong because if a railroad bond sells at par it has to be bank rated. If it is selling at 70 it cannot be bank rated. Banks cannot buy them. That is the system? I think it is the system because no one has thought up a better reason than doing it that way. I have made some efforts to devise a real method for rating railroad bonds and I intend to continue my efforts because I cannot see why the banks should not be guided by factors establishing the credit. Why can't some system be devised where you can add up the credit factors, either taking a good railroad or a bad one, and then line them up and see where the bonds are selling. Determine the credit first and then if a bond is selling at 70 and is good, you have some reward for your research. What judgment is required to buy utility bonds two points above the call price. Where you need judgment in investing is when you buy at discount. That is where judgment is involved. If you buy some bonds I am going to recommend this afternoon at 33 cents on the dollar, I think that requires real judgment and an appraisal of potential value. Buyers and sellers create markets. Our buyer has become a seller and, as a result, we have had these bonds at low prices which the institutions cannot buy. The institutions cannot buy a single bond I can recommend this afternoon. It is against the system. They are not rated. In the reorganization of railroads you reach a point where bonds are selling around 25 or 30 cents on the dollar and in the reorganization the bond is worth 65, 70, 75, 80, 85 or 90. **From the defaulted bond to the solvent obligations there is a mechanical profit for the reason I will illustrate.** In 1939, after the bankruptcy, and while they were figuring out a plan of reorganization, Erie General 4's sold at 20. I think you all realize when I speak of 20 that is 20% of 1,000 so they were selling at $200 for a $1,000 par value bond.

Where are they going to in the reorganization? By looking in the papers or following the ICC reports you knew from that bond in reorganization you were going to get a $250 first mortgage bond, a $500 income bond and 3½ shares of $100 preferred. You knew that. What was the risk. Would the plan go through? Yes! Who could buy these? The banks could not and the insurance companies could not and there was not a fiduciary in this country who could buy them so it was up to the individual. There were not many individuals interested when they were selling at that. Today that $250 bond is selling for $250, that $500 bond is selling at 60 or $300, the preferred is selling at 50 and the 3½ shares are worth $175, so the old bond today is worth $725. That is what I call a mechanical profit from default to solvency.

Are there any left like that? Yes. When we get down to the old defaulted bonds, we find there the greatest leverage for this reason. At this point there are few buyers for defaulted bonds. I tried to change the name to reorganized railroad securities to break down the sales resistance against defaulted bonds.

There is where my definition of mechanical profit came from because at the lower prices as defaulted securities you have more sellers than buyers. For the new securities you have more buyers than sellers for this reason. It is no longer a defaulted bond. It is now a new obligation of a solvent railroad reorganized on a basis to meet the future; likewise the new income bonds, the new preferreds and the new common stocks have a good market. There is the formula. Of course these things have to go through a lot of legal red tape before they get through the ICC and before they finally go through court and are approved. It is a long road and most of them take years. You do not have to buy the ones that are going to be tied up too long. You can time the thing and evaluate them. I do not say the bonds I recommend do not have some element of risk as to timing. It might be one month, two months, three months or a year but what difference does it make if you are right in the principle as I think I will be.

After a talk such as this, someone usually goes out of the room and says, "Those railroads are war babies." They say I had better stop talking because once the war is over railroads will be through. Why should they go down when they did not go up? Southern Pacific is selling one times earnings. It is earning $20 after taxes, paying only $2.00 and selling at 20.

Take your second grade bonds, Southern Pacific Debentures, and New York Central refunds. Are these too high? They sold at 99 or 98 in 1937 and today they are selling at 60. The Dow-Jones Second grade bond averages are selling at 62 to yield over 8%. They are discounting "bankruptcy" because we are in a 3% corporate market. You have seen your last Section 77 reorganization. You are not going to have any more bankruptcies. There are 13 income bonds you can buy of these railroad companies that have been reorganized by having their fixed charges cut 75% selling at the average price of 50 to yield 9%. What in the name of goodness are they discounting? They have just been reorganized—yet they are selling to yield 9%. That is an indication of the public's psychology and those interested in railroad securities. Are they war babies?

One of the bonds I am going to recommend today is Rock Island. Are they too high? Rock Island securities are selling for 90 million dollars in the open market. There used to be 331 million bonds and that is going to be reduced to 31,000,000 fixed interest bearing bonds on the Rock Island—331 million down to 31 million. That shows you how drastic the Rock Island reorganization is. Are they too high? Last year the road earned 35 million dollars. There is a railroad selling at 90 million. What is a decent yield—6%? Six times nine is 54, so if they earned $5,400,000 it would be a good yield against market value. What is "war baby" about them? In addition to that, the last time I saw the cash account they had over 71 million in cash of which you are going to get about half. What have they discounted? Certainly not war earnings.

Every time we get good news from Europe, they sell off the defaulted rails. Speaking of the war, we all have uncertainties both as individuals and as corporations. In my opinion we are going to have good railroad business for as long a period as the war has lasted, I mean the European war, which may be four or five years, for a good many reasons. I am not an economist but I cannot see how national economy can go back to the 1938 level and maintain solvency in this nation.

The railroads do not have the problems which industry generally has. They have no retooling program. They are going to be able to use the same plant. You do not have to rebuild anything. The labor problem will be less for this reason. They have taken on 300,000 additional men in the war effort. They are in Los Angeles, New York, Boston, Florida and many other places. Compare that with your problem here with half a million working in the airplane factories. I do not say the railroads are not going to have problems but so is almost everyone else.

Another thing to remember is that despite the tax bill of two billion dollars this year, according to the last report I have with me, the railroads have, as of May, 1943, a net working capital, and you know that means after taxes, of 1 billion 600 million. That is not a bad nest egg to go on into the post-war period.

Another thing to remember in line with the financial policies is that in 1942 the net income after all fixed charges was 774 million dollars more than in 1940, yet dividends increased only 36 million dollars. The rest of it went back into property or to buy bonds.

What railroads have been reorganized? There have been 13 reorganizations consummated illustrated by the Erie and the Wabash. Of the railroads that have been reorganized, in my opinion, the cheapest security relatively, I am talking now about income bonds, are the so-called Wabash Income "B" 4¼s selling around 50. What is an income bond? Income bonds are second mortgage bonds on the property. The income usually is 4½% a year. The definition of an income bond is one whose interest is dependent upon earnings.

The income bonds are almost without exception cumulative up to 13½%. If the interest is earned it must be paid to the nearest quarter of one percent.

Another thing to remember: You buy a Wabash income bond at 50 for $500 and you will get that interest of $42.50 a year which is 8½% on your investment unless the Wabash does 60% less business than they are now doing. If we should hit as poor a year as 1938 but not under 1938, they might not earn the income interest. Everyone else reduced their payments in 1938 so why should the railroads be an exception. You might get two per cent. Don't forget, if you get 2½% you still would be making more than you can now get in most corporation securities because 5% of $500 is only $25, so if they paid only 2½% you would still be getting 5% on your money. Then, too, don't forget another thing about income bonds. When you invest money, the protection of your principal should come first. What principal? Your principal is the amount of cash you invest. If you want to describe a $1,000 Wabash bond, sure, it is a $1,000 bond but that is not the principal you are protecting. You are protecting $500.

If I come out here two or three years from now and you are receiving 8½% on a Wabash income and they are selling still at 50, I will not have any apologies to make because you have less risk in my opinion than you can get in corporation bonds selling at twice that price.

I pick out Wabash as Number 1. It was reorganized the first of last year and since then, on top of the reorganization which reduced the fixed charges drastically, the company has bought in 25% of its new income bonds and is continuing to do so. In the meantime the Pennsylvania Railroad which owns all the common now controls 53% of the preferred. You can add it up and arrive where you want to but I think the income bonds are going to be worth a lot more than $500.

Of the ones which should be reorganized shortly there are five; Western Pacific, the Chicago North Western, the Soo, the St. Paul, the Akron, Canton and Youngstown. These bonds are now trading "when, as and if" issued. Don't think that I do not like the Western Pacific securities but I want to recommend something that is now where the Western Pacific was a year ago. The income bonds of the Chicago, North Western traded, when, as and if issued, and don't let that scare you. A when, as and if issued-security is no different than any other security in that respect. You have the obligation to pay for it when you get it. They are selling today around 50.

The reorganization of the North Western is one of the most severe. They have a situation whereby they can pay off the RFC loan after the road is reorganized, on top of a scale-down in debt of about 76%. If this operation goes through it will remove 71 million par value of new securities at a cost of 23 million dollars in cash. So the income bonds of the North Western should sell at 15 or 20 points over and above the average price of the other income bonds which today is around 52.

In the Chicago, Rock Island and Pacific that plan was approved by the ICC. The road went into bankruptcy in June 1933 and it suffered from grasshoppers, drought, etc. The management was changed in 1936 and the road now has what I consider one of the best managements in the Middle West. Its reorganization was most severe, the most severe of any. They cut their debt 83%. The plan was finally approved by the ICC in June, 1940. The courts did not like it and it kicked around for three more years. This plan should now be finally approved by the District Court sometime in March or April of next year. At that time you will have "when, as and if" issued trading in new Rock Island securities.

Now I will put down on the board what you are going to get. I recommend all the mortgage bonds of the Rock Island at this time but I am not going to illustrate them all. Here are the 4s of 1934 which sold today around 32. That means a $1,000 bond selling for around $320. If the plan goes through as I think it will, you will get $102.22 in cash. Your reduced cost is $220 for a $1,000 bond. You also get $91.94 in first mortgage bonds and $232.72 in income 4½s; $209.62 in preferred and $524.85 in common. If the plan is approved as I feel it will be, you will immediately get the cash so it will reduce your cost down by $100.00, so your cost will be $220.00. Now if you multiply by 100 the First Mortgage bonds, and you multiply by 60 the amount of income bonds, and the preferred by 40, and the commons by 20, the whole thing adds up to $420.00 as against a cost of $220.00, so your possible appreciation from your cost is about 91%. In other words, your net cost is around $220.00 and your potential value, using the above prices is 91%. In addition, in my opinion, the preferreds, income and first 4s will pay dividends and interest on this $220.00 investment for a foreseeable future of at least four or five years. That adds up to around $24.50 annually or close to 11% a year return on your investment of $220.00.

I am not going to illustrate specifically any of the other mortgage bonds of Rock Island but the potential appreciation against your reduced net cost is about 90%. In other words, with 13 railroads reorganized and 24 more to be reorganized out of those 24 I am now recommending two. To go over the whole 24 would only confuse you. I will be glad to do it afterwards, but, in my opinion, the two to use, in the term of the street, the two "hot situations" in reorganizations are the Rock Island and the St. Paul. I have given you one bond in Rock Island.

In the St. Paul, there is a little bit more disagreement than in the Rock Island, but one plan or the other will go through and fairly soon in my opinion. The St. Paul 5s of 1975 are selling around $400.00. Under one plan you will get about $225.00 in cash and under the other plan you may get $210.00 in cash. No matter which plan goes through, the resultant new securities ex cash will add up in value to around $450.00. Your reduced cost by deducting cash would be about $200.00. Your resulting capital appreciation could be over 100%.

I recommend to you the Wabash and North Western Income bonds, and the mortgage bonds of the Rock Island which I illustrated by the Rock Island 4s of 1934, and all bonds of the St. Paul, illustrated by the 5s of 75.

How about the border-lines—The Southern Pacific? How about the Illinois Central and the New York Central? They have all done a pretty good job of reducing debt. Southern Pacific in your territory has done an excellent job of getting rid of all of their short maturities but they are still confronted in the period 1949 to 1955 with heavy maturities. I think that their credit will be restored by that time so those bonds can be refunded through regular channels. Maybe I am hoping but I think they will. Whether I should recommend Southern Pacific debentures or not, to me that is to some extent academic because if Southern Pacific debentures are good, and I think they are, the income bonds of the reorganized companies and defaulted bonds must be better. If the Southern Pacific credit comes back, and I think it will, it will give an even greater value to these defaulted securities. To be honest with you, if you had decided to buy some Southern Pacific debentures, I would, naturally, try to get you to buy Wabash incomes or Rock Island 4s of 1934 because the logic to me says if Southern Pacific which has reduced its fixed charges by about 16% can continue, and I am only using Southern Pacific symbolic of the roads that were border-line, because you know it out here, if they do that, then the other ones must be better because there is a greater leverage in the other ones because they have already been reorganized. I do not think you have any danger of bankruptcy in any of the old border-lines. I am optimistic about the future of railroad securities, whether border-lines, high-grade or defaulted issues, but I recommend the ones with the greater leverage first; the defaults, then the income bonds, and then your border-line securities.

So, if I have dropped the germ of the fact that because it is not stylish to buy railroad bonds, don't let that convince you that they are not attractive.

N. Y. Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following weekly firm changes:

Interest of the late J. Denison Sawyer in Eastman, Dillon & Co., New York, ceased as of October 31st.

Interest of the late Clarence H. Howard, Jr., special partner, in Hill Brothers, St. Louis, ceased as of October 22nd.

Interest in Shaskan & Co., New York, of the late E. Felix Shaskan ceased on October 31st.

Regulated Capitalism Versus Free Capitalism

By HAROLD J. KING, Carnegie Institute of Technology, Pittsburgh

Dr. Lewis H. Haney's article* on the New Deal Economists is very timely. As victory for the United Nations is now apparently assured, a vast number of individuals will again have the opportunity to live under a system of comparatively free capitalism if they so choose.

When economists of the institutional, or New Deal, variety object to the capitalistic system, they do not, as a rule, endorse socialism or communism, but rather advocate a system of regulated capitalism. Of course, when sufficient regulation is introduced, capitalism is difficult to distinguish from socialism or communism.

Although the function of the economist is international in scope, his methods are conditioned by the economic system with which he is dealing. Under any system one of his primary duties is to point the way to a higher materialistic plane of economic life for the inhabitants. This is particularly true of the economist interested in the capitalistic system. The scientific economist in a capitalistic society owes his allegiance to no segment of society, labor, employer, or other. It is his principal task to describe how the stage of the economic drama should be set so that (1) all inhabitants will have a good chance of reaping the harvests of continued technological advances, and that (2) these advances shall proceed at the greatest possible rate.

Whereas socialism, communism, and regulated capitalism emphasize the "just" distribution of economic goods and services in terms of human needs, ordinary capitalism stresses (1) freedom of thought and action in production, and (2) distribution according to the value of a person's contribution, whether of time or property.

Will the American doughboy, returning from the risks and struggles of the battlefield, be more interested in a daily mess of pottage, guaranteed him by strictly regulated capitalism, and at a "fair" price per bowl; or will he prefer to exercise his birthright of freedom? Will he feel the need of "protection" from price-fixing economists in Washington, who engage in studies of the price structure of fruit cake (eating all the while at the public trough, and not producing any fruit cake); or will he find that unnecessary governmental interference in his personal affairs is distasteful whether it emanates from Washington or Berlin? To what extent will the American public in general react from wartime controls when peace returns? To what extent will the people vote for a competitive system of freedom, rather than a regulated system of security?

When the answers to the above questions are learned, it will be known to which group of economists, institutional or orthodox, the people may look for guidance during the immediate post-war period.

In the event that the people demonstrate a preference for freedom, rather than security, as they cast their ballots (and it should be recognized that as freedom is enhanced, security is diminished, and vice versa), they should not be hesitant about seeking the advice of orthodox economists. It must not be presumed that the institutionalist is the friend of the poor, or the laboring man, and that the orthodox economist is the tool of the capitalist.

As Dr. Haney states, the typical New Deal economist considers the laboring man as particularly deserving and is anxious to increase the share of the national income going to labor both in the absolute, and relatively to the income shares of the non-laboring citizens. Some New Deal economists realize that one way to kill the golden goose of capitalism is to bleed the savers or capitalists white, yet they will not bluntly advocate that a new system be substituted for capitalism.

It is true that the scientific orthodox economist is not primarily interested in the laboring man, nor is he primarily interested in any other group in society. However, any contribution that the scientific orthodox economist makes will probably benefit the underdog more than any other person in society. And the orthodox economist does not distinguish between the laboring underdog and the small-time-saver underdog. The orthodox economist does not arbitrarily assume that the absolute or relative share of the national income going to labor is inadequate. The correct distribution of income, to the scientific economist, is that which permits the highest rate of technologcal progress. To him the term "economic maturity" is meaningless, and the promises of technology dwarf the importance of any arguments concerning the "just" distribution of goods and services during one generation. If strictly regulated capitalism had been introduced successfully in the United States in 1900 A.D., it is probable that the goods and services constituting national income would today be more "justly" divided in terms of human needs. Great concentrations of income in the hands of the chosen few would possibly be non-existent. The economists in Washington would possibly be concerned with the "fair" price, not only of labor, but also of horses, buggies, oil lamps, wood stoves, and genuine ice boxes, rather than trying to plan the post war output of autos, planes, electric gadgets and frigidaires. Yes, it appears, that under the ruthless cut-throat competition of those years immediately preceding "social security" in this country, the underdog got a good break in spite of the fact that the rich got richer.

The New Deal economists frequently assume that the "inadequate" share of national income going to labor is a major cause of business depressions, and, therefore, a major cause of human suffering. They apparently have not heard the story about the business man, who was advised by a friend not to move his store to Australia because "There are only kangaroos in Australia." The business man retorted, "So what? Their money is as good as anyone else's." A dollar in the hands of a non-laborer (be he filthy rich, or small-time saver) is just as truly purchasing power as any other dollar. And the above theory of business depressions is certainly a purchasing-power-deficiency one.

Consequently, if the American people choose freedom for their principal ideal in the post war world, they should not hesitate to seek the advice of the scientific orthodox economist. It is false to assume that, because he is not biased toward labor, he is not the servant of the common (and uncommon) man.

*Commercial and Financial Chronicle, "The Theories of the New Deal Economists," Oct. 7, 1943, p. 1397.

Growth Possibilities

W. E. Hutton & Co., 14 Wall St., New York City, members of the New York Stock Exchange and other exchanges, have prepared an illustrated study of the growth possibilities of The National Cash Register Co. Copies of this interesting study may be had upon request from W. E. Hutton & Co.

The Effect Of Issuing Securities For New Capital Upon The Company's Common Stock Price

(Continued from page 1991)

some "blue chips," some "cats and dogs."

When new securities are issued for the purpose of raising new money, one might expect a bullish reaction, because expansion should bring increased earning power—otherwise why should the management embark upon such a program? But, on the other hand, the reaction might be bearish: (1) perhaps the new financing was a recognition of poor management in that additional funds had to be raised in order to carry on the business; (2) perhaps the management, looking to the long range future, sees bright prospects and prudently plans to be ready to reap the reward, but the market has either a different opinion or merely places more weight upon the shorter term in which the company will be paying for the use of money which it is not yet able to use to its fullest extent. These are only a few of the reasons that could be suggested to explain either a bullish or a bearish reaction.

Let us see what has happened. In approximately 65% of the cases where bonds were issued, the stock price fell—with respect to the average of the prices of all stocks in the industry—during a period extending several months before and after the date on which new securities were sold. The per cent of cases falling in price is not quite as large in the group of common and preferred stock issue cases; approximately 60% of these show a declining price tendency. A further subdivision of these cases according to the amount of new capital raised—in relation to the former size of the company—reveals that the larger the expansion the greater the proportion of bond issue cases in which the stock price declined. In cases where stocks were issued the proportionate amount of new capital raised apparently made no difference in the stock price reaction. Possibly this difference between the bond issue cases and the stock issue cases can be interpreted as an indication that the market is wary of industrial companies with large bonded debt.

These per cents do not show the whole picture. They tell which way most of the stock prices went, but they do not tell whether the movement was substantial or only minor. In order to determine the magnitude of this action, the price of each stock at a selected time after the new securities had been issued was expressed as a ratio (after adjustment for movement of the market average) of the price at a time several months before the securities were issued. For companies that issued a small amount of bonds, the typical price ratio was about 0.96; i. e., the stock fell to about 96% of its former price after eliminating the price movement common to all stocks in the industry. Where very large bond issues were sold, the typical price ration was much lower, approximately 0.75. This again gives an indication of market dissatisfaction with heavily bonded industrials. For the common stock and the preferred stock issue cases, the typical price ratio was about 0.93, with no indication of any difference for relatively large stock issues in contrast to the smaller ones.

The use of typical price ratios gives rise to the question of dispersion about the "typical." An examination of the individual ratios shows that, though there are some as low as 0.30 and some as high as 1.81, about three-quarters of them fall within 10% of the typical ratio. This indicates either of two things: (1) the market does not always evaluate the same event in the same way or (2) the refinement of correcting for the movement of all stocks in the industry by the use of Standard and Poor's market averages prepared on an industry basis did not eliminate completely all movement of the individual company's stock price associated with causes other than the issuance of securities. We all know that the first is true; no one can know better than I, who worked through all of these data, that the second is also true.

The various cases were cross classified in numerous ways in an attempt to determine any other significant relations that might be apparent. An analysis by industry was attempted, but there were insufficient cases in any one industry, except for petroleum, to make any indication reliable. A grouping according to the type of capital structure before the new financing was also limited by the number of cases, but there was a slight tendency for companies offering their first bonds to show a slightly favorable stock price reaction in contrast to the slightly unfavorable tendency indicated by all cases. A study of the cases between 1927 and 1929, between 1930 and 1932, and between 1933 and 1940 indicated that about the same reaction was evident in each of the three radically different econmic periods.

An interesting section of the study dealt with the time when the reaction took place. A series of stock prices (after adjustment for movement of the market as a whole) was computed for each individual case for a two-year period centered at the date of the new issue. From these composite indexes were prepared for several of the groups, and each group exhibited approximately the same tendency as to the time of reaction. About four months before the date of the new security offering, the price began to decline, and this decline continued with minor interruptions until at least a year after the new securities had been issued. The beginning of this reaction agrees very closely with the first of the news items in the "Commercial and Financial Chronicle" about the issue of securities.

This statistical summary has attempted to show what has happened in the past. How should it influence an individual's market policy? The facts show that there is a tendency for the stock of a company issuing securities for new capital to decline with reference to others in the same industry. But I do not interpret this presence of a tendency to mean that the stock of such a company should be eliminated automatically from a portfolio during this period while one awaits results. In the first place, the evidence shows only a tendency; there are some individual cases where the price has risen very high shortly after the announcement of a coming issue of securities for new capital. In the second place, the issuance of securities for new capital may be considered a favorable factor in the future instead of an unfavorable one. Third, and probably most important, the other factors accompanying individual future cases hardly can be expected to be the same as were found in the past. Therefore, I believe the statistics suggest the following investment rule:

Beware of the common stock of a company selling securities for new capital purposes—particularly those offering large bond issues.

a. For investors prepared to make adequate statistical analysis—such cases may afford good appreciation possibilities.

b. For investors not so prepared—stay away from such cases, for the typical case experiences an unfavorable price action in comparison to other companies in the same industry.

Outsmarting Inflation

(Continued from page 2002)

set and prices will skyrocket.

The future dishoarding of the accumulated cash reserves is the real danger to our economic equilibrium. It will not be alleviated by Full Employment, a large current national income, or what have you. Unless we have reached the stage where we can produce at no cost (that is to say, at no wages) the problem of inflation will be with us under any circumstances, and cannot be outsmarted by technological efficiency or physical productivity. It is **not** a problem in engineering. It can only be overcome by the orthodox methods of combating inflation: by eliminating extravagant expenditures; **restraining** the growth of excess purchasing power; by absorbing it through methods of **taxation** which reach into the mass-pocket that carries the excess; and by stimulating **permanent investment** in government bonds so as to keep the surplus money from turning into effective demand.

In a speech last June, the finance minister of the Reich, Count Schwerin von Krosick admitted that Germany is again printing huge quantities of "excess money." But he went on promising his people that their money will buy all their hearts' desire when the gigantic munitions industries will be turned into "a consumers' goods industry of unimaginable size." Such unimaginable promises to mislead the public are worthy of a totalitarian system. For a democracy, it is fundamental that it should be able and willing to face the naked facts, and should not permit itself to be led by such cheap propaganda into most dangerous illusions.

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

Money In Circulation

The Treasury Department in Washington has issued its customary monthly statement showing the amount of money in circulation after deducting the moneys held in the United States Treasury and by Federal Reserve Banks and agents. The figures this time are for Sept. 30, 1943 and show that the money in circulation at that date (including, of course, that held in bank vaults of member banks of the Federal Reserve System) was $18,844,446,730, as against $18,529,420,890 on Aug. 31, and $13,703,465,041 on Sept. 30, 1942 and compares with $5,698,-214,612 on Oct. 31, 1920. Just before the outbreak of the first World War, that is, on June 30, 1914, the total was $3,459,434,174.

Says Proper Presentation Of Case To Congress Would Bring Quick Relief From Oppressive Securities Laws

The article entitled "Abolish the Securities and Exchange Commission," by Raymond Williams, appearing in your Sept. 2, 1943, issue is a clear-cut, succinct expression of conditions as they exist.

Its weakness, however, is that it does not endeavor to point out how matters could and can be remedied. In short, it points out a "Cancerous Condition" but does not recommend a doctor to operate on the patient and either kill him or cure him.

Frankly, Mr. Williams' article is typical of American Industry as a whole—and especially the "Security Industry." When a law is passed by Public Clamor (real or manufactured) to remedy a certain condition and the law turns out to be an "Oppressive Instrument" instead of a beneficent act, hurting legitimate business and not controlling the factors that brought it about, what does the average American Industrialist do? Exactly what Mr. Williams has done, write a letter to his paper or maybe let off steam at a Trade Meeting in his particular sphere of endeavor.

Now all of the ills of the Security and Exchange Commission Act were catalogued and made very, very plain to the real author of that Act—one Felix Frankfurter—in a letter I wrote to him on Sept. 27, 1941, wherein I pointed out that the money that built our great Industrial Plants was now going into "Race Tracks" to keep the Pari-Mutuels whirling instead of providing opportunities for the Industrial Growth of our Country as "Venture Capital." The letter was so plain and forthright that wily Felix would not acknowledge it, because it pinned a misuse of a real beneficent law on the part of an outfit he has had more than a share in putting its representatives in positions of authority in the so-called "New Deal."

Now there is a very clear and definite way in which the ill caused by the inefficiencies of those administering the Securities and Exchange Act can be remedied. The way is simple and clear—yet "Wall Street" never has invoked it. The reason is that it requires hard work, intelligent effort and cooperative effort. It would require the formation of a body to present intelligently and clearly to Congress the real needs of "Wall Street." Congress wants at all times genuine and definite information so that they may, its Members, may act with intelligence and decision. This they want at all times to do. The following story of a conversation in a broker's office will attest:

Shortly after I wrote to "Wily Felix" I was in a Broker's Office, and in the course of our conversation somebody mentioned Roosevelt's name. I frankly thought the Broker was going to have a stroke. He damned Roosevelt to Hell and Back and all of his "New Deal Crew." When he was finished, I plainly and bluntly asked him: "Why do you not address your remarks in a clear, intelligent way to the real source of remedy of the condition you complain of?" "Who is it," he demanded. Congress, was the reply. Result, as vigorous a denunciation of Congress as was made of the President and his "New Deal."

To prove to this Broker how genuinely wrong he was in his estimation of Congress, I arranged for a visit to New York City of a Congressman who understood thoroughly conditions in Congress and in the Industrial World. He is one of the outstanding Members of Congress. A practical Idealist who had to earn his own living and knows the necessity of meeting a payroll.

This Congressman was introduced to the Broker. The Broker then went into his act damning, etc. The Congressman listened to it to the end and then stated plainly and explicitly to the Broker: "My dear sir, you directly are one of the principal causes for the condition that you complain of. You shout and holler—instead of presenting to us in Congress FACTS, FACTS, Facts set forth in crystal-clear language, intelligently presented by real experts." Going on, he said: "Let me tell you a story about a 'Wall Street Committee' that came down to Washington to complain about the Securities and Exchange Act of 1933 and you will then know why it is still operating in the fashion you complain of." Here is the story:

"The Committee came to Washington headed by one of the most imposing members of the Stock Exchange. It was courteously received in the Congressional Room where the hearing was to be held. The Chairman of the 'Wall Street Committee' immediately attempted to take charge of matters by launching into a loud, bulldozing type of condemnation of Congress and all the Law Makers in general. He was allowed to rant and rave for a reasonable period of time, and then one quiet Congressman sensing that he had no real message to deliver or any genuine information to give that would permit a study of conditions, brutally and bluntly stated to the Committee Chairman: 'Get the Hell out of Washington and these Rooms and don't come back to us ever again; we are damned tired of having loud-mouthed windbags gassing us with canned "Press Agents' Speeches"; all that you have spouted on the floor of this room has been a detriment to the cause you purpose to be advocating,' and then this bit of wisdom was added: 'When you get back to New York send someone back to present the matter to us intelligently, with facts buttressed by the opinions of real working experts. We want no "Front Page Boys," we want no great figures or representatives; what we do want is simple, plain truths that can be checked and proved and then you will get real action,' and a final statement: 'We want to help business—but Business must help us by giving us facts and the benefit of real knowledge and experience'."

If the Securities Industry will get together and form a real strong, practical organization to present its problems to Congress in the way that Congress wants them stated, all the flaws of the Securities and Exchange Act will be speedily remedied.

All of the foregoing is based on absolute knowledge of the actual thoughts of leading members of Congress, who clearly and definitely expressed their thoughts on the subject to me.

Until the right kind of representation of the interests of those affected by the Securities and Commission Act is developed and likewise an intelligent program of presentation of facts to Congress there will be no remedying of the conditions complained of during the present Administration. The way is clear and the road can be charted with certainty, and if there were presented to Congress an intelligent, clearcut program of remedy there would be a surprising reaction.

THOMAS F. MOLONEY
New York City, Oct. 13, 1943.

McNutt Denies WMC 'Muddle' On Manpower

Denying that there is a manpower muddle, Paul V. McNutt, Chairman of the War Manpower Commission, asserted Nov. 10 that there are enough workers in industry now to meet production schedules, provided they are properly used.

In a talk before the New York Advertising Post of the American Legion at the Advertising Club of New York, Mr. McNutt insisted we learn from the New York "Herald Tribune" that "underutilization of our available labor supply" is the principal problem now facing the WMC. "If we could make maximum use of our available supply of workers—eliminate waste—we could release a margin of additional productive effort which would carry us well over the top," he said. "There are enough men and women at work today in our plants and factories—if properly utilized—to take up the load on all of our current production schedules." The "Herald Tribune" of Nov. 11 further indicated the remarks of Mr. McNutt as follows:

Replying to a charge made Sunday by Representative Clare Luce, Connecticut Republican, that he had, "confessed his many failures" in releasing last Saturday a report of the National Management-Labor Policy Committee, opposing national war-service legislation, Mr. McNutt said:

"One politican, in 'Luce' language—and I don't care how you spell it, the terms are synonymous—charged I had the jitters over some obscure legislative maneuver when I released the report. Had she read it, she would have noticed it was not mine, but the committee's report. I have had no evidence that any of the nine signers bent before the wind."

Although he did not mention specifically the bill which Mrs. Luce has introduced to create a compulsory labor force consisting of Selective Service 4-F's and others, Mr. McNutt warned against any attempt to solve the labor shortage "by some simple formula, such as drafting slackers and putting them to work."

"There is no man-power muddle," he said. "The muddle is in the thinking of every person who claims a panacea—a single, simple formula for solving manpower. You cannot uproot the lives of millions of workers—put them into unfamiliar jobs under difficult living and working conditions, circumscribe their freedom of action by various controls—by a stiff, unbending rule.

"Our way—the American way—we have moved 20,000,000 into new jobs, converted the world's greatest industries, shifted millions of people to new homes. You cannot change thousands of factories almost overnight into war production, demand of an employer a higher standard of efficiency than he had ever achieved, all by a simple rule of thumb— a brainstorm, a formula. The problem of winning the war does not lie in creating arbitrary power; it lies in using the power we have with wisdom."

Merchant Marine Mail

Postmaster Albert Goldman of New York City has informed patrons sending mail to personnel of the American Merchant Marine that no insured, c. o. d. or registered mail can be accepted for mailing to the personnel of said service. His advices Nov. 8 also state:

"Many mailers prepare packages or other mail matter and present them at the Post Office for registration, insurance or c.o.d. service and it is desired to avoid the annoyance to the mailers incident to the inability of the Post Office to accept such matter which cannot be sent to destination."

FHA Bill Amended To Aid Servicemen

Under a bill recently approved by Congress and signed by the President, it is now no longer legally necessary for a mortgage lender to begin foreclosure of the FHA mortgage loan of a man in service if it becomes delinquent. Enactment of the law marks the end of a long effort by the Mortgage Bankers Association of America extending back more than a year and a half to secure relief for servicemen from the provision in the National Housing Act which made it mandatory to foreclose a FHA-insured mortgage loan after it is delinquent for a stated period.

It was noted on Nov. 6 by Herold G. Woodruff, Association President, that the provision assumed an unexpected and serious aspect when it was realized this meant that a man in the armed services with a delinquent FHA mortgage would have his property foreclosed too quickly. Life insurance companies and other institutional investors were keenly concerned since they held millions of dollars of FHA mortgages and did not want to be placed in the position of immediately foreclosing the loan of a man in service. The relief available through the Soldiers' and Sailors' Civil Relief Act did not apply in this case.

The first step was for the Association's counsel, Miller B. Pennell, and the then President, Charles A. Mullenix, to work out a preliminary draft of a bill with FHA officials, which was followed by discussions with Sen. Radcliffe, of Maryland, who heads the Senate subcommittee of the Banking and Currency Committee on matters relating to real estate and mortgages.

The Senate passed the measure on April 26 and the House approved it on Oct. 7. Signing of the bill by the President came on Oct. 14.

The bill also protects the investor in FHA loans in that the interest on the FHA debentures, which are received from a foreclosed property, will now begin to accrue once a loan becomes delinquent even though no action to foreclose immediately is required as under present law.

Canadian Securities

By BRUCE WILLIAMS

Further recognition of the growing stature of Canada among the world powers was given in the elevation of the Canadian Minister in Washington to the rank of Ambassador. The extraordinary progress of the Dominion in the testing war period is all the more remarkable when it is realized that the Canadian population is only 11½ millions.

Recent reports, however, indicate that this problem of population deficiency is being given thoughtful consideration by our northern neighbors. One suggestion is to the effect that Britain could provide and Canada could adequately support at least 4 million emigrants in the immediate post-war period.

There is little doubt that Canada could easily cope with such a volume of immigration. The undeveloped rich Peace River territories could alone absorb such a number. When it is remembered that following World War I Britain had a similar number of skilled workers unemployed, it requires little imagination to see a happy solution of this hitherto insoluble problem. Moreover, previous difficulties are now greatly simplified as Canada is now a great industrial as well as agricultural nation.

Of particular interest to investors here in Canadian securities were the figures recently issued covering the external debt of Canada during the period of the war. The outstanding feature of these statistics was the sharp decline in the Dominion debt payable abroad. During the three years and nine months from Jan. 1, 1940, Canadian obligations payable in London only were reduced by $627,000,000 and those payable in New York only or optionally decreased by $395,000,000.

The market for Canadian securities in the past week, although steady and relatively unaffected by the "peace scare" atmosphere prevalent in other markets, nevertheless was unable to make the headway that it otherwise undoubtedly would have made with the termination of the Fifth Victory Loan and the resumption of normal business.

Direct Dominions and Nationals were quiet and largely unchanged although certain issues were quoted slightly lower. Investment demand still continues in the first grade provincials and a new high was registered for the Nova Scotia 5's of 1959 at 120¾. Ontarios and Quebecs were taken up when offered but there is still a scarcity of supply of suitable long-term provincials.

British Columbias were less active with the longer term issues still on a 3.30% yield basis. New Brunswicks were quiet and the longer term issues on a 3.65% basis still make favorable comparison with similar Nova Scotia issues with a yield of 3.30%. Manitobas were scarce with the longer term maturities on a 3⅞% basis. Saskatchewans continued quiet and unchanged but Albertas were slightly easier; the 4½'s and 5's were quoted either side of 78 and 79, respectively.

Internal issues were still neglected and the free exchange rate was almost motionless in the neighborhood of 10¼% discount. Any resumption of investment demand in this section would have a considerable effect on the rate as it appears that the market supplies of exchange have now been largely absorbed. It is also probable that end-year demands for Canadian dollars in connection with the Alaskan Highway developments will be on a considerably larger scale this year.

With regard to the market in general, normal developments are momentarily retarded by "peace complex" developments in other markets. It must be borne in mind that in addition to supply scarcity and a widening of demand in this country, Canadian securities have the following unique features which make them interesting for retention in the post-war period.

(1) It is probable that as soon as more normal conditions are restored after the war the Canadian dollar will return to par.

(2) The external securities are mostly payable at the option of the holder in two or more currencies.

(3) Interest rates in the Dominion rule at least ½% higher than in this country, and, with the disappearance of wartime restrictions, there should be a tendency towards equalization of rates in the two countries.

Sees 56 Million Jobs Needed To Achieve Post-War Prosperity

Some 56,000,000 Americans will have to have jobs if postwar prosperity is to be achieved, Col. J. N. Andrews, Re-employment Division, Selective Service System, declared on Nov. 10.

In United Press Pittsburgh advices it was further reported:

Of the 600,000 released from the armed services since Sept. 16, 1941 virtually all were reinstated to their old jobs, Col. Andrews told the eighth annual meeting of the Industrial Hygiene Foundation.

Only one case of failure to reinstate a veteran had to be referred to the United States District Attorney and the employer agreed to reinstate the worker and pay $648 in back wages when informed that papers were being prepared for trial, Col. Andrews added.

Lewis Haney's Study Of New Deal Theories Draws Further Comment

(Continued from page 1991)

sented a warning to the people of this country, and particularly to our free enterprise system. I have read and re-read his statement, and I believe I thoroughly understand every sentence contained therein, and I have been a close observer of these developments as they have taken form all during the past 11 years.

HON. C. A. WILLIAMS

Member Kansas House of Representatives and District Representative for Lathrop-Hawk-Herrick Co. of Wichita

I have just read, with a great deal of interest, the article "The Theories of the New Deal Economists," by Lewis H. Haney, Professor of Economics, New York University, which appeared in your issue of Oct. 7.

Hon. C. A. Williams

This is one of the best I have read on the subject. * * * Mr. Haney has certainly made a fine coverage of the subject and it should be read by every citizen who is interested in the future of our Republic. * * *

FRANK T. CARLTON

Professor of Economics, Case School of Applied Science, Cleveland, O.

The writer wishes only to comment upon Section 2 of Professor Haney's article in the Oct. 7, 1943, issue of the "Chronicle."

The idea that a democratic government has no function in reducing unemployment harks back to the pioneer days of small-scale industry. For generations unemployment and poverty were considered to be a matter of individual inefficiency and weakness. Today the individualism of the pioneer needs dilution. Daniel Boone, a high type of frontiersman, placed upon our city streets would find himself in the lock-up before many hours passed. Municipal regulations in the interest of greater safety for the crowds on our streets would have seemed to Boone "socialistic."

Perhaps traffic rules and ordinances in regard to carrying deadly weapons, or in connection with health, may not be the only changes which a marvelous, technological age will force upon a reluctant and individualistic people. May it not be reasonable to insist that unemployment is an "unhealthy" condition which a government should try to eliminate in the interest of production and of higher standards of living?

At the outset it may be pointed out that a job is not an end in itself; a job is a means to an end, and that end is primarily the support of one's family. Secondarily, if properly directed, jobs increase the total output of the nation considered as a great industrial organization to produce food, shelter, and clothing, plus comforts and services, for 134,000,000 American men, women, and children.

Every employed worker whether employed by private individuals and corporations, or by governmental units, becomes a purchaser of goods and services which industry is prepared to produce. "Business needs buyers." Business is "good" when the families of the nation are working at good wages and spending their income for the necessities and comforts which make up a whole-some standard of living. An American worker, out of a job and without resources, will be taken care of by charity, public or private. His dependent family will also be sustained in the same fashion; but this family will not be an excellent customer of the American business man.

Fundamentally, demand as distinguished from desire without purchasing power, stems from production. The national income depends upon the national production. If little is produced, there is little to distribute among the families of the nation. Idle dollars and idle machines point directly to idle workers and to shrinking markets. Each factor in production—labor, capital, management — gets its purchasing power in the form of wages, interest, and profits; and with this income each receiver of income proceeds to buy his share of the stream of goods and services being produced. The amount of goods and services purchased by each family depends upon its income. High wages and low prices increase the demands for goods and services, which American industry, farms, and mines using machinery and power, and guided by good management, are prepared to produce.

"Leaf raking" or "boondoggling" are foolish and inefficient methods of employing men. Building dams and roads and reforestation projects, for example, are more commendable forms of governmental employment. In each form of employment men are utilized and paid wages. In each they and their families become purchasers of goods and services which industry stands ready to produce. In the latter, something worthwhile results; in the former, very little.

Of course, if a large percentage of workers were used on public works, enough food, clothing, and shelter might not be produced. But in the normal course of events, as more unemployed workers are used in public works, demand for workers in private industry increases and the production of goods tends upward, and the need for additional public works declines. In a period of prosperity and of little or no unemployment, the building of public works should be reduced. It may also be suggested that spending by employers does actually come before production. Men are employed and paid wages regularly, even though the production on which they are now working is not actually sold for six months, or a year, or some other interval of time. Industry is carried on in anticipation of a demand. Purchasing power (credit) is regularly created by commercial banks and utilized by business men to buy raw materials and pay wages. By borrowing at the banks the Federal Government may also obtain and utilize in paying wages and buying materials, the credit created by commercial banks.

To affirm that every person, able and willing to work, should be given an opportunity to work, does not signify that the inefficient or the slackers should be paid high wages. Presumably a public works program initiated to take up the slack left by private industry should pay slightly less than prevailing wages for similar jobs and skills. This program will cause workers to go back to private industry as soon as there is opportunity.

Insofar as private industry cannot maintain full employment and a public works program cannot be developed to give work to all the unemployed willing to work, unemployment compensation should be provided. However, there is no adequate substitute for a job except another job. Men and women who wish to see democratic government and the dynamic system known as capitalism continued in this complex, technological age, so different from that of pioneer days, are well advised if they insist that every able-bodied, normal person willing to work be offered a suitable job or, failing in that, unemployment compensation.

Refunding Of Egypt Public Debt Planned

The Egyptian Legation at Washington outlined on Nov. 9 a formula for recomposition and nationalization of Egypt's public debt, saying that "many, if not the majority, of these bondholders are now residents of the United States."

The plan, authorized by the Egyptian Government, contemplates conversion of the debt in whole or in part "into a debt less costly" through redemption of outstanding 3 and 4½% bonds by issues of short-term, medium-term and long-term loans bearing interest rates ranging from 1¾ to 3¼%.

The Associated Press, in reporting this in Washington advices, further said:

Repayment of the balances of the guaranteed 3% loan of 1885, the Ottoman 4% loan of 1891 and the Ottoman 3½% loan of 1894 began on Oct. 10 and the balance of the Cotton 4½% loan of 1941 will be paid Jan. 1, 1944, and the balance of the Cotton 4% loan of 1942 on Feb. 15, 1944.

The unified and preference loans will be converted into a single 3¼% loan at par, to run 30 years, but redeemable after 20 years. Bondholders applying for conversion will receive a bonus of two Egyptian pounds on each hundred Egyptian pounds of the new issue in the case of conversion to the unified loans and one Egyptian pound in case of conversion to the preference loan.

Bondholders living outside Egypt may apply for conversion until Dec. 31, 1943, for the unified and until Jan. 15, 1944, for the preference, and such application may be made to the Public Debt Service, Cairo, or to the Bank of England, London.

In addition to these long-term bonds, Egypt will offer a 3,000,000 Egyptian pound three-year issue at 1¾%, redeemable after two years, and a 5,000,000-pound, seven-year issue at 2¼% redeemable after five years. A 15-year issue at 2¾%, in an amount yet to be determined, also will be offered.

The Legation said all these loans should be tax-exempt, "including inheritance tax, should the latter be established." They are guaranteed by the general resources of the Treasury and a special sinking fund.

Names WLB Group To Study Living Costs

President Roosevelt appointed on Nov. 5 a five-man committee from the National War Labor Board to investigate the cost of living and to report the findings in 60 days.

The members of the group named by the President are William H. Davis, WLB Chairman, representing the public; R. J. Thomas, President of the C.I.O. United Automobile Workers, and George Meany, Secretary-Treaser of the A.F.L., representing labor; and H. B. Horton, Treasurer of the Chicago Bridge and Iron Co., and George K. Batt, Vice President of Dugan Brothers, Newark, N. J., representing employers.

"Our Reporter On Governments"

By S. F. PORTER

To get the full story of what has been happening in the Government bond market these last two weeks, you must recognize two important points. . . . Unpleasant though the recognition may be. . . . First, there was a terrific amount of margin buying and outright free riding during the September war loan drive, especially on the 2s. . . . And those in-and-out subscribers, including Stock Exchange firms, dealers, individuals and small corporations, have been getting out at whatever small profit has been available this past fortnight. . . . Second, the money situation in New York has been tight, still is tight, probably will remain less than comfortable until strong action is taken by the authorities to ease the reserve position of member banks. . . . And that has meant commercial banks haven't been able or willing to enter the lists and buy on a large scale.

Governments have been going through a bad period. . . . The weakness in the stock market since early November has been reflected directly in Treasury bonds due simply to liquidation by disappointed subscribers. . . . Perhaps it wouldn't have shown through so clearly had commercial banks been greater buyers but the fact is they couldn't come to the rescue on a sufficiently significant plan. . . . And you know what has been the price range. . . . Using the 2s and 2½s as a guide—and that is logical, for the latest loans are the key to the market and will continue so until the fourth drive takes precedence—the market fell about as far as possible. . . . The 2s hit 100.2 . . . The 2½s reached down to 100.1. . . .

Breaking of the par level on either of these issues would be a serious mistake. . . . It may be taken for granted that the bonds will be held above par by official authorities if for no other reason than the psychological one. . . . That means the drop in the 2s and 2½s went to a dangerously extended point. . . . The market has come back now, once again is under control. . . . But we've had a test of the "bottoms." . . . And chances are it will take some time to erase the bad memory from the minds of dealers constantly in touch with the situation. . . .

And now to the factors gaining precedence. . . . This market, to begin with, is now fairly well cleaned out. . . . The financial firms which were loaded with 2s and 2½s have taken their minor profit and shifted their securities to more permanent investors. . . . The speculators who were looking for an immediate ½ to ¾ point profit —and those were legion—have to a great extent shrugged their shoulders and turned elsewhere. . . .

To give you statistical confirmation of that, the Federal Reserve System's figures on member bank activities in 101 leading cities show bank loans to brokers and dealers in securities and bank loans for the purchase or carrying of securities are down more than $600,000,000 since the first week in October. . . .

It's obvious that most of those loans were for the purpose of carrying 2s and 2½s. . . . Which means the in-and-out traders have left the picture, for they didn't have many more than $800,000,000 bonds to start with. . . .

And now the true, important factors in the price situation may come to the fore. . . . Namely, the extent of bank buying in the open market. . . . The influence of the fourth war loan and its size. . . . The position of the money markets. . . . The approaching Christmas holiday and the seasonal increase in currency circulation. . . .

And the official support of a market which must be in good, receptive shape for the January drive. . . . For a sloppy bond list and a multi-billion dollar financing—even if restricted to individuals and corporations—are mutually exclusive. . . .

THE FOURTH LOAN

Oddly enough, for the first time since the war drives began, private sources and what may be assumed to be official representatives of the Treasury are diametrically opposed on estimates of the size of the next war loan. . . . Latest reports from Washington indicate the Treasury is planning on borrowing $40,000,000,000 more between now and June 30, the end of this fiscal year. . . . Edward B. Hall, assistant to the Secretary of the Treasury, actually came out publicly with this estimate at the Investment Bankers Association's recent convention. . . . But latest information from Government bond circles is that half the stated amount will be sufficient. . . . The $40,000,000,000 figure doesn't take into consideration the facts that actual expenditures are running behind expectations and actual revenue receipts are running ahead of expectations. . . . The Treasury has a tremendous cash balance on hand now and that too much must be brought into any intelligent appraisal of the outlook. . . . The larger figure is based on budget statistics. . . . And these can be misleading to an utterly bewildering degree if they're not viewed outside a vacuum. . . .

The point is a huge loan in January would take a huge amount of preparatory work. . . . And this already is mid-November. . . . The time is growing short. . . . What's more, the market would have some difficulty absorbing another "basket" —unless that basket contained a popular non-negotiable bond which would go into the portfolios of individuals and which would obviously not interfere with outstanding bonds. . . .

The Treasury then, must make a decision between two things. Either it gives up the idea of a record-sized January loan or it creates a new bond which will sell well and which will stay off the market. . . . It doesn't want a new bond. . . . And that leads directly to the obivous. . . .

It's fairly certain, though, that commercial banks will be excluded from the January campaign. . . . Now tentatively set for the 10th. . . . There's also considerable pressure for excluding insurance companies and savings banks but Secretary Morgenthau probably will be afraid to risk that much. . . . If the drive is really restricted to individuals and individuals fail to come through on an impressive enough scale, the result may be disastrous both from a financial and a morale point of view. . . . And Morgenthau is a very cautious man. . . .

It comes down to this—

(1) The market is in a better technical position today than at any time since September due to the cleaning out of the speculators. . . .

(2) However, we're entering the usual period of year-end readjustments, currency circulation increases and we're up against an unfavorable money market situation. . . .

(3) Ordinarily, that would mean a quiet, down-a-bit, then up-a-bit market and this well may be the course in the coming weeks. . . .

(4) But in January, the fourth war loan will be on and prices presumably will be attractive at that time to give the campaign the proper atmosphere and buyers the needed enthusiasm. . . .

Add up all those points and you've the pattern of the Government list as the experts see it today. . . .

INSIDE THE MARKET

Check of dealers indicates more hesitancy and care in predictions than in many a week. . . . Most firms mildly bullish for the next 60 days, prefer to sit on the sidelines right now while market confirms improved technical position. . . .

Treasury workers at a feverish pitch even today as they go over suggestions and methods for getting wider distribution of war bonds. . . . Some changes surely will be made. . . . And there's still a good bet around that Morgenthau will be compelled to accept a new type of bond for January in order to stimulate public enthusiasm. . . .

Insiders in Wall Street expect large sales of municipal bonds by insurance companies and other institutions not mainly interested in tax-exempt income as fourth war loan approaches. . . . Sellers going into Government bonds and getting cash to make big purchases. . . . Lots of tax-exempt men around Wall Street now believe triple A corporate bonds and best-rated municipals may have hit wartime price peak. . . . Basing ideas on post-war expansion in offerings, shift to Government bonds, money market factors. . . .

Charges Subsidies Being Used As Weapon To Set Up A Dictatorship

Joe G. Montague, of Fort Worth, Tex., General Counsel for the Texas & Southwest Cattle Raisers' Association, alleged on Nov. 15 that the food subsidies are a form of "bribery and blackmail" and are being used as a weapon to set up a dictatorship. Associated Press advices from Washington in reporting this, stated that coupled with this charge was a prediction by another livestock spokesman, P. O. Wilson, of Chicago, that a continuation of present price regulations will bring about an acute shortage of beef next year.

An Associated Press account as given in the New York "Sun" said:

Mr. Montague was the first witness before the Senate Agriculture Comittee which opened hearings on proposals to continue and broaden the $800,000,000 a year subsidy program, which President Roosevelt advocated as essential to check inflationary trends and hold down living costs.

"The bribery that I refer to," he continued, "is that system that has become so prevalent in our lives, the offering of a payment to an individual as a dole or gratuity. The price demanded and extracted is the surrender of personal liberty.

"The blackmail I refer to is that species of punishment by way of withholding the gratuities, the imposition of penalties, the enforced reduction of prices and even fines and imprisonment . . . when the individual citizen refuses to accept the dole or gratuity."

Mr. Montague challenged the legality of President Roosevelt's executive orders setting up price control machinery. He said the effect of subsidies was to increase the dangers of inflation by preventing normal price increases and thus failing to drain off excess consumer purchasing power.

We likewise quote the following (Associated Press) from Washington appearing in the New York "Herald Tribune".

Mr. Montague, told the committee that he was convinced "complete and perpetual control and dictatorship of every phase of our lives is desired by influences that are directing the government policies."

Some influence within the government or "closely attached" to those in power, he declared, is seeking to revolutionize the "social, economic and political structure of this country."

He argued that Presidential orders creating the price control set-up are illegal, that subsidies actually are inflationary because they block normal price increases that would drain off surplus money, and that, in effect, the subsidy system simply passes on the current bill to another generation.

Mr. Wilson, explaining his prediction of a beef shortage, said that production next year will total only 5,800,000 pounds, about 1,450,000,000 pounds less than this year and 2,875,000,000 pounds under 1942.

He contended that the industry was not consulted before the government recently set up its system of livestock price ceilings through the use of subsidies.

Rail Pay Rise of 4 Cents To 10c Recommended

Wage increases ranging from four cents to ten cents an hour for 1,100,000 non-operating railroad workers were recommended on Nov. 8 by a special emergency board with the approval of Fred M. Vinson, Director of Economic Stabilization. These recommendations, however, met with prompt rejection from the chiefs of the 15 non-operating railroad unions who announced that unless the collective bargaining agreement signed Aug. 7 by the unions and the carriers was made effective, or a satisfactory adjustment was reached, the results of strike ballots now being tabulated would be announced later this month. The nation-wide strike ballot is scheduled to end Nov. 25.

If Congress adopts the Truman resolution stating that the agreement of Aug. 7 is "an appropriate and valid settlement of the dispute," a national railroad strike will be averted and the railroads will carry out their agreement to increase the wages of the non-operating employees eight cents an hour. Mr. Vinson vetoed this award. Originally the men had asked for a straight increase of 20 cents an hour.

The presently proposed increase, effective with the regular payroll on Nov. 19, would be retroactive to Feb. 1. The new recommended wage scale follows:

All wages less than 47 cents an hour to be increased 10 cents an hour.

Wages between 47 and 56 cents to be increased 9 cents an hour.

Wages between 57 and 69 cents to be increased 8 cents an hour.

Wages between 70 and 79 cents to be increased 7 cents an hour.

Wages between 80 and 89 cents to be increased 6 cents an hour.

Wages between 90 and 96 cents to be increased 5 cents an hour.

Wages of 97 cents and over to be increased 4 cents an hour.

B. M. Jewell, Chairman of the Rail Employees Wage Conference Committee, said, "We consider the proposals to be entirely unsatisfactory, and that they would destroy our whole wage structure built up through the years. The recommendations do not resolve our difficulties at all."

The Securities Salesman's Corner

Opportunity In Campaign Which Offers Tax Saving Assistance

There are two ooportunities for increasing business, and new accounts, during the period from now on until the year-end that should be capitalized if you are in a position to do so. (a.) Bring before your regular clientele the advantages of establishing tax losses. (b.) Use an offer to supply information and assistance in showing non-customers how they can secure substantial tax savings by taking advantage of the possibilties inherent in the Revenue Act of 1942.

In order to better appreciate the possibilties for conducting a successful campaign based upon the presentation of an idea such as "tax savings," consider for a moment the psychological efficacy of such an approach to your customer or your prospects. For a change you are not asking them to invest money, spend money, speculate, or trade one security for another—YOU ARE COMING TO THEM WITH THE SUGGESTION THAT THEY MAY BE ABLE TO SAVE SOME MONEY ON THEIR TAX BILL. That's a pretty interesting proposition—isn't it?

The next thing is to make your presentation of this capitivating subject as attention arresting and as interesting to your customer as is possible. This is not difficult if letters are kept free from technicalities; if illustrations of what you have been able to do for others is told in simple language; and if your offer to supply information includes an opportunity for individual consultation with a specialist on tax matters.

It is usually more effective for the salesman to offer the services of someone other than himself when it comes to technical matters of this kind. For instance, let us assume that the salesman is making a call on his old clients—what is the situation in most cases? The customer usually knows the salesman pretty well and they have had numerous talks together on financial matters. Although the salesman has the client's confidence as to security values it is quite unlikely that the client also looks upon the salesman as a highly qualified tax-expert. But if the salesman knows enough about the provisions of the Revenue Act of 1942 to point out just a few possibilities for effecting tax savings, and suggests to the client that there is someone in the office (a partner for instance who has specialized in these matters—or even some outside tax specialist who might be hired by the firm to sit in on consultations) the possibilities for increasing the effectiveness of this entire campaign, in our opinion would be immeasurably improved. ONE OF THE MOST DIFFICULT FEATS THAT ANY SALESMAN CAN ATTEMPT IS TO SELL HIMSELF AS THE EXPERT—NO MATTER HOW MUCH HE KNOWS, IT'S ALWAYS PREFERABLE TO SELL THE EXPERTS IN THE OFFICE. In other words, is is our belief that the salesman should sit in on the conference, but his primary duty is either to arrange a call to see the client at his office, or to have the customer come in to the office of the firm. In either case a third party should be present who is qualified to give advice and make suggestions which the salesman can follow up and execute.

Here are a few high-lights of the capital gains and losses provisions of the Revenue Act of 1942. The opportunities for building good will, effecting trades, and saving your customers good, hard-earned, tax dollars were never better.

Short term **losses** (under six months holding) can be matched against BOTH short term **gains** (under six months holding) and long term gains (over six months holding). Short term losses or gains are computed at 100%. Long term losses or gains are computed at 50%.

Notice the opportunity afforded by establishing short term losses against long term gains. They are worth twice as much as long term losses when used as **an offset** against profits—whether the profits be either long or short term.

The possibilties for having saving money on taxes is something that many people do not understand—others who are aware of the situation should also welcome additional assistance and advice. It seems to us that once you do a favor of this kind for a prospect he will surely become a customer—and your regular customers will be tied that much closer to you and your organization.

Where's the Money Coming From?

Some Views On Study Prepared By Stuart Chase

The Nov. 4 issue of the "Chronicle" contained a summary of the special report entitled, "Where's the Money Coming From?" being prepared for the Twentieth Century Fund, by Stuart Chase, well-known writer on economic subjects. Mr. Chase asserted in his paper that a post-war national debt of $200 to $300 billions "need not terrify us" and contended that the public debt can be used as an instrument for making full employment, checking inflation and providing a safe haven for investment funds. With reference to the views and conclusions expressed by Mr. Chase, the "Chronicle" has been favored with the following comments:

F. W. MARRINER,

Vice-President, The Union National Bank of Watertown, Mass.

In an article, "Where's the Money Coming From?" appearing in the Nov. 4 issue of the "Chronicle," Stuart Chase is quoted as saying, "If by some miracle the debt were paid off tomorrow, we should have such a stupendous pool of idle money in the banking system that the Government would be forced to open the subscription books again lest the whole financial structure collapse."

Truly it would require a miracle to bring about such a condition. We have been taught to believe that our great increase in deposits and currency has resulted first from our importation of gold and more recently from Government borrowing and spending. By the same token only exportation of gold or retirement of Government debt will reduce such inflated deposits.

Funds for the retirement of debt can only be obtained by taxation. Payment of taxes reduces bank deposits which are the accumulated idle funds of the public. The proceeds from the retirement of debt serves to replenish these reduced deposits. Thus the pool of idle money in the banking system would be no greater than before the debt retirement took place.

If debt is retired the public as a whole loses investments to the extent of the retirement but the proceeds merely offsets the cash collected in taxes. In the same process the banking system loses both investments and deposits but its cash remains unchanged.

It seems to me that in so far as taxes for debt retirement do not come from new income but represent idle funds now in the banking system, the result is a reduction in Federal debt with no addition to idle funds seeking investment.

Of course this reasoning applies only to investors and the banking system as a whole. Those who pay the taxes are not identical with those who receive the proceeds from debt retirement. There may be many of the latter who will find themselves possessed of additional idle funds available for reinvestment. The fact remains, however, that idle cash as a whole will be no greater than before the debt retirement took place.

ALFRED HOLMAN
Cincinnati, Ohio

"WHERE IS THE MONEY COMING FROM?" From exactly where it ought to come, but only if and when our economism (see Albert Jay Nock—Memoirs of a Superfluous Man) is scientifically geared to the production, acquisition and distribution of wealth; wealth being only the goods essential to mankind's sustenance, shelter, comforts, and kindred physical requirements.

The sole reason money—circulating medium—(in no conceivable sense "wealth" or, what is the same thing "worth") is employed is, because theoretically, at least, it is a measure of exchange of goods for goods, services for services, any value for another value. That is it is easier for me to pay my grocer in money than it is to pay him in legal service he may call upon me to render; and so on ad infinitum.

Our economy, assuming money and all of its incidents like bonds, stocks, all evidences of debt to be wealth, or, what is the same thing, to have true value or worth, Prof. Chase's question of course is inevitable; and, for the above reason, just as inevitably wrong. For, unless sufficient wealth—exchange goods and services—is produced by us here in the U. S. A. there isn't a chance in the world for the people of the U. S. to pay one another what they owe each other. Germany tried it after the war preceding this one. All of us know what happened to her. That is, she printed media of exchange by billions in excess of exchangeable goods and services; finally using it for a good purpose—fuel.

Prof. Chase need not worry about where the "money is coming from" IF we produce sufficient wealth as above defined. And, we won't produce that wealth until our economy is put on a scientific basis. Henry George in his Progress and Poverty tells how to put it on that foundation. Certainly, trying it won't leave us any worse off than we are now, which obviously is as horrible as it could be.

NASD District No. 13 Slates Candidates

The nominating committee of District No. 13 of the National Association of Securities Dealers, Inc. reported Robert S. Morris, Robert S. Morris & Co., Hartford, and Henry W. Beebe, Harriman Ripley & Co., as candidates for members of the board to succeed F. Edward Bosson, of Putnam & Co., Hartford, and Lee M. Limbert of Blyth & Co., Inc.

Named as regular candidates for the district committee were A. James Eckert, Mohawk Valley Investing Co., Utica; Herbert F. Boynton, F. S. Moseley & Co., New York; Wilbur G. Hoye, Chas. W. Scranton & Co., New Haven; and James Currie, Jr., Troster, Currie & Summers, New York.

Laurence M. Marks, Laurence M. Marks & Co., New York, is chairman of the nominating committee.

NASD Seen Enforcing Profit Limitation Decree Despite Avalanche Of Opposition

(Continued from page 2000)

in their financial status through our efforts and as evidence of our satisfactory relationships we can proudly assert that in upwards of 15 years no single client has complained or terminated his or her association with us because of dissatisfaction. It hardly seems that any benefit will accrue to that portion of the public served by us if by virtue of misguided reform we are obliged to suspend operation.

I suggest you follow your usual procedure as regards signature

DEALER NO. 41

I attended the meeting of a Kiwanis Club yesterday here in San Antonio and was interested to hear about a new project the Kiwanis International is sponsoring, "Keep His America American."

Although not a Kiwanian myself, I do believe that we would do well to support this move, because then possibly some of these restrictions on our system of free enterprise would not bear fruit.

You are doing a splendid job trying to assist small security houses to exist, and if we finally have to close up shop you should at least be able to sleep well at night, knowing that you did your best. It was once said, although I do not know the author, that an optimist is wrong just as much of the time as is a pessimist, but the optimist enjoys life to a greater extent. It is becoming increasingly difficult to remain an optimist as regards the possibility of small shops remaining open. We don't particularly mind the 5% limitation, or a 2% or a 10% limitation, but it seems that these restrictions lead to even more limiting restrictions, they being only stepping-stones to further control. An optimist will feel that finally there will be no more stepping-stones—but some optimists are beginning to wonder if their philosophy is so well founded.

DEALER NO. 42

This letter is written in response to your plea to fight the NASD's attempt to limit profits on sales of securities. I agree with you wholeheartedly and disapprove of the move. In place of making rules as to profits, I believe the Association should advise all members as to what percentage of profits are being made on various types of securities and by various classes of dealers.

I firmly believe that the big majority of dealers do not want to be "out of line" in pricing securities and further believe they will respond to suggestion.

The recent red herring of the NASD under date of Oct. 25, gave a start along this line. This same letter signed by the Chairman for the Board of Governors said, "The Board has instructed District Business Conduct Committees to be particularly critical of the spreads in transactions where a member purchases or sells a security for his own account on a securities exchange and effects the other side of the transaction with his customer on a principal basis." I do not know, nor did they say what, in their opinion, was too great a spread. However, it is a sorry state of affairs if I can't take a listed stock or bond that I think is the security for my people to buy, sell it to them and make as good a profit as if I had sold them some unlisted stock, or for that matter trust shares.

By the same standard, the New York Stock Exchange Commission is way out of line if the security is bought or sold just to get a turnover. Or is that done?

I suspect the smaller dealer is by and large antagonistic toward the NASD. He also closely associates the NASD with the big dealer as a class. This feeling on the part of the smaller dealer is probably reciprocated, although as individuals there are many close relationships and feelings of confidence between large and small dealers.

If this situation exists, it certainly is not a healthy one and should not be allowed to continue if our organization is to be a real association. If this situation exists, it can be readily cured. To do so all the powers that be have to do is to see that men representing small houses get on the Board of Governors, etc. Both large and small dealers might get a different viewpoint and come to a mutual understanding of each others problems.

The man who calls on us for the SEC does his job in a gentlemanly, courteous and unassuming way, and I'm darned if I don't like him and the SEC because of it.

DEALER NO. 43

I was very much interested in your article in the Nov. 4 issue concerning the attempt of the NASD to curb profits of dealers in securities. I recently read a statement in a letter as follows (relative to another situation), the question was this:

"DO YOU REALIZE

. . . that the State insists that the insurance industry operate profitably? If the industry operated at a loss, its assets, and, thus, the insurance protection it furnishes would soon become impaired? Hence, the State insists that insurance rates 'be sufficient to insure company solvency, at the same time being fair to the assured.'"

It is by observation, since returning to more activity in the business myself, that the average dealer in unlisted securities is only interested in taking care of his employees and earning a reasonable profit. During the last few years his expenses have climbed tremendously. This has been due to more detail required of him and completer services to clients demanded.

It is rather surprising that anyone would say that he should be limited to profits on some fixed percentage basis. After all, conditions change; wages go up and they go down and overhead varies from year to year. Is there any kind of business that can stand some agency saying your fees must be so much? Generally rates in any business, whether it is the business of a farmer, the grain dealer, the manufacturer or merchant, the railroad, or any other, are charged according to what it costs to do business, plus a fair return.

If anyone will look into the earnings of the average unlisted dealer—and the character of the unlisted dealer is getting better, because the business has gradually been cleared of those not desired—they will find that he has not been profiteering. His business is different from the Investment Banking House that is large and does syndicate financing. His problem is different from the average brokerage house. If the distribution of securities costs a certain overhead, then the charge for the service rendered must be based on that cost.

Everyone in this business has a real responsibility towards his customers, and can only meet it properly if paid properly for his services. The investment dealer to do a good job must be able to earn what the service given costs plus a fair profit.

I think you are doing a good job in bringing facts to the attention of the public and to those who, through misinformation or undemocratic methods, would put out of business legitimate unlisted dealers who have a right to make a living in this democracy of ours.

DEALER NO. 44

Congratulations on your splendid article appearing in the issue of Nov. 4, 1943.

Yes, the small dealer can be forced out of business in defiance of the will of Congress, because the small dealer is in no position to defend himself against organized opposition. Furthermore he feels obliged to belong to the National Association of Securities Dealers to secure participations. In our opinion this is discrimination and restraint of trade and it might be wise for you to poll the large underwriting houses to obtain expressions from them as to why the dealers not members of Association should be excluded from offerings. Be this as it may this is the predominant reason, together with the fear of persecution which the Dealers Association seems to inspire. You will note that in most publicity emanating from the Board of Governors the policing angle is stressed. In other words we are all "tarred and feathered" with the same brush.

DEALER NO. 45

In the "Chronicle" of Thursday, Nov. 11, there is an article entitled, "An NASD Blunder," which I am in 100% agreement with, because who is going to decide when the profits shall be reduced to 2%?

I don't think that the profit should be the yardstick because you wouldn't want to pay all doctors the same fee, and it seems to me as if the emphasis is put entirely in the wrong place.

I am active in the security business at the present time and would hesitate to have my name used. . . .

DEALER NO. 46

NASD's Article 7, Section 1, of the Rules of Fair Practice requires a vote by the membership on any rule of fair practice or on an amendment to an existing one, but all rules are nullified by Section 3 of Article 7 giving the Board of Governors the right to issue and interpret all rules of fair practice. If this right to interpret was not enough power, or if they were fair enough to submit the issue to the members for a vote, they then were actually **daring** the small dealer to vote against the wishes of the Board of Governors by forcing the dealer to sign his firm's name and his own name to the ballot, said ballot consisting of an open-mail penny postal card (exhibit attached). These ballots are closely watched. For example, we quote from an NASD letter to us of 7-10-42: "Up to the close of business of July 9, your ballot on proposed, etc., had not been received in Philadelphia."

Section 3 of Article I, Adoption and Interpretation, states the rules shall be interpreted in such manner, etc., shall be just, reasonable, and NOT UNFAIRLY DISCRIMINATORY. Was this overlooked? Or perhaps the Board of Governors now has the right to interpret the definition of an interpretation.

NASD's report regarding the analysis of 82% of members is not dependable because branch offices of large houses operating with several retail salesmen, and dealing in over-the-counter securities, are not subject to questionnaires. Also, reports from small dealers do not give a true picture, because I believe hundreds of small dealers like ourselves are forbidden by the questionnaire to report that from week to week and, after careful study, we may advise that a client **hold** all or certain securities, and that we charge a fair profit for this service only when a transaction takes place.

Relative to NASD's veiled threat regarding doing business on a principal basis on listed securities. (We do not make a charge on stocks listed on the NYSE.) Isn't the small dealer without inventory and commitments, and with the whole field to select from, going to do his level best to fit the case? What does NASD think he would sell if he carried an inventory?

If this interpretation is enforced, hundreds of small dealers can either close shop, join the ranks of the large houses, or he can give us his costly financial services, i.e., "Standard," "Moody," "Fitch," private wires, daily sheets, "Wall Street Journal," "Chronicle," "Dealer's Digest," dividend records, all other records, etc., and then sell and exchange securities without any trouble and as often as he wants to providing he does it under a 5% profit.

If this ruling should drive even one small honest dealer out of business, it is wrong, and the NASD should realize that if they get away with it, it will not stop with the investment business, but would eventually engulf us with a new form of government.

If a profit in excess of 5% is wrong (even though this excess occurs only once in 10 or 20 sales) then why do agencies of the Government allow new issues, investment trusts, specials and secondaries to exceed 5% (some range as high as 25%)? We believe it is because the work requires a profit in excess of 5% and we have no quarrel with that, but we do have a quarrel when the Board of Governors of NASD infers we are dishonest when our charge exceeds a 5% profit.

The profit disclosure on new issues, investment trusts, specials and secondaries is usually given as one of the reasons for justifying the profit on these issues; however, we do not subscribe to that explanation and contend that expense is what governs a profit for either the above-mentioned or the small dealer. Furthermore, the cost cannot be too excessive because of competition and because the small dealer's success depends on the success of his clients, and the latter is particularly true of small dealers operating in small territories.

When an important action like this 5% profit ceiling or the Minimum Capital Requirement is trying to be taken by NASD, the grapevine usually reports that it undoubtedly has SEC approval or that it is made to offset some worse contemplated action on the part of the SEC. If this is so, wouldn't it be more honorable for NASD to fight SEC's contemplated or real action in the courts or the halls of Congress, if necessary? (Since when did two wrongs make a right?) NASD's estimated income of $321,000 for 1944 should provide them with plenty of funds to fight with!

This ruling is wrong and vicious, and will not work. A blanket profit policy, whether too low or too high, is dangerous and, therefore there is one and only answer to this problem: "THE DEALER'S CONSCIENCE." After years of experience the average small dealer operating in a small territory knows there is one, and only one, reason for his success, and that is THE SUCCESS OF HIS CLIENTS.

(Continued on page 2017)

Tax Matters Peculiar To Close Corporation

Many tax difficulties encountered by close corporations are chiefly caused by the corporations' failure to follow proper mechanics and the right procedure, Peter Guy Evans, C. P. A. and Member of the New York Bar, declared in an address on "Tax Matters Peculiar to the Close Corporation" before an annual tax meeting of the New York State Society of Certified Public Accountants at the Hotel Waldorf Astoria, on Nov. 14.

He stated, "many executives and directors of close corporations are not corporate minded, and their failure to get away from the individual or partnership way of doing business has resulted in many instances in additional taxes and suits against them by minority stockholders.

Mr. Evans, who also lectures on taxation at Columbia and Rutgers Universities, also pointed out that the close corporations, because of their size and relationship that exists among the management, in many cases as stockholders, directors, and officers, had to be very exacting and meticulous in the conduct and management of their corporate affairs.

The fact that as long as taxes remain as high as they are today, Mr. Evans emphasized, we cannot expect many new corporations to be started. For the time being, at least, he contends, there are certain definitive tax and other advantages in doing business as an individual or as a partnership. In fact, he states, we will continue to see a steady liquidation of corporations, the shares of which are closely held or controlled by families.

Chicago-Northwestern Situation Reviewed

Wood, Walker & Co., 63 Wall Street, New York City, members of the New York Stock Exchange, have prepared an attractive brochure reviewing the bonds of the new Chicago & North Western Railway Company, discussing the possibilities of certain issues for investment and appreciation. Copies of this interesting brochure may be obtained from Wood, Walker & Co. upon request.

Empire Sheet & Tin Plate Situation Attractive

The first mortgage 6s of 1948 of Empire Sheet & Tin Plate Co., 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.

Investment Trusts

CONSTRUCTIVE COMPETITION

In the investment company field, like in most other fields of American enterprise, competition provides the vital stimulus to progress. In the investment company field, like in other fields, we have witnessed two kinds of competition—the "tearing down" kind and the "building up" kind.

Every intelligent business man knows which kind is best in the long run for his own business and for the welfare of his field of business. But some quirk of human nature common to most of us makes it easier for us to tear down than to build up. Hence, constructive competition is not an easy thing to achieve in any field. That it is being increasingly achieved in the investment company field, everyone conversant with the facts can testify.

A recent expression in the spirit of constructive competition comes from the Editor of Hugh W. Long & Co.'s **New York Letter**. We quote:

"Growing Public Demand for Shares"

"As underwriters and national wholesale distributors of open end investment companies with assets totalling more than $35,000,000, we have naturally been glad to note, during the year now drawing to a close, an increased public demand for investment company shares.

"Evidently this more general interest stems largely from investor realization of the value of continuous and professional investment supervision to meet the many unusual problems of the war and post-war periods. Furthermore, under Federal regulation as it exists today, such companies offer the investor safeguards found in few, if any, other types of constantly available, and always readily disposable, investment vehicles.

"There were in the United States at mid-year about one hundred open end companies. Their assets amounted to approximately $700,000,000. Many investment firms, not previously identified as distributors, have evidenced an active interest in their shares. Such firms include prominent members of various stock exchanges and also larger organizations which, while primarily underwriters or distributors of new issues, have found investment company shares a suitable investment for their clients."

Another recent issue of the **New York Letter** contains a "Letter to

(Continued on page 2016)

Public Utility Securities

(Continued from page 1995)

values. The decision of the Supreme Court in the Hope Natural Gas case is awaited with interest as a partial answer to this issue. However, since the rate-making power rests principally with the local commissions and courts, they will doubtless supply the final answer so far as rates are concerned. Unfortunately, the local commissions have partially followed the lead of Washington, though they still maintain some measure of independence.

To the extent that a partial write-off may prove inevitable, Public Service might well consider amortizing a substantial amount of the item, which would permit substantial Federal tax savings and provide cash for necessary plant expansion — even though stated earnings per share would be reduced moderately.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following weekly firm changes:

Transfer of the Exchange membership of John J. Robinson to Joseph V. Shields will be considered by the Exchange on November 24th.

Malcolm W. Greenough and John Parkinson, Jr., general partners in Hutchins & Parkinson, Boston, Mass., became special partners in the firm on November 4th.

Slaughter, Horne Resumes

Slaughter, Horne & Co., members of the New York Stock Exchange, as of November 1st resumed the status of an active member firm. On September 1st, 1943 the firm had become inactive during the period that all active general partners were engaged in war service.

Expand Private Enterprise To Prevent Unemployment, Lewis H. Brown Proposes

(Continued from page 1990)

"To start our post-war 'planning' with the assumption that the first thing to do is to spend another $50,000,000,000 on public works is evidence of a total misunderstanding of the way free enterprise works. Public works and relief are necessary after you have stalled the machine and have millions unemployed, just as quinine is necessary after you have malaria. But to prevent malaria, we learned in Panama, you must remove the cause, drain the swamps, eradicate the mosquito that transmits the disease and use other methods to prevent its spread."

Mr. Brown continued:

"If the American people are really determined to provide jobs for all, through backing vigorous expansion of private enterprise, there are many ways it can be done successfully.

"Our first objective is to provide jobs for the millions of servicemen and war workers when they shift over from war to peace.

"No amount of public works can provide all the needed jobs. In the ten years of the 1930's, with all the different methods tried, we never even came close to solving the unemployment problem. The only possible solution is work in private enterprise. Hence, the first requisite is for the Administration and Congress to announce clearly that we are not going to continue a war economy after the war is over; that private enterprise must prepare to go forward with confidence, assured that the Government will proceed at once to remove every obstacle and to offer every reasonable inducement to the building of new productive equipment that will provide employment and eventually raise the standard of living."

With this assurance, Mr. Brown said that industry, labor, agriculture and government could cooperatively bring about a program that would encourage expansion and prevent huge unemployment. Among specific recommendations in a thesis for such a program were:

"Vigorous decentralization of the Federal Government and the reorganizing of local governments to handle problems Washington has unsuccessfully tried to solve.

"Progressive demobilization of war-time controls; some, like raw materials control to be changed over from munitions to peacetime goods and discontinued when supply and demand are in balance, and some, such as limitations on partial payment credit, to be continued until the great demand caused by war shortages has been filled, and then opened up gradually as a stimulus to spread the abnormal demand over several post-war years.

"Take government out of the field of direct loans, and, by marginal insurance of loans through the banking system, make available venture capital to small enterprises.

"Offer tax reductions, based upon reinvestment of part of the profits in new plant and equipment, to corporations at times when it is desirable to stimulate employment.

"Amend the tax laws to permit the loss-carryover in businesses to be extended from three to six years, thus facilitating accumulation of capital by new businesses and reducing the risk of loss by all businesses.

"Through a more flexible treatment of depreciation allowances, encourage enterprises to write off the cost of new assets during the first few years, thus reducing the chance of having to pay taxes on a 'dead horse' and providing this additional incentive for the reinvestment of corporate savings."

Discussing the recommendations made to increase investments in new enterprises, Mr. Brown said:

"In the last 15 years it has become harder for men with ability and good ideas, but lacking capital, to find backers willing to risk savings in new ventures. In large measure this is due to the attempt of government to regulate and control, and to laws which were designed to limit profits and incomes. These actually work in a way that prevents the creation of small new business ventures—one of the greatest sources of employment. The required action here is drastic modifications of the tax laws to offer an incentive for investment and for increased employment."

Mr. Brown said that opportunities for expansion will be affected in a large measure by the international economic policies pursued by the United States after the war. He further stated:

"Most of the world will badly need goods, especially machine tools, machinery and the products of our mass production industry. The United States is prepared to make these products and credit will be needed to finance the purchases, since it will take time for foreigners to develop sufficient exports to the United States to pay for their purchases. Some people in Washington have suggested that we continue over a long period of years to give these things away on a 'lend-lease' basis. That, I think, would be most foolish. We can't play Santa Claus to the whole world without bringing ourselves down to the level of their poverty and what we need to do is to try to help them lift themselves up toward our level of prosperity. We must always remember that unless we are willing to accept involuntary defaults on foreign investments, we can only sell more abroad if eventually we are willing to take more imports of merchandise in exchange."

Another great problem, Mr. Brown said, involves organized labor and collective bargaining. "There is no question but that our workers needed equality of bargaining power. They have it now and should continue to have it. But, when the heavy hand of Government is put on only one side of the scales of justice in all labor matters, another question is raised. What about the public interest?"

Mr. Brown pointed out that "as long as the representatives of 10,000,000 workers can successfully apply pressure for higher and higher wages with little regard for the effect of the terms they make upon prices, this can only mean that they are getting a bigger piece of the available cake and the unorganized workers and the public must take a smaller one. But more important, when wages of one group of workers gets out of proportion with other groups, the exchange of products between the groups declines and this kills off the opportunity for new ventures, expansion and more jobs for the oncoming generation of young workers.

"Government," he said, "can encourage enterprise and provide increased employment by lifting its hand from the scales and remaining a friendly arbiter to look after the interests of the public rather than the contending parties. The Government should throw its weight in favor of raising the total of national income instead of encouraging the struggle between conflicting groups over the division of a declining national income."

Pointing to inconsistencies in economic policies which can allow wages to rise too high for full employment, taxes to fall too largely on the sources of venture capital and on incomes derived from daring and innovation, and the imposition of tariffs designed to protect given groups of manufacturers but which may limit the prosperity of the country as a whole, Mr. Brown said:

"The average American does not see the inconsistencies in our economic policies of the past 20 years. In the 1920's we followed leaders who told us this was a New Era and that the economic machine works automatically by the mysterious process of perpetual motion, always 'up' and never 'down.' Then in the 1930's we were told over the radio about a New Deal—that if we wanted more milk from the economic cow the way to get it was to feed her sawdust instead of bran and to chase her around the pasture as much as possible. Then we had the era of the 'planned economy' which was merely an attempt at an American copy of Russia's Five-Year Plan. We now have an economy of Total War which is just an American version of going Totalitarian Germany one better."

In spite of this confusion, the speaker said, Americans have arrived at certain conclusions, among them the fact that they don't like rationing, regimentation and bureaucrats, and that they do want real jobs at productive work and fair wages.

"They want," Mr. Brown said, "leaders in government and business and labor and agriculture who understand how the economic machine works, who will cooperate for the good of all the people to encourage a period of dynamic expansion.

"We need a new approach to the problem of employment in the post-war world—a new philosophy of hope and courage—new methods to keep the economic machine operating at high levels of production and new men in high places who will bring cooperation instead of conflict to the solution of these problems that are so vital to the welfare of all the people."

Urges Sales Tax To Combat Inflation

(Continued from page 1992)

and Australia each imposes either a general sales tax in terms, or a sales tax on a wide range of specified goods. Our Treasury has concluded that, of our total taxes, 18.8% are sales taxes, excises, and customs. In great Britain, the corresponding figure is 29.6%; in Canada, 31.6%; in Australia, 36.6%. Even if the United States imposed a 10% sales tax, the percentage figure of sales taxes, excises and customs to total revenues would merely approximate that of Great Britain."

Referring to the pressing need for increased saving, as a check on inflationary tendencies, Mr. Magill said, "We would increase the attractiveness of savings by providing a limited income tax credit, not merely for purchases of government bonds, but for payment of life insurance premiums on new or old policies. Life insurance premiums are surely savings, and indeed are largely invested in government bonds."

York Corp. Attractive

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

Christiana Securities Situation Attractive

Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange, have prepared an interesting circular on Christiana Securities Company. Copies of this circular may be had from the firm upon request.

In The Armed Forces

The Boston Securities Traders Association announces that the following members are now also in the armed forces:

John J. D'Arcy (en route)

Pvt. Birney S. Halliwill (Camp Van Dorn, Miss.)

Pvt. Walter O. Minter (Camp Gruber, Okla.)

Norfolk, Southern Ry. Possibilities Attractive

The common stock of Norfolk, Southern Railway offers interesting possibilities, according to a memorandum being distributed by J. F. Reilly & Co., 111 Broadway, New York City. Copies of this memorandum, discussing the situation in detail, may be had from the firm upon request.

Tomorrow's Markets Walter Whyte Says—

Market excitement due entirely to alcohols. No signs of buying in other groups evident. Last week's lows still critical.

By WALTER WHYTE

If the liquor stocks, particularly American Distilling, hadn't zoomed all over the board last week's market would have been a dull, lifeless affair. For since last week all the market was able to do was recover about a point from the extreme lows of last week. Of course, the main interest now are the liquor stocks. Apparently the inspired stories of the shortage of whiskey has made everybody's throats dry.

* * *

Whole thing is reminiscent of the hectic liquor market of 1933, when any company which was even remotely associated with the manufacture or distillation of spirits sold in the open market at fantastic prices. If your memory goes back to those days then you recall the aftermath. Nobody knows if the same thing will happen again, but stocks as well as markets have a disturbing habit of running in cycles. And the grief caused by the break in the liquor stocks shortly after prohibition was killed may well be repeated.

* * *

Where American Distilling is concerned, story is a little different. For not only does this stock possess all the romance now generally attributed to whikey companies, but having a comparatively small capitaliation is one of the spirited (no pun intended) movers of the group. The fact that a short position existed didn't hurt either. Looked like Auburn (remember that one?) for a while with its 10- and 20-point daily swings.

* * *

Besides all this ta-ra-ra boom de-ay-ing of the liquors the kind of buying in the rest of the market—the kind that indicates a coming break-out on the up-side—is lacking. Last Thursday some good buying did come in, but at no time did it show any inclination to follow prices up. The peace stories of last week and the week before have apparently died down, though you

(Continued on page 2017)

Outstanding Facts About Selected American Shares

Selected Investments Company, 135 South La Salle Street, Chicago, Ill., has issued an attractive and informative booklet on Selected American Shares discussing the advantages of these shares as a hedge against inflation and a participant in post-war prosperity. Copies of this interesting booklet may be had upon request from Selected Investments Company.

The News Behind The News

(Continued from first page)

moval of vast factories beyond the reach of Nazi invaders.

Stalin left no vagueness as to what he believes in, saying directly the socialist state has been shown by this war to be the "form of organization" for both peace and war.

What kind of freedom and democracy he will advocate for other nations, therefore, is made clearer than in the Moscow declarations. His people in those countries will advocate collectivism for farms, socialism for industry.

This is natural, represents no change. Just like us, he thinks his system is the best in the world.

But the point which our people must understand thoroughly in reading the international news, speeches and declarations is that the words being used do not mean the same to us as they do to Stalin. We must not foolishly deceive ourselves.

To us, freedom means the freedom of the individual, not collectivism. To us, democracy means capitalism, the two-party system, not one-party control, not socialism.

Thus the same words have opposite meanings in Russia and the United States.

No one will or can question this simple truth, but some of our people apparently want to pretend, temporarily at least, that it is not so. They say they fear offending Russia, or of injuring the war effort, but Stalin obviously does not think so, because he has stated his position without pretense, and with factual truths as he sees them.

Our people also think our system has proved itself by this war to be superior to any other, including the collectivist-socialist system, although our leaders have not stressed the point as much as Stalin emphasized his.

A comparison of the wages and hours of our workers with those of Russia, especially as truly expressed in terms of living such as automobiles, telephones, home electricities, bathrooms, roads, would show the point clearly, although such statistics are not available from the Russian side due to their collectivist censorship system.

A comparison of the lot of our independent farmer with the Russian collectivist peasant in terms of living conditions and ownership also would shatter Stalin's patriotic argument for his own system.

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SEC Reopens Rollins Case

Hearings at the Chicago regional offices have been ordered for December 7th by the Securities and Exchange Commission which is reconvening hearings on proceedings were ordered reopened Rollins & Sons, Incorporated of New York City, and Walter Cecil Rawls, manager of its St. Louis office alleging violations of the securities exchange act. The proceedings were ordered opened after the SEC was advised by attorneys for the Board of Missions of the Methodist Episcopal Church, South, that they had additional evidence to submit which might bear on the case.

It is understood that the question of whether the firm and Mr. Rawls, or either, should be expelled or suspended from the National Association of Securities Dealers, Inc. will be threshed out also. The final decision, however, will be issued by the Commission in Philadelphia.

Bank and Insurance Stocks

This Week—Bank Stocks

By E. A. VAN DEUSEN

The sharp decline in stock market prices from Oct. 27 to Nov. 8 was quite general, there being relatively little differentiation between war stocks and peace stocks, so-called. New York City bank stocks, however, held their place for several days before they succumbed to the pressure. The accompanying table shows the day by day changes in the Dow Jones Industrial Average compared with the American Banker Index of New York City bank stocks.

Date	Dow Jones Industrials	American Banker Index
Oct. 27	139.35	37.3
Oct. 28	138.97	37.2
Oct. 29	138.29	37.0
Oct. 30	138.27	37.1
Nov. 1	138.50	37.1
Nov. 3	137.35	37.3
Nov. 4	136.30	37.2
Nov. 5	135.47	37.3
Nov. 6	135.24	37.3
Nov. 8	131.68	36.4
Total decline	7.6 5.5%	.9 2.4%
Nov. 9	131.85	36.7
Nov. 10	132.68	36.7

Bank stocks, it will be noted, moved down slightly to Nov. 1, rallied to their Oct 27 level, and then broke on Nov. 8. Their total decline, however, was less than half that of the Dow Jones Industrial Average, being only 2.4% compared with 5.5%.

Technically, these bank stocks are in a very strong market position, having moved up only 55.2% from their 1932 lows compared with 236.0% for industrial stocks, as measured by the Dow Jones Industrial Average. Thus they are substantially behind the general market, despite a steady improvement in earnings over the past several years and an unprecedented growth of earning assets to the highest level in the history of American banking. It seems to this writer that "peace scares" should little affect the position of choice bank stocks, relatively speaking. Unlike general industrial corporations, banks will not be plagued in the early post-war period with problems of cancelled contracts, reconversion, inventories, Government-owned plant, etc. Conversion to peace-time business involves no such dislocations to orderly banking operations.

Primarily bank stocks are peace-time stocks, even though bank earnings are increasing substantially during the war, as they did during World War I. To the realistic investor in bank stocks such expansion of earnings should merely indicate to him that current dividends are secure and that reserves and capital funds are being built up for peace-time activities; not that some of these higher earnings should be distributed to him as extra dividends.

If the statement is true that bank stocks are primarily peacetime stocks, then the post-war prospects for banks and bank earnings should be good. This column believes this to be true and that after the war leading commercial banks will enter a very prosperous era. For one thing, and contrary to the doctrine of "New Dealism," ours is not a mature economy; the last frontier has not been passed, the spirit of private initiative and enterprise has not been quenched, and the American economy has many decades of progress, expansion and adventure ahead of it. With such an outlook, how can bank-

ing fail to expand? Immediately after the war there will first, of course, be a period during which war-made shortages must be made up, as distinct from creating new products and new enterprises; afterwards will come the era of aviation, light metals, plastics, electronics, television, chemurgy, and so forth. There is no end in sight to the conceiving of new ideas, many of which, as the years roll on, are bound to materialize as new industries and new material wealth.

The Industrial Securities Committee of the Investment Bankers Association of America filed a report, within the past few days, on the post-war financial needs of the country. It is of interest to present briefly its findings and conclusions, which are summarized under five divisions as follows:

(1) New construction for the manufacture of products perfected during the war and for plant additions to handle postponed consumer demands for standard products.

(2) Purchase of plant facilities built by the Government.

(3) Retooling and replacement of worn-out machinery.

(4) Building up inventories.

(5) Building up working capital positions.

The Committee also cited the following estimates made by the United States Chamber of Commerce for immediate post-war domestic needs: housing, $7,175,-000,000; autos, $3,300,000,000; household appliances, $1,216,000,-000; furniture and floor coverings, $711,000,000; improvements, additions and repairs to homes and farms, $7,500,000,000.

Some of these needs will be met through the issue of new securities in the capital market, but a substantial portion will, as in other periods of expansion, have to be met through the extension of bank credit. Thus, the commercial banks of the country are likely to have a busy time discounting notes and lending money.

Banking is the hand-maid of industry, and becomes active and prosperous as industry becomes active and prosperous. The post-war era is full of promise for American enterprise.

Municipal News & Notes

The City of Chattanooga, Tenn., which is asking for bids until Nov. 23 on an offering of $6,040,000 series A electric power refunding revenue bonds, will be able to pay off all of its outstanding debt—every cent of it—at maturity, if the debt retirement program set up by his administration is adhered to, it was stated recently by Mayor E. D. Bass. The Mayor expressed this opinion in commenting on the results of the audit of the city's finances for the fiscal year ended June 30, 1943. The city continued during the year the program adopted on June 1, 1941, of exchanging bonds of certain maturities for new "debt equalization bonds," which is designed to equalize the city's annual debt service burden and eliminate future fluctuations of tax levies.

In discussing the program, Roy D. Hazlett, certified public accountant of Chattanooga, who conducted the audit, stated that "our investigation disclosed that all requirements of the bond indenture executed under the provisions attending the issue of the 'debt equalization bonds' have been met" and that the assets which are pledged to meet the sinking fund and interest payment commitments "should, when the program is completed, be sufficient to meet all bond maturities, including interest."

Commenting further on the audit, the Mayor said that the $50,510.20 surplus account built up during the 1942-43 fiscal year represents the difference between appropriations and net disbursements.

"There are no funds in that surplus account except those saved from appropriations," Mayor Bass asserted. "It is a genuine surplus. If we had included our sinking funds balance we would have a surplus of something better than $400,000.

"But sinking fund balances cannot be treated as a surplus because the funds were appropriated for a specific purpose and cannot be spent for anything except for that purpose—to pay obligations arising from the bonded debt.

"The City of Chattanooga is required by law to appropriate $1,000,000 a year for debt service charges—that is, interest and bond maturities. Some $600,000 of that appropriation was used to pay interest and the remainder was used to retire bonds. The $1,000,000 appropriation is required under our debt retirement plan. If the plan I have set up is followed, Chattanooga's debt will be retired at maturity—every cent of it."

Mr. Bass explained the city charter requires an audit of the city's fiscal affairs every two years by "outside experts."

"Since I have been Mayor I have been having the audit made each year by outside auditors in order that I may keep fully informed at all times as to the city's financial condition."

States Report Large Decrease In Gross Debts

Gross State debts have declined increasingly during the past three years, the current grand aggregate being $2,909,150,000 as compared with $3,526,407,000 in 1940. This decrease, according to the Council of State Governments, is exclusive of surpluses which are being earmarked either for special postwar projects or programs for the rehabilitation of service men and their families, highway constructi and capital improvements of hospitals and educational institutions.

If all surpluses were used to retire State debts — in many cases such funds cannot be used for this purpose, in others officials do not want to use the funds in this way—the actual amount of gross debts would be much less, as surpluses alone are in excess of $1,000,000,000.

Generally decreases in individual State debts are due to greatly increased revenues and reduced expenditures as well as to the lack of construction work resulting in a minimum issuance and a greater redemption of bonds.

Rates of decrease were approximately $70,000,000 from 1940 to 1941; $250,000,000 from 1941 to 1942; and $300,000,000 from 1942 to 1943. Comparing figures for 44 States, 11 had gross debts of over $100,000,000 in 1940. Of these, New Jersey, Missouri and Minnesota have cut their indebtedness to less than $100,000,000, and the debts of the other eight—Arkansas, California, Illinois, Louisiana, Massachusetts, New York, North Carolina and Pennsylvania—have been reduced materially. Florida has no debt and Iowa, Nebraska, Nevada and Utah report only small gross amounts, the Council said.

The gross debt of all States was 9% less June 30, 1943, than one year prior—the sharpest decline of any year in the last decade—the Council said. Short-term debts were reduced from $158,000,000 to $17,000,000, or $141,000,000, in the last year. Many States have taken advantage of a favorable bond market during recent years to obtain lower interest. Though the gross debt was larger in 1943 than in 1932, interest rates for the year ending in 1943 are smaller than in 1932.

Chicago to Redeem $7,160,000 Bonds on Jan. 1

The City of Chicago will meet the maturity on Jan. 1 of $7,160,000 of its outstanding bonds without a public refunding operation, officials of the Comptroller's office said recently. At the same time, it was said that the city would call for redemption on the first of the year approximately $300,000 of its outstanding 3% refunding bonds, which originally became callable on Jan. 1, 1942.

While no public refunding will be involved in meeting the Jan. 1 maturities, the city will follow the policy of preceding years in borrowing from its various funds to provide a portion of the cash necessary to retire the maturing obligations. The amount of this borrowing will be somewhat smaller than last year, city fiscal officials said.

A year ago the city faced actual maturities of $7,145,000 on Jan. 1, 1943. It redeemed $6,595,000 of these obligations from current cash and sold a $550,000 issue of five-year 1¼% bonds to the city sinking fund to provide the balance of cash necessary for the redemptions. Two years ago the city placed a $1,200,000 issue of 2% refunding bonds with the sinking fund to provide a portion of the cash necessary for meeting maturing obligations.

The $7,160,000 of maturing bonds to be redeemed on Jan. 1, embrace $5,210,000 of various 4% obligations, $1,250,000 of a 3% refunding issue, dated Jan. 1, 1938, and $700,000 of 1¾% securities.

The $300,000 of optional 3% bonds, which the city plans to call on the first of the year, is part of an issue of $2,412,000 of 3% refunding obligations, which are dated Jan. 1, 1937. Of this issue there presently are outstanding $1,001,000, the other $1,411,000 having been previously called. Redemptions planned for Jan. 1 will cut the outstanding amount of this issue to $701,000.

Redemption of the $7,160,000 of maturing bonds and $300,000 of the callable securities will cut the city's gross bonded indebtedness outstanding against the corporate fund to somewhere between $65,000,000 and $66,000,000. Without giving effect to the small issue of refunding bonds to be placed with one of its funds, the size of which has not been determined, the redemptions planned for Jan. 1 would place the total at $65,357,000.

The Comptroller's statement for the third quarter of the year, just released, showed that gross bonded indebtedness of the city outstanding against the corporate fund was $72,817,000 as of Sept. 30. Giving effect to sinking fund assets of $21,768,692, net bonded indebtedness amounted to $51,048,303. On Sept. 30, 1942, gross bonded indebtedness was $80,124,000 and net bonded debt was $58,522,667.

The third quarter statement reflected a reduction of nearly $3,000,000 in the city's floating debt. On Sept. 30 this debt, represented by judgments and unpaid bills and payrolls totaled $9,422,087, of which $4,355,634 was represented by unpaid bills and payrolls. On Sept. 30, 1942, floating debt amounted to $12,142,867, of which $6,998,757 was represented by unpaid bills and payrolls. Corporate tax warrants outstanding, however, totaled $30,712,000 at the end of the third quarter, against $28,159,000 a year earlier.

Investment Trusts

(Continued from page 2013)

a Soldier," which, for good reading and straight thinking, we highly recommend.

Recent Hugh W. Long & Company literature—New folders on the Metal Series and Public Utilities Industry Series of New York Stocks, Inc. These are attractive "picture" folders, are a continuation of the recent series on New York Stocks . . . . Current portfolio folders on both New York Stocks and Manhattan Bond Fund. The latter Fund, as of Nov. 1, 1943, had net assets of $14,815,374.

* * *

Keystone Corporation has published pocket-size folders on each of the 10 Keystone Custodian Funds. These little folders summarize the important characteristics of each Fund and are attractive additions to the Keystone sales literature.

Another new Keystone folder addressed to trustees, trust officers, bankers, institutions and corporations, discusses important features of Keystone Bond Fund B 1, which has been recently revamped to hold 50% Government Bonds. A security selector card and a revised edition of the Keystone booklet, "A Modern Method of Investing," have also come to hand recently, together with revised copies of the current data folder and the now familiar brochure entitled "10 Securities."

* * *

The Investment Research Department of **Distributors Group** has recently published comprehensive surveys on steel stocks and discount railroad bonds. Recent sales literature issued by Distributors Group includes new folders on Steel Shares and Railroad Equipment Shares. These two classes are both described as "Undervalued Groups." The possible appreciation from current levels back to 1937 highs for these two groups ranges between 150% to 200%.

Also available from Distributors Group are the following: Investment Report of the Research Department to Group Securities, Inc., showing holdings of the various classes as of Oct. 30, 1943; new portfolio folders on Railroad Shares and General Bond Shares showing market appreciation possibilities in the portfolio securities and current return on the Funds; a current issue of Steel News.

* * *

George Putnam Fund has issued a **Portfolio Review** of the Fund entitled "Fitting the Fund to the Purpose." Accompanying this publication is a two-page Portfolio News showing recent changes in the Fund and commenting on the reasons for them.

* * *

Lord, Abbett, in a recent mailing to dealers, lists the round-trip performance of the six funds in the Lord, Abbett Group for the period from April 10, 1943, to Nov. 9, 1943. This period was selected because the Dow-Jones Industrial Average showed no net change as of those two dates. The six Lord, Abbett-sponsored funds during the same period showed net gains ranging from 1.3% to 12.4%.

Other Lord, Abbett publications include a current composite summary, a revised folder on Union Preferred Stock Fund, and a **Union Dealer** containing news about the performance and portfolio changes in UPS.

* * *

The last three issues of National Securities & Research Corp.'s **Investment Timing** have discussed the following subjects in the order named:

(1) "The National Debt and Its Future Aspects."

(2) "Federal Reserve Index Adjusted to War."

(3) "The Necessity for Careful Selection."

The last-named discussion is particularly interesting in its revelation of the vast divergence in performance of individual securities even in the same industry group or class.

* * *

MIT's **Brevits** in recent weeks have discussed, among other things, the psychological influences of the war on security prices, the various types of savings which are being created as a result of the war and the support that labor is giving to the free enterpirse system. An interesting table in the Oct. 30 **Brevits** shows Harvard University's common stock investments during recent years. This table is reproduced herewith:

Harvard's Common Stock Investments At Market Value

	Amount	% of General Investments
1943	$56,019,000	35.5
1941	47,957,000	34.7
1940	41,870,000	33.5
1936	36,830,000	28.1
1930	24,640,000	22.7

* * *

Calvin Bullock's **Bulletin** gives a number of good illustrations of the value of diversification taken from the market action of various stocks in the Dow-Jones Industrial Average . The **Bulletin** also shows portfolio changes in Dividend Shares for the nine months ended Sept. 30, 1943.

* * *

Selected Investments Co.'s last issue of **Selections** points to changes in the form of the monthly portfolio statement. This statement is now set up to show the number of dollars of ownership in each portfolio security that would result from a $10,000 investment in Selected American Shares, Inc.

Dividends

Affiliated Fund, Inc.—An extra dividend of 5 cents per share payable Dec. 20, 1943 to stock of record Dec. 10.

Bond Investment Trust of America—A semi-annual distribution of $2.00 plus an extra of 40 cents payable Dec. 1, 1943 to holders of record Nov. 13.

New York Stocks, Inc.—Dividends payable Nov. 25, 1943 to holders of record Nov. 5 as follows:

Industrial Series—	Dividend per Share
Agricultural	$0.21
Alcohol and distilling	0.26
Automobile	0.11
Aviation	0.33
Bank stock	0.12
Building supply	0.05
Business equipment	0.18
Chemical	0.10
Electrical equipment	0.11
Food	0.18
Insurance	0.12
Machinery	0.22
Merchandise	0.12
Metals	0.14
Oil	0.18
Public Utilities	0.03
Railroad	0.14
Railroad equipment	0.14
Steel	0.13
Tobacco	0.15

Smith, Barney Offers Thompson Products Preferred

Public offering of $4,500,000 of $100 par 5% cumulative preferred stock of Thompson Products, Inc., Cleveland, was made Nov. 16 by an investment banking group headed by Smith, Barney & Co., New York, and McDonald-Coolidge & Co., Cleveland, and including 40 other houses in different cities. Other principal underwriters are: Shields & Co.; Clark, Dodge & Co.; Eastman, Dillon & Co.; Hemphill, Noyes & Co.; Hornblower & Weeks; W. E. Hutton & Co.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Paine, Webber, Jackson & Curtis; Spencer Trask & Co.; White, Weld & Co.; and Dean Witter & Co. The new preferred stock was priced at $103 per share.

Proceeds from this financing will be used to retire the 25,660 shares of outstanding $5 convertible prior preference stock and to provide additional working capital to meet the company's postwar requirements. The company plans to call the prior preference stock for redemption the latter part of December at $105. Holders of the prior preference stock have the right of converting their shares into common stock at $30 per share for the common, up to and including the fifth day prior to the redemption date. Net proceeds from such conversion will be applied to working capital.

Holders of the prior preference and common stocks approved the financing program at a special meeting in Cleveland on Nov. 15.

The company was formed in 1916. It produces a wide range of engine and other parts for automobiles, trucks, tractors and motorized military equipment; parts and accessories for aircraft and aircraft engines; parts for marine and industrial engines, and at present, certain ordnance items. Most products are of moving parts subject to wear which are sold for use in original equipment and for replacement use. Automotive parts are supplied to more than 3,000 jobbers and distributors for servicing many makes and types of automobiles, trucks and tractors. The company's research department is now engaged in supplementing the company's products with a view to meeting the demands of postwar markets.

The company employs 20,000 persons at its various plants and has one of the youngest managements for an industrial corporation of its size in the country, a majority of the officers being in their forties or early fifties. F. C. Crawford, president, is also president of the National Association of Manufacturers.

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 & Co., 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.

Howell Electric Interesting

Howell Electric Motors Company offers interesting possibilities as an outstanding company with no post-war conversion problem, according to a circular issued by Allman, Moreland & Co., Penobscot Building, Detroit, Mich., members of the Detroit Stock Exchange. Copies of this circular may be had upon request from Allman, Moreland & Co.

NASD Seen Enforcing Profit Limitation Decree Despite Avalanche Of Opposition

(Continued from page 2013)

Why in hell the NASD doesn't know all this is more than we can understand. Or do they?—(A Portland, Maine, Dealer.)

DEALER NO. 47

I think it a very unwise and unfair ruling, especially for the Brokers and Salesmen who sell unlisted securities.

What is a fair commission on sales? When a customer buys or sells a listed stock, he goes or telephones his order to his Broker and the transaction is completed as soon as possible at an established rate of commisison. The clerk who received the order is an order taker, not a salesman.

The Broker does not search for the customer, the customer comes to him. When a salesman sells unlisted securities, he pays his traveling expenses and searches every day for investors who will buy the stock or bonds he is selling. When he calls upon strangers, he often meets skeptics who have lost money in unwise speculation—the fallacy that only a listed stock is safe to buy—dissatisfaction with the management of our national problems and many other reasons. It requires a lot of patience and perseverance to overcome them.

The first broker that I worked for called me into his office and gave me a check for 10% of the first sale I made and said, "This commission is not just for the sale you have made, but also to recompense you for the time and effort you made in calling on those whom you did not sell." That was sound common sense and it is just as true today.

It is probably true that all of our big corporations were made possible by venture capital. The commissions for raising venture capital have always been high and should be because it is more difficult to secure. If the Governors of the NASD and the officers of the SEC were to call upon strangers and try to sell them unlisted securities, I am sure they would soon want more than 5% for commission for their services. If Brokers' commissions are to be limited to 5%, I know it will be impossible to employ a well educated high-grade salesmen because I could not pay him a liberal commission or make any money myself.

In my humble opinion, members of the Stock Exchange firms and the brokers and salesmen who sell unlisted securities for corporations render a great service to these corporations and to the public for which they should be amply rewarded.

If this letter is published by you, it must be anonymous.

DEALER NO. 48

I read your statements as to the alleged NASD rule limiting profits to a maximum of 5%, both in your magazine, to which we subscribe, and also in your circular letter received today.

My understanding on this matter may be in error, but it now runs along these lines. The NASD is said to have stated that any profits in excess of 5% might be open to criticism, but only provided there were no relevant facts, which might properly justify a greater percentage of profit. The alleged rule applies only to a markup in a relatively riskless transaction, where a market order might be obtained prior to the acquisition of the security involved. It does not forbid any reasonable gain where the relevant facts will justify a higher profit. Nor did it forbid any profit, of any extent, from an inventory position, provided the sale to the customer was priced in line with the current market at the exact time of the consummation of the sale.

The purpose of the reference to 5% as a maximum suggested profit applies only where a sale to a customer, already booked, was confirmed at a price more than 5% in excess of the then current offering price, and even then, only in such cases where the security sold was in supply and could be readily obtained through the established channels of trade. Dealers have not been prohibited from securing a greater profit, nor are they prohibited now, where the relevant and pertinent facts clearly justify.

Was it not intended to imply that any profit over 5% should be supported by abnormal and unusual circumstances? Dealers are not forbidden to charge more than 5%, but, when as and if they do, the surrounding facts must substantiate a higher compensation for their services.

As a matter of fact, in a great majority of cases, in actively traded securities, a 5% profit is far more than can fairly be charged. At the same time, there are occasionally cases where a 5% profit would be too little.

You might care to refer to the commission rates charged on the New York Stock Exchange. A stock selling at $1 carries a brokerage of 6¢ per share, plus other expenses. This is a 6% markup, each way, or 12% on the trade, plus taxes and shipping expenses, which dealers usually absorb when they act as principal.

I am confident you have at heart the good of the industry, as I have, but I cannot help but wonder if you have thoroughly sifted the facts and analyzed the intent of the alleged "Rule" about which you have written. If any of my statements are in error, I hope you will set me straight. I shall much appreciate your comments.

DEALER NO. 49

I have been in sympathy with the "Chronicle's" intention to protect the interests of the security dealers at various times and I think the publicity you have given to some of the attempts of the SEC to deprive dealers of profit is commendable. In this instance, however, I fear that the writer of your editorial did not exactly have the point of view of the average dealer and I shall endeavor to make their position clear for whatever value it may be to you.

For over twenty years we have been engaged in underwriting participation and in the purchase and sale of listed and unlisted stocks and bonds. As we understand it, the National Association of Security Dealers was formed for the purpose of regulating the industry, eliminating if possible the gross injustices in the form of excessive profits. Otherwise it was feared that unreasonable regulations of the SEC with regard to this subject might be forced upon us.

Up to this time I do not believe that the "NASD" has made any arbitrary rule limiting profits but has naturally frowned upon profits which were obviously excessive. I believe they have taken the attitude that circumstances in connection with the customer and the sale should determine the margin of profit. I do think that many members of the Board feel that profits on riskless transactions in excess of 5% are not often justified and in this particular we are inclined to agree with them.

We feel that it is only in very unusual circumstances or where the dealer has carried an inventory and the general market has advanced is he entitled to 10% or more profit margin. As a matter of fact, we are far more concerned about the SEC's desire to force disclosures of profits than of any limitation which the Association might place upon the profits of its members.

Two or three houses, we observe, have decided to deal with customers on a commission basis and have advertised this fact very extensively. I am informed, however, that their profits in some instances have been much in excess of 5%, although I am not in a position to cite cases and instances. Dealers not members of the Stock Exchange are also concerned at times with regard to the large percentage of the membership which are members of the New York Stock Exchange and in some instances have used their influence to place the entire business upon a commission basis and full disclosure of profit.

I believe you would be championing the cause of the large majority of high grade houses if you fought any attempts at full disclosure of profits rather than attempts of the Association to use its influence to keep profits within reasonable limits.

DEALER N. 50

It reminds me of asking a hardware dealer how much his nuts and bolts are and then arguing whether his profit margin is fair.

One doesn't argue with a lawyer or a doctor—why argue with an investment man?

NASD Seen Enforcing Profit Limitation Decree Despite Avalanche Of Opposition

(Continued from page 1991)

"Does this not make it clear that it was the intent of Congress that a Maloney association be conducted in a democratic manner which precludes the issuance of a profit limitation decree sounding the death knell of the small dealers in the towns and hamlets of the country and makes it mandatory that such a proposal be voted upon by the membership. Certainly neither the Association's officials nor the SEC are prepared to argue that Congressmen are so moronic as to swallow the contention that the above paragraph in the Maloney Act simply meant that the association had to adopt a rule of fair practice, as it did initially, stating that all members 'shall observe high standards of commercial honor and just and equitable principles of trade' and that thereafter Wallace Fulton or the Board of Governors or anyone else could say well that's all there is to it boys, hereafter we'll interpret that rule as we damn please and dictate to you in any manner we see fit with the exception of telling you how to vote."

And while we are on the subject of lawyers, the attorney for one dealer informed the "Chronicle" over the telephone that he would advise his client to ignore the decree and conduct his business as heretofore. If as a consequence, disciplinary action against the client is taken by a Business Conduct Committee, the attorney stated that he would further advise his client to start suit against every member of the Board of Governors and every member of the Business Conduct Committee involved for the damages sustained because of the issuance of the illegal decree.

The "Chronicle" has always been, as it is now, a staunch defender of capitalism and our system of free enterprise and regrets that it is obliged to take the stand that the Association is rendering a distinct disservice to the cause of both when it advocates that the profits of its members be limited at all, and particularly when it attempts to do so through any such autocratic methods as availed of in the instant case.

They say a BIG man is always willing to admit he is wrong if, on reflection, he believes this to be the case. Surely, the majority of the Governors of the Association are BIG enough to admit that there was nothing democratic about the way the decree was adopted and will not let anyone bulldoze them into believing the contrary, but will get together and rescind it until the rule is submitted to a vote of the membership.

Widespread opposition to the decree is manifest at every turn in all parts of the country. As many of the comments received by the "Chronicle" as can be accommodated in this issue are given below. (As in the past, we are fully observing the dealer's request that neither his firm's name nor his identity be revealed.) All of the favorable comments received are included. One of these comes from a member of the Board of Governors. More will be given next week if the decree is not rescinded in the interim. Dealers' comments are solicited by the Editor.

To Admit Frankhauser

Charles A. Frankhauser will acquire the New York Stock Exchange membership of Donald M. White and become a partner in Hackney, Hopkinson & Sutphen, 14 Wall Street, New York City, on November 24th. In the past Mr. Frankhauser was a member of the New York Stock Exchange.

Attractive Situations

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

Tomorrow's Markets Walter Whyte Says—

(Continued from page 2015)

can expect an early resumption, particularly if the Russians cross the old Polish frontier.

* * *

The fears of inflation, however, have not been minimized in the last few days. Quite the opposite. The Smith Investigating Committee's report on the OPA is probably the first gun by the farm bloc to get prices up.

* * *

I realize all this. I assure you I'm not interested in either being for or against the OPA. I'm primarily a stock-market-trend interpreter. I'm interested in facts. Facts that will mean dollars and cents in determining the direction the market will take.

* * *

If some of the things the Smith Committee wants done are approved by Congress then the beginnings of wild inflation will not be around any corner; they will be here. So far the market refuses to believe that such inflation is imminent. If it did, then many more stocks than the liquors would have gone up.

* * *

There is a possibility that the averages are now building a base. If that is the case, then a point or so down on the downside should be all that prices should go. But until the tape shows better evidences than I have seen to date, my advice continues to be, sit tight.

* * *

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.]

FDR Asks Congress For Funds or UNRRA—Atlantic City Conference Mapping Relief Plans

President Roosevelt recommended to Congress on Nov. 15 the enactment of a bill authorizing the appropriation of funds to permit the participation by the United States in the work of the United Nations Relief and Rehabilitation Administration.

The President did not request the appropriation of a specific sum now, explaining that after the results of the conference now in progress in Atlantic City are known he would send a further recommendation. However, Mr. Roosevelt pointed out that Congress will determine from time to time the nature and the amount of the contribution to be made to the UNRRA by this country, but added that "only by bringing to bear the resources of all the United Nations will we be able to relieve a substantial part of the millions who will need help." He further said that the agreement establishing UNRRA, which was signed on Nov. 9 by representatives of 44 nations, proposes that each nation will contribute in accordance with its ability, and it is hoped that "a small fraction of the national income of the contributing member States will be sufficient to meet the needs.

The text of the President's message follows:

To the Congress of the United States:

I am happy to inform the Congress that on Nov. 9, 1943, representatives of 43 nations and peoples joined with our own Government in signing the accompanying UNRRA agreement, setting up an international relief and rehabilitation administration to give first aid in the liberated areas. This agreement provides only the framework. The implementation is left to the constitutional law making body of the member States.

The task of the organization will be to assist in furnishing the medicine, food, clothing and other basic necessities and essential services which are required to restore the strength of the liberated peoples. They have been deliberately stripped by the enemy in order to support the Axis war machine. More than that, the Axis leaders have boasted that as they withdraw, they will leave only devastation—what they have not stolen, they will destroy. As our American soldiers fight their way up the Italian Boot, they are discovering at first hand that the barbarism of the Nazis is equal to their boasts. Their only rivals in this respect are the Japanese.

UNRRA will be able to make only a beginning in the vast task of aiding the victims of war. The greatest part of the job will have to be done by the liberated peoples themselves. What UNRRA can do is to help the liberated peoples to help themselves, so that they may have the strength to undertake the task of rebuilding their destroyed homes, their ruined factories and their plundered farms.

The length of the war may be materially shortened if, as we free each occupied area, the people are enlisted in support of the United Nations' armies.

Already, for example, a new French army has been created and, as we strike toward Berlin, increasing numbers in Sicily and Italy are falling in step beside the soldiers of the United Nations. Others construct roads and military installations required for our military operations. Millions more are waiting for the moment when they, too, can strike a blow against the enemy.

They do not want charity. They seek the strength to fight and to do their part in securing the peace. Aid to the liberated peoples during the war is thus a matter of military necessity as well as of humanity.

UNRRA will not, of course, be expected to solve the long-range problems of reconstruction. Other machinery and other measures will be necessary for this purpose. What UNRRA can do is to lay the necessary foundation for these later tasks of reconstruction.

The devastation and disorganization caused by the Nazi and Japanese war machines are so great that this world disaster can be met only by the united action of the 44 United Nations and Associated Nations. Accordingly, under the agreement establishing UNRRA, it is proposed that each nation will contribute in accordance with its ability. Each will determine for itself the amount and character of the contribution which it can make.

A small fraction of the national income of the contributing member States will, it is hoped, be sufficient to meet the needs. Some of the liberated nations may be able to make payment for the supplies and services rendered. But only by bringing to bear the resources of all the United Nations will we be able to relieve a substantial part of the suffering of the millions who will need help.

The nature and the amount of the contribution to be made by the United States will, in accordance with the terms of the UNRRA agreement, be determined by the Congress of the United States under its constitutional procedure.

At this time I recommend to the Congress the enactment of a bill authorizing the appropriation of funds as Congress may from time to time determine to permit the participation by the United States in the work of UNRRA. I am not now recommending the appropriation of a specific sum. At a later date, after the conclusion of the Atlantic City meeting, I shall send to you a further recommendation, informing you of the result of the meeting and requesting the appropriation of specific funds.

FRANKLIN D. ROOSEVELT.
The White House, Nov. 15, 1943.

The UNRRA conference, which opened in Atlantic City on Nov. 10, is currently working on plans to determine how far the organization should go in aiding the victims of war and in working out a formula to finance the world relief task. At the Nov. 11 session, Herbert H. Lehman, former Governor of New York, was elected Director General of the UNRRA, and, in his acceptance address, pledged his energies to the "joint effort of the United Nations to help the liberated peoples of the world to become self-sufficient again." Mr. Lehman said the "guiding light" of the UNRRA must always be the principle of "helping people to help themselves," otherwise, the "opportunity for sound permanent reconstruction may be lost." He added that interfering as little as possible with the recognized governments and peoples of liberated territories should be the administration's policy, since "the purpose of UNRRA is not to substitute international controls for national controls."

The Council of the UNRRA, or policy-making body, made up of members in the 33 united and 11 associated nations, was told on Nov. 12 that the minimum requirements of the European countries for six months after their liberation will be 45,855,000 metric tons of supplies, which will need to be imported. This estimate was presented in a report by Sir Frederick Leith-Ross, Chairman of the Inter-Allied Committee on Post-War Requirements, which studied the problem seven months ago, and is to be used only as a basis of the UNRRA's work.

The finance committee of the Council discussed on Nov. 14 a formula for creating a fund of about $2,500,000,000 to meet the world relief cost. Under this proposed flexible formula quotas would be assigned only to uninvaded countries on the basis of 1% of their national income. It is reported that the United States' contribution would be a possible $1,500,000,000 with the British Commonwealth of Nations and the American Republics making up the remainder. Objection to the 1% national income formula was voiced on Nov. 15 by the Brazilian member of the Council proposing instead using a certain percentage of foreign trade.

Setting up of the UNRRA was reported in these columns Nov. 11, page 1924.

Halsey, Stuart Offers $15,000,000 Atlanta Bonds

Halsey, Stuart & Co. Inc. headed a group of 46 investment banking houses which made public offering Nov. 17 of $15,000,000 first mortgage 3¾% Bonds, due Nov. 1, 1963, of The Atlanta and Charlotte Air Line Railway, part of the Southern Railway System. The bonds were priced at 100½, subject to approval of the issue by the Interstate Commerce Commission. The issue was awarded to the Halsey Stuart group in competitive bidding Nov. 16 on their bid of 99.039.

The Atlanta and Charlotte Air Line Railway has been operated by Southern Railway, or its predecessor, since 1881. The road's 254.11 miles of main line track from Charlotte, N. C. to Atlanta, Ga. forms an integral and essential part of Southern Railway's double tracked main line from Washington to Atlanta. Under the new first mortgage Southern Railway in effect guaranteed interest and sinking fund payments on the new bonds.

Proceeds of the issue, together with approximately $5,000,000 to be advanced by Southern Ry. for which it will acquire new second mortgage bonds will be used to pay in full at or before maturity on July 1, 1944, all of the presently outstanding first mortgage 4½% and 5% debt of Atlanta and Charlotte aggregating $20,000,000.

Southern Ry. will accept second mortgage bonds in satisfaction of its advance and additional second mortgage bonds in settlement of sinking fund payments of $150,000 a year which Southern Ry. will advance from Nov. 1, 1944 to Nov. 1, 1962, inclusive. The indenture provides that the total of both first and second mortgage bonds outstanding shall never exceed $20,000,000.

Giving effect to the saving resulting from this financing, Southern Ry's fixed charges will be reduced, on an annual basis, to approximately $13,600,000 as compared with fixed charges of $15,694,873 in 1942 and $17,626,128 in 1930.

SEC Again Postpones Hearing On NASD Action

The Securities and Exchange Commission has again postponed, to January 20, 1944, the oral argument in connection with the review of the disciplinary action taken by the National Association of Securities Dealers, Inc. against six of its members, at the request of Wallace H. Fulton, executive director of the NASD. The continued illness of the Association's counsel made the postponement necessary Mr. Fulton declared.

The disciplinary action under review was taken by the NASD following its investigations of alleged violations of a price maintenance agreement between securities dealers in connection with the original distribution of a $38,000,000 bond issue of Public Service Co. of Indiana four years ago.

OUR REPORTER'S REPORT

Underwriters and dealers are disposed to look forward to a period of sustained activity in the new issue market between now and the middle of next month.

They calculated that there is a total of something like 40 prospective new issues in sight, a number of them substantial in size and virtually all destined to reach the market under the operation of Rule U-50 providing for competitive bidding.

Among the largest individual undertakings is that of the Public Service Co. of Colorado involving prospective distribution to the public of 875,000 shares of the company's common stock, of $20 par value, growing out of a plan of recapitalization.

This stock is in registration with the Securities and Exchange Commission and hearings have been held on its plea that the transaction be exempted from operation of Rule U-50.

Michigan Consolidated Gas Co. has registered proposing the sale of $38,000,000 of first mortgage 3½% bonds due 1968, plus 40,000 shares of new 4¾% cumulative preferred stock of $100 par.

The company plans to apply the proceeds to retirement of its entire issue of first mortgage 4s due in 1963 along with its serial notes due 1944 to 1948 in the amount of $4,150,000.

By far the largest deal in sight is that put forward by the Illinois-Iowa Power Co. providing for the sale of $65,000,000 of its first mortgage and collateral trust bonds, plus $4,000,000 to $5,000,000 2¾% notes, the latter to be placed directly with a group of commercial banks.

Proceeds would be applied to redemption of $69,856,000 of outstanding Series A and C bonds.

Stabilizing Operations

Views expressed the other day by J. A. Treanor, head of the SEC's trading and exchange division, with regard to stabilization operations in respect to new issues, did not appear to arouse much discussion in underwriting circles.

Underwriters are fully aware that the SEC is averse to stabilizing and they have been endeavoring as much as possible to avoid the necessity for such operations to the utmost.

Reaction to the latest blast on that score seemed to be that, in a broad sense, stabilizing operations are out and the business is done pretty much on the basis of an entirely free market.

Small Issue, Many Bids

Though a relatively small issue, $5,500,000, the offering of Southern Colorado Power Co. 1st mortgage bonds, due 1963, certainly brought out an imposing array of bids when sold on Tuesday.

All told seven different groups placed tenders for the issue, with the bonds going to the New York investment banking house of Harriman Ripley & Co. Inc., on its bid of 100.65 for the issue as 3½s. Reoffering was expected today, depending on SEC release, at 102.

The lowest bid was made by Halsey, Stuart & Co. of Chicago, 100.08 for 3¾s.

Surprise of Week

In contrast with the foregoing outpouring of bids was the showing in connection with the sale on Monday of $15,000,000 of Atlanta & Charlotte Air Line Railway 1st mortgage 3¾s, due 1953.

The rail issue brought out only two bids, with Halsey, Stuart & Co. winning the award on the basis of its tender of 99.038, and reoffering the issue publicly at 100½. Shields & Co., the only other bidders, offered 94.789 for 3½s and 98.069 for 3¾s.

The bonds, upon reoffering, were reported meeting broad investment demand, dealers reporting a brisk out-of-town insurance company interest.

Railroad Equipments

There are indications that railroad equipment trust certificates are likely to be found attracting noticeably fewer bids henceforth than in the past.

Some underwriters have rather definitely decided against participating in such competition hereafter, on the contention that this paper no longer offers a satisfactory margin.

It will be interesting to watch developments when the next such issue is marketed.

Kidder Peabody Offers General Tire Preferred

Offering was made Nov. 16 of 65,000 shares of The General Tire & Rubber Co. 4½% cumulative preferred stock at $101 per share by an underwriting syndicate headed by Kidder, Peabody & Co., and The First Cleveland Corp. The offering is being made subject to authorization of the new perferred stock by shareholders at a special meeting to be held on Nov. 19.

Proceeds will be applied to the redemption of the entire outstanding 21,875 shares of 6% cumulative perferred stock, series A, at 105, and the balance, together with other company funds, to the construction of new plant facilities for the manufacture of tires and tubes to meet immediate and post-war demands. The company has options for the purchase of a plant site in Waco, Texas, and has placed orders approximating $1,250,000 for a portion of the machinery to be installed there, but definite plans have not yet been made as to the type of building to be constructed. The cost of this project is estimated at between $2,500,000 and $3,500,000. Erection of an additional building at the company's main plant in Akron, Ohio, also is contemplated. If materials and labor can be obtained as needed it is estimated that the Waco plant and the addition to the Akron plant will be completed by the middle or latter part of 1944.

In addition to the principal Akron plant, engaged primarily in the production of tires and tubes, The General Tire & Rubber Co. has two smaller units in that city where barrage balloons are manufactured, and another in Wabash, Ind., devoted to the production of war materials and mechanical rubber goods. The company's Aldora Mills in Barnesville, Ga., has an annual capacity of approximately 5,000,000 pounds of tire cord, of which at the present time 20% is in rayon tire cord. A polymerization plant in Texas, with an annual capacity of 30,000 tons of synthetic rubber is leased to the company by the Defense Plant Corporation and operated on a fee basis under contract with the Rubber Reserve Co.

Railroad Situations Offer Attractive Possibilities

In the current issue of their "Railroad Securities Quotations," B. W. Pizzini & Co., 55 Broadway, New York City, give pertinent data on three railroad situations which the firm believes are particularly attractive at current levels. Copies of the "Quotations," and a comprehensive analysis of the speculative possibilities of Boston & Maine Railroad, may be had from B. W. Pizzini & Co. upon request.

Calendar Of New Security Flotations

OFFERINGS

DOW CHEMICAL COMPANY

Dow Chemical Co. has registered 309,741 shares of cumulative preferred stock, Series A, without par value, $4 dividend.

Address—Midland, Michigan.

Business—Engaged in the manufacture of a diversified line of inorganic and organic chemicals, also magnesium and magnesium alloys.

Underwriting—Smith, Barney & Co., New York, will head the group of underwriters. Others will be supplied by amendment.

Offering—Holders of record of common stock at the close of business Nov. 10, 1943, will be given pro rata rights to subscribe to an aggregate of 249,741 shares of cumulative preferred stock, Series A, in the ratio of one share for each five shares then held at a price to be supplied later. Such rights will expire at 3 p.m. EWT on Nov. 22, 1943. Company will offer to the holders of its 60,000 shares of 5% preferred stock the right to exchange such stock share for share, for cumulative preferred stock, Series A, such right to exchange expiring at 3 p.m. EWT on Dec. 15, 1943. Underwriters have agreed to purchase any of the 249,741 shares of preferred, Series A, which are not subscribed for by the common stockholders. Price to the public will be supplied by amendment.

Proceeds—To retire the company's presently outstanding 5% preferred stock through exchange of such stock for the cumulative preferred stock, Series A, and to extent not retired through exchange to use a portion of the proceeds from the sale of the cumulative preferred stock, Series A, to redeem the 5% preferred stock at $105 per share and accrued dividends on Feb. 15, 1944, and to provide additional working capital.

Registration Statement No. 2-5240. Form A-2. (10-27-43).

Registration statement effective 3 p.m. (EWT) on Nov. 10, 1943.

Rights—Common stockholders of record Nov. 10 are given the right to subscribe to 249,741 shares of $4 div. cumulative preferred stock (no par) at $105 per share in ration of 1 new share for each 5 shares held. Rights expire 3 p.m. Nov. 22. Unsubscribed shares underwritten by Smith, Barney & Co. and Associates.

Exchange Offer—60,000 shares new $4 div. are also offered in exchange, share for share, for outstanding 5% preferred stock

ELLIOTT COMPANY

Elliott Company has filed a registration statement for shares of common stock, $10 par value. The shares registered are issued and outstanding and are being sold by certain stockholders of the company.

Address—Jeannette, Pa.

Business—Manufactures steam turbines, electric generators and motors, general purpose heat exchangers, strainers, blowers, etc.

Underwriting—F. Eberstadt, New York City, is named principal underwriter.

Offering—Price to the public will be supplied by amendment. The names of the selling stockholders will be supplied by amendment.

Proceeds—Proceeds from the sale of the stock will go to the selling stockholders. No part of the proceeds from the sale of such stock will be received by the company.

Registration Statement No. 5242. Form S-2. (10-28-43).

Offered Nov. 16 at $14.50 per share by F. Eberstadt & Co.

GENERAL TIRE & RUBBER CO.

General Tire & Rubber Co. has registered 65,000 shares of cumulative preferred stock, par value $100 per share. The dividend rate will be supplied by amendment. The authorization of the new preferred stock will be acted upon at a special meeting of stockholders on Nov. 19.

Address—1708 Englewood Ave., Akron, Ohio.

Business—Manufacture and sale of tires and tubes for automobiles, busses, trucks and airplanes and other rubber goods.

Underwriting—Kidder, Peabody & Co., Lehman Brothers and First Boston Corp. of New York, and First Cleveland Corp. of Cleveland, are named principal underwriters. Others will be supplied by amendment.

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

Proceeds—Of the net proceeds $2,296,875 will be applied to the redemption of 21,875 outstanding shares of the company's 6% cumulative preferred stock, Series A, at $105 per share. It is the present intention of the company to apply a portion of the proceeds, together with other funds of the company to the extent necessary, toward the construction of a new plant for the manufacture of tires and tubes. The company has options for the purchase of a site at Waco, Texas, but no definite plans have been made as to the type of building to be constructed or as to the equipment to be installed. Orders have been placed for a portion of the machinery approximating $1,250,000. In a general way the cost of constructing and equipping the plant is estimated between $2,500,000 and $3,500,000. Company also proposes to apply a portion of the proceeds toward the construction of an additional building at its Akron plant to be used in the production of tires and tubes, estimated cost of building being $200,000 and $250,000. Machinery for this building and for other plants of the company and its subsidiaries, costing approximately $815,000, is on order. If materials and labor can be obtained as they are needed it is estimated that the plant at Waco and the additional building at Akron plant will be completed by the middle or latter part of 1944. It is presently expected that the remainder of the proceeds, if any, together with other funds of the company, will be applied to the acquisition of additional plant facilities for the manufacture of tires and tubes or the acquisition of an interest in existing plant facilities for such purposes, but plans for such acquisitions are not sufficiently definite for the company to make a statement with respect thereto. If pursuant to these plans sufficient existing plant facilities are acquired, it is anticipated that the cost of the plant at Waco will be decreased and will aggregate between $2,000,000 and $2,400,000. If a change in conditions should make it advisable, the plans for such construction and acquisition may be postponed or abandoned and if so, the portion of the proceeds to be received from the sale of 65,000 shares of preferred stock which would have been used for such purposes will be added to the general funds of the company.

Registration Statement No. 2-5243. Form S-1 (10-29-43).

Offered—65,000 shares of 4½% cumulative preferred stock offered Nov. 16, 1943, at $101 per share and div. by Kidder, Peabody & Co., Lehman Brothers, The First Boston Corp., The First Cleveland Corp. and associates.

THOMPSON PRODUCTS, INC.

Thompson Products, Inc., has filed a registration statement for 45,000 shares of cumulative preferred stock, par $100 per share. The dividend rate will be supplied by amendment.

Address—2196 Clarkwood Road, Cleveland, and 23555 Euclid Avenue, Euclid, Ohio.

Business—Manufacture and sale of a wide range of engine and other parts of automobiles, trucks, tractors and mobilized military equipment; parts and accessories for aircraft and aircraft engines; parts for marine and industrial engines; and, at present, certain ordnance items.

Underwriting — Smith, Barney & Co., New York, and McDonald-Coolidge & Co., Cleveland, head the underwriters. Others will be supplied by amendment.

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

Proceeds—Of the net proceeds, $2,694,300 plus an amount for accrued dividends, will be used for the redemption of all outstanding shares of $5 convertible prior preference stock of the company at $105 per share plus accrued dividends. There are 25,660 shares of the prior preference stock presently outstanding. The balance is desired principally in connection with operations after war production has substantially declined or terminated.

Registration Statement No. 2-5247. Form S-1. (11-2-43).

Thompson Products, Inc., filed an amendment on Nov. 11 to its registration statement which lists underwriters as follows: Smith, Barney & Co., New York, 5,000 shares; McDonald-Coolidge & Co., Cleveland, 5,000; Shields & Co., New York, 4,000; Clark, Dodge & Co., Eastman, Dillon & Co., Hemphill, Noyes & Co., Hornblower & Weeks, W. E. Hutton & Co., Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane, Paine, Webber, Jackson & Curtis, Spencer Trask & Co., and White, Weld & Co., all of New York, Dean Witer & Co., San Fran., 1,000 shares each; Curtiss, House & Co., Fahey, Clark & Co., Field, Richards & Co., First Cleveland Corp., Hawley, Shepard & Co., and Hayden, Miller & Co., all of Cleveland, Janney & Co., Phila., Laurence M. Marks & Co., New York, Merrill, Turben & Co., Maynard H. Murch & Co., Otis & Co., all of Cleveland; Reynolds & Co., Riter & Co., Tucker, Anthony & Co., and G. H. Walker & Co., all of New York, 900 shares each; Ball, Coons & Co., Cleveland, George B. D. Bonbright & Co., Rochester, E. W. Clark & Co., Phila., J. M. Dain & Co., Minneapolis, H. L. Emerson & Co., Inc., Cleveland, Milwaukee Company, Milwaukee, Moore, Leonard & Lynch, Pittsburgh, W. H. Newbold's Son & Co., Phila., Ohio Company, Columbus, Piper, Jaffray & Hopwood, Minneapolis, Chas. W. Scranton & Co., New Haven, Stroud & Co., Inc., Phila., and Yarnall & Co., Phila., 500 shares each.

Offered—45,000 shares of 5% cumulative preferred stock (par $100) offered Nov. 16, 1943, at $103 per share and div. by Smith, Barney & Co., McDonald-Coolidge & Co. and associates.

interest rate will be named by the bidders.

Address—401 North Main Street, Pueblo, Col.

Business—Is an operating public utility company engaged principally in the production, transmission, distribution, and sale of electricity and is also engaged in furnishing street railway and bus transportation service.

Underwriting — Names of underwriters will be supplied by post-effective amendment.

Offering—Bonds are to be sold at competitive bidding pursuant to Rule U-50 of the Commission and price of bonds to public will be supplied by post-effective amendment.

Proceeds—Proceeds from the sale of the bonds and from sale of $1,200,000 serial notes and other funds of the company will be applied to the redemption of company's outstanding $6,763,400 principal amount of first mortgage gold bonds series A, 6%, due July 1, 1947 at the redemption price of 102% of the principal amount plus accrued interest. The notes will be sold privately to institutions not for resale to the public.

Registration Statement No. 2-5234. Form A-2. (10-20-43).

Registration statement effective 5 p.m. EWT on Nov. 4, 1943.

Bonds Awarded—Harriman Ripley & Co. were awarded $5,500,000 first mortgage 3½% bonds Nov. 16, 1943, on bid of 100.65.

UTAH POWER & LIGHT CO.

Utah Power & Light Co. has filed a registration statement for $37,000,000 first mortgage bonds, Series due 1973. Interest rate will be supplied by amendment.

Address — Kearns Building, Salt Lake City, Utah.

Business—Is a public utility operating in southeastern Idaho, northern and central Utah and southwestern Wyoming.

Underwriting—The bonds will be offered for sale by the company pursuant to the competitive bidding rule of the Commission. Names of underwriters will be supplied by amendment.

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

Proceeds—Net proceeds, together with $2,500,000 to be received from Northwestern Mutual Life Insurance Co. from issue and sale of $3,500,000 face amount of general mortgage serial bonds of Utah, due serially 1949-1953; $3,500,000 to be received from issue and sale to certain banks of $3,500,000 face amount of serial notes, and such amount, if any, of general funds of the company, will be used for the following purposes:

To pay principal and interest to maturity, as the case may be, on Utah company's 30-year first mortgage 5% gold bonds due 1944, of which $28,119,000 face amount were outstanding at March 31, 1943.

To pay Utah Company's first lien and general mortgage gold bonds, Series of "4½s of 1944", of which $4,068,000 face amount were outstanding at March 31, 1943.

To pay Utah Light & Traction Co.'s 30-year first and refunding mortgage gold bonds, Series A, 5%, of which $11,813,000 face amount were outstanding at March 31, 1943, these bonds having been guaranteed as to principal and interest by the Utah Company.

Registration Statement No. 2-5173. Form A-2. (6-30-43).

Issue Approved—The SEC on July 27, 1943 granted company permission to offer for sale by competitive bidding $45,000,000 1st mtge. bonds, series C. Interest is not to exceed 3¼%.

On Nov. 10, company filed an amendment to its registration statement in which it changed the proposed issue and sale of securities to cover $42,000,000 first mortgage 25-year bonds to be dated Dec. 1, 1943. The bonds are to be sold at competitive bidding under Rule U-50 of the Commission to yield the company at least $41,500,000. The interest rate will be named by the successful bidder. The proceeds will be used for refunding, with any balance necessary being supplied from current treasury funds.

Amendment filed Nov. 5, 1943, to defer effective date.

(This list is incomplete this week)

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.

TUESDAY, NOV. 23

PENNSYLVANIA ELECTRIC CO.

Pennsylvania Electric Co. has filed a registration statement for 34,000 shares of cumulative preferred stock, 4.40% Series B, $100 par value.

Address—222 Levergood Street, Johnstown, Pa.

Business — Production, purchase, transmission, distribution and sale of electricity.

Underwriting—Company has entered into an agreement with Mellon Securities Corporation and the First Boston Corporation to use their best efforts to obtain exchanges of stock and to enlist assistance of dealers in obtaining such exchanges.

Offering—Company offers to the holders of its cumulative preferred stock, 5.10% Series A, the opportunity to exchange their shares for cumulative preferred stock, 4.40% Series B, on the following basis: For each share of 5.10% Series A stock there will be delivered one share of 4.40% Series B stock plus $1 in cash. Any shares of the 5.10% Series A stock not deposited for exchange will be called for redemption on or about Dec. 31, 1943, at $108.75 per share plus accrued dividends.

Purpose—To effect exchange of stock.

Registration Statement No. 2-5248. Form S-1. (11-4-43).

TUESDAY, NOV. 30

CENTRAL VERMONT PUBLIC SERVICE CORP.

Central Vermont Public Service Corp. has filed a registration statement for 197,954 shares of common stock, no par value.

Address—121 West St., Rutland, Vt.

Business—Operating public utility.

Underwriting—Shares are to be sold at competitive bidding pursuant to Commission's Rule U-50 and names of underwriters will be supplied by amendment.

Offering—The company will invite bids for the purchase of 195,000 shares of the common stock and offering price to the public will be supplied by post-effective amendment. New England Public Service Co. has agreed to purchase the balance of 2,954 shares of common stock at $16.25 per share.

Proceeds—Sale of the common stock is an integral part of a plan providing that Twin State Gas & Electric Co. will be merged into Central Vermont pursuant to the plan filed with the Commission some time ago. Contemporaneously with the issuance of the common stock registered, the company will issue and sell privately for cash $500,000 in face amount of its first mortgage bonds, Series C. The interest rate and price received will be furnished by amendment. Proceeds from the sale of the common stock and bonds will be used to pay a bank loan of $150,000; to pay cash to holders of 24,550 shares of 7% prior lien stock of Twin State as provided in merger agreement in an amount equal to $110 per share plus unpaid dividends; to acquire $40,000 of 3% debentures due Dec. 1, 1956, and $8,000 of 5% debentures of subsidiaries and to provide for additional working capital.

Registration Statement No. 2-5250. Form A-2. (11-11-43).

SATURDAY, DEC. 4

INSURANCE SECURITIES, INC.

Insurance Securities Incorporated has filed a registration statement for 820 units—single payment plan—Series T to create 400,000 investment units; 1,400 units—accumulative plan—Series D to create 450,000 investment units.

Address—416 13th St., Oakland, Cal.

Business—Investment trust.

Underwriting—Trust fund sponsored by Insurance Securities, Inc.

Offering—At market.

Proceeds—For investment.

Registration Statement No 2-5255. Form C-1 (11-15-43).

Dates of Offering Undetermined

BLACKSTONE VALLEY GAS & ELECTRIC CO.

Blackstone Valley Gas & Electric Co. has registered $11,300,000 first mortgage and collateral trust bonds 3% series due 1973.

Address—55 High Street, Pawtucket, R. I.

Business—Operating public utility company engaged in the electric and gas business.

Underwriting—To be supplied by post-effective amendment.

Offering—Company proposes to sell the bonds at competitive bidding pursuant to the Commission's Rule U-50. Offering price to the public will be supplied by post-effective amendment.

Proceeds—Net proceeds will be applied to the redemption of $7,300,000 of outstanding mortgage and collateral trust bonds, Series C, 4%, due 1965, at 106% requiring $7,738,000, and $4,000,000 of outstanding mortgage and collateral trust bonds, Series D, 3½%, due 1968 at 107% requiring $4,280,000. Treasury funds will be used to make up any balance, if necessary, while if proceeds from bond sales are in excess of the $12,018,000 needed for redemption, such excess will be added to the company's general funds.

Registration Statement No. 2-5236. Form S-1. (10-23-43).

Registration statement effective 4 p.m. EWT on Nov. 10, 1943.

Bids—Proposals for the purchase as a whole of $11,300,000 first mortgage and collateral trust bonds, 3% series due 1973, to be dated Nov. 1, 1943, and to mature Nov. 1, 1973, were received by the company at the office of Ropes, Gray, Best, Coolidge & Rugg, 50 Federal St., Boston, Mass., up to 11 o'clock a.m. EWT., Nov. 17.

The issue was awarded to Estabrook & Co. and Stone & Webster and Blodget, Inc., on a bid of 103.817.

SOUTHERN COLORADO POWER CO.

Southern Colorado Power Co. has registered $5,500,000 first mortgage bonds, series due Nov. 1, 1968. The bonds will be sold at competitive bidding and the

Commerce Association Asks Correction Of Salesmanagers' Commission Inequity

A plea to Robert E. Hannegan, Commissioner of Internal Revenue, asking the Treasury Department to modify its ruling by which sales managers, who have actually earned their commissions, may be prevented from receiving them, was made on Nov. 13 by the Commerce and Industry Association of New York.

"I would point out that however drastic may be your restriction on salary increases as applied to compensation computed in the normal manner, the employee is not seriously injured because he is always at liberty to make other arrangements or to quit his job if the arrangements are not to his liking," wrote Thomas Jefferson Miley, Secretary of the Association.

"The case is far different, however, where an employee has made a contract upon an overriding commission basis and has done everything that his contract of hiring obliged him to do and has earned a certain amount under his arrangement only to be told that he may not receive what his contract of hire says he was worthy of."

Under the present Treasury regulations, Mr. Miley pointed out, the responsible Treasury officials, have given their subordinates no definite policy to follow in approving overriding commissions and each subordinate followed whatever rule he pleased. It followed, he said, that businessmen could not make such commission arrangements, which in the past had proven efficient, because they had no means of knowing what the financial return to the employee will be.

Mr. Miley asks that, until the Treasury Department has announced a definite rule on the subject, salesmanagers be allowed to receive their earned commissions.

The Treasury's ruling in the matter was referred to in these columns Nov. 4, page 1798.

Bower Honored

Joseph A. Bower, Executive Vice-President of the Chemical Bank & Trust Co. of New York, was the guest of honor at a luncheon given by the Board of Governors of the Wall Street Club on Nov. 16 on his appointment as Director of the Banking and Investment Division of the War Finance Committee for New York State. Mr. Bower was presented with an embossed scroll, by S. Stanwood Menken, President of the club. Mr. Bower was a three-time President of the Wall Street Club.

Public Service Co. of Indiana Is Interesting

Common stock of the Public Service Company of Indiana, Inc., offers an interesting situation, according to a memorandum issued by Bear, Stearns & Co., 1 Wall St., New York City, members of the New York Stock Exchange and other leading Exchanges. Copies of this memorandum may be obtained from Bear, Stearns & Co. upon request.

Seaboard Air Line Situation Interesting

The situation in Seaboard Air Lines offers most interesting possibilities in view of the redemption of the Receivers' Certificates, with a consequent saving of $450,000 per annum to the Line, plus the progress that has been made by the Compromise Committee, according to a study prepared by L. H. Rothchild & Co., 120 Broadway, New York City. Copies of this study are available from the firm upon request.

Heywood Wakefield Attractive

The current situation in preferred and common stocks of Heywood Wakefield Company, offers interesting possibilities according to a memorandum issued by Hornblower & Weeks, 40 Wall Street, New York City, members of the New York Stock Exchange and other leading national exchanges. Copies of this memorandum may be had upon request from Hornblower & Weeks.

N.Y. Analysts To Hear

Stanley B. Hunt, Editor of Rayon Organon, will address the New York Society of Security Analysts, Inc. on Long Term Trends in the Textile Industry, at the Society's meeting scheduled for November 19th.

Purcell L. Smith, president of the Middle West Corporation, will speak on Monday, November 22nd.

All meetings are held at 12:30 p. m. at 56 Broad Street, New York City.

Need Does Not Exist For Forced Limitation Of Profits On Transactions In Securities

(Continued from first page)

York City, Portland, Me., New Orleans, San Francisco, Seattle, or for that matter in Buenos Aires, London, Zurich, or anywhere else in the world. The stock certificate that one dealer would deliver would not be embellished with gold, diamonds or other precious stones so that it would have greater value than the certificate that would be delivered by another dealer. Each would be exactly the same and have equal value everywhere.

Does this not make it clear that it is quite simple for the buyer of investment securities to protect himself, if he chooses to exert himself to a slight decree, against dealers who would exact too large a profit by going in for excessive mark-ups?

In other lines of business, generally speaking, it is equally AS DIFFICULT to determine at the time of purchase whether a merchant is endeavoring to exact an exorbitant profit by adopting excessive mark-up practice AS IT IS EASY to do so in the purchase and sale of securities. This becomes obvious when you reflect on the fact that while one can get a price on a suite of bed room furniture, a chinese rug, a diamond ring, etc., from a number of stores or merchants, one has no way of determining, unless he happens to be an expert, whether the quality of the merchandise offered in each case is the same.

Now the SEC has also been harping on what they choose to term "riskless transactions" or cases where a dealer gets an order to buy a security that he does not have on his shelf and implying that in such instances he should act as an agent or broker and reveal to the customer his cost price plus his profit. The whole idea, of course, being to whittle the profit of the dealer down to next to nothing in such cases.

Now a merchant in another line of business does not turn around and become a broker or agent simply because he does not have the exact merchandise in stock at the moment that some customer wants. A diamond or rug merchant, unable to sell a customer from stock on hand, will get rings or rugs on consignment but he does not say: "Now, Mr. So and So, I did not have to gamble on being able to sell this ring or rug at a profit and therefore this is a riskless transaction and instead of charging you a price that will enable me to remain in business and serve you again, I will ask a price that will yield me only a 5% profit which profit will not begin to take into consideration all of the hidden overhead I must carry to render the type of service which keeps you coming to me year after year, not to mention the benefits that accrue to you of my knowledge of the business."

So we ask you, how can anyone successfully argue that the distinction between the securities business and other lines of business demonstrates the need for the NASD or anyone else putting a limit on the profit a dealer may take in the sale of a stock or bond unless he is prepared to advocate that the same thing be done in the case of every other line of business, from shoe laces to doctor's fees. In other words, in effect advocate the wisdom of kicking over our entire system of free enterprise which has made the lot of the people of our great country the envy of the whole wide world.

In conclusion we would stress the fact that we do not condone the taking of excessive profits by those in any line of business but this does not mean that we feel America should be remade. It must not be forgotten that in the SEC we have the greatest collection of zealots and "self-styled" reformers ever brought together under one roof. Nothing ever suits these reformers. They want change for change's sake. The SEC boys seem to be actually jubilant when they uncover a case of unethical business procedure on the part of a dealer and immediately make the fact known from the house tops. They want the world to know that the securities business, without which this country would not be the great country it is, isn't actually a one hundred percent Garden of Eden, so they can go in for still more economic experimentation. But it never can and never will be, no matter how many rules and regulations these bureaucrats devise. People are human beings and there are a few bad apples in every barrel—and in every business.

House Group Votes $2,142,900,000 Tax Bill—Debate On Floor To Start Monday

House debate on the new $2,142,900,000 tax bill is scheduled to begin on Monday (Nov. 22). The wartime revenue measure, which was approved by the House Ways and Means Committee on Nov. 11, calls principally for higher postal rates, increased excises on so-called luxury items and an increase in the corporation excess profits tax. The Committee bill, designed to raise about one-fifth of the $10,500,000,000 sought by the Administration, makes virtually no changes in the taxes on individual and corporation incomes.

When the House takes up the measure there is likely to be attempts for revisions in the proposed increases in liquor levies and postal rates. However, the legislation may be formally reported to the House floor under a closed rule—as has been the case in several previous tax bills—which would permit only amendments offered by the Committee. Following House passage of the bill, the Senate Finance Committee will hold hearings.

When the House group was finishing its work on the bill, eight national organizations, including the Congress of Industrial Organizations, issued on Nov. 10 a statement assailing the proposed measure as failing to tax adequately "high personal incomes" and "unparalleled corporate profits." The organizations suggested a seven-point program as follows:

Elimination of a special levy on low-income groups which the Committee approved as a substitute for the Victory tax; restoration of personal exemptions to $750 for single persons, $1,500 for married couples, and $400 for each dependent; increased personal taxes on incomes above $3,000 a year, along with a $25,000 ceiling on net income, after taxes, an increase in the corporate tax rate from 40% to 50%; lowered exemptions and increased taxes for estates and gifts; elimination of the option for the computation of excess profits on the average-earnings methods; elimination of mandatory joint returns, the percentage depletion allowances for oil and mining properties and for the taxation of tax-exempt securities.

The major provisions of the bill approved by the Ways and Means Committee follow, according to the Associated Press:

1. Merger of the Victory tax with the individual income levy, picking up $12,000,000 in the process by repealing the Victory levy and raising the normal personal income rate from 6 to 10%, and adjusting some surtaxes. Special provisions are made to retain on the tax rolls some 9,000,000 persons now paying Victory levies but whose earnings are not large enough to be affected by the regular income tax. For these the income tax will approximate their former net Victory payments.

2. Boost some postal rates and hike excises, to bring in about $1,375,000,000 additional revenue—around $479,000,000 of which would come from consumers of liquor, beer and wine.

After about-facing four times, the Committee decided to put the liquor tax at $9 a gallon, compared with the present $6 rate. The beer tax would be jumped from $7 to $8 a barrel and wine increased all along the line. There are no increases in cigarette or other tobacco excises.

The bill would raise the in-town letter rate from 2 cents to 3, leaving the out-of-town charge at 3 cents; jump the air mail rate from 6 cents to 8 cents, double third-class mail rates, insured and C.O.D. mail and increase charges for registered mail and money orders. No change is made in second-class rates or special delivery charges.

3. It would raise the excess profits tax on corporations and readjust the method of computing excess profits, to pick up $616,000,000 additional revenue.

4. It would add $140,000,000 by disallowing as deductions in personal income tax returns sums paid on excises, such as gasoline, cigaret and liquor taxes.

5. The law governing renegotiation of war contracts for recovery of excessive profits would be revised drastically. The Committee provided that contractors dissatisfied with excess profits findings of Government renegotiation boards have the right of appeal to the Tax Court of the United States, affecting renegotiations had after April 28, 1942.

A previous item on the tax bill appeared in our Nov. 11 issue, page 1922.

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