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The Commercial and FINANCIAL CHRONICLE

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Municipal Bond Prices Today And Tomorrow

Quality In Municipals Goes Begging— Until The Next Depression

By J. A. WHITE

In the decade of the '20s a municipal default was such a rare event that one scarcely even considered the possibility—and most municipal bonds sold in a narrow price range with little difference in yield, regardless of inherent quality. Today, much has been heard of municipal defaults, but, like the story of Roland and Charlemagne, the story of the '30s has been heard and largely forgotten—and most municipal bonds sell in a narrow price range with little difference in yield, regardless of inherent quality.

J. Austin White

So the story goes—municipal defaults, unheard of before the '30s, common during the early and middle '30s, forgotten by the early '40s. And so the story goes about municipal prices—practically uniform before the '30s,

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Concentrated Power Versus Democratic Government

Representative Sumners Condemns Federal Bureaucracy And Declares States Must Re-assert and Re-establish Their Sovereignty

With the statement that "if we are to preserve free Government," the time to act is now, Representative Hatton W. Sumners of Texas, Chairman of the House Judiciary Committee declared on Nov. 19 that "we are rapidly destroying our States. In our system of government the States constitute the habitat and provide the only machinery through which our democracy can function in the discharge of general governmental duties. The Federal Government was never intended to do that job. It cannot do it except as a bureaucracy."

Hatton W. Sumners

"More and more in later years," said Representative Sumners "we have been engaged in the perfectly silly undertaking of trying to make this Federal organization function as the general governmental agency of all the people. As a result we have built up at Washington a governmental colossus utterly beyond human comprehension or democratic control, regardless of which party or group of officials is in power."

Asserting that "we are now in the initial stages of what will prove to be another of the great battles between concentrated power and domestic government," Mr. Sumners said:

"In this struggle, the States must regain control over their sources of revenue which the

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The News Behind The News

By PAUL MALLON

Since Moscow, Mr. Hull has mentioned only the pleasant things in agreement. Senators had planned to call him into a closed meeting of the Foreign Relations Committee to ask the important questions in their minds, not in a spirit of criticism but in pure inquisitiveness. Mr. Hull adroitly smothered this inclination by getting himself invited to address the joint open session of both houses, where no questions would be in order.

Paul Mallon

This blurred outline of the peace and the new world may be maintained only a short time, perhaps less than a few weeks, before some additional details are offered. But not until the agreement is applied in action in specific cases is there likely to be a determination on the questions now far from the attention of the public, but naturally agitating all insiders including the negotiators—such matters are the relative influence of Anglo-American democracy and socialist-collectiv-

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Intelligent Finance Should Oppose NASD Profit Limitation Decree!

NASD Setting Precedent That Could Be Used As Argument To Further Shackle Free Enterprise—Principle Behind Decree Is Vicious And Contagious And Will Be Boomerang To Underwriters— Profit Curb Makes Little Firm Whipping Boy Of Industry

Editor, Commercial and Financial Chronicle:

I believe the NASD is making a mistake in principle to propose a fixed limitation on gross profits. From the standpoint of a proper public relations policy for the investment industry as a whole, this idea can later prove embarrassing in so many ways, the suggestion is almost an indictment of the intelligence of the management of the Association. Investment banking should protect the profit system, and not seek to establish a precedent, which can later be used as an argument to limit profits in general industry. Every precedent of this sort can at some later date be used as an argument to further shackle free enterprise. Intelligent finance is opposed to any such principle. It is doubtful if there is any retail merchandising business in the country that would be able to operate very long on a gross margin of profit of 5%. At some future date under different conditions, when it may be difficult to alter this policy once it has

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In This Issue

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Some Factors Of A Now-Planned Post-War Governmental And Economic Pattern

With Violation By Government Of Fundamental Concepts. J. Reuben Clark, Jr. Warns That If Constitutional Rights Are To Be Regained We Must Assert Ourselves Through Courts And In Every Other Way Open

Touching upon the violation of fundamental concepts, the lessening or destroying of individual rights under the "directive system," the influence of "directive" Government on investment, etc., Hon. J. Reuben Clark, Jr., of Salt Lake City, Utah, discussed recently "Some Factors of a Now-Planned Post-War Governmental and Economic Pattern." In his address delivered before the 38th annual meeting of the American Life Convention at the Edgewater Beach Hotel in Chicago, Mr. Clark, who is First Vice-President of the Beneficial Life Insurance Co. and Director of the Equitable Life Assurance Society of the United States, declared:

J. Reuben Clark, Jr.

"Speaking in general terms, the Federal Government has reached down and touched the individual lives of the citizens in a multitude of matters which for a century and a half were held to be untouchable by that Government under those constitutional provisions which declared that the Federal Government is a government of delegated powers, and that unless powers are expressly given they are reserved by the people—who grant the powers—either to themselves or to their State Governments."

Mr. Clark asserted further: "Obviously, if these unconstitutional practices and proceedings are to be stopped, if we are to regain our constitutional rights and the blessings of our free institutions, if we are to get back to the States and to the people the powers and rights that have been torn away from them, then we the people

(Continued on page 2111)

Patents and Business

By ANTHONY WILLIAM DELLER*

What Is A Patent?

Under our laws, a United States Letters Patent is a grant to an inventor of the right to exclude others from making, using or selling his new and useful invention, without his permission or license, for a limited period of 17 years. A patent is evidence of title, just as a real estate deed evidences title to a house, or a stock certificate evidences ownership in a corporation. Contrary to the misconception of those who attack our patent system, a patent is not a private privilege or odious monopoly carved out of the public domain. The patentee does not take something from the public and is not a common law monopolist. In fact, one court said that when we consider the advantages which result to the world from the labor, ingenuity, and expense of inventors, so far from classing them with monopolizers, they should be regarded as public benefactors.

As you will probably remember from history, this was not true in olden times. Thus, for many centuries in England, the so-called patents conferred by the king were really monopolistic grants to court favorites of the sole right to deal in certain old and well-known commodities or trades to the exclusion of all other citizens. At such time, in the language of Blackstone, a citizen was thereby "restrained from that liberty of manufacturing or trading which

(Continued on page 2118)

*This paper was delivered in the form of an address at a luncheon held on November 17th by the New York Society of Security Analysts.

NSTA Announces 1944 Publicity Committee

CHICAGO, Ill. — Wm. Perry Brown, Newman, Brown & Co., New Orleans, President of the National Security Traders Association, announces the following


Ralph G. Randall Chester E. de Willers

members of the publicity committee for the 1943-1944 year:

Ralph G. Randall, Mason, Moran & Co., Chicago, Chairman; Chester E. de Willers, C. E. de Willers & Co., New York, Vice-Chairman; Henry J. Arnold, Clair S. Hall & Co., Cincinnati; E. Wm. Darmstatter, Stifel, Nicolaus & Co., Inc., St. Louis; R. Jeremy Glas, Glas & Crane, New Orleans; H. Russell Hastings, Detroit; Jack E. Jones, Hartley, Rogers & Co., Seattle; Kermit B. Sorum, Allison-Williams & Co., Minneapolis; William J. Zimmerman, Bingham, Walter & Hurry, Los Angeles; and Buford G. Wilson, Jack M. Bass & Co., Nashville.

H. L. Sebel Elected V.-P. Of Hugh Long

Harry L. Sebel has been elected mid-western Vice-President of Hugh W. Long & Co., Inc., 15 Exchange Place, Jersey City, N. J. Mr. Sebel has been identified with the distribution of investment company shares and is well-known in the Middle West and Southwest in connection with such activities. He has been a district manager for Hugh W. Long & Co., Inc., since November, 1942, making his headquarters in Chicago at 135 South La Salle St.

Republic Natural Gas Co. Situation Of Interest

Republic Natural Gas Company offers an interesting situation, according to a circular being distributed by Schneider, Bernet & Hickman, Inc., Southwestern Life Building, Dallas, Texas. Copies of this circular, which contains interesting comparative data on the company, may be had upon request from Schneider, Bernet & Hickman, Inc.

Interesting Situation

Adams & Peck, 63 Wall St., New York City, have prepared a brief resume of the plan of merger of the New York, Lackawanna & Western Railway. Copies of this interesting resume may be obtained from Adams & Peck upon request.

"An Outstanding Bargain"

A. A. Bennett & Co., 105 South La Salle St., Chicago, Ill., have issued an interesting circular on the Minneapolis and St. Louis Railway Company, the new common stock of which (on a when issued basis) offers an outstanding bargain, the firm believes. Copies of the circular discussing the situation may be obtained from the firm upon request.

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Freedom of Opportunity Keystone To Nation's Prosperity

Beverly D. Harris Calls For Return Of Basic Principles Of Individual Initiative And Self-Reliance And Deplores Trend Of Government Socialization

The rapidly increasing socialization of our Government will ultimately lead to complete totalitarianism and despotic control in Washington and represents the first fundamental reform to be undertaken in order to restore democracy to the people, it is stated by Beverly D. Harris, President of the Second National Bank of Houston, Texas. Mr. Harris has favored the "Chronicle" with an extremely interesting study of his views and thoughts regarding the outlook for the nation in the future. He was prompted to do so in light of the program set forth by Dr. Benjamin Anderson in an article captioned "What Can the Government Do to Promote Post-War Reemployment?" which appeared in our issue of Oct. 21. Mr. Harris writes as follows:


Beverly D. Harris

This very voluminous contribution by Dr. Anderson covers a range of territory too extensive for the writer to presume to analyze without profound thought and study of the various topics and issues so ably presented by a recognized authority of sound thought and broad vision, even if he felt qualified to do so, which definitely he does not. It is a problem involving the very fundamentals of all things economic and political, of this and all other countries, in a rapidly changing world, under conditions for which there is no precedent, and in which old, established habits of thought and precedent may very well have to be modified or discarded. The most advanced thought and study of all nations is now centered on these prob-

(Continued on page 2128)

Resentment To Outrageous NASD Profit Limitation Decree At New High Pitch

The Editor of the "Chronicle" continues to be beseiged with letters, personal visits and telephone calls from dealers in all parts of the country denouncing both the principle of the NASD's profit limitation decree and the autocratic manner in which it was foisted upon the membership of this quasi-governmental organization.

In an earlier article on the subject, the "Chronicle" pointed out that much criticism was levelled by dealers maintaining retail sales forces at the method that was used by the Association to determine what constituted a fair profit. The contention was advanced that the large Wall Street firms doing a volume business with institutions and those not having retail sales forces can operate on a smaller margin of profit and therefore should have been excluded from the survey which the Association made to determine the mark-up practice of its members. How true this is was brought home to the writer only yesterday when a large dealer told him that any business done by his firm other than with investment dealers and brokers was handled purely as an accommodation for friends on a no profit basis and that 25% of the transactions reported by his firm on the questionnaire sent out to determine the membership's mark-up policies were in this category. As a matter of fact, he said in some of these instances he even took a slight loss. So much for that.

Now the truth of the matter is that between the NASD's

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More Dealer Comments On NASD Rule

DEALER NO. 51

This attempt by the NASD is, of course, of great importance to business generally. A securities dealer is, after all, a merchant, just as the thousands of other merchandisers up and down the main streets of America. The dealers in securities are selling service and securities, just as other types of merchants are selling service and merchandise.

The attempt at profit limitation, while now only proposed for the dealer in securities, will no doubt, if put over on this particular business group, be extended eventually to include all business selling service or merchandise and conceivably further extended to cover the charges of professional men.

The present attempt of the NASD to limit profits can, therefore, be looked upon as part of a program to do away eventually with the system of free enterprise which has so long been considered one of the most cherished American institutions.

If business and professional men are awake to the broad implications of this pernicious movement, they will join with the majority of dealers in securities to fight this un-American attempt to control profits by bureaucratic decree.

The dealer in securities has been a popular whipping post of politicians since the now-famous call "to drive the money changer

(Continued on page 2110)

The Treasury Explains (?)

By DR. MAX WINKLER

Unless the filing of TFR-500 is specifically designed to harass American citizens and others subject to the jurisdiction of the United States, or to provide employment of a non-productive nature for countless men and women, there seems no justification for imposing additional burdens upon the American people, and the report, scheduled to be submitted on or before Dec. 1, might to advantage be deferred indefinitely.

According to an Associated Press dispatch emanating from Washington on Nov. 12, "holdings in enemy and enemy-occupied lands are being tabulated and studied by military occupation authorities," adding that "all are being noted for use by eventual peace and trade negotiations."


Dr. Max Winkler

Form TFR-500 referred to above must be filed by every one under the jurisdiction of the United States owning foreign bonds payable in U. S. dollars, or alternately, in foreign currencies, irrespective of value, and of foreign property of all categories valued at $10,000 or more. The report was due on or before Aug. 31, but was extended to Nov. 1 and again to Dec. 1. The Treasury expects that half a million returns will be filed. The "importance" of filing Form TFR-500 is being stressed through press releases and over the radio and other agencies through which governmental instrumentalities generally work, to which they have access and over which they are in a position to

(Continued on page 2120)

Insurance Stocks Look Good For After The War

Huff, Geyer & Hecht, 67 Wall St., New York City, have prepared an interesting study of the post-war prospects for insurance stocks. Copies of this detailed circular on the situation, which the firm believes offers attractive possibilities, may be had upon request from Huff, Geyer & Hecht.

Also available is a circular discussing the current situation in Continental Casualty Company, which the firm will send upon request.

Court Decision In Dealer Mark-Up Case In Offing

SEC Power To Limit Profits By Indirection At Stake—Brief Of Counsel For Investment Firm Makes Interesting Observations

On Nov. 18, 1943, the case of Charles Hughes & Co., Inc., was heard by United States Circuit Court of Appeals, Judges Augustus N. Hand, Harrie B. Chase and Charles E. Clark in New York City. The case may well turn out to be the answer to the entire question of dealer mark-ups, affecting with the force of a high court decision, the plans and action of both the Securities and Exchange Commission and the NASD on this vital subject.

Representing the Dealer were Murray Robert Spies, author of the current book on the subject of mark-ups, "Let the Dealer Beware," and David V. Cahill, former Assistant U. S. Attorney.

Representing the Commission was Milton W. Freeman, Assistant Solicitor, who came up from Philadelphia with other members of his staff. Also present were SEC representatives from the New York Regional office and members of the office of the Attorney General of the State of New York.

The case is one of appeal from an order of the Commission, dated July 19, 1943, revoking the registration of Hughes based upon hearings held in February, 1942. On motion of counsel to the Dealer and consent of the Commission the Dealer has been permitted to continue in business pending the final outcome of its appeal to the Circuit Court. The decision should be forthcoming in the next few weeks.

Two main points were made by counsel to the Dealer.

The first was the unconstitutionality of Section 15 c 1 of the Security Exchange Act of 1934 and of the rules promulgated thereunder by the Commission attempting to lay down certain definitions of fraudulent, manipulative or deceptive practices. The second was that there was no authority for the Commission's alleged power to revoke a dealer's license simply for failing to disclose to his customer the market price of the security being sold.

The three judges listened intently for a while and then bombarded the Commission's counsel with many questions finally compelling it in legal fashion to admit that its contention was as follows:

"A dealer's license may be revoked if it is determined that he has failed to disclose to his customer the market price of the security being sold where the resulting selling price is, in the opinion of the Commission not in reasonable relation to such market price."

The Commission conceded that it expected and wanted this rule to apply whether or not the customer was informed or uninformed, intelligent or unintelligent and whether or not the cus-

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"Deflation Hazards Post-War"

E. F. Hutton Market and Business Survey Sees Unemployment As Principal Post-War Concern—Also Cites Deflationary Influence of Excess Productive Capacity In Industry and Agriculture

The country's principal post-war concern, "after the first surge of peace-time buying, seems likely to be with unemployment and deflation, not with inflation of the boom-psychology type," according to the current issue of the "Fortnightly Market and Business Survey," published by E. F. Hutton & Co., members of the New York Stock Exchange. "If inflation comes later," the publication adds, "it may well be the inflation of despair not of optimism."

The survey warns against overestimating the importance of the deferred demand for civilian goods, citing figures to show that the nation's productive facilities are now "providing for the astronomical needs of a global war and at the same time supplying civilians with more goods than they consumed in the best of recent peace-time years."

Warning that "excess productive capacity in industry and agriculture have deflationary influences" and also that "unemployment is a powerful deflationary factor," the review says that these influences may be "so strong that the Government will be compelled to make enormous deficit expenditures as an aid to employment."

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More Comments on Dr. Anderson's Plan To Promote Peace-Ti ne Reemployment

In his article captioned, "What Can the Government Do to Promote Post-War Re-Employment," which appeared in the "Chronicle" of Oct. 21, Dr. Benjamin Anderson, formerly economist of the Chase National Bank of New York City, and now Professor of Economics at the University of California, Los Angeles, pointed out that the government itself can make probably the greatest single contribution toward maintaining production and employment at permanently high levels following the war emergency. He presented a program of policies which the government can and should adopt in order to make it possible for business and industry to provide the maximum of employment, permanently, after the war emergency.

Since publication of the article, the "Chronicle" has received a large number of letters from leaders in business and finance and from other prominent individuals containing their views regarding Dr. Anderson's thesis and the program of governmental action he propounded. Many of these letters were given in our issues of Nov. 4 and Nov. 11; others are reproduced herewith:

H. H. OGDEN

President, The First National Bank and Trust Co., Muskogee, Okla.

I read the article prepared by Dr. Benjamin M. Anderson, Professor of Economics, and find it not only very interesting, but very much to my way of thinking. If this country ever amounts to anything in the future, it will be on the basis of free enterprise, just as it was when we made our past history.

FRANK E. HAND

Assistant Supreme Chief Ranger, The Independent Order of Foresters, Buffalo, N. Y.

I have read the article "What Can The Government Do To Promote Peace Time Re-employment?" with a great deal of interest, and I may say that I agree most heartily with the views expressed by Doctor Anderson therein.

J. B. HILL

President, Louisville & Nashville Railroad Co.

I have read Dr. Anderson's article in the "Chronicle" of Oct. 21, under the heading, "What Can the Government Do to Promote Peace-Time Reemployment?" with keen interest and appreciation. I think Dr. Anderson has displayed much constructive thought in this article. His very last paragraph is an excellent summary.

J. B. Hill

What most bothers me about the post-war situation is, that much of the public is being misled by the planners to believe that following the readjustment which must necessarily come after the destructive processes of war we can, by some sort of plannning, enter into a period

(Continued on page 2130)

Railroad Securities

It seems likely that the most abject former pessimists on Southern Pacific must be becoming impressed with the continuing, and accelerating, progress the company is making in its debt retirement program. Although complete up-to-date figures on what has been done in 1943 are not available, it is known that non-equipment debt outstanding with the public will, with the redemption of the balance of the Secured 3¾s, 1946, in January, have been reduced at least $57,640,500 from Dec. 31, 1942. This figure does not include any purchases that may have been made of the Collateral 4s, 1949 since March 31, or the Central Pacific 1st Refunding 4s, 1949 since June 30, nor possible minor purchases this year of longer term maturities not reported. Actually, it is likely that non-equipment debt outstanding with the public will be reduced by at least $60,000,000 by the end of the year.

The progress made during this period of war boom earnings to date should be sufficient to quiet any fears there may have been in relation to Southern Pacific's formidable maturity problems. Even if there were no further debt retirement from here on the road would be in an excellent position to handle these maturities through refunding operations. Recently authorized redemption of the 3¾s, 1946 will reduce non-equipment maturities falling due during the next 10 years at least to $157,892,825, and probably to no more than $155,000,000.

In comparison to this figure of perhaps $155,000,000, debt retirement activities of recent years have released collateral and security which supported borrowing of more than $100,000,000 at a time when the road's credit was considerably poorer than it now is. This collateral supported combined RFC and bank loans of roundly $40,000,000 and the original $60,000,000 of Secured 3¾s issued in 1936, to say nothing of properties covered by miscellaneous bond issues also retired in recent years. For refunding purposes in connection with the next 10 years' maturities there would also be virtually the entire profitable Central Pacific property, now covered by $90,653,000 1st Refunding 4s, 1949, and the San Francisco Terminal property covered by $24,778,700 1st 4s, 1950.

In actual practice the refunding operations will be even more simple than indicated above, as there is no question but that the company will continue further reducing the amount of bonds outstanding in the interim. Redemption of the remaining 3¾s does not put any particular strain on the company's present finances. As of the end of August cash items alone were close to $160,000,000 in addition to which there were more than $66,000,000 of miscellaneous accounts receivable, most of which is presumably due from the Government. Net current assets, exclusive of materials and supplies, were above $80,000,000. In addition it is indicated that the company had $20,000,000 of United States Government bonds not included among current assets. This position should be further materially improved by the end of the year.

With a still strong financial position and apparent certainty of a high level of traffic during 1944 at least it certainly does not appear overly optimistic to contemplate a reduction in these 10 year maturities to, or below, $100,000,000. It is indicated that Southern Pacific will enter 1944 with fixed charges at an annual rate of somewhat under $25,500,000. With regular serial equipment maturities and a further estimated debt retirement of at least $55,000,000 these obligatory requirements would be further reduced to around $23,000,000. Such requirements would absorb only 10.6% of average 1938-1940 gross revenues and in the opinion of most rail men would put Southern Pacific on a definitely firm credit base. This is particularly true inasmuch as the company has very substantial non-operating income which as a regular year after year proposition should run to more than a third of the total reduced fixed charges.

Detroit Traders Ass'n Winter Dinner Party

DETROIT, Mich.—The Security Traders Association of Detroit and Michigan, Inc., announces its winter dinner party for Wednesday, Dec. 1, 1943, at 6:00 p. m. at the Detroit Leland Hotel. Guest speaker will be William H. Duff, senior partner of Duff & Phelps, Chicago, utility consultants. Mr. Duff's subject will be "Public Utility Securities and Their Place in the Investment Field." Reservations may be made with Robert R. Stoetzer of Stoetzer, Carr & Co.

Ohio Brevities

McDonald-Coolidge & Co. and Smith, Barney & Co. headed a group of 42 underwriters that offered $4,500,000 new cumulative preferred stock of Thompson Products, Inc. Fifteen Cleveland houses were among the underwriters offering the stock, of $100 par value.

Cleveland firms included Ball, Coons & Co.; Curtiss, House & Co.; H. L. Emerson & Co.; Fahey & Clark & Co.; Field, Richards & Co.; First Cleveland Corp.; Hawley, Shepard & Co.; Hayden, Miller & Co.; Merrill, Turben & Co.; Maynard H. Murch & Co.; Otis & Co.; Hornblower & Weeks; Merrill Lynch, Pierce Fenner & Beane, and Paine, Webber, Jackson & Curtis; Ohio Co. of Columbus also participated.

* * *

It will be necessary to keep an eye on the U. S. Senate to prevent it from "again selling us down the river to isolation and selfishness" in the post-war period, Carl D. Friebolin, Federal Referee in Bankruptcy at Cleveland, told the annual meeting of the Mortgage Bankers Association of Cleveland at their annual meeting. O. L. Rieder, new President of the group, and Howard S. Bissell, retiring President, also spoke.

* * *

Hugh W. Robinson, Indianapolis branch manager since 1937, will head the new branch office Monarch Machine Tool Co. will open in Cleveland the first of the month.

* * *

At an interest cost to the city of about 1.23%, one of the lowest on record, the City of Cleveland awarded $1,025,000 of improvement bonds to Fahey, Clark & Co. on their bid of 100.29 as 1¼s. Nine tenders were received with outside houses being second and third on bids of 100.0777 and 100.059, respectively.

Others in the Fahey, Clark group were First Cleveland Corp.; Hayden, Miller & Co.; Paine, Webber, Jackson & Curtis, and Weil, Roth & Irving of Cincinnati.

* * *

On Dec. 17, stockholders of the Union Bank of Commerce and the National City Bank will meet in special meetings to vote on a merger of the Cleveland banks. Approval of the merger would result in a second Cleveland bank with deposits of over a half-billion dollars. Combined resources of the two institutions would total approximately $540,000,000, National City's Sept. 30 statement showing $422,000,000 resources and Union Bank $117,500,000.

Under the terms, Union Bank will transfer Union Properties to a new company which will be known as Union Corp. The stock of the new company will be issued to Union Bank shareholders in exchange for 20% of their shares.

National City will exchange its stock share for share for the stock of the new bank. Holders of 10 shares of Union Commerce who have exchanged two shares for Union Corp. stock will then exchange the remaining eight shares into 80 shares of the consolidated bank.

Sidney B. Congdon is President of the National City and this is the first time in its 99-year history the bank has been a part of a merger proposal. Oscar L. Cox has been head of the Union Bank since its organization in 1938 to take over the assets of the old Union Trust Co. Its stock was distributed to stockholders of the Union Trust who had paid their double liability in full.

Merger Opposed

Important opposition to the proposed merger appears to be developing locally, judged by an open letter questioning the merits of the fusion which has been issued by the "stockholders' anti-merger committee of the Union Bank of Commerce."

The committee states in its letter that "in the past couple of months nearly 500 stockholders representing a very substantial number of the bank's shares" have advised that they are opposed to any merger. The anti-merger group adds it will send out literature containing an analysis "of the good and bad factors of the proposal" together with other accurate data. "Meanwhile we suggest the wisdom of withholding any proxy action," the letter adds.

* * *

L. L. Parish, formerly State Administrative Director of the Ohio War Finance Committee, has joined Ball, Coons & Co. as Vice-President, Peter Ball, President, announced.

Parish is prominent in the securities industry, serving as a salesman with Otis & Co for several years. He was connected with Paine, Webber, Jackson & Curtis before going with the U. S. Treasury in July, last year.

* * *

Brigadier General Leonard P. Ayres, Vice-President of the Cleveland Trust Co., states in the bank's monthly bulletin that the

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Ohio Municipal Price Index

Date—	*	†	‡	§
Nov. 24	1.41%	1.59%	1.24%	.35%
Nov. 17	1.39	1.57	1.22	.35
Nov. 10	1.42	1.60	1.24	.36
Nov. 3	1.38	1.56	1.20	.36
Oct. 13	1.39	1.58	1.21	.37
Sep. 15	1.43	1.62	1.24	.38
Aug. 18	1.44	1.63	1.25	.38
July 15	1.50	1.68	1.32	.36
Mar. 16	1.76	1.97	1.55	.42
Jan. 1, 1943	1.83	2.01	1.65	.36
Jan. 1, 1942	1.92	2.13	1.70	.43
Jan. 1, 1941	1.88	2.14	1.62	.52
Jan. 1, 1940	2.30	2.58	2.01	.57
Jan. 1, 1939	2.78	3.33	2.24	1.09
Jan. 1, 1938	2.98	3.42	2.55	.87

Above tabulation compiled by J. A. White.

*Composite index for 20 bonds. †10 lower grade bonds. ‡10 high grade bonds. §Spread between high grades and lower grade bonds.

Ohio Municipal Comment

MUNICIPAL BOND PRICES—TODAY AND TOMORROW

(Continued from first page)

extreme divergence in the early and middle '30s, practically uniform in the early '40s. What will the next chapter in this story reveal regarding prices?

The history of the municipal market appears to present a rather uniform pattern: periods of good tax collections bring uniformity in price, while periods of poor tax collections bring wide divergence in price. Such a pattern is merely an example of human nature: The creditor tends to forget the debtor's defaults as payments grow more numerous. In periods of good tax collections, less and less attention is paid to quality and purchases of municipal bonds are made with less care. In times of poor tax collections, however, more and more attention is paid to quality, and the investor in municipals becomes more particular. Thus, when money is easy municipal prices tend to be more uniform regardless of quality, and when money is tight they tend to be more variable depending upon quality.

It would seem to be the part of wisdom, therefore, to take advantage of a period of easy money and uniform prices to dispose of poor quality risks and purchase high quality bonds. With a full realization that there will be few people, of course, who actually follow this suggestion, since such a step would necessarily require action contrary to that taken by investors generally, we nevertheless submit these comments as justification for the proposal.

Recently, we had the delightful pleasure of examining the municipal offering sheets of one of the larger municipal bond firms of the Middle West issued in the years 1925 to 1930. The offering sheets were continuous over these six years, and the firm's inventory was sufficiently large and its reputation sufficiently good to warrant several observations of interest.

In the first place, the maturity of a municipal bond in those days made little difference in the yield. The following examples of offerings taken at random will so demonstrate: $1,138,000 San Juan, Porto Rico 4½s due 1937-68, all offered in February, 1926, at a yield of 4.30%; $179,000 Craven Co., No. Carolina 5s due 1932-55, all at a 4.50% yield; $313,000 Carteret Co., No. Carolina 5¼s due 1933-57, all offered in April, 1927, at a 4.70% yield; $390,000 Cincinnati School 4¼s due 1932-49, all offered in January, 1929, at a 4.15% yield.

In the second place, differences in premium were small and there was little difference in yield because of premium. In the years 1925-30, yields generally ranged between 4.00% and 5.00%, and the coupon rates also generally fell within this range.

In the third place, financial statements of the subdivision must have meant little in those years. Each circular showed a "financial statement" for each offering—if a statement of the "Assessed Valuation, Net Debt and Population" can be called a financial statement. In no case did the information mention, or even refer to the overlapping debt. The ease (we had almost said, carelessness) with which people bought municipal bonds in those days may be indicated by several offerings of township school districts where the county in which it was located was not even mentioned, e.g., "$10,000 Monclava Township Rural School District, Ohio."

The most brazen evidence of outright lack of regard for financial statements was an offering on Nov. 1, 1926 of "$13,000 Maple Heights, Ohio, Street Improvement 5½s due Oct. 1, 1934-36 to yield 4.60%." The financial statement was boldly stated "Assessed Valuation $9,801,650, Net Debt $3,941,076, Population (Pres. Est.) 3,500." Think of it, an offering, at a price little different from that asked for high grade bonds, of a bond with a 40% net direct debt based on a $2,800 per capita assessed valuation! In the very same circular was an offering of $19,500 Greene Co., Ohio (Xenia) 6s due 1929-31 to yield 4.30%, with a net direct debt of only 0.7%. The important aspect of this fact is the apparent utter lack of regard shown for fundamental quality then (as now?). In those days municipal defaults were unheard of. (Today they are simply unthought of.)

Other examples of heavy debt statements freely shown are $52,000 Bay County, Florida, Road and Bridge 6s due 1938-55, offered in July, 1927, at a yield of 5.60%, with a net direct debt of 49% of the assessed valuation; $125,000 Hernando County, Florida, Road 5½s due 1955, offered in April, 1926, to yield 5.40%, with a net direct debt of 60% of the assessed valuation; $313,000 Carteret Co., No. Carolina, Road 5¼s due 1933-57, offered in April, 1927, to yield 4.70%, with a net direct debt of 21% of the assessed valuation; $14,000 Clawson, Michigan, 5¾s due 1932-33, offered in January, 1930, at a yield of 5.25%, with a net direct debt of 22% of the assessed valuation. Many direct debt burdens of 10% were freely listed, with apparently no difference in price from places with only a 1% debt.

But by far the most revealing information gleaned from these circulars was the uniformity of price, regardless of quality. In listing the following examples of this fact an endeavor was made to include enough different names so that most municipal buyers could find at least a few bonds with which they would be sufficiently familiar to see readily the difference in fundamental quality. In comparing these offerings, one should keep in mind the observations mentioned above to the effect that maturity and coupon rate had little bearing on the yield. A further observation should be mentioned, that yields on Florida bonds generally were higher by about 1% than on other bonds listed. In this connection, however, it is advisable to remember that most of these offerings were being made after the real estate land boom in Florida had collapsed. In fact, it is remarkable that yields for many of these Florida bonds at that time were only 1% higher. As too many investors have learned to their regret, the yield on such bonds was sufficiently greater to entice many into an investment whereby they expected to secure a greater income but whereby, in fact, they lost considerable principal as well as income.

In the June, 1925, circular offerings were made of Toledo, Ohio, at a 3.95% yield; Akron, Ohio, at 4.10% yield; Franklin Co., Ohio, at 4.10% yield; Hillsborough Co., Fla., at 4.10; Lakewood, Ohio, at 4.10; Dayton, Ohio, at 4.10; Miami Co., Ohio, at 4.15; Seattle, Wash., at 4.15; Canton, Ohio, at 4.15; East Cleveland, Ohio, at 4.20; Cleveland Heights, Ohio, at 4.20; Wyandot Co., Ohio, at 4.20; Comstock Park, Mich., at 4.20; Chattanooga, Tenn., 4.25; Lapeer Co., Mich., Township Portion, 4.25; Norwalk, Ohio, at 4.25; Craven Co., No. Carolina, 4.25; Portsmouth and Wellston, Ohio, at 4.30; Harrison Co., Tex., 4.40; Cherokee Co., No. Carolina, 4.50; Cameron Co., Tex., 4.60; Duval Co., Tex., at 4.80; Vero, Fla., and Sumter Co., Fla., at 5.00.

In the February, 1926, circular offerings were made of State of Missouri and State of West Virginia at 4.10%; Detroit, Mich., at 4.15; Philadelphia, at 4.20; Redford, Mich., at 4.20; Tuscarawas Co., Ohio, at 4.25; Grandview Heights, Ohio, 4.30; Montgomery Co., Ohio, 4.30; Warren, Ohio, 4.30; McComb Co., Mich., Township and District Portion, 4.30; Huron Co., Mich., 4.30; St. Joseph Co., Mich., 4.30; Iron Mountain, Mich., and Lincoln Park, Mich., at 4.35; Menominee Co., Mich., 4.40; Greenville, So. Carolina, 4.40; Meridian, Miss., 4.40, and Parma, Ohio, 4.40; Burke Co., No. Carolina, 4.50; Duplin Co., No. Carolina, 4.50; Jackson and Madison Co., Tenn., 4.60; Williamson, W. Va., 4.70; Fayette Co., W. Va., Kanawha Magisterial District, 4.75; Texarkana, Tex., 4.75; Sarasota, Fla., 5.00; Montgomery Co., Tex., 5.00; Sabine Co., Tex., 5.00; Sarasota Co., Fla., 5.20; Sebring, Fla., 5.40.

An effort has been made to eliminate repetition of names in listing these offerings. Hence, it is advisable to consider all of these offerings as a whole, particularly when they were made at approximately the same time.

In March, 1926, one month later, offerings were made of Flint, Mich., at 4.25; Barberton, Ohio, at 4.30; Tonowanda, N. Y., 4.35; Conecuh Co., Ala., 4.40; Pike Co., Ala., 4.40; Cass Co., Mich., 4.40; Cabarrus Co., No. Carolina, 4.50; Louisiana Port Commission, 4.50; McMinn Co., Tenn., 4.50; Yancey Co., No. Carolina, 4.60; Lakeland, Fla., 5.10; Bryson City, No. Carolina, 5.40; Frostproof, Fla., 6.00.

In April, 1926, another month later: Texarkana, Tex., 4.75; Galveston, Tex., 4.80; Graham, No. Carolina, 5.00; Miami, Fla., 5.00; St. Lucie, Fla., Road & Bridge District No. 5, at 5.40; Hermando Co., Fla., 5.40.

In November, 1926: Detroit, Mich., 4.15; Grosse Point Farms, Mich., 4.15; Battle Creek, Mich., 4.20; Pontiac, Mich., 4.20; McComb Co., Mich., 4.30; Montgomery Co., Ohio, 4.30; Logan Co., Ohio, 4.30; Greene Co., Ohio, 4.30; Ecorse Township School District No. 5, Mich., 4.35; Boyne City, Mich., 4.40; Norfolk Co., Va., 4.50; Maple Heights, Ohio, 4.60; Maumee, Ohio, 4.70; Eunice, La., 5.00; Miami, Fla., 5.00; Clearwater, Fla., 5.50; West Palm Beach, Fla., 5.75.

In April, 1927: Birmingham, Mich., 4.05; Flint, Mich, 4.10; Jackson Co., Ohio, 4.30; Edgecombe Co., No. Carolina, 4.40; Georgetown Co., So. Carolina, 4.50; Breckenridge Co., Ky., 4.50; Orlando, Fla., 4.60; Carteret Co., No. Carolina, 4.70; St. Petersburg, Fla., 4.80; Sarasota, Fla., 5.25.

In June, 1927: Darlington Co., So. Carolina, 4.00; Youngstown, Ohio, 4.00; Lucas Co., Ohio, 4.10; Madison Co., Ohio, 4.15; Fordson, Mich., 4.15; Ottawa Co., Ohio, 4.20; Parma, Ohio, 4.20; Shaker Heights, Ohio, 4.20; Cuyahoga Falls, Ohio, 4.25; Van Buren Co., Mich., 4.25; Royal Oak Township School District No. 9, Mich., 4.25; Harnett Co., No. Carolina, 4.40; Wilson, No. Carolina, 4.50; Hillsborough Co. School District No. 4, Fla., 4.50; Morgan Co., Ky., 4.50; Dade Co., Fla., 5.00; Virginia Beach, Va., 5.20; Sebring, Fla., 5.75; Ft. Pierce, Fla., 5.75.

In July, 1927: Mahoning Co., Ohio, 4.00; Wayne Co., Mich., 4.10; Fulton Co., Ohio, 4.15; Pasquotank Co., No. Carolina, 4.30; Lincoln Park, Mich., 4.35; Bertie Co., Chatham Co., Duplin Co., Harnett Co., Wilson Co., No. Carolina, all at 4.40; Orangeburg Co., So. Carolina, 4.40; Allendale Co., So. Carolina, 4.50; Carteret Co., No. Carolina, 4.70; St. Petersburg, Fla., 4.80; Bay Co., Fla., 5.60; Sarasota, Fla., 5.75; Vero Beach, Fla., 6.00.

In January, 1929: Cincinnati, Ohio, 4.15; Grosse Point Township School District No. 1, Mich., 4.20; Pontiac, Mich., 4.20; Columbus, Ohio, 4.25; Toledo, Ohio, 4.25; Canton, Ohio, 4.30; Newark, Ohio, 4.30; New Orleans, La., 4.30; Jacksonville, Fla., 4.35; Bedford, Ohio, 4.40; Mobile, Ala., 4.50; Jefferson Co., Tex., 4.50; Warren Co., No. Carolina, 4.50; Asheville, No. Carolina, 4.60; Wilson, No. Carolina, 4.60; Kershaw Co., So. Carolina, 4.60; Clearwater, Fla., 5.25; Lakeland, Fla., 5.50; Frostproof, Fla., 6.00.

Subsequently in 1929, as everyone knows, came the great stock market crash. In conformity with much wishful thinking of those days, the November, 1929, and January, 1930, circulars carried a bit of advice in the words, "Buy safety of principal and security of income and you buy peace of mind and future contentment." How true these words were—and are. But, while in 1929 many purchasers of stock learned this bit of wisdom from hard experience, it took the events of some five years later to teach it to purchasers of municipal bonds (and only five years more to allow them to forget it again). As events subsequent to 1929 proved, one cannot buy municipal bonds indiscriminately and "Buy peace of mind and future contentment."

Yet, municipals went merrily on their way with uniform prices for some time after the stock market crash of 1929. The November, 1929, circular showed offerings of: State of Louisiana, at 4.50; Arkansas Highway, at 4.60; Washington Co., Ohio, 4.60; Stark Co., Ohio, 4.60; Cuyahoga Co., Ohio, 4.65; Garfield Heights, Ohio, 5.00; Oakland Co., Mich., 5.00; Melvindale, Mich., 5.00; Henderson Co., No. Carolina, 5.10; Lucas Co., Ohio, 5.25. Offerings were decidedly fewer and yields somewhat higher, but yet with little relationship to quality.

In January, 1930: Cleveland, Ohio, 4.15; State of Michigan, 4.25; Milwaukee Co., Wis., 4.30; Detroit, Mich., 4.35; Flint, Mich., 4.35; Miami Conservancy District, Ohio, 4.50; Painesville, Ohio, 4.50; Trumbull Co., Ohio, 4.50; Holmes Co., Ohio, 4.70; Royal Oak, Mich., 4.85; Parma, Ohio, 5.00; Mobile, Ala., 5.00; Beaufort Co., No. Carolina, 5.00; St. Clair Shores, Mich., 5.00.

Other examples could be cited to demonstrate that, in those days before municipal defaults were known, prices for municipals were

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Ohio Brevities

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nation's railroads probably will originate this year "about 40% more carloads of freight than they did in the last pre-war year, the depression year of 1938.

"This is an understatement of the relative amount of freight originated this year because wartime freight is heavier than peacetime freight and cars are loaded more fully," he said.

* * *

Control of National Refining Co. has passed to the limited partnership of List, Eaton, Canning & Daley, in a transaction involving approximately $9,000,000.

The general partners of the limited partnership are Albert List, Vice-President of Otis Terminal Warehouse Corp. of Cleveland, and President of List Finance Corp. of Fall River, Mass.; Cyrus S. Eaton of Cleveland; Chester Canning, President of Pacific Gas Corp. of New York, and President of Petroleum Transportation Co., and William A. Daley, President of Otis & Co., investment bankers.

New directors besides those mentioned above are Benjamin Woeste, Vice-President and General Manager of Otis Terminal, and L. G. Smith, Secretary-Treasurer of Otis & Co. List becomes Vice-President and Assistant Treasurer and Canning Vice-President of Refining company.

W. H. Lamprecht II, K. R. Proctor and Louis S. Peirce continue as Chairman, President and Vice-President and Secretary, respectively. They also are directors.

Advocates Enlightened Policy Toward Labor

Editor, Commercial and Financial Chronicle:

I have read with considerable interest Mr. Fennelly's address "Looking Into the Post-War World" which he delivered recently before the Investment Bankers Association in New York City and which appeared in your issue of Nov. 11. I quite agree with Mr. Fennelly's analysis that our major consideration after the war should be toward increasing production of civilian goods.

However, he failed to discuss fully the relative importance of labor in attaining the desired production results but emphasized almost exclusively the importance of capital and management. All peacetime planning should strive to attain an economic equilibrium but this can only be realized by a proper adjustment of production and distribution.

I think that a visual picture of this desired result might be better obtained if expressed in three algebraic equations:

1 Capital+management+labor = balanced production.

2 National income (purchasing power)—taxes=distribution.

3 Balanced production + distribution=economic equilibrium.

In the first equation the element of labor must be weighted in its proper proportion with the other two elements, namely capital and management, or else balanced production will not be achieved, but either under-production or overproduction will be the result. The labor troubles which we have been and are now having are the aftermath of a short-sighted policy by management and capital by not giving due weight to the importance of labor in attaining the desired production results. If labor is considered at least as important an element as either capital or management in the attainment of high production, then labor should find itself employed on a regular basis and adequately compensated, thus maintaining commensurate purchasing power.

The part of the national income which is paid to labor is by far the most important element in the purchasing power of the nation and therefore of prime consideration in the problem of distribution. Production which does not create sufficient purchasing power to effect its proper distribution leads to a deflationary cycle and that should be avoided at all costs.

An enlightened policy toward labor, which is conducive to high production, as well as high purchasing power in the hands of labor, thus easing if not solving the distribution problem, will in the long run pay handsome dividends in the form of a well balanced economic structure which will run smoothly and benefit the nation as a whole.

EMIL LINHART

New York City, Nov. 18, 1943.

Now Fewel & Co.

LOS ANGELES, CALIF. — The firm name of Fewel, Marache & Co., 453 South Spring St., members of the Los Angeles Stock Exchange, has been changed to Fewel & Co.

Real Estate Securities

We Hear That . . . .

. . . Net earnings of the Beacon Hotel, before interest and depreciation, were over $33\frac{1}{3}$% better for the eight months ending Sept. 30, 1943, than they were during the same period last year. Bonds of the property are currently selling around 16 flat. Interest payments of $5.00 per $1,000 bond made in April, 1942 and 1943 should be increased if earnings continue to be better.

. . . Last week the Supreme Court of the State of New York placed the value of the Hotel St. George at $5,802,748 in reducing the assessment of the property to that figure. If the Court's valuation is correct, it appears that the bonds are currently selling at about 78% of the value of the property even though they are trading at 54% of face value. Bonds outstanding amount to $8,056,107.

. . . Interest earned on Hotel Lexington bonds and debentures for the six months ending June 30, 1943, was 15.52% against 6.73% for the same period a year ago. $800 worth of bonds, $200 worth of debentures and 15 shares of stock trade as a unit for about $720. Sinking fund retired a considerable amount of bonds this year and the bond issue is now $2,682,800 compared to $3,120,000 issued in reorganization and the debenture issue is now $668,800 compared to $780,000 issued in reorganization.

. . . One of the more conservative real estate bonds is the first mortgage bond on the 44-story 10 East 40th Street building. Outstanding bonds amount to only $1,897,000, pay 5% interest and earn $10.92%. Property is assessed at $4,500,000 and originally had a first mortgage of $5,500,000. Bonds sell at around 92% and are due Sept. 1, 1953.

. . . The recent 6-point spurt in the price of the leasehold bonds of 40 Wall Street was caused by a tax reduction of $5,000,000—a savings of $150,000 a year in taxes or about 1% on the bond issue. Current price of these leasehold bonds (approximately 25) does not appear attractive to the writer in comparison with the first mortgage fee bonds of the Harriman Building at 39 Broadway. It would seem that all things being equal, a mortgage secured by a fee is much more desirable than that secured by a leasehold.

. . . A meeting will be held Jan. 20 by the directors of the Park Central Hotel to determine the payment of accrued interest due on their bonds (870 7th Avenue). A balance of $5\frac{1}{2}$ points in accrued interest due since 1939 was reduced by a payment of $1\frac{1}{4}$ points in August, 1943, leaving $4\frac{1}{4}$ points still due. If earnings permit, the directors may pay a portion of this balance in February, 1944. In addition, a semi-annual payment of the fixed interest will be made January, 1944. Report of six months' earnings ended June 30, 1943, showed interest of 12.35% earned on the bonds, against fixed interest requirement of $4\frac{1}{2}$%. Current yield of over 9% on the bonds with possibility of payment of at least some of the cumulative interest in addition, make these bonds look attractive at current market of $47\frac{1}{2}$-49.

Customers' Brokers Appoint Chairmen

The following Chairmen of Standing Committees have been elected for 1943-44 by the Association of Customers Brokers, Robert J. Davison, President of the Association, announced.

Educational—Ralph A. Rotem, Harris, Upham & Co.

Entertainment — John A. McLain, Laidlaw & Co.

Membership — John A. Hevey, Ira Haupt & Co.

Public Relations — Thomas B. Meek, Francis I. du Pont & Co.

Legal—Frank Saline, James M. Leopold & Co.

National Chapter — Armand E. Fontaine, Merrill Lynch, Pierce, Fenner & Beane.

Grievances—William McKinley Barker, Stillman, Maynard & Co.

Spencer Phillips, Tucker, Anthony & Co., and Frank Saline, James M. Leopold & Co., were appointed to fill vacancies on the committee.

Public Utility Securities

New Threat Against Utility Equities

The National Association of Railway and Utility Commissioners recently received a report from a special committee appointed to study depreciation. The 277-page report is largely devoted to an academic discussion of the subject, but a few lines buried in the report have been interpreted by utility accounting officers as embodying a serious threat against utility stocks.

In discussing the various technical methods of accruing depreciation charges the report indicates a preference for straight line accounting—spreading the charge equally over the estimated life of the property. It also implies that, since most utility reserves have (until recently) been based on the so-called retirement method, they are too low, and the reserves should be readjusted to the straight line method **on a retroactive basis.** While the report does not elaborate on these proposals and their possible effects on utility finance, utility executives who have studied the subject are much disturbed over possible efforts to apply such a program. It has been estimated that, if federal agencies carry out their proposed program to enforce aboriginal cost (cost when first devoted to public use) together with the still newer idea of straight-line depreciation, the combined effect might be to wipe out the surplus accounts of many utility companies and also to cut deeply into the value assigned to the common stocks. In many cases the entire equity value might be destroyed and it is even possible that the value assigned to senior securities might be disturbed.

Moreover, the commissions might decide to amortize some of these write-offs out of future earnings. As a net result dividends on common stocks might be reduced or eliminated, which in turn might deprive holding companies of necessary income to pay interest or dividends on their own securities. While increases in operating costs are currently largely absorbed by Federal taxes, it is doubtful whether the amortization charges could be considered as tax deductions, hence common stockholders (and bondholders of holding companies) would feel the full brunt of the regulations. While the cash earnings would still be available they would doubtless have to be applied to retirement of senior debt or construction of additional property.

This threat is not merely a theoretical one. The Public Service Commission of New York State is investigating the accounts of the Niagara Hudson Power System in connection with the merger and recapitalization plan presented to it several months ago for approval. An expert witness, George E. Goldthwaite, at the recent hearings presented an exhibit and testimony leading to the conclusion that four of the principal companies in the system should increase their depreciation reserves about $65,000,000. Randall J. LeBoeuf, Jr., counsel for the company, pointed out that if the Goldthwaite estimates are to be accepted as real and "not the fantastic, statistical nightmares we know them to be, it would appear that each of the companies is now and for some time has been insolvent." As such, according to LeBoeuf, under the laws of the State of New York, dividends on the preferred and common stocks of the companies should not have been paid for some time in the past nor could they be paid now.

This question, like the issue over aboriginal cost, will doubtless be taken to the courts for eventual decision. It seems wholly unreasonable to penalize common stockholders and jeopardize their investment because New Deal agencies have evolved new theories of depreciation differing from those enforced until recently. Rates in the past have been geared to the depreciation methods then prevailing.

Utility stockholders have already received staggering blows from Washington in recent years. Just as the markets have shown moderate improvement on hopes of better treatment from the SEC and other agencies, this new blow impends. However, if sufficient attention is focused on the threatened results, public sentiment may force abandonment of such a drastic and unnecessary overhauling of utility accounts and finance. If not, it is difficult to see how the SEC program to enforce Section 11, which involves public sale of millions of shares of operating company stocks, can be successfully consummated.

An illustration of this difficulty was given in Commissioner Healy's recent minority decision sharply criticizing the sale of Public Service of Colorado common stock by Cities Service Power & Light, though the transaction was approved by a majority of the SEC. Thus, one New Deal program is threatened by another—if the net result is a stalemate, it may force a much-needed overhauling of regulatory policies.

Theory That Government Credit Is Solution To Capital Needs Illusory

Henry Kaiser Condemns As Fallacious Modern Concept That National Treasuries Are Storehouses of Wealth And Can Continue Indefinitely To Supply Capital Needs Through Credit Expansion

Says Only Profitable Labor Can Produce Real Wealth and Sees Grave Danger In Belief That Government Can Finance Post-War Reconversion and Reconstruction—Urges 10% Sales Tax To Service War Debt

The belief "that America's day of destiny is in the near-term future" was voiced on Nov. 19 by Henry J. Kaiser, ship and plane builder, who at the same time expressed himself as sobered "by facts which cannot be ignored." While noting that "our capacity to produce food and equipment far surpasses the most extravagant estimates," he called attention to the fact "we have no constructive program for financing peace."

"We have learned," said Mr. Kaiser, "how to finance the war. In brief, we have done it by expanding credit, and we will continue to do it in this manner as long as the war lasts. But we have no real light on financing our future. In all the colossal effort which has been spent on post-war programs, in all the many plans which have been proposed and announced, I find no mention of the formation of capital. Without the support of reason, logic, or experience, it is presumed that we can continue to supply our capital needs by the expansion of credit."

Mr. Kaiser, whose remarks featured the annual Sales Executives Conference, at St. Louis, of the St. Louis Chamber of Commerce Sales Managers' Bureau, went on to say:

"The latest manifestation of this point of view is the current theory that the Government can finance recovery even to 100% of the need. A score of bills are certain to be presented to the next session of Congress proposing to give credit granting authority. They will even ask for discretionary credit powers for the Army, the Navy, the War Production Board, the Defense Plant Corporation, the Reconstruction Finance Corporation, and many similar agencies for the gigantic task of reconverting the nation's business to peacetime pursuits."

Disputing the theory that "governments can finance anything and everything needful," Mr. Kaiser declared that "we have forgotten that the Government can borrow with safety only from those who have the ability and willingness to save." Mr. Kaiser presented the question, "Where will the money come from to quicken the production, sales and distribution of the goods which will help us to restore the economic values of our society?" In answer he advanced the opinion that "in view of the magnitude of the problem," there may have to be developed "a joint credit pool in which banking, life insurance, Government and even industry itself will participate. Unhappily," said Mr. Kaiser, "our choice now is not between Government financing and private financing." "We shall," he said, "probably have to do both." From the address of Mr. Kaiser, as given in the St. Louis "Globe-Democrat," we take the following:

"Perhaps the greatest illusion we have suffered in the modern world is the theory that governments can finance anything and everything needful. We have forgotten that governments have no money; that national treasuries are not storehouses of wealth. We have forgotten that every time the government finances any individual or enterprise it does so out of taxation or borrowing. We have forgotten that taxation ultimately rests solely upon productive enterprise. We have forgotten that the Government can borrow with safety only from those who have the ability and the willingness to save. We have accepted the false doctrines that the size of the debt is of no consequence, and that credit can be expanded indefinitely.

"It is time for us to come to grips with certain basic truths. The first one is that the war must be paid for. The token of payment will be paid in taxes and advanced in loans as it is today, but the real payment will be in work; profitable labor which produces real wealth, and that voluntary sacrifice which saves a portion of all that is produced.

"Perhaps the gravest danger we face at this moment is the threat that reconversion, reconstruction and expansion can be financed 100% by government funds. Such a doctrine is only another way of saying that we will have to endure a vast and increasing burden of taxation; that the government must continue to operate on a deficit basis; that it must borrow virtually all of the savings of its people, and that it must assume the role of investing for all of its citizens.

"But the mere statement of the problem and a consideration of its gravity suggest no remedy. In the absence of any constructive proposals from the private institutions of national finance, it is certain that the present trends will not only continue, but will be greatly enhanced. To the extent that commercial banking and investment banking fail to meet the needs of conversion, reconstruction and expansion, the government will undertake the responsibility.

"A cursory view of the present financial picture discloses that there is more money in circulation than at any time in the history of America. The American people and their banks now have some $20,000,000,000 in currency in their possession. This is nearly five times as great as the volume which circulated in 1928 and 1929, the years of our greatest peacetime business activity. Furthermore, bank deposits are also at an all-time high, and should the war last another year, they may well represent $150,000,000,000 in purchasing power.

"It is a great misfortune that many people look upon this situation as an evidence of prosperity. Modern wars consume wealth; they do not create it. The method of financing them creates purchasing power, but it does not form capital.

"I am far less interested in stating the problem than I am in finding a solution. The Federal Reserve Board says that 75% of the bank deposits are owned by industry. At the present moment American business has something close to $40,000,000,000 on deposit in the banking structure. But some of these deposits represent advances by the Government on contracts that have not yet been finished. Some of them represent impounds for taxes, the extent of which is never clearly known. Some of them are reserves against the cancellation or renegotiation of contracts. The evidence is that the accumulated bank deposits, as great as they are, will not take care of industry's post-war needs. Twenty-five per cent of the bank deposits and perhaps $15,000,000,000 of the total currency in circulation are owned by the public. What the people do with this vast sum of money is of the utmost importance in the early stages of peace. Will they spend or will they invest? The answer to this question will determine in a large measure the extent of our post-war inflation, and it will profoundly affect the prospects of real recovery.

"Where will the money come from to quicken the production, sales, and distribution of the goods which will help us restore the economic values of our society? For a good many weeks American business has been listening in the hope that private finance would offer an answer to this vital question. Apparently there are some who hold to the belief that sound and solvent industry has built up reserves in bank deposits; that it will be able to borrow all the short-term capital it needs from the banks; and that it will have recourse to the old channels of investment for its long-term needs.

"Whatever truth there may be in this position, it ignores the nature and extent of the social and economic upheaval which has taken place. It is blind to the fact that a vast number of business organizations will have to have special accommodations which do not conform to standard credit requirements. There is instant and urgent need for a vast credit pool to take care of the rehabilitation of enterprise, both large and small, for whatever period is necessary to restore them to independent financial status.

"In view of the magnitude of the problem, this may have to be a joint credit pool in which banking, life insurance, government, and even industry itself, will participate. Just as there have been development projects too large for private finance, so there are times when the credit needs transcend the ability of private agencies. As long as we recognize that government financing does nothing more than mobilize the wealth and the saving of the people through taxation and borrowing, we are safe in employing it sparingly. Unhappily our choice now is not between government financing and private financing. We shall probably have to do both.

"But the real situation is just as simple as this: The greater the willingness of private finance to do its job the less will be the need of government aid. The corollary is that the less we need government aid, the less government will interfere with the rights of investors to choose when and how they will employ their savings.

"Do we have the will and good will to work together as a people in this most critical moment of our national life? A private credit pool would have the immense advantage of assembling the existing financial resources of the nation, and utilizing them to the full. A 100% government financing program would create the illusion of new financial resources, the result of which would be to dilute existing wealth and ultimately to weaken the value of our money and credit instruments. The choice is at hand, we cannot escape it."

In advocating a 10% sales tax Mr. Kaiser said:

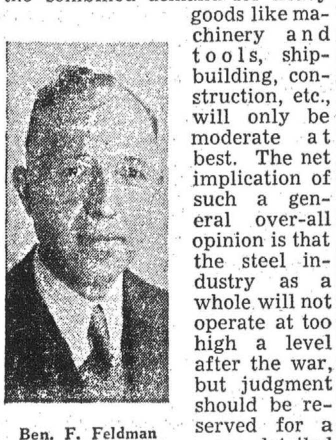
"I do not know anything about the political implications of a sales tax, and I am neither interested nor concerned in them. It is my studied conviction that a 10% tax on the sale of every item in our consumer economy would be the forthright and courageous way to service the debt which will be the money price of victory. I am advised that such a tax is unjust; also that it is so easy to levy and collect it that it will invite further expenditures; perhaps waste and extravagance. I seriously question the validity of either of these assertions."

Steel Demand After The War

Appraisal And Recommendations

By **BENJAMIN F. FELDMAN**, Economist

Current Views—Concerning the demand prospects for steel after the war, the opinion is held by various groups that while the demand for light steel products will be good because of the large pent-up demand for consumers' durable goods such as automobiles, refrigerators, heating equipment and many other household items, the combined demand for heavy steel products used in producers' goods like machinery and tools, shipbuilding, construction, etc., will only be moderate at best. The net implication of such a general over-all opinion is that the steel industry as a whole will not operate at too high a level after the war, but judgment should be reserved for a more detailed analysis.



Ben. F. Feldman

Steel Production and National Income—Since post-war plans by many private and Government agencies and committees generally agree that a yearly national income of at least 100 billion dollars (it was 70 billions in 1937 and 81 billions in 1929) will be necessary after the war to meet the pressing problems of unemployment and to balance approximately a yearly Federal Government budget of from 15 to 20 billion dollars (including interest of 5 to 6 billions), the question may well be asked whether a national income of such or greater amount is largely attainable by private industry during peace times (namely, without substantial Government aid) if the steel industry will not run on all its cylinders or nearly so. The national income figure of 100 billion dollars is predicated on present price levels, and should be adjusted to important changes in prices generally.

In this connection, a comparison of the trends of total economic activity (as measured by national income in dollar amounts) with production of steel ingots and castings (in tons) for the period from 1900 to date is significant, notwithstanding that the comparison is impaired somewhat during years of sharp changes in price levels because of the unavoidable use of dollar amounts for one factor and physical amounts for the other factor. When national income increased over a preceding year, almost invariably steel production also rose; and during periods of business decline a decrease of steel production was usually reflected in a smaller national income, the exception being in the two years of 1918 and 1919, when national income advanced with the substantial aid of post-war price inflation while steel production was declining. While the over-all trends were closely comparable over nearly the entire period, steel production experienced much sharper changes than national income in the upward and downward moves due to the strong cyclical and investment aspects of the industry.

As for more recent years, both national income and steel production reached their peace-time peaks in 1929; and while 1937 represented the highest levels reached after the depression of the '30s, they were both appreciably below 1929 results. In 1937, national income of 70 billion dollars was 14% below the 81 billions of 1929 (even after adjustment for price levels, it was 6% below); production of 56,600,000 net tons of ingots and castings was 10% below the 63,200,000 net tons of 1929; the distribution of 41,200,000 net tons of finished steel products was 10% below the 46,000,000 tons of 1929; and besides which, unemployment was substantial. Supporting figures on national income and steel industry production, distribution and capacity are set forth in Table 1 attached.

Factors Governing Estimates of Post-War Steel Demand—Table 2, attached, shows the distribution of finished steel products to steel-consuming industries as to tonnage amounts and percent of total for the years 1929 and 1937, 1938 and 1939—which figures serve as a basis for demand estimates made herein. The years selected give a wide range of peace-time results prior to the war, excluding the unusually severe depression of the early '30s.

The problem is to estimate the probable steel demand for "V" years, viz., for the first few years following the period required by the nation's economy to convert to a peace-time basis of operation. Obviously, the adjustment period for the steel industry (and also for other industries) will be of shorter duration and lesser intensity, depending upon the length of the interval between the termination of the European and Pacific wars. The estimates of steel demand made herein are intended to represent a possible average for the first few "V" years and not just an estimate for a single year.

In arriving at the estimates, a reasonable approach is taken with due regard to the probable realities to be met. By the qualification "reasonable" is meant that the very optimistic forecasts that steel demand in "V" years will closely approach the present rate of consumption seem much out of line at the present time and, on the other hand, extreme pessimistic views are also indefensible. A reasonably justifiable approach is much preferable because if the estimates of demand fall materially below the amounts hoped for and needed that should serve as a stimulus for taking steps to further increase the prospective demand. Such an attitude, moreover, can be both constructive and aggressive if it does not accept at full face value and without reservation the thesis that since the aggregate demand for steel products is largely determined by the volume of activity in a wide range of manufacturing industries and construction activities which use steel, therefore the steel industry in itself can do nothing to help initiate and sustain economic operations.

Estimates of Steel Demand from Steel Consuming Industries—While increased competition may be expected after the war from lighter metals and plastics, etc., it should not be overlooked that steel technology has also made important progress during recent years for the improvement of steel products as to quality and uses, and in more efficient manufacturing methods and processes. Moreover, the yearly capacities after the war will show roughly 97,000,000 tons for steel ingots and castings, 1,200,000 tons for aluminum, 290,000 tons for magnesium and 350,000 tons for plastics. Authoritative technical opinion is that the lighter metals will have much more impact on markets for non-ferrous metals than for steel, and that plastics will also be complementary to steel uses. It is thus safe to say that in the aggregate little disturbance will be experienced from lighter metals and plastics in the major markets for steel for several years.

For convenience in discussion and to avoid getting involved in needless details, the steel-consuming industries have been allocated to four groups (as shown in Table 2, attached), which groups are assumed to have varying prospects in their post-war demand for steel.

Group 1 contains those steel consumers which will most likely have a strong post-war demand for steel, and they are the automobile and agricultural industries, and also the pressing, forming and stamping industries, which together manufacture a wide range of steel household products including refrigerators, furnishings, etc. The assumption here is that after the war the steel consumers in group 1 will exceed their maximum peace-time takings of finished steel by from 10% to 20%. This would give a yearly demand from group 1 of around 15,000,000 net tons of finished steel as compared with a maximum peace-time total of nearly 13,000,000 tons.

Group 2 comprises those steel consumers whose post-war demand for steel will also be favorable but less dynamic than that of group 1. The steel consumers placed in group 2 are containers—oil, gas, water and mining—and *jobbers, dealers and miscellaneous. The assumption here is that consumers in group 2 will have a demand roughly equivalent to from 80% to 100% of their maximum peace-time takings. This would give a yearly demand from group 2 of around 13,000,000 net tons of finished steel as compared with a maximum peace-time total of 14,700,000 tons.

In group 3 are placed those steel consumers whose post-war demand has large potentialities but the full realization of which involves many obstacles and uncertainties. Allocated to group 3 are the railroads, construction and exports, each of which had their maximum peace-time takings in 1929 if present war influences are eliminated. While calculations can be readily derived to show a potential post-war demand from group 3 of 20,000,000 net tons of finished steel per annum, practical reservations seem in order. After the war railroads will have a heavy backlog of deferred maintenance on rails, bridge structures, etc. While a temporary surge of expenditures may be expected, the

*Jobbers, dealers and miscellaneous, as set up in the trade, are designed to cover a wide variety of steel consuming channels other than more specific outlets. This group takes varying proportions of both light and heavy finished steel products with "light" frequently accounting for a larger percentage of the total.

(Continued on page 2110)

TABLE No. 1

NATIONAL INCOME AND STEEL INDUSTRY TONNAGE FOR PRODUCTION CAPACITY AND DISTRIBUTION FROM 1900 TO 1942

(Blank spaces denote figures not available)

Year—	National Income (000) omitted)	Steel Ingots and Castings: Production (Net Tons)	Steel Ingots and Castings: Capacity at beginning of year (Net Tons)	Finished Steel Products Distribution (Net Tons)
1900	$18,000,000	11,411,000	------	------
1905	------	22,427,000	------	18,861,000
1910	30,700,000	29,226,000	32,500,000	24,215,000
1911	30,600,000	26,517,000	33,600,000	------
1912	33,200,000	35,001,000	34,700,000	------
1913	35,000,000	35,057,000	35,800,000	27,766,000
1914	34,100,000	26,335,000	39,500,000	20,574,000
1915	37,100,000	36,009,000	44,552,000	27,320,000
1916	45,800,000	47,907,000	51,282,000	------
1917	53,300,000	50,468,000	54,540,000	37,036,000
1918	58,900,000	49,798,000	55,440,000	------
1919	67,400,000	38,832,000	56,900,000	28,114,000
1920	68,100,000	47,189,000	58,130,000	36,230,000
1921	50,700,000	22,158,000	58,400,000	16,547,000
1922	58,700,000	39,875,000	59,140,000	29,626,000
1923	68,000,000	50,337,000	60,870,000	37,270,000
1924	67,900,000	42,484,000	62,545,000	31,456,000
1925	72,800,000	50,841,000	63,000,000	37,393,000
1926	75,000,000	54,089,000	64,750,000	39,756,000
1927	73,800,000	50,327,000	67,236,000	36,825,000
1928	77,600,000	57,729,000	68,841,000	42,182,000
1929	81,100,000	63,205,000	71,439,000	45,997,000
1930	68,300,000	45,583,000	72,985,000	33,054,000
1931	53,800,000	29,059,000	77,258,000	21,478,000
1932	40,000,000	15,323,000	78,781,000	11,705,000
1933	42,300,000	26,020,000	78,614,000	18,743,000
1934	50,100,000	29,182,000	79,916,000	21,246,000
1935	55,200,000	38,184,000	78,452,000	26,841,000
1936	63,500,000	53,500,000	78,164,000	37,858,000
1937	69,800,000	56,637,000	78,148,000	41,178,000
1938	64,400,000	31,752,000	80,186,000	23,569,000
1939	70,800,000	52,799,000	81,829,000	39,067,000
1940	77,300,000	66,983,000	81,619,000	48,660,000
1941	92,100,000	82,839,000	84,152,000	62,324,000
1942	114,200,000	86,030,000	88,570,000	63,748,000
1943 est.	145,000,000	91,000,000	*92,000,000	------

*97 million for end of 1943.

SOURCES

National Income—1900-1937 TNEC report Dec. 1, 1938 (Part 1); 1938-1942 Standard & Poor's Corp.

Steel Production—Standard & Poor's Corp.

Steel Capacity—1926-1942 Standard & Poor's Corp.; 1900-1925, American Metal Market.

Steel Distribution—1937-1942, Iron Age; 1923-1936, U. S. Steel Corp. Bulletin; 1913-1921, Standard & Poor's Corp.; 1905-10, Department of Commerce.

TABLE No. 2

DISTRIBUTION OF FINISHED STEEL PRODUCTS TO STEEL CONSUMING INDUSTRIES

Note—Tonnage amounts shown here for consuming industries are taken from the Iron Age of Jan. 7, 1943, but the allocation to the Four Groups is based on discussion as per text.

Consuming Industry—	1929 Tons (000)	1929 % of Total	1937 Tons (000)	1937 % of Total	1938 Tons (000)	1938 % of Total	1939 Tons (000)	1939 % of Total
Group No. 1								
Agriculture	3,061	6.7	2,335	5.7	1,110	4.7	1,421	3.6
Automotive	7,353	16.0	7,814	18.9	4,053	17.2	5,906	15.1
†Pressing and forming	†		†		†		1,842	4.7
†(Furnishings)	(700)	(1.5)	(1,494)	(3.6)	(868)	(3.7)	(1,182)	(3.0)
‡Total	11,114	24.2	11,643	28.2	6,031	25.6	9,169	23.4
Group No. 2								
Containers	1,912	4.2	3,219	7.8	2,137	9.1	2,978	7.6
Oil, Gas, Water	4,117	8.9	3.034	7.4	1,820	7.7	1,842	4.7
*All other	7,180	15.6	7,330	17.8	4.765	20.2	11,155	28.7
‡Total	13,209	28.7	13,563	33.0	8,722	37.0	15,975	41.0
Group No. 3								
Construction	8,643	18.8	6,038	14.7	4.398	18.7	6,100	15.6
Railroads	8,162	17.7	4,686	11.4	1,444	6.1	3,250	8.3
Exports	2,495	5.4	3,033	7.4	1,753	7.4	2,595	6.7
Total	19,300	41.9	13,757	33.5	7,595	32.2	11,945	30.6
Group No. 4								
Aircraft	§		§		§		§	
Machinery, tools	2,028	4.4	1,804	4.4	831	3.5	1,460	3.7
Shipbuilding	346	0.8	391	0.9	390	1.7	518	1.3
Total	2,374	5.2	2,195	5.3	1,221	5.2	1,978	5.0
Grand total of all groups	45,997	100.0	41.178	100.0	23,569	100.0	39,067	100.0

*Represented by jobbers, dealers and miscellaneous. †Pressing and Forming not segregated for these years in original compilation, but figures therefor are included partly under Furnishings and partly under All Other. ‡Totals for Groups No. 1 and No. 2 are only for the available items shown. §Reported as being negligible and included with All Other.

Resentment To Outrageous NASD Profit Limitation Decree At New High Pitch

(Continued from page 2103)

from the market places." However, other lines of business and even professional men are enjoying a false sense of security if they feel that this is not their affair and that such profit limitation decrees will be defined only to the security business. After the principle of profit limitation has been firmly established in the security business, how much easier it will be to extend the principle to all businesses and eventually to all professions.

The security dealers, being in the "dog house," make a convenient and popular guinea pig for the social planners who, while America fights autocracy in faraway countries, quietly and surreptitiously push their plans for business regimentation and control.

Recently a well-known public man who is close to the pulse of America made a statement to the effect that recent election returns show that the American people are getting tired—very tired—of being pushed around. Opposition to this "being pushed around" by bureaucrats is growing, and when the time arrives when we can speak our minds at the polls and in public places without fear of reprisal by bureaucrats now in power, it is my feeling that all will be surprised at the deep-seated general resentment existing against this growing attempt at government by decree.

I wish you well in your fight, but being in the security business, I am afraid to permit you to use my name; so please do not reveal same in your publication.

DEALER NO. 52

As operator of a modest-sized investment securities business, I am glad to have some medium through which to protest against the latest move being made to unfairly restrict the investment dealer, through a ruling that would make his maximum profit so low that he would be forced out of business.

It might be well to first briefly review the inception and subsequent evolution of the NASD. When our firm was **invited** to become a member at the time the organization started, we expressed a willingness to go along, but also voiced some misgiving as to the value of membership to the little fellow, since he would probably suffer at the hands of those more powerful in the organization. Our doubts were supposed to be dispelled by the assurances we were given in a letter sent in response to our communication.

In our minds there has long been the question: who are the men who initiate and engineer the different autocratic measures that have been brought forward? We now consider that the NASD organization was misrepresented to us as an agency to bring about self-regulation of, for and by its members and to promote high ethical standards in the conduct of our dealings with the public; implying that similarly high standards would govern all activities between member dealers and between the NASD itself and the members.

It cannot be truthfully said that those responsible for such rules as the one now under discussion and that other attempt made some time back to strangle the small dealer through requiring him to maintain a certain minimum amount of capital in his business were given proper discussion by all classes of members. After the rule concerning operators' capital requirements was railroaded through NASD official channels in the way it was done, any slight remaining faith we previously had in the outfit vanished.

Who are the men pulling the strings? Can they be brought out into the open? To what extent are certain types of members able, under the set-up, to impose their will upon the Profession? How are minorities protected? Is SEC "making the balls" and NASD "firing them"? Is representation of dealers in the Inner Council truly representative? How many small dealer representatives are able to articulate for their group?

Our business has been built up over a period of about 10 years. We have developed it in an area of approximately 2,000 square miles. Some of our clients were cultivated for three years before we accepted their first order. None was obtained through high-pressure methods. We specialize in conservative, stable, income-paying issues, chiefly senior securities. We seldom trade our clients in and out of investments, generally considering that what we have sold is suitable for long-term holding. We perform all sorts of courtesy services outside of strictly selling securities to our customers: almost always without adequate compensation and frequently gratuitously. Our traveling and services expenses as a whole are high. Our gross profit on the selling price of any security does not exceed 8% and of course is substantially lower in certain cases.

I personally tell every customer and all prospective clients that we buy securities at a price and sell them at a profit and that we frequently sell him and afterwards buy the stock with which to fill his order. It is our practice also to state to the buyer that we make no claim of giving any price advantage when selling him, but rather that he might on occasion buy at a better price elsewhere; he is told that the profit we charge is what we consider fair to ourselves as well as to him and that it must be sufficient to enable us to maintain the quality of service we have established for our operations.

It is my understanding that one of the arguments put forward in support of this profit-limiting rule is that the security dealer has no right to any higher profit because the client is placing confidence in him. I wonder what kind of a mind is capable of this narrow thinking! One puts confidence in his lawyer and his doctor, but he does not expect their services to be given without the payment of appropriate service fees. If this confidence is properly earned—and in our own case we are satisfied it is, just as it is in the case of numerous other dealers—it is one of the strongest reasons why we should be adequately compensated for our services. Frequently an investor is enjoying valuable protection through confining his business to a dealer whose ethical standards and business reputation have won his confidence.

It has been my gratifying experience—to be informed by an FBI man that he had told an investor to either call me or a State Trooper if he was ever approached again by a security salesman. This occurred while the FBI was investigating a transaction in which an outlaw dealer had stolen about $250 from the investor and my aid had been sought to straighten the matter out.

Not infrequently a highly ethical standard of business can only be maintained at a relatively high cost. How often are we approached, as dealers, with a view to getting us to place with our clients some particular issue? Even when the claims made for, or reasonable expectations from the issue appear good, what is to determine how much time, effort and resultant expense must still be expended to properly appraise the situation and thereby guard against permitting our clients to put funds into an unsuitable situation?

Apart from all this, let all proposed changes be thoroughly aired before the pressure groups put anything through. I propose we now create a dealer organization paralleling NASD and demanding an insight into what NASD and SEC are about at all times, to provide a means by which these periodical upheavals, which are steadily aimed at the ultimate elimination of our more helpless members can be avoided.

No agency such as NASD or SEC or any other body should be permitted to impose such dictator-like rulings. No wonder we have wars if we cannot be more fair or above board with each other.

This must remain anonymous. I am a man of limited financial resources with family responsibilities and would, frankly, fear discrimination at the hands of those in control, if my identity were disclosed.

P.S.—There is a consideration which may be a factor in causing profit percentages charged to show as they are claimed to have done in the latest check-up: war conditions had, we believe, caused a good number of retail-dealer businesses to suspend for the duration before this survey was made. These retail dealers' profit rates would not be reflected in the averages. Then, also, it would only be possible to obtain a fair and accurate picture of the situation if the profit analysis were broken down according to type of business—whether wholesale or retail—whether primarily a stock exchange or over-the-counter activity, the type of service rendered and many other factors were weighed.

DEALER NO. 53

I agree with you—where the h—— is the SEC going to finish unless they want to have a democratic police officer in every security office?

Then why should they continue to ride us? Why not make the liquor dealers show their profits? You better not publish my name for fear that they will do something to my income taxes. What a mess!

Thanks for starting the campaign.

DEALER NO. 54

We are in full agreement with your article of Oct. 28. May we suggest that the Board of Governors of NASD practice a little "disclosure" of what they cook up between themselves, to stifle the business of the small dealers through promulgating undemocratic rules before giving the entire membership of NASD a chance to be heard and, lastly, an opportunity to vote on them.

Thanks for your efforts in our behalf.

If our letter is published, please omit our firm name.

DEALER NO. 55

We quote from a letter received from a Georgia dealer:

Hon. Walter F. George,
United States Senate,
Washington, D. C.

Dear Senator George:

Enclosed find a self-explanatory letter and pamphlet from the "Commercial & Financial Chronicle." After personally reading the contents, I respectfully request that you look into the matter and stop this impossible situation.

Thanking you for the consideration I know you will give this matter.

DEALER NO. 56

We want to at least add our voice of protest against the "Maximum Profit Decree" recently announced by the NASD, as well as to congratulate you on the courageous stand you have taken against it. You seem to be about the only one openly championing the cause of the over-the-counter dealers, in an effort to prevent their extinction.

Our firm has been in business for about 20 years. We depend upon the salesmen, who in normal times travel from 10 to 75 miles daily in the sale to and servicing of clients. If this propsal by the NASD is to prevail, it will mean that we must close up our business, for neither our salesmen nor our firm can survive any such rule governing profits. We say this in the face of the fact that we conscientiously feel that during the past 20 years we have served our clients in a manner entirely to their satisfaction.

The method employed by the NASD in reaching its conclusion warrants the severest criticism.

To bunch all dealers, large and small, into the same category without any apparent consideration of the different methods of distribution which are necessary to be employed, is to unjustly penalize the small dealer who operates in the smaller towns and rural places remote from the financial district.

In reviewing this entire question, one cannot but question what, if any, assistance the NASD has been to such smaller dealers.

Likewise, one cannot help but wonder what would happen if as a result of some legislation the fees of all doctors were made strictly uniform and the doctors who travelled 10 to 75 miles to treat a patient could only charge the same fee as the doctor who remained always in his office making his regular office charge.

We have paid hundreds of dollars in membership fees to the NASD. We dare not drop our membership therein, and you and we know why. Therefore, in effect, we are paying for the very rope to hang ourselves and to put us out of business.

Although we dislike not being able to come out in the open and permit the publication of our firm's name, circumstances compel us to follow the practice of those living in a "Fascist state" and to request that you refrain from so doing.

DEALER NO. 57

I think that the honest and reliable dealers throughout this country should gauge the profit by the service rendered customers. No sensible dealer is going to gouge his customers, because in doing so he is putting himself out of business; but I doubt if there should be any limitation on the profits. Only crooked and irresponsible brokers will take advantage of their customers, and there is no place in the business for such unscrupulous dealers. The sooner they are eliminated the better off we will all be.

DEALER NO. 58

We, as dealers, appreciate the items you have been running on

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Steel Demand After The War

(Continued from page 2109)

amounts to be expended thereafter for maintenance as well as for capital improvements will be governed largely by the profitability of operations. Since consideration will be given to post-war factors of increased competition from other transportation media, an immediate sizable reduction in traffic and an adequate inventory of locomotives and freight cars, it is fair to state that railroads will endeavor to safeguard their recently strengthened financial position and resources with some degree of caution.

In estimating post-war demand for steel from construction activities, the following should be considered: in view of the war expansion and existing facilities, public utility construction and commercial and industrial building by private capital will probably be of moderate amounts; public works projects by Federal, State and local governments should be substantial, but such items also include highways which use little steel; and residential housing construction possesses the big potentialities. The volume of residential housing financed by private capital will be governed chiefly by the level of employment and by price relationships (viz., unit costs per room vs. average income of the general population), notwithstanding which Government financial aid in various forms can contribute materially to the volume of residential building. Also noteworthy, an equivalent number of rooms in small family housing units require less steel than the big apartment houses.

Concerning exports of finished steel products after the war, the increased industrialization and general economic expansion in foreign countries can provide substantial markets, but such prospects will be tempered by limited foreign purchasing power (unless we import heavily) and by practical limits to long-term credits and investments by our Government and our private investors.

Assuming that after the war construction and railroads will absorb annually from 10% to 20% more finished steel than they did in 1937, and that exports will approximate its 1929 volume, this would give a yearly demand from group 3 of around 15,000,000 tons of finished steel as compared with a maximum peace-time total of 19,300,000 tons, which latter amount can be attained provided all the governing factors are entirely favorable.

Group 4 includes the steel consuming industries of machinery and tools, shipbulding and aircraft which will have a low post-war demand for steel. Aircraft should not be important, although its absorption was 561,000 tons in 1941 and roughly 1,000,000 tons in 1942. Assuming a post-war steel demand from shipbuilding at three times the 1937 amount (400,000 tons), from machinery and tools about one-half the 1929 or 1937 total (around 2,000,000 tons) and 100,000 tons for aircraft, this would give a yearly total for group 4 of 2,300,000 net tons of finished steel.

The combined estimates of demand from the four groups of steel consumers show that the steel industry will distribute annually around 45,000,000 net tons of finished steel in "V" years which compare favorably with the 46,000,000 tons in 1929 but are nearly 30% or more below the totals of around 63,000,000 net tons in 1942 and an estimated 68,000,000 tons for 1943.

Some Recommendations Concerning Steel Demand

Government-Owned Steel Plants —After the war the Government will have over one billion dollars

(Continued on page 2112)

Some Factors Of A Now-Planned Post-War Governmental And Economic Pattern

(Continued from page 2102)

must assert ourselves, through the courts, by the ballot, and in every other way open to us."

The urgency of the preservation of the life insurance was also dealt with by Mr. Clark, who pointed out that the system "is the greatest single individual factor in all the country in the maintenance of a sound and stable national economy and finance." Warning of the calamity which could ensue in our existing national financial, economic and governmental life" in the event that plans for the setting up of Federal life insurance should occur, Mr. Clark said: "I suppose that no one would seriously deny that the taking over by the Government of the whole institution of life insurance would be one of the most important factors in establishing a communistic state.' Further he said: "Whatever shall impair our individualistic system and impose upon us a socialistic or communistic regime, will to a great extent, or totally, destroy the returns upon individualistic productivity."

We present herewith the address of Mr. Clark:

I am honored by the invitation to speak to you today.

I have been asked to speak upon some subject that might have a value for life insurance companies and policyholders. I have chosen—"Some Factors of a Now-Planned Post-War Governmental and Economic Pattern."

Obviously, the sort of set up, political and economic, that shall obtain after the war, will be of the last importance to every insurance company and every policyholder in the country. Our insurance institutions having grown up under the economic and political systems that have heretofore obtained in this country, any essential change in these systems will call for readjustments in life insurance management and business that must affect, not only the companies themselves but every individual policyholder, but mostly the poor and the lowly, for they have relatively the more to lose. Insurance managements must neither overlook nor neglect this latter fact, for it will be their most powerful weapon of defense against attacks that are coming.

Un-American Influence

Ever since the end of the first World War an ever increasing un-American influence has been exerted amongst us, boring termite-like into our whole national structure, — financial, economic, social, and political. They have already hollowed out large portions of great beams of our structure; they are at work upon others. If they are not stopped they will make the whole edifice a paperlike shell to be demolished by the first whiff of untoward wind that may strike us.

This influence is in leadership largely alien,—in birth, or in tradition, or in training and experience, or possessing alien concepts and alien philosophies. With them are some American-born rebel conspirators. These all form a vast army, some 3,000 of whom, handpicked, are said to swarm in Government offices, many in key positions, all ready, able, and willing to take over if their opportunity shall come, or be made. Hereafter, I shall refer to this whole group as aliens.

I shall try today to suggest how the activity of these borers has a direct relationship to and effect upon the institution of life insurance.

Estimate of Life Insurance Value

May I in beginning give, in a few words, my estimate of life insurance.

It is the greatest single individual factor in all the country in the maintenance of a sound and stable national economy and finance. As an institution, it is the best, the most wisely, and the most uniformly regulated institution in the nation. Financially it is among the very safest and soundest; it cares for more widows and orphans, keeping them from penury and want, than all other financial institutions combined. It is the one financial institution in the nation whose profitmaking is motivated wholly by a desire to meet the needs and wants of those who are bereft of the breadwinner of the home; it brings into the house of mourning a surcease of anxiety as to the sustenance of the family. It is the one institution of the nation that brings to the husband and father an assurance that those whom he loves more than life itself, shall be cared for after his death. This is the mission and has been the destiny of life insurance.

I shall speak of two aspects of life insurance: The first has to do with matters affecting the existence of the system itself; the other bears upon the maintenance of life insurance companies under the now-planned order.

Preservation of Life Insurance System

It is not necessary to say much about the first. Before this war began, the Government had already entered the general insurance field with a Social Security plan, which covers unemployment compensation, Federal insurance contributions and benefits, and Federal old age and survivors insurance benefits. Other socialistic plans—such as socialized medicine —seem in the immediate offing. Thus the principle of Federal insurance of the individual is thoroughly established and working. It is not a long step from this to set up Federal life insurance. In the beginning, this Federal life insurance may be a side-by-side enterprise with existing private-company life insurance, mutual or others. But almost certainly the Government will, if present plans carry through, soon crowd down the regular life insurance companies, absorb their assets, and put their 67 million policyholders —half the entire population of the nation—on the public payrolls to be the wards of the Government. Thereafter life insurance will be one—perhaps the most important one—of the political shibboleths with which glib-lipped politicians of all parties will bid for votes.

It is not necessary here to argue the calamity which this could bring into our existing national financial, economic, and governmental life. To put 67 million citizens squarely behind any political nostrum would guarantee the continuance in power of its purveyors. I suppose further that no one would seriously deny that the taking over by the Government of the whole institution of life insurance would be one of the most important factors in establishing a communistic state.

What will you gentlemen say if your policyholders, duly instructed thereto by the proponents of Federal insurance, shall argue: We have to work and save, economize and sacrifice, to meet our insurance premiums with you; but the Government, by taking over the insurance company assets, which are the accumulations from our premiums, can with slight additional funds from the Federal Treasury meet our policies; the premiums we have already paid will be our contribution to the new Federal insurance; under Government insurance we will not need to contribute any more in order to protect our loved ones, whereas with you we must continue to pay premiums to the full end of the term or until death; in this situation, we shall, under Federal life insurance, stand at worst in the same position as those who are in the Federal social security system; and the Government has paid and is paying the social security funds to the people; if it can pay them, it can pay us.

What will you companies say to these and a hundred other specious and deceiving arguments that are going to be poured into our ears? You must be prepared to explain the basic factors of Government and economics if you are to meet these deceptions.

Maintenance of Life Insurance Operations

But assuming something may be left to us of our life insurance system, what about the maintenance thereof.

Generalizing, it may be said

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Resentment To Outrageous NASD Profit Limitation Decree At New High Pitch

(Continued from page 2110)

that 5% maximum profit. I have read all the letters and they are darned interesting, and I agree with the boys; but as most of them say they can't divulge their names as they are afraid of repercussions. There have been some items running in the Chicago "Journal of Commerce" lately on this new rule. The guy who writes it doesn't know what the hell it's all about, and I can't understand how that paper can accept stupid articles such as the ones they are running on the 5% ruling. One thing I noticed the other day which your boys might check up on is that on this governing committee of the NASD the majority of them are stock exchange houses or purely municipal houses. They had the whole list in the "Journal of Commerce" the other day and I looked them over carefully. They even had one fellow, Bill Smallwood, down in Ft. Worth who, I happen to know, is the armed forces. I also know he doesn't know anything about corporate business—he is 100% municipal. I'd like to know where they contacted Smallwood to get his opinion. I certainly don't believe that the present governors who helped write that rule should be the judge of what profits are. . . . With one or two exceptions, they are either big-name houses, stock exchange houses or municipal men.

I have checked with various fellows around the country on the phone, and also locally, and I have yet to find one dealer who agrees that this 5% rule is a good thing. As all the rest of them have said, don't quote me, but the above might give you additional ammunition. There is no question in my mind that the "Financial Chronicle" really does a job for the investment business.

P. S.—I wonder what the so-called "blue-blood" municipal boys would think if the NASD limited their profits.

DEALER NO. 59

I have yet to be shown that the NASD has issued a definite rule flatly restricting the profit on any transaction to a maximum of 5%. The inferences which appear in your columns are not substantiated by the facts. Your reply does not attempt to present any fresh facts to justify your charges. As far as the NASD seems to have gone, is to warn its members that any profit in excess of 5% on a virtually riskless transaction should be supported by unusual relevant circumstances. At no time has it set any ceiling of 5% to control profit margins on the general course of business.

Would it not be well for you to check into the true intent of the NASD rule before you pursue the campaign you have undertaken? In your own columns you introduce the facts correctly, based on the opening paragraph of Mr. Riter's letter. You say quite clearly that the maximum profit of 5% should be "construed as being fair in cases where a dealer acts as principal, but had no commitment . . . prior to the time the customer's order had been received." Then you concede that the suggestion does not apply in other situations. But from then on you assume the rule is applicable to any and all cases.

On what grounds can you substantiate your allegation that a 5% profit limitation has been decreed in all other types of trades? I shall appreciate an answer to this direct question.

I am still confident you have the good of the industry at heart, and I remember the good work you did in connection with the proposed "bid and asked disclosure" rule. In the present discussion, however, I think you are injuring us all because your premises are erroneous. You may print this letter if you so desire.—(John B. Shober, Woolfork, Higgins & Shober, New Orleans.)

DEALER NO. 60

You certainly deserve the heart-felt thanks of every small securities dealer in the U. S., for the fight you are putting up against bureaucracy and regimentation on the part of the SEC and NASD.

Your article in the Nov. 11 issue of the "Chronicle," regarding the SEC bid and asked disclosure plan, is outstanding. It looks as though the small dealers will be forced to form their own association, if they expect to stay in business. We have written our Congressman several times regarding this situation, and feel sure that some action will be taken soon as regards this "un-freedom" on the home front, while our boys are fighting for "freedom" on the other fronts all over the world.

We, for one, appreciate the good work you are doing in our behalf, and assure you that we will help the cause along in any way that we can.

P.S. Please don't use our name, just say "from a small dealer in Indiana."

DEALER NO. 61

I am pleased to see that you have opened the columns of the "Chronicle" to the members of Investment Dealers Fraternity, and have taken up the cudgel in defense of harassed small dealers. Every Congressman and every Senator should get a copy of the reprint you are so generously supplying, and I am one who is willing to contribute to the expense.

In addition to what I have written before, I have the following suggestions to make to Investment Dealers, that is: recognize as I did over a year ago, that the NASD is a detriment and a dis-service to its members, and to refuse to pay dues thereby allowing membership to lapse. Thus the membership within a year would drop to a small minority of Registered Dealers, leaving a very large majority in the non-member group, thereby not only shaking loose from the oppressive, dictatorial, over-bearing rules of the NASD, but at the same time I feel sure that the big underwriting houses, in their own interest, would waive the rule about not sharing their offerings with non-members.

I also feel that rather than appease the SEC by accepting the dictum of the NASD lying down, the Industry should serve notice on SEC that they can't do these arbitrary, unauthorized, un-American, unconstitutional things to us either. The voters will soon realize that Bureaucratic, totalitarian psychology that we are fighting a war over is not good for this country, and we will have to overthrow the New Deal and revert to the Constitutional Government of our Founding Fathers.

You have my permission to print any part of this letter or the previous one referred to above, but please, without revealing my name.

Wishing you best success in all your noble work.

DEALER NO. 62

Judging from the dealers' letters published in your issue of the 18, the overwhelming consensus of opinion is that the NASD serves no purpose other than that of affording easy employment at the sole expense of its membership, the small fry which comprises it being at the mercy of heads who represent large houses. Therefore, the little fellow really doesn't know which way to turn and contributes increasing dues merely for the receipt of revolving leaflets indicating change in membership or on committees; all of which helps not at all.

The only central point of concentration for the rank and file of NASD membership, it seems to me, is through your office, now that you have interested yourselves; and while I don't desire to presume for valuable space that my letter No. 13 among the dealers' replies has already taken in your publication, I respectfully beg to suggest that, for the purpose of eliminating the useless NASD entirely, you give early display to this letter to the end of having members express their opinion concerning the advisability of eliminating that organization entirely as utterly useless and one which does absolutely nothing for us. The SEC, in my opinion, is sufficient in itself in covering the field. Then, with sufficient "Yeas," we can close for the justifiable kill.

DEALER NO. 63

We wish to take this opportunity to commend you for your very fine stand in these matters. We, as one of the small dealers, greatly appreciate your efforts in our behalf in attempting to defeat these preposterous proposals.

I have been in the investment securities business for a great many years, first as a salesman, then as western manager for a large eastern house and later having my own business. During all of these years we have run an honest business, without taking advantage of clients. However, it has been our experience that there is considerably more expense in some transactions with clients than with others and consequently, a mark-up of 5%, or even 10% in some cases, does not permit of a profit to the house, when one takes into consideration the time and effort spent and the service rendered, particularly where a salesman is working in out-of-town territory calling on small investors.

Large brokerage houses, with big institutional accounts and with a larger volume of business naturally can work on a much narrower margin of profit than the small house which is servicing the small retail investor and, in most instances, this small investor requires more information and service than the institutional buyer who is familiar with securities and with markets.

In our opinion it is unfair, therefore, to set a limit on the amount of profit which can be taken on a transaction, since this should be left to the dealer himself to figure a reasonable and fair profit in the deal to cover his cost of operation, etc. I know of no business that is asked to operate at less than 5% before overhead, etc., is considered. Most businesses figure their cost of operation or manufacture, which includes everything, and then add on anywhere from 5% upward to take care of their profit. This would leave at least 5% clear, whereas a mark-up of 5% in our business would have to cover cost of operation and, in most instances, leave no profit for the house or, at times even resulting in a loss. Out of the 5% mark-up, 50% is paid to the salesman, plus traveling expenses, etc. leaving the balance to run the organization and pay all expenses. Costs of operation have greatly increased—salaries, services, office expenses, taxes, etc. However, in our business, we are being told that we must take smaller profits on our transactions. In cases where a firm handles very large orders, 5% might be a sizeable figure, but with most of the smaller houses, their business is made up of small orders.

Of course in looking over the list of the men running the NASD, it is clear that they are practically all representatives of large firms and it would appear to us that it is about time the small dealers got together and considered forming their own organization, which I understand they are permitted to do under the Maloney Act.

When the assessment for this year's operation of the NASD came before the BOARD, we received notice to the effect that, due to the smaller personnel in most all of the member organizations, it would be necessary to increase the rate of assessment. Of course no consideration was given to the thought of the NASD attempting to reduce its overhead—merely to increase the assessment rate in order that they could continue to operate on the same scale. This despite the fact that all of the small member firms have had to cut corners in order to get by.

In reference to the Bid and Asked Disclosure Rule which the SEC has been threatening to promulgate, this is no doubt one of the most un-American regulations that has been proposed thus far. I cannot picture what this would mean if applied to our business or to any other business. Imagine going into a Department Store to purchase an overcoat, or to an agency to purchase an automobile and the salesman, before accepting an order, must tell me how much profit they have in the article. All I can see that this would lead to would be the customers running from one salesman to another, advising how much profit the other fellow had and giving the next dealer an opportunity to make a lower price. We would run into a most competitive price cutting system all the way down the line.

Furthermore, there are many investors who do not figure that you have an overhead to pay and, no matter how small your profit would be on their transaction, it would, in their opinion, still be too large.

I think it is high time our Congressmen did something to protect our business from all of the radical regulations which will crush the small dealer and force him out of business. Many of these small dealers have spent their lives building their businesses and have their capital tied up in them, with families to support, just as people in other lines of business, and they are not asked to do the things we are asked to do. We should certainly be entitled to a fair living the same as any one else. I do not know of any group of men who have so wholeheartedly given of their time, without compensation, whenever it has been necessary to help put over a government bond drive, neglecting their own business to make these drives successful. This was true in World War No. 1 and is true again today.

Forcing the small dealer out of business would serve no purpose, as far as the investor is concerned. There are very few of the larger houses who have men going into the smaller communities, soliciting the small investor accounts. Consequently, the large house is dependent upon the smaller one for a considerable portion of its business and if the small dealer is forced out of business, it seems to me that the large house will find a drastic decline in its business and the

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Steel Demand After The War

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invested in the steel industry as compared with around 4 to 4½ billions for private capital. It will be highly desirable that Government-owned plants be acquired by the private sector of the industry promptly after the war, not only to eliminate the possibility of Government operation with its many implications but also to utilize immediately the newer and more efficient plants with a consequent advantage for markets. After the war, the inevitable pressure of excess capacity will eventually lead to the retirement of the old and less efficient units in the industry but it would be more advantageous and advisable that the industry consider an equitable and feasible plan for the early retirement of the old plants.

If the very large steel companies, who are most favorably situated financially, should become the chief buyers of Government-owned plants, such increased concentration and monopoly position in the industry would be undesirable because it might lead some day to adverse criticism and even attacks by various groups, besides making it easier for Government regulation. Pertinent to this situation, is a proposal in Congress to investigate the centralized production of steel and iron with a view to continuing in operation the new steel plants erected in the South and West.

To deal with the problems emanating from Government-owned steel plants, the following is proposed: Organize a "Steel Industry Corporation" in which all or part of the equity capital will be subscribed by all the steel companies wishing to do so, the investment by each company being determined on some pro-rata basis of sales, production, capacities, etc., during an average period as from 1936-1940. This "Industry Corporation" would constitute the vehicle for the acquisition of Government-owned plants and would be in a favorable position to obtain the additional private debt and equity capital required to consummate such plant acquisitions. The immediate objections to such an "Industry Corporation" with regard to competitive aspects, management control, operating policies, etc., are not insurmountable, besides which they are more than outweighed by favorable factors such as providing a convenient and satisfactory method for the early purchase of Government-owned steel plants, of creating a practical medium for constructive cooperation by the individual companies in the industry on those problems which lend themselves to such action, and, finally, of having a very important and basic industry of the nation set an example of how progressive enterprise can adjust itself to changing conditions and forces.

Other Measures for Dealing With Demand Aspects—Any general approach to the over-all problem of demand for steel products must, of course, reckon among other things with such factors as cyclical aspects, the postponability in the purchase of durable goods, the fact that steel as a raw material represents in many cases a relatively small percentage of the cost of finished goods so that total demand for steel has been regarded as being mostly inelastic to price changes, etc., and that a high volume of steel production is synonomous with a large national income. Notwithstanding, the steel industry being of such basic importance to the welfare of the nation's economy, it should take aggressive and practical steps to make its contributions to the problems to be met.

For expediency, the steel indus-

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Concentrated Power Versus Democratic Government

(Continued from first page)

Federal Government has tapped and is using to subjugate the States and their subdivisions by loans and grants from the Federal Treasury. They must reassert and re-establish their sovereignty as responsible heads of general government.

"For too long a time," Mr. Sumners averred, "we have overemphasized the Federal organization in our scheme of Government. In fact, we have been suffering from a bad attack of 'Federalitis.'" "Fortunately for us," he said, "we have the States not too large for Democratic control. . . . Their chief officers are chosen by the people. They afford the opportunity and provide the machinery for the operation and development of democratic institutions, and the development of the governmental capacity of the people, who are the governors in a democracy."

A warning that "when a people yield to a great centralized government to think and plan and care for them from the cradle to the grave, it is not far to the grave for everything which free men hold dear."

The address of Representative Sumners delivered in Boston at a luncheon before the first New England War Conference, called by the New England Council in co-operation with the six New England Governors follows in full.

I am deeply grateful for the privilege to address this gathering of people from the great States which constitute New England. Great is the history of these States, great the achievement of their people. But we must be convinced that greater than they were, our States must be, and greater our people must be, if we are to preserve free government, and the time is now. That is why I am here. I want to talk to you about it, because you people are the government. The government is not in Washington.

A Democracy is an association of private people engaged in the common venture of governing themselves, no king, no hereditary nobility, the people are the government. Only a great people can meet the test of this hour. Centuries and centuries intervene between these great testing times, when nations and civilizations stand at the Bar of Judgment. Only a great people can answer now.

We are rapidly destroying our States. In our system of government the States constitute the habitat, and provide the only machinery through which our Democracy can function in the discharge of general governmental duties. The Federal organization was never intended to do that job. It cannot do it except as a bureaucracy. After the Revolution, the people wanted one army, one navy, one diplomatic corps, one system of coinage, weights and measures, free commerce among themselves, and a relatively small number of other things. So they created the Federal organization to be their agent; not their master. They created it to do for them these few things which these States could not so well do themselves, reserving to themselves and their people general governmental duties and powers.

More and more in later years we have been engaged in the perfectly silly undertaking of trying to make this Federal organization function as the general governmental agency of all the peoples. As a result, we have built up at Washington a governmental colossus utterly beyond human comprehension or democratic control, regardless of which party or group of officials is in power. By the nature of that sort of government, it is inevitable there shall be extravagance, wastefulness, tyranny. It is inevitable that there shall be more and more government by directives, issued by appointed, not elected, personnel working without supervision. We have all but reduced the States to the status of governmental vassals. We have gone further, and largely dissolved the States by attaching their subdivisions directly to the Federal Treasury through loans and grants. We have brought the individual citizens and the businesses in these States subject to Federal control by the creation of financial dependence upon the Federal Treasury. Money which we thought we were getting for nothing we realize now was got by mortgaging the tax-paying power of unborn generations, while at the same time that tax-paying power was also mortgaged to get money to pay the salary and expenses of the vast army of administrators, directors, and bosses. Let us not deceive ourselves. We are now in the initial stages of what will prove to be another of the great battles between concentrated power and democratic government. In this struggle the States must regain control over their sources of revenue which the Federal Government has tapped and is using to subjugate the States and their subdivisions by loans and grants from the Federal Treasury. They must reassert and reestablish their sovereignty as responsible agents of general government. They must do this not only in order to preserve democratic control in the matters of general government, but in order that the governmental business of the Federal organization may be freed of the business which belongs to the States. That would bring the total of its business within the comprehension of the elected representatives, so that Federal laws may be enacted by the Federal Congress instead of being enacted as "directives" by an appointed bureaucratic personnel. Whoever controls the purse strings, controls. That is an extra constitutional power. No constitutional limitation is effective. It is without limit. We must right about face. We are not only weakening the States, but we are destroying the self-reliance, the courage, the stamina, and the governmental capacity of their people—the most deadly thing that can be done to a democracy. We are doing what the declared enemies of our democracy could not do to the structure of our government and to the governmental capacity of the people, upon whose capacity to govern our democracy absolutely depends.

It is axiomatic in our system of government—and I think it is axiomatic everywhere—that he who controls the purse strings, controls. This was demonstrated when the House of Commons got hold of the purse strings in England. It took a long time, but now the Commons are supreme because they never turned loose the purse strings.

We are making a similar demonstration in this country, that whoever controls the purse strings, controls; except that it is in exactly the opposite direction. The Commons used that control to decentralize power; move it back toward the people. We are using it to centralize power, move it away from the people. They used it to strengthen democracy; we are using it to strengthen bureaucracy. Of course, the Federal organization is important in the field of its responsibility. That is not what we are now considering. It is the neglect and destruction of our States which we are considering.

In our schools, on patriotic occasions, in programs of Bar Associations where our Constitution is discussed, rarely are the States mentioned. In the prayers of ministers when they enumerate a list of things they would like God to pay special attention to, they usually name the President. They even name the Congress sometimes; but if God is to pay any attention to the States and their officials, He has to do it on his own.

For too long a time we have overemphasized the Federal organization in our scheme of government. In fact, we have been suffering from a bad attack of "Federalitis." And yet, it is an historically established fact, and in harmony with reason, that after the formative period of a democratic nation there can be no progress in that system except in that direction which moves the power and necessity to govern away from the center, where it concentrated during the formative period, back toward the people.

Fortunately for us, we have the States not too large for democratic control. They function in the main through smaller units of government. Their chief officers are chosen by the people. They afford the opportunity and provide the machinery for the operation and development of democratic institutions, and the development of the governmental capacity of the people, who are the governors in a democracy.

All commentators, in so far as I know, agree that the Habeas Corpus Act, the Magna Charta, the Petition of Rights, and our own Declaration of Independence mark great epochs in Democratic governmental history, because their effect was to decentralize governmental power and move it back toward the people. On the other hand, no great monument can be found along the road which Democracy has traveled, marking the place where governmental power and responsibility have been moved away from the people, out of the units of government which they can control, toward a central governmental agency. Such a direction of movement is not progress in a democracy. No period of concentration of governmental power, of bureaucratic development, of government by edict instead of government by laws, will ever be cited by the historians of the future as a time of democratic progress. Except by conquest, no people privileged to govern themselves ever lost that privilege until they had first lost their capacity for self-government. Capacity is lost by its non-use. There must be capacity and a governmental power must be lodged in a governmental agency which the people can operate. No people who failed to use their capacity for self-government were able to retain it. No people who had lost their capacity to govern themselves were ever able to remain free. People learn to govern by governing. They retain the ability to govern by using it. They lose the ability to govern by not using it. They acquire the greater ability to meet the greater problems of tomorrow only by using the ability today possessed to meet the problems of today. By disregarding these fundamental laws of nature we imperil our democracy. It is the plan of Nature, of God, the Big Boss, whether we like it or not. It will be difficult to do this job. Only a great people can do it. It will test the stamina, the patriotism, and the purpose of the people.

The difficulties of popular government, like all other difficulties, have been provided for the development of people. Nature has no disposition to avoid difficulties for people. It creates them.

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Resentment To Outrageous NASD Profit Limitation Decree At New High Pitch

(Continued from page 2112)

small investor, heretofore serviced by the small houses, will have no one to handle his business and care for his small investment requirements.

We again want to congratulate you upon the fine stand you are taking. If you care to use all or a part of our comments, you may feel free to do so. We ask, however, that such comments be treated confidentially published anonymously.

DEALER NO. 64

May I add my voice to the clamor in your columns over the recent NASD letter to members? It will be my endeavor, however, to try to examine the letter calmly and in the light of my experience and practice and thus perhaps to bring the whole situation into better focus for all of us. First let me say I am not an apologist for the NASD nor do I have any connection whatsoever with them other than as a member of the association.

(1) The letter refers to the mark up correctly as a "spread." The use of the word "profit" for the correct term "gross income" or our trade word "spread" is purely a smearing device of the SEC.

(2) The letter expresses the "philosophy" or perhaps better "considered opinion." I do not interpret the letter as a ruling or regulation, but purely as a general guide for members.

(3) The letter admits that 29% of the transactions carried spreads in excess of 5% and yet states that it would be unwise if not impossible to write a regulation making a specific ceiling. This can only be construed as a completely understanding attitude on the part of the Board that a spread exceeding 5% is often (29% of the time, perhaps) reasonable and fair.

(4) The letter objects to the taking of a full double profit—one on the purchase and one on the sale of securities—in what is essentially one transaction. There can hardly be objection to that or to their intention of being "particularly critical" of that.

(5) The term "market" as a basis for spread presumably means a bid price as a base for purchase and an asked price as a base for sales. An allowance of even 5% above the asked price would in many if not most cases give room for adequate spreads—for instance, on bank and insurance stocks and the usual run of reasonably active over-the-counter items.

(6) I can find in the letter no intimation that the dealer may not continue to charge what experience has taught him is a necessary and adequate spread on his own specials. It is possible he may be called upon to explain or justify these spreads occasionally, but he should be both willing and able to do so and glad of the opportunity to state his case. I admit such examination could develop into persecution very easily, but after all, the NASD officers and board are presumably sympathetic to the honest dealer no matter what his spreads, as distinguished from the patently dishonest dealer.

(7) It should not be overlooked that the letter emphasizes the principle that members are entitled to operate profitably and that on the basis of the returns examined (29% over 5% spread) profits realized are low.

We find it possible a good part of the time to position our specialties and various items which we have recommended to our salesmen, and this entitles us to further compensation for risk.

Though we do no institutional business, participate in no syndicates, but do entirely a retail distribution business in small amounts, we believe we can operate comfortably and at least as profitably as usual under the "philosophy" of the Board of Governors of the NASD **assuming that we have interpreted their letter correctly.**

In conclusion, let me suggest that the way to keep the NASD democratic is to exercise your rights. Get together with others in your city or state, select your candidates for office, campaign for them and elect them. Shall I put myself in the hands of my friends?

P.S. In accordance with the prevailing fashion, we will ask you to keep our identitfy confidential.

DEALER NO. 65

I have read with interest the article in the "Chronicle" of Nov. 4, 1943, and while I do not subscribe to the thought that our Board of Governors and Mr. Fulton have slicked the membership, I do most heartily endorse a **lot** more participation by the membership at large in the promulgation of rules and regulations for the conduct of our business. I see no reason why the NASD cannot have a Convention, and an open forum where any member can get on his feet and discuss our mutual problems.

The answer to this suggestion will probably be that nothing is accomplished in the way of business at conventions, that all business matters are handled at Board of Governors meetings, and Committee meetings. That is quite true. But, as an ex-member of the Board of Governors of the IBA, I have seen many a committee report riddled by the delegates in attendance and some most constructive thoughts emanate from the floor of the Convention. If the IBA can have a convention where the members can gather and discuss their business, why cannot the NASD. It may just be a notion of mine but it seems to me there is just a little too much "holier than thou" attitude on the part of our Governors. I am a great believer in the NASD. I like our police powers. If the IBA had adopted these police powers years ago we may never have had a Securities Act or a Securities Commission.

When it comes to the discussion of what constitutes a fair percentage of profit in our business I would like to approach this subject from the standpoint of a small dealer, but as one who has been the head of larger organizations with many salesmen. Inasmuch as 99% of my business outside of Selling Groups is done on an agency basis, I have no axe to grind.

What is a fair percentage basis, 5%—10%? I contend the percentage is not as vital as percentage resolved into points. For example, under our present day rules and regulations where we have to disclose price to the public and price to the company, if we were going to finance a construction proposition as we have done in the past, I do not believe anyone would say 10% for underwriting was excessive, yet if we brought out a $5,000,000 bond issue, price to public 100, price to company 90, what a howl there would be—robbers! 10 points! On the other hand if we financed the same project with an issue of 500,000 shares of Common Stock, price to the public $10, price to the company $9, I venture to say not one investor in 10 would say a word. The point I am making is that it is not the percentage which hits the eye of the investor, but the number of points.

We financed and put aviation on the map in the twenties. All offerings were mostly common stocks and if my memory serves me right the average price was around $15 per share and we made $1.50 to $3 per share commission, but I do not recall an instance where a single objection was made as to the commission. The circulars all stated the offering was a speculation, and the public grabbed the offerings. It is nice to look back and think of the profits the investors have made in those stocks.

It is quite true that a house which has salesmen covering a rural territory cannot make money on a 5% basis, paying salesmen 50% commissions and travel, because the volume is just not there.

Here is my suggestion as to a dealers profit. 10% up to a price of $25 bonds or stocks; thereafter **not over** 3 points, this applying to over-the-counter securities. On listed Stock Exchange bonds, which are traded over the counter, not over 1 point. Show the charge. On listed New York stocks, the regular NYSE commission plus a service charge not in excess of the regular commission both commissions to be shown on the statement of the customer.

These profits would not apply to a dealers inventory. He might have the foresight to stock securities anticipating a better market and then of course would be entitled to whatever profit the market gave him.

If the Stock Exchange could ever be persuaded to split commissions—with NASD dealers it is my belief that many salesmen now urging the purchase of unlisted securities because they can make a commission, would sell listed stocks and bonds with the result the volume of business on the Exchange would be materially increased and investors would have a much larger selection of securities brought to their attention.

Mr. Paul V. Shields once tried to sell this plan to the Exchange but without success, but his plan was sound and I hope he will try again. One of the arguments I have heard in the past advanced by Stock Exchange members was that so many security dealers throughout the country had no standing and it would be dangerous. Well, if being a member in good standing of the NASD means anything, that argument falls flat.

DEALER NO. 66

We wish to thank you for the firm stand which you have taken against the latest ambigr'ty of the NASD and the SEC's profits disclosure rule. The post-war period will confront this nation with many problems. One of these will be obtaining capital for expansion and new enterprises. These and related problems are being constructively considered by both the government and industry. The SEC and the NASD are apparently doing all that is within their power to move in exactly the opposite direction.

The average security dealer is the most effective medium through which capital can be raised. The two aforementioned appendages however seem to be intent upon first thrusting our profession against the wall and then strangling it to death with unworkable profit limitations and fool disclosure rules.

The writer believes that the only remedy for this choking sensation is continued protests of SEC dealers through your columns and by letters to local Congressmen.

As neither of the two institutions are above reprisals we respectfully request that our name be omitted if you choose to publish this letter.

DEALER NO. 67

As one of the smaller dealers directly and adversely affected by the new NASD profit limitations decree, we wish to heartily endorse your movement to endeavor to see a decent break for the smaller dealer.

It certainly appears that in enforcing this decree the NASD has taken no cognizance of the fact that it is much more difficult and costly for the smaller dealer in outlying sections to operate a business than it is for a larger dealer in the metropolitan areas. We feel that in many cases such a decree will work against the best interests of the investor because the dealer will not be able to service the account properly and spend the money necessary to find the best market for securities.

We would appreciate hearing further from you as to your progress and also would appreciate your not using our name in connection with this letter.

DEALER NO. 68

Pursuant to your letter we are writing you in connection with your printed letter and the enclosure concerning the Oct. 25, 1943, Bulletin from the National Association of Securities Dealers, Inc.

To save you time and that you may avoid reading the rest of this letter we will say we are not in sympathy with the views expressed in The "Chronicle" and we believe it is a great "tempest in a teapot."

If we understand the above mentioned Bulletin the NASD is not attempting to tell any dealer what profit he may make in any transaction. The Board of Governors has interpreted the rule dealing with "just and equitable principles" by added phraseology which should not be repugnant to any dealer who is worthy of the name.

They have reported to the membership the results of their survey on profit margins and in effect have said "stay within these brackets and you are on reasonably safe ground—if we find evidence of reaching beyond this bracket we may inquire into your practices." We can see nothing wrong with that attitude and if an occasion seems to justify our taking a larger margin of profit than is usual for the average of the industry then I think we should be prepared to justify such action.

The fact remains that we in the industry are going to police the business of the investment dealers ourselves or we are going to have it done for us. For our part we would rather be policed by our associates and competitors than to be ruled by kind hearted men without practical experience.

Never before has there been any yardstick of profit by which an individual dealer could judge what might be a reasonable margin of profit. We for one are grateful that such a yardstick has now been provided and it is based on the actual practices of a great majority of the firms in this business.

And so that there may be no misunderstanding between us let it be said that we are an old firm but we **do love profits** and we have seen **many lean** years since the advent of the Securities Act of 1933. However, if we can not run our business and make a living on the margin of profit that is the average for the industry then I think we have no right to attempt to continue in the business by over-reaching on our customers.

And one more thing—we don't like regulation. We would like to go back to the "good old days" but we believe they are gone forever. Much as we dislike it we must admit that those who handle other peoples money have to be policed because of that fringe of persons whose greed outweighs their good judgment.

Steel Demand After The War

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try should first center its efforts and attention on Group No. 3 steel consuming industries, viz., Construction, Railroads and Exports, which potentially represent substantial post-war markets for steel although the extent to which these potentialities can be converted into realities is quite uncertain.

Railroad markets for steel have the advantage of providing a concentrated approach because of the small number of customers and the existence of a strong railroad association which is working actively on post-war problems. A suggested procedure is that the steel industry cooperate with the railroad equipment industry for the purpose of obtaining volume orders on the best possible terms consistent with a reasonable profit margin. In this connection, three leading locomotive manufacturers are pooling their research activities so as to evolve a more efficient and more economical engine which will stimulate railroad purchases.

The Housing Program, which will very likely be pushed after the war by Government and private agencies, can represent a very important category of all building construction. The steel industry can make its contribution here by cooperating on overall problems, where feasible, with the various economic divisions of private industry which are vitally interested in the Housing Program. Specifically, the steel industry can help by advising on plans for large scale construction of housing units at low unit costs and assisting in the efficient utilization of materials. For such purposes, regional advisory offices should be set up in the principal population areas of the country.

The expansion of export markets for steel products above normal pre-war levels will present many obstacles and difficulties. An industry export division, operated on a cooperative basis, could deal more effectively and economically in the study, development and financing of foreign markets.

It should be emphasized that the cooperative principle advocated here contemplates no sacrifice of the individuality of each company or any impairment of its competitive position, but is designed to cope with those problems which will bring about much better results for the entire industry and consequently for the individual members thereof. Today, there are numerous practical examples of cooperation within industries that are advantageous to all the companies in an industry without destroying their sovereignty. Significantly, recent expert opinion is that the WPB Steel Industry Advisory Committee should have the chief role in guiding the industry's conversion to peace-time operations.

Pricing Policies: Without getting involved in the many ramifications and viewpoints on Demand Factors and Pricing Policies for Finished Steel Products, the following brief comment is submitted. The steel industry with its many products does not differ in principle from other large processing industries as to operating conditions, wherein the losses of some divisions are usually more than offset by profits of other divisions—which is as it should and must be. The overall pricing policy on steel products after the war should be such as to produce a reasonable return on invested capital based on volume operations and avoid price increases that promote speculative purchases which the steel industry experienced during 1936-1937.

Summary Comment

Obviously, the elements of

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Some Factors Of A Now-Planned Post-War Governmental And Economic Pattern

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that whatever shall impair our individualistic system and impose upon us a socialistic or communistic regime, will to a great extent, or totally, destroy the returns upon individualistic productivity—whether in agriculture, stock-raising, mining, manufacturing, banking, financing, or in any basic industry—and this will *pari passu* curtail or destroy both investment opportunity and returns. This would clutch the very heart of our life insurance system. For unless there are, in almost unlimited amounts, investments bringing a due and proper return, life insurance as we know it is doomed.

I now call your attention to several matters threatening our individualistic society.

Some Matters Passed Over

I shall pass over the attempted destruction of private enterprise by confiscatory repressions and publicly financed competition, sometimes carried out, as it seems, merely to satiate the private vengeance of public officials; I shall likewise pass over the control of industry through threats of coercion, discrimination, and punishment through tax levies and otherwise. After all, where these exist they are but the offspring of egotism and corruption. They are not real means for changing a governmental system. They pass with the passing of those calling them into force.

Elements of Sound Investment

But obviously, a sound investment must have stability, permanency, and a reasonable certainty of profits.

The elements of sound investment are partly business, partly political. So far as the business element is concerned, that is a tide that ebbs and flows with the normal successes and failures of normal business. We can leave this element to operate in the future as in the past. You insurance men have shown the ability, the wisdom, and the power to cope with that.

But the political element is different. While in the last years pressure groups have exercised increasing power, yet normally the urge of the people for what they wished or needed has motivated our legislation, state and national. Business men have been part and parcel of this urge, visioning with the rest of the people, the public need and welfare. The laws were made by the representatives of the people, duly elected therefor. All this furnished the soil in which sound investments could be planted and could grow. Legitimate business was never unduly hampered or harmed; it participated in the changes and development. No great change was improvised and imposed overnight by experimenting theorists.

"Directives"

But a great change has come. In violation of the fundamental concept of the Constitution that there are three mutually independent branches of government—the legislative, judicial, and executive—neither of which may either usurp or have granted to it the power to intrude upon the functions of the other, we have seen grow up, under this destructive influence I have named, the theory and practice that the executive branch may in fact legislate. Many of these legislative-like enactments are dubbed "directives," a new and meaningless term in our constitutional government. Unless they are legal Executive Orders, they have no legal force. However sound such enactments may be under the principles and practices of the Civil Law—with which the leadership of the communistic publicists are familiar and in which they are probably trained—they are outside our constitutional law and procedure. Behind them are no popular urges—indeed, they not infrequently fly in the face of the people's desire; they are made without public notice or discussion, in violation of established law-making procedure; they are not made by the representatives of the people with a responsibility running back to the people; on the contrary, they are made by young, frequently alien, bureaucrats, with boyish outlooks and frequently with no practical experience,—youths owing no loyalty or responsibility to anyone but their immediate petty official superior (unless there be here amongst us an inner secret State, as some have charged) and hardly a one of whom has been or could be elected to any office, and most surely not to the offices they hold, by the vote of the people.

However, these "directives" involve more than the legislative usurpation. The units that frame them likewise enforce them, —thus becoming both legislature and executive. Furthermore, in cases of dispute, they not infrequently try, condemn, and pronounce judgment for violations, thus acting as a court in judging their own enactments; and finally, having made the law, and judged the law, and imposed the penalty, they act as sheriff to carry out the sentence. This combines all the elements of government into one. This is tyranny in its most complete form, however beneficent it may happen temporarily to be in fact. It was Thomas Jefferson who said: "What has destroyed the liberty and rights of man in every government which has ever existed under the sun? The generalizing and consolidation of all cares in one body."

Influence of "Directive" Government on Investment

Whenever, in making the laws for the people, the will of the people is not consulted, but only the whim, or caprice, or overnight changnig theory or ambition of a bureaucrat, acting under mixed and not infrequently improper motives, then you have such a state of uncertainty and instability as makes most difficult, if not impossible, the building or maintenance of a stable, permanent financial and economic system that can be the foundation of a safe and sound insurance business.

Now, all that I am saying as to the activities of these aliens is a matter of public knowledge. I shall not stop to prove it. The advances, retreats, the about-faces, the monumental errors and incompetencies of any one of a dozen alphabetical agencies will prove the case.

Does anyone suppose that it is not now planned by these destructive elements to carry out this same system of "directives" after the war?

Individual Rights Lessened or Destroyed Under the "Directive" System

Some of the things, but by no means all, which have been accomplished by illy conceived laws and their implementing "directives" and like measures, are worth gathering together here in one place, that they may all be in view at one time.

Through them direct gratuities have been paid from the Federal Treasury to the citizenry who have been condemned to idleness under penalty of losing their bounty. The history of nations shows this has always debauched the people and made way for dictators and tyranny.

They began by inducing Congress, through subterranean channels, to set up an extreme system of regimentation covering production and distribution. It was known as N. R. A. and was almost the leader in the alphabetical procession. The Supreme Court disposed of that.

They have prescribed what a manufacturer may make, and how much of it, and have set up price ceilings on the sale of the articles. They have compelled some industries to abandon their regular business and do the things they direct.

They have prescribed what working men shall be paid, the number of hours they shall work, the conditions under which they shall work, how many shall work, and their rates of compensation.

Following years of scheming, plotting, and working, these aliens are seducing labor; they are un-Americanizing it; they are bringing it under the power and direction of communistic racketeers and saboteurs, — who, in violation of the principles that must control among free peoples, decide who may and who may not work, prescribe the terms and conditions under which their fellow workers may work, lay a heavy tribute upon every man and woman falling under their power; they seemingly make no a d e q u a t e accounting for the enormous sums they wring from their victims, either to their victims or to the Government, and they are charged with using the funds for corrupt and un-American ends and purposes.

They have made rules and regulations covering the employment of the so-called white-collar man; they have compelled an employer to get the consent of a Federal agency if he wishes to give a needy charwoman a raise of five dollars a month.

They have prevented men from agreeing together about their own relationships as employer and employee, as their own wills and interests shall appear.

They have substituted in lieu thereof, a system wherein it is possible to hold a heavy and partial hand in favor of one party against the other, and to carry out this system under non-judicial tribunals, allegedly formed to give justice, but always susceptible of being wrenched to the interest of the favored party.

They have compelled or induced the farmer to destroy his crops and kill his cattle and hogs in such numbers and proportions as they determined.

They have forbidden the farmer to grow certain crops and have declared confiscated the crops grown in violation of their mandates.

They have fixed the prices for which the products of the soil and of the herds could be sold.

They have declared to whom these sales might be made and in what quantities.

They have actually declared in what place the farmer must eat the food which he has produced on his own land and in his own pastures and barnyards.

They have obliged a farmer,

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Steel Demand After The War

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prices, wages, taxes, etc., in addition to demand, are very significant to the post-war earnings outlook for the steel industry. The first objective, however, is to concentrate on pushing demand for steel products because the extent to w h i c h such objective is achieved will favorably influence the prospects of earnings. Pushing or developing demand for steel products after the war is of vital concern to the entire industry, and from a practical standpoint, coordinated action for this end will accomplish much more results than separate measures by each company.

Canadian Securities

By BRUCE WILLIAMS

Powerful support has been given to the school of thought that favors currency stabilization on the basis of preliminary stabilization of the "key" currencies, instead of a global scheme involving the immediate adjustment of all the world currencies. Mr. Leon Fraser, President of the First National Bank of the City of New York, expresses the opinion that it is first necessary to stabilize the dollar and the pound on a working basis, and then in accordance with past practical experience, arrangements would be made with other countries to stabilize their currencies.

Too much is at stake to have the fate of world commerce at the mercy of another possibly abortive League of Nations. The dollar and the pound have provided such efficient working bases for the whole world over such a long period that it would appear wise, at least at the outset, to approach this problem from this direction.

As previously mentioned, another alternative is the preliminary stabilization of the U. S. and Canadian dollars. The economies of no other countries are so completely intermeshed; the two dollars could easily be restored to a common basis; Canada could serve as the intermediary between this country and Britain, and would ensure a harmonious approach to the larger question of the stabilization of the pound. In any event, the past record of this country and the British Commonwealth in the upholding of the gold standard makes it eminently fitting for these countries to take the lead if gold is going to be the accepted standard.

Canadian trade figures for the first ten months of 1943 make interesting reading. Exports during this period totaled $2,378,961,229, compared with $1,889,801,990 in the corresponding period of 1942, and are now in excess of the total for the entire year of 1942. The favorable balance of commodity trade for 1943 now stands at almost $1,000,000,000.

During the past week, the market was again exceptionally quiet. Direct Dominions were in some cases about ½ point lower on a small turnover. Nationals were unchanged but the 5s of October, 1969 were in fair supply at 117. Ontarios and Quebecs continued in demand but offerings were still restricted. Fairly active trading continued in British Columbias with little effect on the price level.

There were a few dealings in New Brunswicks and Nova Scotias but in this section also the volume was not sufficient to cause any price movement. The market in Manitobas and Saskatchewans was almost completely dead, but Albertas were again in some supply with the 4½s obtainable at 78. There was renewed interest in City of Edmonton bonds following the first call for redemption on Feb. 1, 1944 of the Edmonton 4½s of 1938 which formed part of the 1937 organization.

Internal issues were still in the doldrums and the free exchange rate followed an erratic course between 10 and 11% discount. This exchange market is normally so exceptionally small and is so vulnerable to speculative activities that it is surprising that the Canadian authorities do not stabilize it on the basis of the official rate.

With regard to the market in general, the expected resumption in activity is still delayed and the confidence of investors in all markets has not yet been completely restored following the recent Stock Exchange break. There are indications, however, of some improvement in other directions, and there is little doubt that the tone of the Canadian market here will be affected accordingly. However, as already pointed out, this section of the investment market stood up better than any other during the recent overall decline.

Yield-Price Table For Treasury ⅞% Certificates

Manufacturers Trust Company 55 Broad Street, New York City, has prepared and is distributing a yield-price equivalent table which facilitates the determination of dollar prices for U. S. Treasury Certificates of Indebtedness.

As certificates or indebtedness are now quoted and traded on a "yield" basis rather than a "price" basis, Manufacturers Trust states it is not always convenient to convert quotations into dollars and cents by the customary methods. With this table, the desired information can be obtained in a few seconds.

War Dept. Film To Open N. Y. Industry Congress

The world premiere of the Army's latest documentary film, "THE WAR DEPARTMENT REPORTS," will serve as the curtain raiser for the Second War Congress of American Industry at the Waldorf-Astoria Hotel, New York City, Dec. 8, 9 and 10. Described in authoritative quarters as "the most gripping" documentary film of the war yet produced, the picture dramatizes the performance of weapons designed and produced by the American Industry.

Municipal Bond Prices Today And Tomorrow

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generally uniform, with little relation to the fundamental quality of the bond. These examples, however, over a period of six years from 1925 to 1930, should be sufficient to convince the most doubtful.

Then came the rude awakening, and how rude it was. People high and low, of big and little means, of great and limited wisdom, found that municipalities could, and sometimes do, default. The price pattern, instead of being uniform, showed a wide divergence.

Anyone with experience in purchasing municipals will recall the great divergence in prices existing in the early and middle 1930's for many of the names listed above that were selling in approximately the same price range in 1925-30. Hence only a few outstanding examples will suffice to illustrate the point.

In June, 1925, Akron and Franklin, Ohio, were both being offered at a 4.10 basis. In 1932-38 the heavy debt burden and lack of diversification of industry for Akron dealt their blows to the city's finances and its bonds sold as low as 42. On the other hand, Franklin Co., of which the county seat is Columbus, paid its requirements promptly without difficulty.

In February, 1926, State of Missouri bonds were offered at a 4.10 basis and City of Detroit, Mich., at 4.15. Everyone is familiar with the subsequent collapse of Detroit's credit and the market for its bonds, while Missouri's credit and market have maintained an enviable position.

In January, 1929, Cincinnati, Ohio, was offered at 4.15, with Mobile, Ala., at 4.50, and Ashville, No. Carolina, at 4.60. Further comment on the subsequent history of the payment and markets of these places is unnecessary. In November, 1929, Arkansas Highway bonds were offered at 4.50, with Washington Co., Ohio, at the same price. The collapse of the market for the former is a commonplace. Washington Co., of which Marietta is the county seat, paid promptly without even resorting to the sale of refunding bonds. In January, 1930, State of Michigan at 4.25 compared with Detroit at 4.35.

It is a bit more than interesting to realize that the approximate low market price in the 1930's for Detroit was 35, for Arkansas 38, for Akron 42—and for Cameron County, Texas, 26, although this county was offered in June, 1925, at a 4.60 basis, at the same time that Canton, Ohio, and Miami Co. (Piqua and Troy), Ohio, were offered at 4.15—and the low for Miami, Fla., about 23, although bonds of this city were offered in November, 1926, at a 5.00% yield at the same time that Greene Co. (Xenia), Ohio, was offered at 4.30% yield.

Following the collapse of 1933-34, municipal prices generally started moving upward. Although the rising trend was uniform, the prices at which different names were selling showed wide variations. For example, a circular of January, 1935, shows offerings of: Cincinnati, Ohio, at 2.50% to 2.80% (depending on the maturity); Delaware Co., N. Y., at 2.65; State of New Jersey (long maturities), at 3.00; Milwaukee Co., Wisc., at 3.30; Columbus, Ohio, at 3.60; Cuyahoga Co., Ohio, at 4.25 to 5.00 (depending on maturity); Cleveland, at 5.00 to 5.10%; Akron, Ohio, 4¾ to 6% bonds at 95 to 97; Shaker Heights, Ohio, 4½s, at 90; Toledo, Ohio, 4¼s to 5s at 97½ to par; Detroit, Mich., 4¼s to 5s, at 91¼ to 95½.

Beginning with the upward trend of prices after the banking holiday of 1933, more and more attention was paid to maturity. Subsequently, as the market continued to rise and bonds commanded higher and higher premiums, yields for the same credit varied with coupon rates because of the premium. As a result, shorter maturities sold at lower yields than longer maturities of the same credit, and bonds with low coupon rates sold at lower yields than bonds of the same subdivision with high coupons. Consequently, it is not practical to take at random a list of offerings and simply compare the yields to note the spread between bonds of good quality and bonds of poor quality. Adjustments need to be made in the yields compared to allow for varying maturities and coupon rates.

In general, however, it is obvious that the spread between high grade and lower grade municipals, existing in 1933-34, has been narrowed, especially since 1938. Of course, some of the names listed in the offerings mentioned above for 1925-30, suffered such a considerable collapse of credit that they have not even climbed back to the market levels existing prior to 1930. On the whole, however, not only have practically all grades of municipals risen in price far above the levels of the '20s, but the second grades have attained a price level not far removed from that at which high grades are selling. This paper is not concerned with the level of the market generally, but with the price level of bonds of poor quality as it stands in relation to the price level of bonds of high quality.

Although prices had been rising since 1933, all bonds began a renewed rise in the fall of 1936, when the reelection of the New Deal money managers brought the conclusion that easy money and low rates were to be with us for awhile longer. But in 1937-38 came a development in the municipal market that should not be overlooked. In the early part of 1937 the "recession" (a New Deal name for a depression) began to take hold of the country. By the end of that year and the early part of 1938, comments were freely heard in the municipal trade of the possible relief burden that many municipalities might have to bear if the "recession" continued. Moreover, more and more thought was given to the possible adverse effect declining employment might have on tax collections, and the possible adverse effect a decline in tax collections might have on the credit of some municipalities, and the possible adverse effect this might have on the market for refunding bonds, and the possible adverse effect this might have upon the ability of some "industrial" communities to pay their obligations promptly.

In other words, municipal investors began to give more consideration to the fundamental quality of various municipal bonds.

However, the New Deal hierarchy, being politically astute and realizing the possible adverse effect of the coming election on their pet schemes and stooges, decided the time was ripe to inject another shot of pump-priming into the ailing economy. As a result, business secured more orders, plants began operating at increasing tempos, employment rose, fears of declining tax collections and growing relief costs waned—and municipal investors turned their attention to matters other than the quality of the bonds they bought.

Next came the outbreak of World War II. From then on, business as a whole has had sufficient orders that no one has been concerned about declining wages and tax collections—at least as long as the war boom lasts. As a result thoughts of the possible adverse effect of declining tax collections on municipal credit, which began to creep into the minds of investors in 1937-38, have been practically nonexistent. True to form, the spread in price between municipal bonds of good quality and those of poor quality has come closer and closer to disappearing.

The comments of the past few paragraphs have, admittedly, been of a general character. Proof that this spread has grown less is perhaps not available for the municipal market as a whole, although those investors who have given the matter its due consideration may not need any proof other than their own observations. Yet there appears to be proof of this trend in at least the market for Ohio municipal bonds.

The index of Ohio municipal prices computed weekly since early this year by J. A. White & Co., Cincinnati, has been extended back to Jan. 1, 1938. The unique feature of this index is that it shows the market for 10 high grade Ohio bonds and for 10 lower grade Ohio bonds, and in the extension back to 1938, the market for each of these groups is shown separately as of Jan. 1 for each year from 1938 to date. The index is expressed in terms of yield and is reported herewith for both groups of bonds, with the spread between each group.

	1-1-38 %	1-1-39 %	1-1-40 %	1-1-41 %
20 Ohio bonds	2.98	2.78	2.30	1.88
10 lower grades	3.42	3.33	2.58	2.14
10 high grades	2.55	2.24	2.01	1.62
Spread	.87	1.09	.57	.52

	1-1-42 %	1-1-43 %	11-17-43 %
20 Ohio bonds	1.92	1.83	1.39
10 lower grades	2.13	2.01	1.57
10 high grades	1.70	1.65	1.22
Spread	.43	.36	.35

The 10 bonds included in the high grade group are: Canton, Cincinnati, Cleveland Heights, Columbus, Elyria, Franklin County, Hamilton County, Springfield and Zanesville. The 10 bonds included in the lower grade group are: Akron, Cleveland, Cuyahoga County, Cuyahoga Falls, Ironton, Lorain, Portsmouth, Steubenville, Summit County and Youngstown.

On Jan. 1, 1939, the spread between the market for the two groups was 1.09% in yield, whereas it was only .35% on Nov. 17, 1943. In other words, bonds of the former group, on the average, sell today for only .35% less yield than those in the latter group.

This tendency for municipal prices to equalize in a period of good tax collections is but a result of human nature. While taxes are being collected easily and fully, there is little danger of default. It is while taxes are difficult to collect that the danger of default, or at least of refunding, exists. Of course, one should anticipate difficulties, but the tendency of man in good times is to forget bad times. To forget is human: to remember, divine. So when there is no danger of default, the tendency is to put it out of mind. By the same token, when money is easy and employment general, the tendency of the creditor is to examine the borrower with less critical care. As the lender grows more lax in his requirements, he finds himself making less and less distinction between borrowers and less and less difference in the terms on which different debtors borrow.

Thus the tendency toward uniformity of prices in the municipal market during periods of good tax collections is but a part of a general movement toward uniformity of all lending rates when money is easy. An illustration of the wider application of this general movement is the declining spread between high grade and second grade corporation bonds. As reported by "Moody's" index of bond yields, the spread between the average yield in 1938 for bonds included in their index rated "Aaa" and those rated "Baa" was 2.61%. As of Nov. 9, 1943, this spread between yields on their "Aaa" and "Baa" bonds had narrowed to 1.14%. A further illustration of the current tendency toward laxity on the part of the creditor, in his requirements as to quality, is the attitude of bankers toward borrowers. Most bankers will admit that their requirements for loans, not only as to terms but also as to quality, are lower now than they were in 1933-34.

When creditors generally are thus lowering their standards of quality, it is, of course, not to be expected that many investors will go contrary to this general trend. Yet it is the purpose of this paper to suggest that the investor, at least in medium- to long-term municipal bonds, raise his standards of quality above what they were in 1933.

Municipal bonds generally are never all of good quality. In the depths of the depression this fact was obvious because many communities were in default and some were in desperate financial condition. These conditions were vividly reflected in widely divergent prices for municipals. In times of prosperity, however, (even though it be artificial prosperity, as is the case now) this fact is not at all obvious. As has been emphasized, when financial difficulties fade, the memory of them fades. Few municipalities are now in default—termporarily at least, there is no immediate danger of widespread defaults—and for reasons already stated most municipal bonds are now selling at high and practically uniform prices. But high prices do not assure high quality, even though they may seem to do so to the lackadaisical investor of prosperous times. Nor do uniform prices assure uniform quality, though they may imply it. Quality is more difficult to find, therefore, in prosperity than in depression for the simple reason that one has to look below the surface for it. The reason one has to go to greater effort to find it in prosperity, is simply that so few people are looking for it that it is neither generally recognized nor even generally noticed. Under such circumstances it seems highly advisable that the investor in medium to long term municipals maintain strict requirements as to quality, lest he, too, fall prey to the relaxation of standards that comes with prosperity.

But there is yet another reason for such an investor to choose his municipals with greater care today than in 1933. Ten years ago the economy of the country was hitting the bottom of activity. Wages, employment and tax collections were at a low. The course from the bottom can only be upward. Today, wages, employment and tax collections are at an all time peak. The course from the top can only be downward. When at the peak, one should fit himself for the downward trek. Similarly, in prosperity the investor should prepare for the depression, and though few will do so, the investor in municipals should maintain the strictest requirements as to quality in buying medium to long term maturities for the simple reason that it takes a bond of the highest quality to withstand a downward course from prosperity to depression, while a bond of poor quality can rise from depression to prosperity.

As has already been stated, as long as taxes are easily and fully collected, there probably is little or no danger of default. Such ample and easy tax collections, however, depend largely upon full employment. How long we shall enjoy full employment is a debated, if not debatable question. No one can predict accurately what will happen to business conditions after the war. However, it appears difficult indeed to envisage any possible peacetime demand that could be so urgent as is the present demand for war production, and that could cause a continuation of capacity operation, with the capacity of most plants considerably enlarged over what it was before the war, and that could use continued three shifts of employees—and absorb also the millions of men who will return from the armed services looking for employment. In other words, the least adjustment that appears probable will be a considerable reduction in employment.

Whether this reduction in employment will level off as it reaches the pace prevailing before the war, is difficult to predict accurately. Moreover, whether a reduction to this point only will enable municipalities to continue to collect taxes fully, and to avoid heavy relief costs, is also difficult to predict accurately. But these questions relate only to the near term future, judging by the predictions one hears so frequently now of an early peace. A question of longer term connotation is what will happen to employment when the accumulated demands for peace time goods have been satisfied. The answer to this question depends largely upon whether or not the people of this country will soon be shed of the present New Deal administration with its policies that stifle progress, and whether the people will choose instead an administration that will at least permit, if not encourage, freedom of enterprise, growth of business, confidence in the future and that spark of a free people, the willingness to take a chance in the hope of making a profit.

In view of the difficulty encountered in attempting to answer these problems, one cannot envisage the future clearly. It seems extremely likely, however, that we are no more rid of depressions than we are of wars. Many economists ascribe the latest depression of the '30s to the expansion of the first World War. That depression no more ended all depressions, that did that war "end all wars." One should also keep in mind that the economy of this country has not been permitted to rest on a solid foundation since the New Deal administration took control. Every start at recovery has been the result of an injection of a patent medicine called pump-priming, that never treated the cause, but only the ailment, and always aggravated the cause. Under such conditions it may very well be that the patient will suffer a relapse worse than the original illness.

One need not be so pessimistic, however, to appreciate the soundness of choosing his municipal investments today with care. In the first place, one need only conclude that there is a possibility of a slump in employment during the next five years that will adversely affect tax collections. In the second place, one can resolve that he will at least hedge against such a possibility by investing in bonds of only high quality when making commitments that extend beyond that five year period (or beyond whatever period he may conclude will bring a material slump in employment).

In the third place, and perhaps, most important, he should realize that he can purchase municipals of high quality at prices very little different from those at which bonds of lower quality are selling today. Using as an example the price index of Ohio municipal bonds referred to above, one can see that high grade Ohios, at least, are available at yields, on the average, only .35% lower than those at which lower grade bonds sell.

Before the New Deal, people were taught that one must pay for anything he gets in this world. So it is, still, and one must pay for quality. But the fact is that quality is selling cheap today because too few people are looking for it. Money is today jingling in everybody's pocket and few are worrying or even thinking about the day when it didn't jingle, or when it won't jingle again. But that day will come.

There's a song from the old era of jazz that goes: "There'll come a time, and don't forget it: there'll come a time when you'll regret it." It seems advisable not to forget the days of unemployment, and to anticipate the time of unemployment in the future, so that you won't "regret" not having anticipated it. Such anticipation, with regard to municipal investments, need consist only of selling those bonds of poor quality to those investors who aren't mindful of quality today, and buying only high grades—all of which can be done today at very little loss of current yield, and possibly at a great saving in yield and principal, considering the long term future.

In 1933-34 the price of quality was high, whereas before 1930 it was, and since 1940 it has been low. As the above history shows, there was a wide divergence in price between good and weak bonds in throes of the depression. One could buy a second grade bond well under 50 cents on the dollar, while most high grade bonds were selling for twice as much, or more. In those days, then, one paid dearly for quality, while, ironically perhaps, he could as well have purchased second grade risks, so far as their future appreciation was concerned. It is a commonplace, of course, that the time to buy is in a distress market. Similarly, the time to buy second grade risks was during the worst of the depression when unemployment was rife and tax collections were decidedly low. At that time investors were quite conscious of quality, and the price one had to pay for it was high.

On the other hand, prior to 1930 investors, in municipals at least, were quite unconscious of quality and it carried little value in the market. Similarly, today, investors do not demand quality in their bonds, with the result that its price is low. One could advisedly, therefore, buy quality freely today, when the price necessary to get it is so low, and reserve his purchases of bonds without quality for the time when such bonds can be bought at prices that reflect the lack of quality.

Of course, most investors, in periods such as the present and for reasons of human nature outlined above, will say that they own municipals only of good quality. Most will say that all of their municipals are at least "good." No two will have the same opinion of what is a "good" municipal, but one thing is certain: in prosperous times the standards of what is "good" are lower than in difficult times. Any municipality will be considered "good" by more investors during an era of prosperity than in a depression, for the simple reason that investors as a whole, being human, are less critical in prosperous times.

Prior to 1930, as today, municipal investors had the same feeling, that all of their bonds were "good." In those days, as today, there was no accepted basis for determining the quality of a municipal bond. None has been developed yet, because of lack of experience—we have gone through only one depression since people learned that there are strong and weak municipal securities, the same as with corporate securities.

Perhaps one thing that the municipal investor learned from this depression is that consideration should be given to the debt burden of a municipality. So far, however, he has learned fully to appreciate only the direct debt. Progress is being made, albeit ever so slowly, in teaching him to consider also the overlapping debt in appraising the true debt burden of a community. About 1934 investors began to realize that there was such a thing as overlapping debt. Municipal dealers also recognized the existence of such a thing, and in their circulars called the attention of the investors to it by saying that it was not reported in the data set forth as a basis for guiding the investor to a conclusion of the quality of the bond. Some few dealers—too few, indeed—now make an effort to show the overlapping debt along with the direct debt. But the general practice, even now, ten years after it was discovered, is simply to recognize it as a thing that should be considered, but is not.

As long as investors do not show an interest in learning what the true debt burden of the community is, it seems hopeless to expect that a proper appreciation will be given, in appraising the quality of a municipal bond, to the stability of the economic pursuits of the taxpayers of the municipality, and to the type of people who comprise the community. Maybe a few more depressions will demonstrate, not only the value of quality itself, but also the value of these other factors in determining quality.

In conclusion, it would seem accurate to say that, today, with quality in municipals going begging, not being sought after by investors and therefore commanding little price, with the result that bonds of high and low quality are selling at practically the same level, the cheapest bonds are those of high quality and the highest price bonds are those of poor quality—for the next depression will prove the value of quality, and the wisdom of having bought it during prosperity when it cost so little.

Earnings, Jobs & Hours At New Peaks In Sept. Says Conference Board

Earnings, employment, man hours and payrolls reached new peaks in September, according to the regular monthly survey of 25 manufacturing industries by the National Industrial Conference Board. The work week was longer than in any other month since May, 1930.

The Board's announcement Nov. 24 explained:

"At $1.035, the average hourly earnings of all workers in these industries was 1.5% above the August level, 8.2% above September, 1942, 36.4% above January, 1941, the base date of the little steel formula, and 75.4% above the average for 1929. The rather sharp rise from the previous month is believed to result largely from premium bonus payments for work on Labor Day.

"At $47.16, average weekly earnings were 2% above the previous month, 12.8% above September, 1942, 54.1% above January, 1941, and 65.2% above the 1929 average. 'Real weekly earnings, or dollar weekly earnings adjusted for changes in the cost of living, were 1.5% above the previous month, 8.2% above September, 1942, 28.8% above January, 1941, and 60.6% above the 1929 average.

"The work week in September was 0.2 hours, or 0.4%, longer than in August, 1.9 hours, or 4.4% longer than a year earlier, but 3 hours, or 6.2%, shorter than the 1929 average.

"Man hours rose 0.7% from August to September, and reached a level 11.5% above that of September, 1942, and 38.4% above the average for 1929.

"Payrolls in September stood at 264.2 (1923=100), at which figure they were 2.2% above those of August, 20.5% above those of September, 1942, and 143.7% above the 1929 average."

Patents and Business

(Continued from page 2102)

he had before." These royal grants became so obnoxious, covering as they did so many articles of everyday use, such as salt, vinegar, iron, brushes, pots, bottles, oil, paper, starch, tin, sulphur, etc., that mounting indignation against the extension of these monopolies culminated in the enactment of the famous British Statute of Monopolies in 1623. By this statute all monopiles were abolished and the Crown was prohibited from making any future grants of a like character, with the express exception that letters patent, for limited periods of time, might be granted "to the true and first inventor" of new manufactures.

The American colonists carried over into their respective colonies this theory of a reward for a limited period of time, for an invention by the true and first inventor. These colonial and state patents, unlike modern patents, were issued only by special acts of legislature. Thus, as early as 1641, we find Massachusetts granting to one Samuel Winslow a patent for a 10-year term for a method of making salt. In 1646 the first patent on machinery was granted by the same state to Joseph Jenkes for a mill for making scythes. Other early patents were granted by the various colonies for methods of making linseed oil, molasses from cornstalks, duck, steel, potash and glass.

Our patent system as we know it today is based upon Article I, Section 8, Clause 8, of the Constitution, which provides that:

"... Congress shall have power ... to promote the progress of science and the useful arts, by securing for limited times to ... inventors the exclusive right to their ... discoveries."

Under the patents statutes enacted in pursuance of this Constitutional provision, a patent may be granted for:

"any new and useful art, machine, manufacture, or composition of matter, or any new and useful improvements thereof."

and in recent years, patents were authorized for certain plants.

Theory of Patents

Patents are intended as a reward to inventors for disclosing their inventions to the public and as a stimulus for the progress of the arts and sciences. It is of prime importance that society should have the benefit of inventions at the earliest possible moment. When inventors know they are going to be adequately protected, they will not hesitate to disclose their inventions, but in fact will make every effort to disclose them to the public as soon as possible. The inventor thus gives something to the public which it never had before, and the public gives to the inventor patent protection for a limited period of time for the disclosure of the invention. Patent protection also encourages manufacturers and others to invest money in research and development and in commercialization of the patented products, machines, and processes.

Without going into a discussion of all the arguments as to the nature of the patent grant and the conflict between the rights of the inventor and the public, it has become universally recognized that to stimulate inventive skill and energy is one of the most effective methods of advancing national prosperity. That the patent privilege, upon the whole, is conducive to the public good, is conceded by most. The patent grant may be regarded as the consideration paid to an inventor for his immediate and full disclosure to the public of his invention, and his ultimate surrender thereof to the public. One court summed up the situation concisely by stating:

"A patent is a written contract between an inventor and the government. This contract consists of mutual, interrelated considerations moving from each party to the other for such contract. The consideration given on the part of the inventor to the government is the disclosure of his invention in such plain and full terms that anyone skilled in the art to which it appertains may practice it. The consideration on the part of the government given to the patentee for such disclosure is a monopoly for 17 years of the invention disclosed to the extent of the claims allowed in the patent."

It is essential to bear in mind, when you hear the patent system attacked, that the patentee does not deprive the public of something which it had before, but gives the public some new creation. In other words, the patent grant gives an inventor, for a limited period of 17 years, the right to exclude others from using his own invention, in return for the inventor's disclosure of his new and useful invention, which becomes public property at the end of the grant. Why those who attack our patent system should regard such a limited protection with disfavor, when no criticism is made in permitting private ownership, for a lifetime, of other property, such as a house, land, mine, automobile, is not clear. Why should it be considered proper that one who discovers a mine, such as a gold mine, or a copper mine, should have the property in perpetuity, whereas the person who discovers a method of increasing the net product of copper ore by differential flotation, for example, has the privilege of excluding others from the use of his property for only 17 years? As everyone connected with business knows, it takes many years to put a new invention on the market or into practice. Generally speaking, five years is considered a reasonable time and in many cases seven to 10 years or longer are required. Frequently, the patent expires wholly or partially without the inventor obtaining any enjoyment at all from his patent as was the case in Dunlop's automobile rubber tire. Edison's Electric Lamp had to await the development of economical methods of generating and distributing electric current, while Wright Brother's airplane with warped wings could not be commercialized until an engine was designed and made which would provide dependable power for flying.

It is significant to note that at the close of the hearings on patents before the Temporary National Economic Committee on Jan. 20, 1939, the Chairman of the Committee, Senator O'Mahoney, stated:

"There seems to be a general agreement by these witnesses as well as by those who previously testified at the Department of Justice hearings some weeks ago that inventors and business still need the protection and stimulation of patents. . . .

"The fact that patents are keystones in many very important industries has been brought home to us with great emphasis. I doubt whether I had realized their significance as a primary force in the operations of the economic system. These hearings may lead more of us to give to patents the attention they so certainly deserve.

"There was practically unanimous agreement among the witnesses that Congress, by the enactment of the Patent Law, has given this country a system far superior to that which exists in any other country."

None of us has any illusion as to the dangers of the Japanese as an enemy; but we also recognize that the Japs were keen in seizing upon factors which had helped to build up the great nations of the world and turning them to their own benefit. In 1899 a special Japanese commissioner to the United States, who was investigating the American Patent system preparatory to the installation of one in Japan, said, in an interview with a Patent Office official:

". . . We have looked about us to see what nations are the greatest, so that we could be like them; and we said, 'There is the United States, not much more than a hundred years old, and America was not discovered by Columbus four hundred years ago'; and we said, 'What is it that makes the United States such a great nation?' And we investigated and we found it was patents."

A similar story is told about a Swiss manufacturer who visited our Centennial Exposition in Philadelphia in 1876 and who praised our patent system and advocated its emulation by the Swiss Government. In his address he said:

"I am satisfied from my knowledge that no people has made, in so short a time, so many useful inventions as the American, and if today machinery apparently does all the work, it nevertheless, by no means, reduces the workman to the machine. He uses it as a machine, it is true, but he is always thinking about some improvement to introduce into it; and often his thoughts lead to fine inventions or useful improvements."

In a statement filed with the Senate Patents Committee on Oct. 23, 1942, Mr. John W. Anderson, President of The Anderson Company, Gary, Indiana, made a strong plea for the preservation of our patent system as a protection for the thousands of small manufacturers throughout America who rely upon patented features of their products to make those products more serviceable to the public. If not protected by patents, they will have to leave the field to the giants of industry, with their great concentration of capital, production facilities, technical personnel, and entrenched distribution.

Mr. Anderson pointed out an example of how patent protection alone has enabled a small manufacturer to develop his products and business against strongly entrenched competitors. This manufacturer, who had patented a process for making steel tubing faster and cheaper than a large competing corporation, was able to undersell and defeat that competitor.

Investigation, Exploitation and Commercialization of Patents

Before a patent is purchased or otherwise used as the basis of a business, it is essential that a thorough investigation be made of the validity and the scope of the patent under consideration. The most satisfactory way to begin an investigation of this sort is to obtain a copy of the patent from the Patent Officet — may be purchased for 10 cents. After a patent copy has been obtained, then the file wrapper or history of the proceedings in the Patent Office of the application upon which the patent is based should be obtained. This file wrapper is obtained directly from the Commissioner of Patents, or it is possible to have an agent in Washington go to the Patent Office and secure a copy. All of the prior patents and publications cited in the file wrapper should be secured so that a detailed study may be made of the history of the application upon which the patent was granted. If the result of this study is favorable, then an independent search should be made to find all patents and publications which have a bearing on the validity and scope of the patent.

After an investigation has been completed, the question of the manner of commercializing the invention arises. Usually the best way to accomplish this end is to attempt to license some one already in the business or in a kindred line of business. If no such person can be found, then a company should be organized.

Patents As Property

Patent rights are property. When forming the basis of a new business or used in conjunction with a going business, a patent can be evaluated as any other piece of property and can be subjected to the usual accounting procedure. Thus, the cost of patents, legal expenses incident to procuring and protecting them, and experimental expenses in connection with their development are considered as capital expenditures, and amortized over the life of the patent, i.e., 17 years. In one case the Supreme Court held that patent property should be taken into consideration in the evaluation of the property of a public utility when a rate is being formulated by a Public Service Commission. Compensation for services rendered by inventors in the commercialization of a patent situation, whether by way of a fixed annual sum or a percentage of profits, has thus far been considered as an annual charge, deductible in the year in which paid. For some time, expenditures for research in developing new inventions were regarded as annual charges and deductible as such; but the tendency of the Bureau of Internal Revenue now seems to be to capitalize such expenditures. This is an unfortunate trend, for when research expenses were recognized as a valid deduction from taxable income, the policy played an important function in the development of industrial research.

The fact that a patent is an instrument created by a Federal statute does not create an immunity from state laws, say the police powers or the taxation of royalties derived from a patent (in Fox Film Corp. v. Royal, 286 U. S. 123). Nor does the fact that a patent contains a grant to the patentee, his heirs or assigns, of "an exlusive right" "for the term of 17 years" render the patent owner immune from prosecution for violation of the Sherman and Clayton Anti-Trust Acts. Furthermore, a patentee may not, generally, fix the resale price of a patented article, or attempt to "tie" the use of a patented device or machine or article to an unpatented device or article, etc., either manufactured or sold by the patentee. On the other hand, the patent owner is not obligated to put his invention into use, and he may grant an exclusive license, or a number of non-exclusive licenses under his patent, with certain proper restrictions as to field of use, royalty rates, territory of license.

Patents as an Element of Business Risk

I. Their value may lie in limitation of competition:

Eastman Kodak Company, with its control of many patents on photographic equipment, occupies a predominant position in manufacture and distribution of cameras, lenses, films, and photographic supplies; its operations worldwide. Not seriously affected by danger of competition because of its extensive control of patents. Other instances might be mentioned such as Bakelite or Celluloid before their basic patents expired.

II. The other side of the picture: The limitation on value of patents as an element in reducing business risk:

(a) Invalidation by courts—marked tendency in that direction at present.

Example of Selden patent when automobile industry getting under way; royalties paid by practically all important manufacturers from 1903 to 1911. In 1911 Henry Ford, who had fought patent, won out.

(b) Expense of litigation to maintain position.

Case of Gillette Safety Razor Co.

Numerous suits involving razor blades made by many competitors to fit Gillette holders; company lost out; expense considerable.

(c) Expiration—life of patent, 17 years.

Predominant position of Commercial Solvents Corporation while it was the sole licensee under Weitzmann patents. Expired in 1936. Covered conversion of starch content of corn or rye by bacterial fermentation into butanol—used in manufacture of lacquers which revolutionized adaptation of paints for automobiles and furniture; also used by rayon, artificial leather, rubber and dyestuff trades.

(d) Potential competition.

Existence of patents a constant spur to others to devise improvements. A new improvement may render present products or processes obsolete, with unfavorable effect upon earnings of a company operating under existing patents.

(e) Changes in consumer demand.

Cannot always be foreseen.

Illustrations are the replacement of the old-fashioned phonograph by the Victrola, and then the replacement of the latter by the radio. In some industries, a change in fashions renders articles obsolete rather quickly. Witness the change from patented bustles to patented corsets to modern stream-lined garments worn by women.

Solution:

The establishment and maintenance of research and development departments: to watch trends, find new uses, and develop new products. Importance of industrial research especially pronounced in last three decades. Prominent among companies conducting such research are:

Aluminum Co. of America; du Pont Company; Eastman Kodak Co.; International Nickel Co.; United Shoe Machinery Co.; Celanese & Celluloid Co.; International Business Machines Co.; Bakelite Co., and R. C. A., to mention but a few. Research has resulted in—

(a) Improved methods of production and machines;

(b) New uses for present products;

(c) New products.

As illustrative of the work of different companies in the field of industrial research, I refer briefly to the International Nickel Company, Inc., with which I am familiar. Up to the end of the first World War, the company's market for nickel was primarily war materials. In 1920, however, the company commenced conducting research to develop other markets. It now spends large sums of money each year in research, and in 1930 established a new research laboratory at Bayonne, New Jersey. Other laboratories are located at the company's plants at Huntington, W. Va., and at Copper Cliff, Canada, as well as abroad at its British plants. The company endeavors to watch the market as to possibilities of using nickel and nickel alloys in new products, as well as developing new uses for nickel and nickel alloys in old products. All inventions made, of course, are patented, not only in the United States, but in Canada and England and, as specific situations require, in other foreign countries. The result has been that up to the present, nickel and nickel alloys find diversified use in many industries including the automotive industry, the steel industry, the radio industry, the chemical industries, and also in coinage, railroad equipment, farm implements, general machinery, plating, engineering purposes, household equipment, and many other uses. It is interesting to observe that the development of the nickel industry likewise gave impetus to the revival of other industries, for example, the cast iron industry. As to the future, I believe a quotation from President Robert C. Stanley's last address to shareholders is very appropriate, wherein he said that "it must be realized that most countries are now engaged in research on a scale never before attained. The best technical brains in the world, supported by adequate funds, are exerting great efforts to create new products. Nickel is being used in much of this experimentation and the results obtained will be of value to us in the post-war world."

Industrial research may, therefore, play an important role in volume of sales and profits of a company. The prudent investor will be attracted to those companies whose progressive managements have taken steps to protect and enhance the company's competitive position through industrial research.

The financial structure of a company may be affected substantially by patent considerations. Thus, certain companies lease their patented equipment rather than selling it in order to retain complete control over it. This policy is pursued by United Shoe Machinery Co. and by International Business Machines Co. Due to the necessity of investing increased amounts of money in equipment of the company and due to the tax situation, dividends of stock have been granted from time to time. By properly evaluating the patents of a company instead of setting their value at a nominal $1.00 and by properly amortizing or depreciating the thus-valued patents, substantial savings can be effected in taxes. In the financial analysis of companies, patents should be seriously considered as they might have a profound effect in advocating the purchase of the securities of the company under study or the sales from or the retention of the securities in an investment portfolio. Likewise, the trends of a company or an industry can be profoundly affected by the patent situation. Thus, the wood distillation industry was harmed by the introduction of patented synthetic alcohol processes and the sale of the synthetic product before the war.

Patents Versus Trade Secrets

It is often difficult to decide whether an invention should be maintained as a trade secret or patented. If the invention is to be put on the market where it can be bought up by competitors and duplicated, then there is no doubt that a patent should be obtained. If, on the other hand, the invention involves a machine or process which is used for the production of a known commodity and which can be positively and practically controlled secretly with certainty, then it is possible to maintain the invention or discovery as a trade secret. This is particularly true if only a relatively few employees are required for the operation of the machine or process. The same thing is true with respect to a composition of matter which cannot be analyzed so as to ascertain what raw materials were used in it or how they were used. I might refer to Argyrol and Coca Cola as excellent examples of trade secrets which have been successfully preserved.

It should be borne in mind, however, that a risk is taken in case the secret ever became known to the public because all who obtain knowledge of the secret by fair and honest means may continue to utilize the same. In one reported case (Macbeth-Evans Glass Co. v. General Electric Co., 246 Fed. 696), the patentee had maintained his secret for nine years and had sold the glass involved to the public for profit. An employee left the company and disclosed the invention to others. The owner of the secret invention then applied for a patent and obtained it. Subsequent to the granting of the patent, the Macbeth Company brought suit for infringement, and one of the questions which the court had to consider was whether the owner of a trade secret may employ it for profit for many years and thereafter rightfully secure a patent thereon. In this case, the court held that the invention had been abandoned, and that the patent was invalid.

Benefits of Patents

As an example of what the future might hold in store for the development of the country, it might be pointed out that in the period between 1870 and 1937, for example, we find the introduction and development of 15 major industries which had not been heard of before 1870. These industries, with their estimated employment in 1937, are as follows:

Automobiles and parts	513,800
Electric machinery and supplies	333,700
Rayon products and manufactur.	153,000
Gasoline and oils	100,500
Rubber tires and inner tubes	75,600
Radio and phonographs	58,700
Refrigerators and refrigerating	50,600
Tin cans and tin ware	39,000
Aircraft and parts	32,100
Ice cream	32,100
Electric railroad cars	25,200
Cash registers and computing machines	31,000
Aluminum products	30,300
Typewriters and materials	26,900
Lighting equipment	26,600
Total	1,529,100

Behind all of this direct employment, of course, lies a vast field of indirect employment, based upon preparing raw materials, servicing, etc., which has been estimated at a total of 15,000,000.

List of some basic patents and industries which grew therefrom:

June 21, 1834—
McCormick reaper—made possible full production of western grain fields.

June 20, 1840—
Morse Patent for Telegraph Signals. Played first important role in bringing the peoples of the world closer together.

June 15, 1844—
Charles Goodyear Patent for Method of Preparing Fabrics of Rubber. Vulcanization of rubber gave rise to great industries in field of rubber.

Sept. 10, 1846—
Elias Howe Sewing Machine Patent. Stimulated vast sewing machine industry.

Nov. 4, 1862—
Richard J. Gatling Patent for Revolving Battery Guns. One of the early successful machine guns.

April 13, 1869—
George Westinghouse, Jr., Patent for Steam-Power Brake—the Air Brake, which made possible the safe speeding up and lengthening of trains, cheapening transportation and enabling railroads to handle vast traffic essential to modern industrial civilization.

July 12, 1870—
Hyatt Patent for Treating and Molding Pyroxyline. From this invention grew the great celluloid industry, supplying toilet articles, camera film, and thousands of other articles.

March 7, 1876—
Alexander Graham Bell patent which made possible the vast telephone industry.

Feb. 19, 1898—
Thomas A. Edison patent for Phonograph.

Jan. 27, 1880—
Thomas A. Edison patent for Incandescent Electric Lamp.

April 2, 1889—
Charles M. Hall patent for Manufacture of Aluminum. This light, strong metal became an indispensable requirement for numerous industries.

Sept. 16, 1890—
Ottmar Mergenthaler patent for Machine for setting type; made possible cheap and rapid reproduction of newspapers, books, and magazines.

April 20, 1897—
Simon Lake, famous American pioneer in submarine development, receives patent for Submarine Vessel.

July 13, 1897—
Marconi receives patent for Transmitting Electrical Impulses and Signals by means of oscillations of high frequency; in other words, wireless telegraphy.

May 22, 1906—
Orville and Wilbur Wright receive patent for flying machines.

Dec. 7, 1909—
Leo H. Baekeland patent from which developed Bakelite and the modern plastics industry.

It is said that the inventions of Edison alone are responsible for industries now having a capital of 25 billion dollars and employing 2 million people. Opportunities are still open under our patent laws to individual inventors to duplicate Edison's performance. Chemical inventions relating to improvements in the manufacture of automobile tires during the 12 years prior to the war are said to have saved over 500 million dollars to the people of the United States. As so many forward-seeing people have pointed out, in the long run, new processes and new products offer our greatest hope for a progressive rise in the standard of living and for increased opportunities of leisure time. These people with vision likewise believe that an effective patent system is an important factor in fostering invention and in bringing about the partnership of new ideas and venture capital which is so necessary to make any discovery bear fruit. In like manner, Dr. Karl Compton, President of the Massachusets Institute of Technology, found comfort in the growth of movements such as the Farm Chemurgic movement—finding new uses for farm products—because it is based on the philosophy of creating new wealth and further opportunity for all, rather than the age-old instinct of taking wealth from others.

I believe the following points may be summarized in favor of the patent system:

1. The United States has the best patent system in the world.

2. Abolishing or impairing the American patent system would tend to disrupt and even destroy the present industrial, and social system, and put us at the mercy of foreign nations, particularly the totalitarian states.

3. Impairing the American patent system would inpede the progress of the United States.

4. Making fundamental changes in our patent system would destroy the incentive to make inventions and to invest money in the making and commercializing of inventions.

5. The constant stimulation of invention is essential for the progress of the United States.

6. Increasing the national income and wealth of the United States can be effected by inventions and patents.

7. Raising the standard of living of the American people has been accomplished heretofore by inventions and patents, by giving the people more goods and services than even kings enjoyed in yesteryear; and inventions and patents will continue to raise that standard of living to undreamed of heights.

8. Inventions and patents have increased employment in the past, and can increase it in the future.

9. Increased wages of employees have been and can be effected by inventions and patents.

10. Decreased working hours, with resultant increase in leisure time, have come about through inventions and patents.

11. Improved working conditions have been realized through inventions and patents.

12. Decreased prices of products have been brought about by inventions and patents, thus placing more goods within the reach of all.

13. Improved quality of goods and services throughout the nation has been brought about by inventions and patents.

14. Government expenditures have been made possible by revenues from industries based upon inventions and patents constituting the foundation of our present system of production and creation of wealth.

From our inventors and industries, stimulated and protected by the American Patent System and operating under the American System of Private Enterprise, will come the progress and prosperity of our post-war world.

Rails Plan Sweeping Changes To Meet Air, Bus, Car Challenges

Will Strive To Hold Post-War Traffic By Lower Fares, Streamlined Equipment, More Services, and Modern Merchandising, Executives Say

Leading railway executives, optimistic about the post-war outlook for their industry, already are well advanced in plans for lower fares, new streamlined equipment, new services and modern merchandising to meet the peacetime challenge of airlines, buses and private cars, a confidential survey published in the annual passenger progress issue of "Railway Age" revealed on Nov. 20.

Sweeping changes in the traditional methods of doing business can attract much passenger traffic to the railroads which otherwise might go by default to the other transportation agencies, the executives agreed.

With eighty billion passenger miles estimated for 1943, double the peak year figure of the first World War, as a measure of the business at stake, nine out of ten rail executives appraised the future confidently on the basis of these nine major developments expected after the war:

1. Reductions in passenger fares, both coach and Pullman, immediately following the war.

"We shall have to reduce rates after the war and do it quickly and thoroughly," our executive said. "Any dawdling and hemming and hawing will only result in our emptying our trains again and in the loss of the highly desirable public relations and advertising value that an immediate and voluntary slash would bring."

2. Widespread introduction of lightweight, streamlined coaches and Pullmans, with old cars being scrapped forever.

One official made the flat statement that all new passenger equipment on his railway will be streamlined and lightweight, and he predicts that carbuilders will be swamped with orders for this type of equipment from all railroads.

3. Greater use of modern merchandising techniques, including larger appropriations for institutional and product advertising.

4. Greater consideration to the comfort and conveniences of the passenger, described frankly as a "radical departure" by one executive.

"The railways have been to prone to subject the passenger's interest to the whims of mechanical and operating offices and to the requirements of mail and express schedules," he commented.

5. Simplification of rate structures by establishing a common base rate for the whole country, and simplification of accounting methods.

6. Restrictive union rules which will nullify, as airlines grow larger, much of their pre-war personalized service sales appeal.

"So long as there were only about 350 passenger-carrying planes in the country, carrying about 20 passengers each, the personalized service created a tremendous sales appeal. When the airways go after mass passenger traffic, they will find this type of selling impossible," said another executive.

7. Restoration of passenger service at many points.

"We have denuded our railway of passenger service at many points and we are thoroughly ashamed of having done so," one official said. "A railway is judged (in my opinion wrongly) by the type of passenger service which it renders."

8. Greater comfort and better service on all carriers from local all-coach trains to the extra fare trains.

9. Speeding up of passenger schedules by such means as continuing to take out curves, reducing stops, and improving "head-end operations" (mail and express loading and unloading).

Railroad executives are not alarmed as to the threat of post-war air competition as far as passenger traffic goes. Where they do see the airplane making inroads is in the first-class mail traffic. While they concede this will be inevitable after the war, they are determined to hold post-war passenger traffic.

Senate Approves Bill For War Bond 'Ads'

By a vote of 40 to 35, the Senate passed on Nov. 16 a bill authorizing the Secretary of the Treasury to spend $12,500,000 to $15,000,000 a year for newspaper advertising to promote the sale of war bonds.

This measure, sponsored by Senator Bankhead (Dem., Ala.), directs that this sum be expended in daily, weekly, semi-weekly and tri-weekly newspapers in communities of 10,000 population or less and in non-dailies in the larger cities. The bill originally called for a fund of between $25,000,000 and $30,000,000 to be divided equitably among all newspapers in communities of less than 10,000 population and in cities of more than 10,000. The large newspapers generally opposed the legislation, as a threat to the freedom of the press through what was termed a subsidy, while most representatives of small newspapers favored enactment. Treasury Department opposed the bill, preferring the present system of commercially-sponsored advertising. Under the Senate-approved measure, which now goes to the House, the Treasury would prepare the advertising copy and obtain the prevailing published rate of the respective newspapers for the space purchased.

The aim of the bill is set forth as follows: "To provide more effective use of idle currency in aid of the stabilization program and the war effort, and in order to improve the credit structure by relieving the Federal Reserve Banks and the various other members of the banking system of the necessity of purchasing additional vast amounts of United States bonds and other obligations."

Approval of the measure by the Senate Banking and Currency Committee was noted in our Nov. 11 issue, page 1921.

FDR Signs Health Bill

President Roosevelt signed a bill on Nov. 11 providing legislation streamlining the Public Health Service, making provision for temporary promotions in rank for some of its officers and allowances and benefits similar to those for the armed forces available to them. Final Congressional approval was given on Nov. 4.

Treasury Explains (?)

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exercise a certain measure of control.

The Treasury Department has not made it clear why a holder of a foreign bond, payable in dollars, and, alternately, in a foreign currency, is required to file even though his holdings may be practically worthless, and why holders of other foreign property do not need to report unless their investment, added to other reportable property, equals or exceeds $10,000. Nor has the Department explained how the filing of the report will be used by "peace and trade negotiations." If a foreign investment of one kind will be needed, irrespective of value, why will a foreign investment of another kind have to be valued at $10,000 or more in order to be of use to "peace and trade negotiations"? Furthermore, since reports are to be "studied by military and occupation authorities," why is it necessary to report holdings in Canada, Great Britain, Mexico, and other countries either allied with or friendly to the United States? Is it not possible that the primary reason for filing Form TFR-500 derives from "the half-million returns expected to be filed by the Dec. 1 deadline"? It would be most interesting to learn the names and affiliations of those who are responsible for this latest questionnaire. Has it occurred to the authorities that among those who will be hired to "tabulate and study" five hundred thousand reports — the actual number may far exceed this total—there may be persons who will abuse or misuse the information contained in reports? Will it not be difficult, nay impossible, to exercise extraordinary caution in the selection of personnel to do so gigantic a task?

What is particularly puzzling is the interpretation of certain provisions of the form as supplied by the Treasury Department. To illustrate:

(A) Of the four Mexican Government external loans listed on the New York Stock Exchange, comprising the 5s of 1899-1945, the 4s of 1910-1945, the 4s of 1904-1954, and the 6s of 1913-1933, only the 4s of 1904-1954 must be reported irrespective of the amount owned or the value of the holdings, while each of the remaining three issues are reportable only if holdings, together with other reportable property, are valued at $10,000 or more. If information regarding one's investment in Mexican bonds is going to be of use or value to "military and occupation authorities," does not the Treasury Department run the risk of depriving these authorities of vital information?

(B) Of the two external loans of the City of Tokyo which were listed on the New York Stock Exchange, comprising the 5s of 1912-1952 and the 5½s of 1927-1961, the latter is reportable regardless of value, while the former need not be reported unless the investment therein together with other reportable property amounts to or exceeds $10,000. If the army and occupation authorities require information regarding American investments in the external bonds of the City of Tokyo for guidance, is it not hazardous to exempt holders of the 5s of 1912 if valued at less than $10,000 and insist upon a report on the part of holders of the 5½s of 1927, regardless of value?

(C) Of three external loans of China dealt in on the American markets comprising the Treasury notes 6s of 1919-1921, the 5s of 1925-1947, and the 5s of 1911-1951, the first two are reportable regardless of value or amount owned, while the last-named issue, viz., the 5s of 1911, are reportable only if the amount owned together with other reportable property is valued at $10,000

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Intelligent Finance Should Oppose NASD Profit Limitation Decree!

(Continued from first page)

received general public recognition, the Association will regret the day they established the principle.

From the standpoint of the larger firms in the industry this precedent may also prove bad policy. Any inflexible profit rule applied to the small retail firms, which becomes common public knowledge, can later place a burden on the large underwriting firms. The public is not likely to understand clearly the distinction between a riskless and a risk transaction. The average individual will simply know the industry has adopted a limitation on gross profits, and even gone further in stating that to exceed such limitation would be contrary to the fair and equitable principles of trade. Once this public impression prevails, how can the large underwriting firms, who dominate the industry (and probably this Association) defend their own underwriting profits, which must be disclosed on transactions where they feel it is necessary to charge a higher underwriting spread than 5%? Doesn't this policy put the SEC in a very difficult position in passing on these underwriting spreads? As a simple illustration, the recent sale of 60,000 V. T. Certificates of Chicago & Southern Air Lines specified a gross underwriting profit of 1½ points (about 14%) on a stock with a set retail price of 12½. A reallowance of 90 cents per share to selling members is approximately 8% of the cost of the stock to the group. Can the Association criticize some small firm at a later date for charging 90 cents to handle a similar priced stock? I doubt if the public would understand the difference in these two transactions, or care. Certainly the SEC can hardly approve the transactions of the large firms and criticize the same gross profit in the case of the little firm. The amount of risk involved in many underwriting transactions is a moot point. We all know there are many cases due to the nature of the transaction, and prevailing market conditions when there may be little risk in certain underwriting transactions. Even if the principle of distinction between a riskless transaction and a risk transaction is clearly established it can be simply a question of time until Government philosophy may attempt to suggest the same profit limitation rule already established by the industry be adhered to in underwriting transactions. Let the large firms be cautious in regard to this sort of a policy, it is a dangerous principle and should be reviewed.

Regardless of what the Association is trying to accomplish, the approach to this problem has been most unfortunate. Many small firms in the security business are merchandising firms, and really sell advice in handling many security transactions. These small firms in many transactions separate the public from the large trading and underwriting houses. That is the way the situation should be. If you damage or destroy that set-up, the large investment firms are in a much more vulnerable position from the standpoint of public relations, and the problem of Government supervision. Suppose the retail merchandising stores of the country formed an Association, and established a yardstick of gross profit applicable to the whole industry. Firms like R. H. Macy & Company and Montgomery Ward would have considerable voice in any such organization. Would the policy committee of such an organization adopt a gross profit yardstick to be applied arbitrarily to all types of transactions and all firms, and applied in the same way to R. H. Macy & Company as applied to the country store, or middle-sized store? In the United States, would the public stand for any such business principle? Would Congress stand for any such business principle? Would any such Association adopt a profit rule which would lead the public to confuse gross profit with the real profit realized? Did the NASD make any effort to determine whether this fixed margin of profit will allow sufficient compensation for salesmen, under most conditions applicable to most firms and most all transactions, to encourage such sales representatives to distribute securities? Has the Association gathered any evidence regarding the margin of profit necessary for the average salesman to make a living? How has the Association determined that such fixed margin of profit can be logically applied to all the various types of transactions which occur in so complicated and widespread a business as the security business? What right has the Association to assume that an analysis of transactions on paper, without the gathering of additional cost information, justify this particular gross profit rule? Anybody with accounting or investigating experience realizes the limitation of depending on a paper analysis of the kind used by the Association. Don't the members of the Association have the right to additional information?

As a matter of good relations with its own members, the members were entitled to vote on any such rule of such far-reaching importance to the whole industry. So far as the relation with its own members is concerned there is another policy matter involved in this general situation which needs clarification. The SEC is in the enviable position of being able to use the Association as a trial balloon on most any matter, or attempt to accomplish results which they know are of doubtful legality and questionable political expediency. Any matter they urge the Association to undertake can, however, be disowned at a later date. Without providing more facts before proposing this general policy the Association has left the impression that the little firm is to be made the whipping boy of the industry. It would be bad politics for the SEC to go along with that idea. They will hear, or may have heard, from the representatives in Congress. At some later date there is certain to be an investigation by Congress of SEC past policy, in order to clarify and improve the Act. Any such investigation would pay careful attention to any evidence on the part of either the SEC, or the NASD, to the effect that the little firm in the security industry has been placed at a disadvantage or driven out of business. Sooner or later the members of the Association will be entitled to more factual information about the cost of doing business for all firms. When such information is furnished it will be clearer whether the NASD is more interested in the constructive welfare of its own members, or in playing SEC politics in connection with this particular policy.

The NASD if properly managed can do a great deal of constructive good for the security industry. If the Association will gather the proper amount of information and properly present it to its members, no arbitrary rule of this kind in its present form would have to be adopted behind closed doors without a vote of the membership. I believe that many members of the Association are thinking about the way this matter was handled in a very unfavorable light. The small dealer feels he has been particularly abused. Aren't certain changes in the organization set up of the NASD now necessary unless a large share of the membership is to lose complete confidence in this Association? The changes that might well be considered should include the following:

1. It is generally believed that the large underwriting firms paying the large fees run the Association, and and that the officials of the Association naturally cater to these firms. Properly representing the over-the-counter business this organization should have on its policy committee a majority of representatives of small firms. There has been too little effort displayed on the part of the larger organizations and underwriters particularly in trying to understand the problems of the small dealer firm.
2. Many Stock Exchange houses are represented in the Association. There is and always will be a conflict of interest between the Stock Exchange and the over-the-counter business. The Stock Exchange, for instance, is apparently in accord with the proposed "full disclosure rule." Every small dealer knows this rule would introduce uncontrolled competition, which would be ruinous to his personal contact method of doing business. The Stock Exchange firms are, first of all, commission brokers. There is a fundamental conflict of interest between any dealer and a commission broker. Naturally, the commission broker wants full disclosure in order to take as much of the dealers' business as he can by offering to cut the margin of profit on any transaction. The dealer may have already furnished considerable work and advice, and unfair competition results in loss of the business to some firm that has invested no effort. So long as we have a substantial representation in the NASD on its Board of Governors, of Stock Exchange houses, this Association will not enjoy the complete confidence of the majority of counter dealers throughout the country, nor be representative of them. The Stock Exchange doesn't invite the representation of the over-the-counter business in its affairs, and putting the matter bluntly, the Stock Exchange has never shown the over-the-counter business any cooperation. Any suggestion that the over-the-counter firms be compensated for gathering Stock Exchange business has always been rejected. On the Board of Governors of this Association, and all of its committees, partners of Stock Exchange firms should be in the small minority.
3. Any thorough consideration of the welfare of this industry necessitates careful consideration of the problem of the individual salesman. Regarding all of these profit rules he is the forgotten man. Has any regulatory body ever expressed any consideration for the security salesman? When we get right down to brass tacks, the security salesman is the backbone of this business, and he is entitled to be heard in connection with every important problem of the industry. Most of all should the big under-

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writers protect the salesman and be sure he can make a living. The NASD should include some committee or set-up to represent the salesmen of the industry, and not just the salesmen of a few large houses.

4. After the way this particular matter has been handled it doesn't seem out of order to suggest the membership has the right to prior information about any important proposals under consideration. Time should be given for the individual members to express their opinion. These expressions of opinion should be available to any policy committee. The policy committee's recommendation should be furnished to the membership in writing on every important matter. The membership should be allowed the democratic privilege of voting on any important regulation proposed. If some more equitable method of dealing with its members is not adopted, the usefulness of the Association will be destroyed, and it will not be long for this earth.

One method of expressing dissatisfaction with the present NASD organization set-up, and this profit rule in particular, might be for members to urge the various trading organization, to which many dealers belong, to write directly to the Chairman of the Board of Governors of the NASD expressing any dissatisfaction we all feel. Should the over-the-counter security firms of the country, and the small firms in particular, not be able to get the proper representation within the Association to properly protect their welfare then they can appeal directly to Congress, and I believe with a good chance of receiving interested cooperation. The Association must correct the impression they care little about the problems of the small firm, or the small firms will form their own Association.

The "Commercial and Financial Chronicle" is doing excellent work and serving a worthy cause for the entire field of finance in pointing out the present folly in this NASD policy. The Association is young. There is ample room for improvement in building up a worth-while and sensible trade body.

This letter expresses only my personal views. Please withhold my name and that of the firm I am associated with should you publish this letter.

Other letters received on the subject appear in this issue starting on page 3. Further comments are solicited by the Editor on the NASD profit limitation decree or any related phases of the subject. They will be published anonymously if the writer does not wish his name revealed. Communications should be addressed to Editor, Commercial and Financial Chronicle, 25 Spruce Street, New York 8, New York.

Gold Under The Stabilization Plan

Editor, Commercial and Financial Chronicle:

All the currency stabilization plans recently under discussion have one thing in common, they do not re-establish the old system of the gold standard, but they do not dethrone gold from its age-old position as a medium of international payment and as a medium of hoarding for individuals' savings.

The first part, the departure from the old gold standard, can easily be seen. The gold standard had two main objectives: by making all currencies based on the gold standard exchangeable into gold and gold exchangeable into any of these currencies at a fixed rate of exchange, international stability of such rates was automatically established. By linking these currencies to a metal production which could not be increased arbitrarily, a general and world-wide inflation was made difficult if not entirely impossible. By a concerted effort, the principal banks of issue could overcome the scarcity of gold and increase the volume of currency outstanding if they mutually considered foreign exchange as a basis on which to issue their own bank notes in the same way as against their own gold stocks. By doing this in reverse, the world's currency volume and the general price level could be increased without impairing the international stability of currency rates. However, even this procedure could not be applied to an unlimited extent.

The plans of stabilization now under discussion do not discard gold, but they place the precious metal in a very different position from what it was under the old gold standard. The White Plan and even the Keynes Plan link the values of the various currencies to gold at a fixed rate of exchange subject to changes only with the approval of a majority of the countries concerned, but curiously enough they do not establish any obligation on the part of the governments concerned to make currencies convertible into gold, whereas—according to the White Plan—currency obligations can be met in gold, thus making gold interchangeable in currency. The principal effect of such a system is a floor established under the gold price, because the market of a commodity which can be always sold at a fixed price, but as to whose availability at a fixed price in terms of currency there is no certainty, becomes a one-way street. Theoretically, of course, the price of gold could be lowered if and when a majority of the International Currency Board to be set up would decide to do so, but such a possibility, which could only happen in the course of a severe and world-wide deflationary movement, seems rather far away if one considers the present political and economic tendencies. The really important problem, therefore, from the point of view of gold producers and owners of gold stocks is to see what the chances are for an increase in the price of gold under the new system to be established.

It can be easily foreseen that in the post-war world, the demand of the non-American countries will surpass America's demand for foreign currencies. If and when the foreign countries will have exhausted the amount of "unitas" they can borrow under the stabilization scheme, only three ways will be open to them in order to establish equilibrium in their balance of payment with the United States.

(a) The old method of applying the deflationary process by balancing budgets, limiting issue of national currency, etc.

(b) Asking for a depreciation of their national exchange.

(c) Buying gold by any means in order to exchange it into "unitas" and thereby into dollars.

The first two possibilities are highly improbable because they are bound to encounter political difficulties. The deflationary policy will encounter political difficulties at home, whereas the course of asking for a depreciation of the national exchange will encounter political difficulties from all the other countries.

There remains the third possibility; at first sight it would seem as if no country linked to the new stabilization scheme could buy gold at a price higher than the established rate of exchange from the International Currency Board because that would mean the same thing as changing the rate of exchange. But as the White Plan also provides for a total abolition of foreign exchange restrictions, and as it may be assumed that there will remain countries outside the proposed stabilization scheme with a free market for gold, nothing would prevent those governments encountering difficulties in procuring dollars at a fixed rate from buying gold in these free markets either directly or indirectly through individuals. Certainly nothing would prevent individuals freed from foreign exchange restrictions from going into these free gold markets for the purpose of saving their investments from depreciation and acquiring through the medium of gold scarce currencies which they need to pursue their business activities.

It will be argued, however, that the White Plan contains features which would prevent such a policy by governments and their nationals. The White Plan under V, 6 says: "In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign currencies which the member country needs, one-half of the foreign exchange resources and gold it acquires in excess of its official holdings at the time it became a member of the Fund, but no country need sell gold or foreign exchange under this provision unless its official holdings (i.e., Treasury, Central Bank, Stabilization Fund, etc.) are in excess of 25% of its quota. For the purpose of this provision, only free and liquid foreign exchange resources and gold shall be considered. The Fund may accept or reject the offer.

"To help achieve this objective each member country agrees to discourage the excessive accumulation of foreign exchange resources and gold by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately held foreign exchange resources and gold appears unwarranted."

According to these regulations, only part of a country's gold holdings must be sold to the Fund and that only under certain conditions. As to individuals: What are "excessive accumulations of gold by its nationals"? Unless a rigid control is established all over the world, the Fund will hardly be able to know how much gold is in the hands of individuals and apart from so-called "hoarding," individuals might buy gold in order to obtain foreign currency unobtainable at the fixed rates and use that foreign currency in their business.

The stipulations under VII 2 and 3 are nearly contradictory. A country shall not engage in exchange dealings with member or non-member countries that will undermine exchange rate established by the Fund, but it shall as soon as possible abandon all restrictions on foreign exchange transactions except upon capital transfers. Would that prevent individuals from buying gold in a non-member country and depositing the gold in a safe deposit box at home or using it to buy raw materials unobtainable at fixed dollar rates. The stipulations under VII 4, which forbid countries to accept flight capital from a member country which has forbidden capital export and to disclose the necessary information on such flight capital, will also not prevent individuals from buying gold at a premium and hoarding it in "moderate" amounts at home or using it as a means of international payment.

If one combines abolition of foreign exchange restrictions with a scheme which makes currencies not mandatory exchangeable into gold, does not prevent governments from pursuing an inflationary policy at home and is not mandatory world wide embracing, free gold markets with higher prices than those corresponding to the established rates are unavoidable. The only possibility to prevent such a development would be a strict control of gold production, gold trade, and gold possession throughout the world as it is now being effected in the United States. But such a scheme applied on a world-wide scale is again incompatible with an abolition of foreign exchange restrictions because it would lead automatically to the old system of strict foreign exchange control, the abolishment of which is one of the main aims of the new stabilization plan.

Not only from the side of the so-called weak currencies but also from the internal situation in the United States, the gold price could easily be influenced to move upwards. A policy of full employment at high wages can be accomplished only by continuing the present trend, of increasing the volume of credit to a certain extent. It seems unnecessary to explain these basic facts. If this is the case, then the buyers in the free gold markets outside the United States might pay a premium for gold not only in terms of weak currencies, but also in terms of dollars. Already the price of gold in the remaining free markets such as India, Peru and Mexico is far above the official price of $35 per ounce established by the Treasury. The present price in the free gold market in Bombay corresponds to about $50 per ounce. It therefore seems probable that one day the United States will have to follow the general trend and raise the price of gold internally as well as internationally. It remains to be seen whether and to what extent the price of American and Canadian gold stocks will discount these future possibilities.

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Statistical Department,
Hirsch, Lilienthal & Co.

New York City,
Nov. 15, 1943.

Treasury Explains (?)

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or more. If the Treasury Department is of the opinion that information about China's external loans owned by Americans or persons under the jurisdiction of the United States is of importance to "military and occupation authorities," will not the latter suffer by reason of the fact that information may in certain instances be withheld?

Numerous cases similar to the above three (A-C) could be cited to prove what appears an inexplicable inconsistency on the part of the Treasury Department and such other agencies as require the filing of Form TFR-500. In a letter addressed to the writer by the Treasury Department under date of Oct. 12, 1943, in answer to inquiries to the Department written on Aug. 20 and Sept. 1, 1943, the following significant observation is made:

"Bonds . . . payable in foreign currency, and alternately in dollars, need not be reported unless their value added to that of other reportable property belonging to the owner, equals or exceeds the amount of $10,000 specified in Section II-3 of Public Circular No. 22."

The Department throws further light upon the nature of the information it is seeking:

"Only bonds . . . need be reported . . . regardless of value . . . payable by their terms in United States dollars, whether or not alternately payable in another currency."

The basis for the above recommendation is the thesis that "bonds payable in foreign currency and alternately in United States dollars . . . (and) bonds payable in United States dollars and alternately in foreign currency . . . do not have the same significance."

In other words, the Mexican 5s of 1899-1945 which are payable in sterling and in dollars, need not be reported unless the amount owned together with other reportable property, is valued at or exceeds $10,000, while the Mexican 4s of 1904-1954 must be reported regardless of value. The former is payable in sterling and in dollars, while the latter is payable in dollars and sterling. The two bonds "do not have the same significance." It is indeed difficult to accept this line of reasoning.

Congress Votes Dec. 7 Armed Services Day

Congress has passed a joint resolution designating Dec. 7, 1943, the second anniversary of the Japanese attack on Pearl Harbor, as Armed Services Honor Day, and requesting President Roosevelt to issue a proclamation "commending the observance of that day in honor of all men and women who have served or are now serving in any and all branches of the military and naval armed services of the United States."

The resolution, which passed the House on Nov. 9 and the Senate on Nov. 12, also requests the Governors of the States to invoke the cordial cooperation of the people and urges the counties and municipalities to hold appropriate ceremonies for proper observance of the occasion.

It was reported on Nov. 12 that the President is still of the opinion that no official notice of the day should be taken. Last year Mr. Roosevelt felt that Dec. 7 should be observed "as a day of silence in rememberance of a great infamy," and no official notice of the anniversary by the Government was made.

The joint resolution is simply a request by Congress and is not mandatory.

Some Factors Of A Now-Planned Post-War Governmental And Economic Pattern

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needing indispensable farm machinery, to give up to a County Farm Rationing Committee the control of the use of that machinery, the Committee to dictate who might use it, with no guarantee that the owner should have first call on the use, the Committee being under no obligation to require the user to pay the owner for the use of the machinery or even to keep the same in repair.

They have paid the farmer not to plant and not to sow and not to reap, when the obvious wisdom was to go forward to bounteous harvests and provide a market for the overproduction.

They have told all the people what they could and what they could not have to eat, and have controlled the amount they could eat of the kinds they were permitted to eat.

They have prescribed the speed at which we may run our automobiles, the amount of gas we may consume, the number of tires we may use, and the places to and business on which we may travel.

They have compelled the householder to rent his house for a rent which they determined; they have sought to enable the renter to remain more or less indefinitely, even where rent was in default.

They have prevented the collection of honest debts, the foreclosure of mortgages.

They have controlled the kind of cloth the citizen may buy; they have stipulated the fashion in which clothing must be cut; they have prescribed the kind of cloth from which it may be made; they have decreed the way in which certain clothing may be finished.

They have established a complete censorship of the news, domestic and foreign, both on the radio and in the press, and we the people are told only that which they think it wisdom that we should know. Not infrequently all we get is their thinly disguised propaganda.

They have created conditions which forced American womanhood into the fields, the workshops, the factories to become common laborers; they are luring mothers away from their children into industry, leaving their children to run the streets idle, uncared for, untaught, undisciplined, the easy victims of disease and plagues, immorality, wickedness, and crime.

They are leading us down the road to a communistic state by subjecting us to regimentation, increasing step by step in rigor, complexity, and scope, thus destroying our morale; they have sought to lower our standards of life and of living, day by day, down near to the level of the shiftless and improvident, by rules and regulations wholly unnecessary and deeply harmful; they are accustoming us to frequent change in their impositions, thus breaking down our resistance; they have stopped our protests by raising the false cry of patriotism, where no question of patriotism was involved. By preventing a man from enjoying the fruits of his own labor they are throttling thrift and industry, invention and initiative.

They have taken the first step toward communizing the home by substituting the State for father and mother through setting up camps to feed and train the youth.

They have invaded the public schools with their propaganda for the spread of communism.

By their multiplicity of useless and even harmful laws, rules, and regulations, touching the activities of the private lives of the people, they have encouraged the people in lying, deceit, idleness, greed, avarice, until they threaten the destruction of the warp and woof of the character of the people.

They are leading the people to a repudiation of the Divine command and all that lies behind it: "In the sweat of thy face shalt thou eat bread." Many begin to think they may rightfully lay their hands upon other men's goods, that they may reap where they have not sowed, that they may righteously get something for nothing.

They have engendered and promoted class and race hatreds, those fatal poisons to free institutions and a free people.

They have laid their withering and corrupting hand upon all governmental agencies and activities they could reach.

Let no one say, these things are all an incident of war. That is not true. Every abuse, every usurpation we have in the war, was established in principle long before the war began even in Europe. These usurpations are part of a deliberate plan to overturn our form of government and supplant it by some sort of dictatorship, destructive of our free institutions and of us as a free people. And all this is planning and carrying on, not because we were not happy and prosperous and enjoying the blessings of "life, liberty, and the pursuit of happiness," not because we could not by constitutional means correct the evils of our society—and we had evils and they were sometimes grievous—but because a group of aliens and theorists, unpracticed and unpractical, conceived a new order, made up of discarded bits of experience which men had thrown aside down the ages, and because they brought some of our own citizens equally unexperienced and equally impractical, to their way of vanity.

Why Have We Endured?

Why have we sat idly and endured these unconstitutional practices instead of taking them to the courts for correction? Well, there are several answers to the question:

In the first place, I think the legal profession must assume a great, if not indeed the major, part of the responsibility. The approach of the alien influence was gradual; the full meaning of the plan was not at first perceived. Accustomed to dealing with legislative and quasi-legislative enactments that, by design, were to fall within the Constitution, the lawyers so treated these new enactments and sought rather ways of constitutionally justifying the usurping enactments, than of attacking them as unconstitutional. Then enactments began in the midst of a great depression, and the lawyers were inclined to wink at usurpations in the hope that somehow they would pull us out of our troubles. This feeling was encouraged by the easing up in enforcement procedures or the writing of a new prescription, whenever popular outcry became too threatening. Then as time went on, and the plan developed, the lawyers became fearful of governmental retaliation if the enactments were contested. Finally, they seem to have given up the fight, and to take as constitutional every law, every "directive" or other enactment that appears. They have advised their clients to bow their heads and bend their backs to every imposition that came.

This attitude of the lawyers was aided by the plans of the perverters of our institutions, who, so authentic reports say, aimed to keep these "directives" and other enactments out of the courts, because they thoroughly understood the principle of our jurisprudence that laws and their implementing regulations are enforced as constitutional until they are declared otherwise. Therefore, so long as these enactments could escape adverse judicial action, they could be enforced. In effect, the lawyers and the perverters worked together just as harmoniously and effectively as if they had reached an understanding thereto.

Another factor in the situation was this: For the time since our national emergency arose, the courts have let every intendment run in favor of the Government. In national emergencies, courts properly stretch both judgment and conscience to support the Government. One can not complain at this, for in times of common danger we do and we suffer things unbearable in times of peace.

Moreover, so far as the citizens themselves are concerned, they were under the restraint that to question acts of government in war times, brings upon the questioners charges of unpatriotic conduct which few men care to face however well founded their questioning might be. This factor has deterred legal opposition to unconstitutional measures.

Fundamental Concepts Violated

Thus, and speaking in general terms, the Federal Government has reached down and touched the individual lives of the citizens in a multitude of matters which for a century and a half were held to be untouchable by that Government under those constitutional provisions which declared that the Federal Government is a government of delegated powers, and that unless powers are expressly given they are reserved by the people—who grant the powers—either to themselves or to their State Governments. Any proverbial school boy knows that the exercise by the Federal Government of a power not delegated to it by the people, is plain usurpation; so also he knows that any exercise by one department of the Federal Government of any power not expressly granted at all to the Federal Government by the people, or whether that power be not granted at all to the Federal Government by the people, or whether the people have in their Constitution granted that power to another department of the government. These are merest commonplaces in constitutional law, but they are basic principles which are suffering daily violations.

Unless these usurpations are stopped, social, economic, and governmental chaos will come. There are those who believe that the destructive influences wish chaos because they believe that out of it they can most easily build their projected communistic state here in America.

Recovery of Our Rights

Now, obviously, if these unconstitutional practices and proceedings are to be stopped, if we are to regain our constitutional rights and the blessings of our free institutions, if we are to get back to the States and to the people the powers and rights that have been torn away from them, then we the people must assert ourselves,—through the courts, by the ballot, and in every other way open to us.

If we do not recover our rights and reestablish constitutional order, then we shall not have those stable, settled, and permanent conditions of economics, society, finance, and government out of which can come sound investments, returning that reasonably certain profit that life insurance must have in order not only to live, but to give to the beneficiaries of your policyholders that security which is the sole motive impelling them to buy insurance. If you lose the power to assure protection to the beneficiaries of your policyholders, your whole system of life insurance is gone.

I assume no one will think that these undermining influences, with their resulting malpractices will cease when the war is over, unless they are crushed.

Theory That Courts are Powerless To Declare Laws Unconstitutional

But there is another of their influences which is more fundamental in its baleful effects than any of the others I have named, and which, if it became operative, would practically destroy the protection which the courts have given us since the Constitution was adopted. From the earliest days of the Republic, there has been a doctrine held by some that our courts should neither have nor exercise the power of declaring laws unconstitutional. For a full generation now some publicists have been spreading the doctrine that John Marshall, who laid the foundations of the greatest system of constitutional jurisprudence of all time, was all wrong when he undertook to pronounce unconstitutional a law of the Federal Congress; that the true system is the British system which, as the aliens explain it, regards the will and expression of the legislative branch as untouchable by the courts; that John Marshall thus usurped authority by his decisions; and that this usurpation should cease and that we should now adopt the British system.

Under this doctrine the Federal courts, including the Supreme Court, would have no power to declare any act of Congress unconstitutional, their sole functions being to interpret and adjudicate the law as enacted.

Thus, whatever might be the law of Congress and whatever might be the "directives" or regulations, the courts, on this theory, would have no option but to enforce them, upholding them as constitutional, because they would possess no right to question their constitutionality.

Obviously, under this system, amendments to the Constitution become unnecessary. A mere Act of Congress, indeed even a "directive," can work the change.

The proponents of this nostrum have not now forgotten it, nor abandoned it. What might they not do if this heresy could be established. It is a possible postwar factor of almost limitless power in a new order the aliens aim to set up.

Perpetuation of War Powers

But there is another string to this planned jurisprudential bow of these plotters, which, I feel sure, they will not overlook. I refer to the perpetuation of the war powers over a long period of years after the real war ends, pending the conclusion of a final treaty of peace.

Will you permit a few words of explanation? Under the Constitution the President of the United States has two chief functions,—that of Commander-in-Chief of the Army and Navy and that of the Chief Executor of the laws passed by Congress. These two functions may be more easily understood if each is considered as lodged in a separate person. Then the Commander-in-Chief, one person, would be in supreme command of the Army and Navy, in peace and in war, with such added powers as to both branches of the service in time of war as would be necessary to conduct successful hostilities in the field. But the Commander-in-Chief would have no executive power over civilians, save those in occupied enemy territory or those acually within the lines of zone of military operations elsewhere, and there only as an incident to the conduct of belligerent operations. But it should be remembered that even in these extremities, Congress, under the Constitution, is "to make rules for the government and regulation of the land and naval forces." So the Commander-in-Chief has not a free field even in conducting military hostilities.

On the other hand, the Chief Executive, another person, would have no power or function as a Commander-in-Chief, and his power as to the laws would be only "to take care that the laws shall be faithfully executed,"—so runs the Constitution. He would have no power to make laws, for the Constitution specifically says: "All legislative powers herein granted shall be vested in a Congress of the United States." And there are no legislative powers in Congress, except those conferred by the Constitution.

Now since under the Constitution, Congress has the exclusive power to declare war, and to raise and support armies, and to provide and maintain a navy, it has always been held that Congress had the power to pass all laws necessary to carry on successful hostilities. These are the so-called war powers, but they pertain exclusively to Congress. It is true the powers of the Chief Executive—the executor of the laws—will be greatly enlarged over peacetime power by this Congressional grant to him of power in the war legislation. But these added powers are not inherent in the Chief Executive by reason of the war, but come to him through bestowal by Congress, the legislative powers of which are increased by war.

The contention that the Chief Executive has in his own right and by virtue of his own functions, any war powers in the sense in which that phrase is normally used, and particularly that, in time of war, he acquires legislative or semi-legislative powers, is wholly without support in the Constitution.

Now under the principles of sound political science these exceptional powers in Congress and resultantly in the Chief Executive, should cease when the emergency which called them into being, ends, that is, when actual hostilities have ceased, for then the actual war is ended.

But the courts have acted on the principle that the war does not end and the war powers do not terminate until the final treaty of peace has been signed and ratified.

Thus a long delayed treaty of peace could indefinitely prolong the war powers even for a period of years. Such a period of delay would enable these evilly disposed elements to fasten upon the people all the oppressions they imposed before the war, all that they shall have imposed during the war, and all that the plan to impose prior to the ratification of a treaty of peace.

Because of lack of time I pass over without discussion the foreboding possibility that a revolutionary group in possession and control of the processes of government, could, under our existing Federal statutes covering the matter, so manipulate the personnel of our Federal courts as to give the semblance of a judicial sanction to any measures they might propose. But that possibility is worthy of your most careful consideration; I commend it to your study.

Again I point out how destructive this situation could be of that stable, settled, permanent condition of economics, society, finance, and government out of which could come those sound investments indispensable to the existence of life insurance.

People Not to Blame for Turning to Federal Government

I shall name one more factor in our situation and I shall close.

Eminent men and able, men of great experience and wisdom, are blaming the people for looking more and more to the Federal Government to meet their wants and to exercise governmental control over them, and this to the destruction of local self government, the rights of the States, and the rights of the people, all which are the basic factors of our social, economic, and constitutional life.

Might I humbly question

whether the people are primarily to blame for this?

The Loaves and Fishes

Nearly two thousand years ago, on the shores of the Sea of Galilee, the Master miraculously fed 5,000 people. They immediately wished to make Him king. One who could feed them without their working for it, ought to be made their sovereign. This would solve for them the all important problem of earthly existence. Perceiving their thoughts and to avoid being dragged forth as the seeming head of a rebellion, the Master dismissed them and Himself fled their presence, going "up into a mountain apart to pray." That night he crossed over to the other side of the sea, and the multitude, learning of it, took ship and also crossed over, and came to Him again. They gathered about Him, deceitfully worshipping and declaring: "Of a truth thou art the Son of God." But He, discerning their thought and purpose, reproved them saying: "Ye seek me, not because ye saw the miracles, but because ye did eat of the loaves and were filled."

He then preached the great sermon on the bread of life, and the sacred record declares: "From that time many of his disciples went back and walked no more with him."

He was useless to them, except as the gratuitous provider of their bread and meat.

So do multitudes.

Stopping the March on Washington

If our Congressmen would stop the march of the people to Washington for their government and their sustenance, they should cease distributing the loaves and fishes from the steps of the Treasury Building across the road from the White House. You Congressmen have the absolute power to stop it; have you the courage? If it is not done, you, not the people must take on the censure.

There is one principle as old as human government, indeed as old as human relations: He who holds the purse strings, rules the house, the nation, the world.

If Congressmen wish to restore local self-government, and the rights of the States and of the people, let them send back to the States, to the local communities, to the Churches, and to the children of indigent parents, where it belongs, the duty of caring for their own sick and decrepit and aged, their own unfortunate and underprivileged. Then the march on Washington will cease and the countermarch back home will be a Marathon.

I am not forgetting that this may cost a good many Congressmen considerable inconvenience and more abuse, it may cost some of them their official lives. But they are planning and legislating for the conduct of a war which will cost hundreds of thousands of the actual lives of our best manhood; might they not make an infinitely less sacrifice of their own official lives for the common good and for our free institutions? And I tell you, our free institutions are far more threatened by our domestic usurpations than by the outcome of this war. If you Congressmen would save this nation and its free institutions, cease to appropriate the national funds to meet local wants and problems of welfare.

The Control of Expenditures

One other specific thing our Congressmen can do—it can be done in two score statutory lines: They can make it an offense to employ in Government civil service any person who has not been a citizen of the United States for say ten years last past, as likewise for any such person to accept employment in the Government, with or without compensation, and then make the penalties run against the persons violating the statute and also against all disbursing officers, including the Director of the Budget, and against all officials using them without compensation. Congress should also provide against the ill-advised service of the so-called dollar-a-year man. Such a statute would eliminate the great bulk of our alien revolutionists from places of power; it would greatly lessen their influence; it would be a long step towards the re-establishment of constitutional government.

Furthermore, Congress has a complete check upon all subversive and unconstitutional governmental instrumentalities and practices first by refusing to make appropriations to be used to carry them on, and next by making the enormous special or emergency funds granted to the Executive, unavailable for these purposes, under stringent penalties running against all disbursing officers, including the Director of the Budget. And to reach certain practical political problems involved in imposing constitutional penalties, Congress might provide for the lapse of the entire appropriation upon the violation of the restrictions they fix upon the expenditure of these special or emergency funds. Congress could also set up a supervisory control over the secret expenditure of these funds.

Why Insurance Companies Should Act

Should anyone say, Why should we insurance people do anything about all this, and if we should do something then how should we do it, I would answer briefly:

You should do something because for generations you have been soliciting the money of the people under representations and promises to the policyholder that you would protect his beneficiaries from hardship and want. I assume you realize that if life insurance is taken over by a communistic government that your promise will fail, because the premise of communism is that all must stand on an equal footing, with no special considerations to any, even for their own achievements. So the savings of your policyholders would be thrown into a general governmental fund which, if threatened eventualities materialize, will be lost in a great financial debacle that will engulf the whole people in misery and want. The history of the last quarter of a century among European nations proves this.

This is one *why* you should do something. There are other reasons of patriotism, and the protection of your posterity, why you should do something. There has been too much treasure and blood, too much hardship and toil, and want, and sacrifice, too much of high idealism and Christian purpose put into this government of ours, to let it be torn up and cast aside by a group of alien revolutionists and their American rebel co-conspirators. The voices of the millions who have died that we might have the blessings of "life, liberty and the pursuit of happiness" and the blessings of our free institutions, those millions who have died for us on the sea, on the armed field, in the frontier forests, plains, and mountains, the voices of these millions cry to us out of the past, not to give the lie to their vision of a free people, not to make their supreme, their last offering for you, their posterity, a mere vanity and a shame.

How can you do something to prevent all this? Well—you have 67 million policyholders, half the total population of the nation. You can reach everyone of them. You can teach each of them what all this alien philosophy means, and whereto it leads. If you get that message to this 67 million, they will give the answer every patriotic American would voice. It is your highest and most solemn duty to see that this is done. The power to save this nation is in your hands. You cannot escape responsibility if we shall come to ruin.

Confidence in the People

Gentlemen, I have a complete confidence in the aggregate wisdom of the American people if they are given and made to understand the facts. The wisdom of the mass is always greater than the wisdom of the individual or of the group. The few may be more subtle, more agile-minded, more resourceful; they may for a time push to the front and scamper ahead in the march; they may on occasion and for a time entice us down the wrong highway at the crossroads. But the great slow-moving, deliberate-thinking mass plods along over the years down the Divinely appointed way. Led astray, they slowly, cumberously swing back to the right road, no matter what the toil or the sacrifice may be, and when they start the return, they crush whatever lies in their path. So has humanity come up through the ages. So have free peoples climbed to the loftiest heights of liberty. Thus has truth and progress prevailed. So they will prevail, for God is a God of Truth, and God is at the helm. This is my faith and my testimony.

Concentrated Power Vs. Democratic Government

(Continued from page 2113)

The development of people is the central objective of nature. Difficulties are the gymnastic paraphernalia provided for that development. We know by our own experience and observation that no individual was ever greater than his difficulties. No victory was ever greater than the battle fought to win it. The greatest epochs of the world are those in which peoples with a purpose which would not yield, with a courage which sustained, fought their way through the greatest difficulties of time. The history of the world is but a record of difficulties overcome. Being on top of the hill is not important in the scheme of nature. Had it been so, we would all have been created on the top of the hill. Climbing the hill and gaining the strength from the climbing is what is important, instead of sitting down at the foot of the hill because it is steep and rugged and letting the muscles grow flabby. It is a law, a universal law. The law of the Big Boss. Therein lies the philosophy of self-government. It is the plan of God. He has not put in the hearts of people the yearning to be free and self-governing and made the realization of that yearning to depend upon the will and the good disposition of one man or a few men in power. They might be ambitious to be known as great governors of a people instead of useful servants of a great people, the only aspiration a public servant in a democracy has any right to have. Men are not wise enough to guide by their theories the policies of a great democracy. We cannot do this job if we approach it as democrats and republicans. Only as patriotic American citizens, determined that this shall remain one place where people have a chance to be free, and we can do it. Progress is slow, progress is uphill. Progress is difficult. Progress is the road of struggle, but it is the road of strength. Along that road lies the thrill of victory, the fitness to live. We have been getting mighty soft in America. We have wanted the easy way, the fast way. We have turned to Uncle Sam. When some difficulties have come to our communities, to the smaller units of government, to our States, to challenge us to effort and to reward us with strength for the duties of tomorrow, we have refused the challenge. We have turned our backs upon the opportunity, and cried out for a super-government to come in and do the job for us. As a result we not only fail to receive the increased capacity to govern which nature gives as a reward to those who use the capacity already possessed, but we lose capacity. Nature takes from us the capacity which we fail to use. It is the law of life. Let the greatest athlete go to bed and cease to use his muscles; the strength in his muscles will not remain. Let any self-governing people shift their governmental responsibilities away from themselves, and in proportion as they do, the strength to govern departs. When a people yield to a great centralized government to think and plan and care for them from the cradle to the grave, it is not far to the grave for everything which free men hold dear.

Basically considered, from the disregard of these fundamental facts, great laws of Nature which govern not only in government, but everywhere, which determine sound policy, which limit human discretion, which fix the program for the development and preservation of governmental capacity of the people, from that disregard, basically considered, our major governmental difficulties and dangers have come. I am not a theorist. I have examined the facts. I have been trained in the school of practical experience. What little sense I have is of the usable sort, I think. I have subjected the judgment just expressed to every test to which experience has taught me to subject judgment before yielding to its guidance. Only in the field of government are people so foolish as to follow the theories of men, accredit men with infallibility, an attribute which belongs only to God. Our scientific schools, practical schools, schools of medicine, engineering, all of them, are discovering natural laws and training men how to work in harmony with them. Not so in government. It is the one exception. In a time of great progress in every other field of human effort government stands alone as the colossal failure of the age. Serious, unemotional people are questioning now whether the children of today will be able to live under a free government, under a democracy, under some form of non-democratic government. We cannot do to our democracy that which under the operation of the laws of cause and effect is destructive of democracy, and expect ours to survive. Governments are not accidents. They have been provided for in the great economy, and are themselves governed by natural law. We did not write, in a creative sense, our Federal Constitution. Every basic Federal Constitution provision had already been incorporated in those of the States before the Federal Convention met. The Royal Charters preceded them. That of the little colony of Rhode Island, one of the greatest State papers of all time, was granted in 1663, I believe. Each of the basic provisions of our Constitution had originated out of necessity, and had been tested through centuries by a people peculiarly gifted with the genius of self-government long before any constitutional conventions undertook the task of written constitutional constructions. We must rid our minds of the silly, historically incorrect, humanly impossible mythological tales about some supermen having created for us our Constitution and our system of government. Instead of such tales, which have crowded out the truth, which are as impossible of human accomplishment as the tales of the Grecian gods, we must know the truth about our Constitution. It came from the same source a tree comes from. It is governed, as is the tree, by natural laws which require a people capable of governing and an available governmental machine which they can operate.

The notion of a fundamental, natural law, supreme and dominant in the social and governmental relations of men, had taken firm root in the philosophy of thinkers as far back as Aristotle. Perhaps men have held to that conviction as far back as men have observed correctly and thought clearly and analytically. Cicero distinguished between summa lex, which existed according to his philosophy always before governments or written law, and lex scripta, laws of man's making, which were to be regarded as void if they were contrary to the laws of nature.

In the Middle Ages such great jurists as Baden of France and Suarez of Spain agreed with these views but went further and held that God had planted a consciousness of these laws in the mind and conscience of man, from which one's understanding of natural rights was derived, and held further that a statute which was contrary to natural justice was ipso facto void. Grotius was in general agreement with this philosophy. Coke, Fortescue, and Blackstone agreed. Blackstone held, however, that there was no power to prevent Parliament from violating the supreme law. However, he did not go so far as some of our American commentators have gone who say that the Constitution is what the Supreme Court says it is, or so far as some of the commentators on the British Constitution go who say that the British Constitution may be changed by the British Parliament. Neither of these statements is correct.

There is no power to prevent the British Parliament from enacting a law contrary to the British Constitution, but that violation of the British Constitution does not change the Constitution. It is true that there is no power to prevent an ignorant or venal Supreme Court, if there should come to be such a court, from falsely interpreting or falsely applying the provisions of the Constitution but the Constitution would remain unchanged. We should merely have to await a happier day when the powers which had been abused and the trusts which had been betrayed should pass to fitter hands.

Your ancestors fired shots which were heard around the world. Their duty was to establish democratic government. It is ours to preserve it. Great is our responsibility. Great is our opportunity.

While our boys are fighting on the battlefields of the world, we must with equal courage, equal patriotism, and equal sacrifice if necessary, reestablish and have for them when they come home, those who do, a democracy worthy of their service and sacrifice. A nation of people bottle-fed and rocked to sleep in the arms of a great Federal bureaucracy cannot do the job.

Retail Ass'n To Hold Conference In January

A 5-day "Victory and Postwar Conference" will be staged by the National Retail Dry Goods Association, during the week of Jan. 10-14 at the Hotel Pennsylvania in New York, it is announced by Lew Hahn, General Manager of the Association. Vital subjects for discussion and action will be explored at eight general sessions for all delegates, without the conflict of various technical sessions while these larger meetings are in progress. The annual dinner will take place on Jan. 13, and the names of the government and business leaders who will speak at the general sessions and at the dinner, will be made known later.

"Our Reporter On Governments"

By S. F. PORTER

It's a good "basket" . . . . And has some excellent terms . . . . As for the new 2¼% bonds due in 1959, callable in 1956, there's the bond for you, for investors of all types, for traders . . . . The prediction in this column weeks ago that a 2¼% bond was under consideration and would be offered if the proponents of "something different" could convince Secretary Morgenthau now has come through . . . . We are getting something new . . . . We are getting something different from a 10-year 2 . . . . And unless the authorities have forgotten how to manage this market and unless all guide-posts are pointing the wrong way, this January campaign will go over . . . . And the 2¼s will be a fine bond to buy, hold and trade . . . .

Morgenthau did yield to the pressure for a new bond and also for some separation of the drive between individuals and banks . . . . He didn't go the full way, of course . . . . It probably was silly even to expect him to reverse his usual conservatism and forego his habit of compromise . . . . But he did confer extensively with bankers, dealers, financiers and he did listen . . . . And the result is a basket including 2¼s, 2½s, tax savings notes, ⅞s and the regular war bonds . . . .

The deal starts Jan. 18, ends Feb. 15 . . . . Banks are to be limited to minor percentages of their time deposits on purchase of 2¼s and 2½s, can't buy the ⅞s until after Feb. 15 . . . . So they'll be small participants in the major Fourth War Loan campaign . . . . And they should be in the open market for 10-year 2s during the period the drive is in full swing . . . .

As for the market, it is taking the news of the Fourth War Loan in stride . . . . Looks better today than in many weeks . . . . Gossip grows stronger that some definite action will be taken between now and Jan. 18 to give banks more leeway in supporting the open market . . . . Either wide-scale purchases of bonds in the market by the Federal . . . . Or some change in reserve requirements . . . . Or redemption of an outstanding maturity, namely the December 1⅛s . . . . Any measure would help to ease the money situation . . . . And easing is essential, as the authorities know as well as you . . . .

THE DECEMBER MATURITY

The $3,800,000,000 Treasury ⅞% certificates due Dec. 1 are being rolled over . . . . No cash subscriptions to be accepted, just refunding with a new issue of one-year certificates . . . . Which is sensible and exactly in line with forecasts . . . .

The point not cleared up as yet is the disposition of the 1⅛s, outstanding in the amount of $421,000,000 and tax-exempt . . . . Payment is indicated, not only by the relatively small size of the maturity and by the money market's need but also by the price quoted on the issue in the market today . . . . It's down to 100 bid, 100.2 offered . . . .

Since announcement of the Fourth War Loan, the general attitude of the market has improved somewhat . . . . Sort of an "the news is out" psychology . . . . The new 2s are up to 100.4 bid again and tax-exempts are coming back . . . .

But all in all, the forecast here during the last fortnight, that the market was in for an up-a-bit-down-a-bit period is coming true . . . . Disappointing as it is, the money situation plus the short war rumors have combined to hold down the Government market to a minimum level . . . . Trading is sparse, interest is similarly so . . . . And with the holidays approaching, there's not much hope for an important change for the better until the new year arrives . . . .

Perhaps the prime factor now is not technical at all, but psychological in character . . . . That's the early peace talk and the accompanying reports of huge corporate financings as soon as peace returns . . . . Meaning, huge demands for capital by sources other than the Treasury . . . . And indicating, according to some gossip, that there'll be some pressure on interest rates and enough competition in the market to take the edge off Government bond prices . . . .

To put it bluntly, several rather important figures in Wall Street are talking about the end of the long downtrend in interest rates, a major reversal in topflight bond prices . . . .

Believe it or not, the fact is the talk is having an effect . . . . And you might as well be aware of it, before taking definite action in either direction . . . .

ONE SWITCH SUGGESTION

From one of the most informed dealers in New York comes the recommendation that institutions not needing tax-exemption to the utmost consider switching out of various issues surrounding the 2s of 1953/51 and into this newest 2% loan, selling at what approximates par . . . . Or at this writing, at 100⅛ to yield 1.18% after taxes . . . .

To be exact, the switch would be out of the 3s of 1955/51, selling at 111¼ to yield 1.22 . . . . Out of the 2¼s of 1953/51, selling at 106¼ to yield 1.20 . . . . Out of the taxable 2s of 1955/51, selling at 100⅛ to yield 1.19 . . . . Out of the taxable 2½s of 1954/52, selling at 103¾ to yield 1.19 . . . . Out of the 2s of 1955/53, selling at 105⅛ to yield 1.19 . . . .

And into the new 2s of 1953/51, selling at near par to yield just about these levels . . . .

Idea is there's no sacrifice in yield . . . . And, in most cases, there is a definite advantage in lower cost . . . . And, of course, there's the shorter maturity . . . . And the fact that the new 2% bond is enjoying the support of the official authorities since it is the keynote of the market . . . .

Same source suggests using the same yardstick of reasoning to get out of the 1949 and 1950 maturities and into these 1953/51s . . . . On the basis of cutting cost and increasing yield slightly . . . .

Naturally, this can apply only to investors not bothering about the exemption feature on several issues covered . . . . Study your portfolio and check on whether this idea fits in . . . .

INSIDE THE MARKET

One of the major thoughts disturbing experts today is the rapidity with which the short-term debt has been built up to a point where Morgenthau can't take off more than a few weeks before he must return to the market with a prime deal . . . . In addition to rolling over the bills every week as well . . . . It seems as though it were only yesterday when the banks were crying for short-term stuff, but it was a short cry even then . . . . Morgenthau came in with his huge certificate and bill offerings and now the size of the debt-due-within-the-year is overwhelming . . . .

To be exact . . . . There are more than $13,000,000,000 of bills out due between now and March . . . . More than $23,000,000,000 of certificates of indebtedness due between now and next October . . . . That's $36,000,000,000 . . . .

And there's a USHA issue up for payment in February . . . . And an RFC loan due in April . . . . And two FFMC issues up in March and May . . . . And an HOLC loan due in May as well . . . . Not counting the substantial note and bond flotations coming up for refunding every quarter in 1944 . . . .

The short-term debt has gone high enough . . . . Increasing it now is unlikely and might be dangerous . . . . Which means intermediate and long-term securities are probable and which indicates that Morgenthau must maintain the price level if only to let the Treasury get out from under this burden without loss . . . . You may apply that to your own portfolio with ease . . . .

Court Decision In Dealer Mark-Up Case In Offing

(Continued from page 2104)

tomer made a profit on the transaction thus absorbing the mark-up no matter how high it may have been.

Using the basis of computation of mark-ups applied by the Commission, which the Dealer seriously questions but not as part of his case, namely relation of mark-up to cost or market rather than to selling price, mark-ups in this case averaged about 25%—although the majority of transactions ran somewhere around 16 to 20%.

An interesting point raised by the Commission was that it felt that cases of this kind were analagous to cases of sales by merchants who warrant or represent that the merchandise sold will be suited to the purposes for which it was intended. Counsel for the Dealer appeared to have answered that question in this case by pointing out to the Court that the Commission refused to permit the Dealer to show the satisfactory market action of the securities which he sold, thus making it impossible for him to show that the securities were fit for the purpose intended.

Another argument submitted by the Commission was that purchasers who acquire securities are primarily interested in market price. Counsel for the Dealer stated that the speculator is usually interested in market price —the investor in potential value and dividends and yield.

On the question of constitutionality it would be clearer to set forth the argument of the Dealer counsel in their brief:

"In this case the power to define the terms manipulative, deceptive or fraudulent" is not limited by any declaration of congressional policy, or by any other fact or circumstance. The Commission AT WILL might have made any definition either the broadest or the narrowest and the violation of law would depend wholly upon that definition.

"In Section 15 (c) 1-2 the Commission exercised the power thus unlawfully given to it and defined the terms in question. The license of petitioner was revoked for a violation of the regulation and rests wholly upon the definition contained in that regulation. Nothing in the statute suggests or lays the foundation for the definition either in terms or in effect. The power of the Commission to make the definition is wholly and completely uncontrolled.

"It may be said in passing that the exercise of power is made vaguely and uncertainly and the definition as made affords no sufficient guidance to Dealer or broker. The language is clumsy and confusing. There is no suggestion of any distinction between the terms 'manipulative, deceptive or fraudulent.' They are treated apparently as an accumulation of words meaning the same thing, if in fact they mean anything."

On the main point of the case, that of failure to disclose mark-ups, quotation from the briefs of the Dealer's counsel seems to be the best reporting:

"The Commission does not set forth any specific representations alleged to have been made by the petitioner which became misleading because of its omission to state a material fact, but reads into the statute an implied representation by the Dealer that it will treat its customers fairly and then proceeds under this broad implication to hold the dealer guilty of making it misleading BY SIMPLY FAILING TO DISCLOSE TO ITS CUSTOMERS THE FACT, not that it was making a profit on the transaction, but PRECISELY HOW MUCH THAT PROFIT AMOUNTED TO. At the time of sale it would have been impossible for the dealer to have computed his resulting profit for it is fundamental that in the operation of any business certain deductions for sales and overhead must be determined before arriving at such a conclusion.

"The Commission's definition of 'riskless transactions' appears to be transactions in which the dealer at the time of the sale . . . does not own the security. In addition to the fact that a registered dealer today ASSUMES A RISK BY THE MERE FACT THAT HE IS VOLUNTARILY OPERATING UNDER THE SUPERVISION OF THE SECURITIES AND EXCHANGE COMMISSION, there is the further obvious one that . . . where the dealer who contracts to deliver a security which he does not then own may be forced to pay even a higher price for it than that at which he sold it to his customer. IT IS THE POSSIBILITY OF RISK AND NOT THE ACTUALITY which should determine the definition.

After pointing out the fallacy of using the NASD old fair practice standard for cases of this kind, the Dealer's brief goes on to say:

"Obviously, not all registrants with the Commission are members of this Association (NASD) because membership is not a condition of registration. THE COMMISSION IN THIS PORTION OF THE OPINION IS APPARENTLY GRASPING FOR SOME PEG UPON WHICH IT MAY HANG ITS CONCLUSION. It is proceeding on the fictitious creation of implied representation as to profits, for which there is no basis in the evidence or in the law. IT WOULD BE DIFFICULT TO IMAGINE HOW DEALERS REGISTERED WITH THE COMMISSION COULD DETERMINE THE POINT AT WHICH A PERCENTAGE OF PRIFIT WAS LEGITIMATE OR ILLEGITIMATE **WITHOUT IN EACH INSTANCE CONSULTING WITH THE COMMISSION. OBVIOUSLY, SUCH A PROCEDURE WOULD BE IMPRACTICAL AND FUTILE** FOR THE COMMISSION TO BE OF ANY ASSISTANCE WHATSOEVER EITHER TO THE PUBLIC OR **THE DEALER WOULD HAVE TO SET ITSELF UP AS A PRICE-FIXING BODY.**

Throughout its brief and argument, the Commission took the position that dealers in securities were different than dealers in other merchandise; that between dealer and customer there exists a "confidential relationship" which does not exist between seller and buyer of ordinary merchandise, and securities because of their intangible nature; that this confidential relationship exists because of the fact that the dealer knows all about what he is selling and the customer knows nothing. In answer to this counsel for the Dealer pointed out (first) that the Commission conceded that even a customer who knew as much as the dealer could be abused in this direction and (second) again quoting from the Dealer's brief: "Respondent's (the Commission's) reliance upon the assumed confidential relationship between dealer and purchaser, tantamount to a fiduciary relationship, is required by the exigencies of its present case. The law with respect to the fiduciary relation and the duties of fiduciaries is neither so vague nor so elastic as the Commission would have it for present purposes. It is not applicable whenever a seller inspires confidence in a purchaser. The Commission's theory of confidential relationship and resulting duties, conveniently vague in expression and application, should be properly accredited as an original conception. AS AN EXCUSE REQUIRING A DISCLOSURE OF PROFITS, AND OF COURSE, A REGULATION OF PROFITS, IT IS MORE INGENIOUS THAN INGENUOUS. A FRANK REGULATION DEALING WITH THE SUBJECT IN EXPRESS TERMS SHOULD NOT BE AVOIDED."

"The question which should be asked and which the Commission has not answered is: WHEN IS THE OMISSION TO STATE THIS MATERIAL FACT MISLEADING? HOW CAN THE DEALER TELL WHEN IT IS MISLEADING? THE ANSWER IS THAT THERE IS NO MEANS OF TELLING. **IT DEPENDS UPON THE PRESENT IMPRESSION OR PERHAPS** THE WHIMS OF THE PERSONS **FROM TIME TO TIME** CONNECTED WITH THE COMMISSION TO WHOM THE MATTER MAY BE PRESENTED." . . .

"THE RULE WHICH THE COMMISSION SEEKS TO APPLY . . . IS THEREFORE WHOLLY ARBITRARY, UNFAIR AND PRACTICALLY UNINTELLIGIBLE. TO SPELL A VIOLATION OF EITHER OF THE STATUTES INVOKED BY RESPONDENT OUT OF THIS MASS OF VAGUENESS AND UNCERTAINTY IS IN EFFECT TO **ESTABLISH A REIGN OF TERROR IN A LEGITIMATE FIELD OF BUSINESS.**

"The Commission strongly insists that it has no thought of fixing prices or profits for dealers, but its findings that the dealer's transaction in this case were unfair are clearly based upon the conclusion that the Dealer made too much profit. A dealer who wishes to avoid trouble in transactions of this kind, HAVING NO DISCLOSED RULE TO GUIDE HIM, could not be safe without seeking the Commission's approval in every transaction. HE TRANSACTS HIS BUSINESS FROM DAY TO DAY AT HIS OWN PERIL."

It is interesting to note that when asked by the Court whether or not the Commission could cite any common law cases substantiating its position, it was compelled to answer in the negative. Analyzed, the only authority for its position cited by the Commission outside of a State District Court in Illinois touching upon the question, were decisions of the Commission itself rendered since 1939 revoking the registrations of dealers, such as the Allender, Stelmack, Duker, Trost and other similar cases, in practically all of which actual misrepresentations were proved and agency established. Mark-ups in this type of cases ran as much as 200% to 400% and over. How they apply in a case where it is conceded no fraudulent material misrepresentations were made and where mark-ups averaged less than 25% and where the dealer was acting as principal and the securities sold were all substantial ones showing market action sufficient to assimilate the mark-up, counsel for the Dealer stated they were unable to discover.

Ass'n Of S. E. Firms Re-Elects Clark Pres.

The Association of Stock Exchange Firms re-elected John L. Clark of Abbott, Proctor and Paine, President at the meeting of the Board of Governors.

Other officers elected were Darrell J. Bogardus, Bogardus, Frost & Banning, Los Angeles, First Vice-President; Springer Brooks, Piper, Jaffray & Hopwood, St. Paul, Second Vice-President; William W. Peake, New York, re-elected Secretary; and M. Livingston Delafield, Delafield & Delafield, New York, Treasurer.

William E. Huger, Courts & Co., Atlanta, was elected as a new Governor to succeed his partner, Malon Courts, now in the Navy.

Treasury Plan For Proposed World Bank

The Treasury Department made public on Nov. 23 its tentative draft of a plan for a United Nations bank for reconstruction and development and Secretary Morgenthau announced that the outline was being sent to the Foreign Ministers of the various countries for consideration.

The proposed bank and the projected currency stabilization are to be the subject of an international conference which Treasury officials hope will be held this winter.

The bank proposed calls for capital of $10,000,000,000 with member countries contributing according to an appropriate formula. The United States, it is said, would subscribe approximately one-third of the capital, but only 20% of this sum would be called for as an initial payment.

In reporting this latest action, a Washington dispatch Nov. 23 to the New York "Times" stated:

At the same time, Harry White, the Secretary's monetary adviser, estimated that our share in the contemplated International Stabilization Fund, called International Clearing Union by the British, would be around $2,500,000,000, requiring a Congressional appropriation of about $3,200,000,000 if the United States were to participate in both of these international arrangements on the basis now proposed by the experts.

In discussing the proposals at a press conference, Mr. White disparaged the existing Bank for International Settlements as a possible medium for the long-term loan machinery under consideration in connection with the Bank for Reconstruction and Development, and reflected upon Thomas H. McKittrick, the American president of the bank.

In reply to a question as to what he thought of using the Bank for Internatoinal Settlements for the purposes under consideration, Mr. White replied:

"It has no significance in connection with this. It is German-controlled. She (Germany) is being very nice and hopes to use it to get back into financial power. There's an American president doing business with the Germans, while our American boys are fighting Germans. All it has is some books and some personnel."

Secretary Morgenthau said the proposed international bank "could help provide a sound financial foundation on which private enterprise can build a prosperous world economy."

Although the proposals bar the international institution from making loans where private finance will undertake them "on reasonable terms," the tentative draft and memorandum made public today make clear that the whole scheme is predicated on the assumption that private capital will not want to take the international investment risks which its framers regard as essential to the re-establishment of world trade and general lifting of living standards.

The Secretary looked upon foreign rehabilitation and relief as an essential companion measure since "the flow of private capital to war stricken countries will be encouraged by an adequate program of international relief and rehabilitation which helps quickly to restore to a working basis the economic life of these countries."

The bank would "scrupulously avoid undertaking loans that private investors are willing to make on reasonable terms," Mr. Morgenthau added.

Following are some high points in the new proposals said to have been agreed upon by technicians of the Treasury, Securities and Exchange Commission, State Department and the Export-Import Bank:

The bank will serve its own members exclusively.

United Nations like Russia would be protected by a provision that "the bank shall not be influenced in its decisions with respect to applications for loans by the political character of the government of the country requesting a loan."

The stress on gold as the foundation of the bank is tempered by consideration for its present maldistribution, but after some years it is expected that all national contributions shall be in gold.

Up to 10% of the bank's capital may be invested in equity securities.

The bank may offer publicly any securities it has acquired.

The proposed bank would grant lines of credit, but interest would be payable only upon the amounts withdrawn, and could make loans to international governmental agencies.

The directors, one for each member, would have 1,000 votes each, plus one additional vote for each share of stock held. Mr. White said Great Britain would probably have $1,000,000,000 of stock against our $3,300,000,000, and Russia would have less than Great Britain.

Previous reference to the proposed bank appeared in our issue of Oct. 14, page 1486.

The Dominion Bank Of Toronto Reports Gains

The 73rd annual statement of The Dominion Bank, Toronto, Canada, for the year ended Oct. 30, 1943, shows a strong cash and liquid position, substantially higher deposits, an increase in investments and lower commercial loans.

The announcement further stated:

"After providing for all taxation, net profits were $914,249, from which $105,000 was transferred to the Officers Pension Fund, $150,000 written off bank premises and dividends of 8% per annum, amounting to $560,000 paid. Total deposits of $197,718,000 increased over $13,000,000, and Dominion and Provincial Government bonds and other high grade securities, totaling $104,767,000, increased a further $17,000,000 represented by purchase of additional Dominion Government obligations. Commercial loans and discounts in Canada now aggregate $60,239,000, a decrease of over $10,000,000 due to a lessening demand for such financing. Cash assets now exceed $41,000,000, immediately available assets $151,000,000, with total assets over $223,000,000. Capital $7,000,000, reserve fund $7,000,000 remain unchanged, with undivided profits of $965,750. The bank's annual meeting will be held in Toronto on Dec. 8."

House Begins Debate On Tax Legislation

The House yesterday (Nov. 24) began debate on the $2,140,000,000 new revenue measure, agreeing to consider only the question of accepting or rejecting the bill as it was reported by the Ways and Means Committee. This procedure was decided on by a standing vote of 208 to 7 and prevents an open fight upon the floor on some controversial points in the bill, notably increases in several excise levies. The Committee formally reported the measure to the House on Nov. 18. The legislation imposes virtually no additional burdens on individual incomes and corporation normal taxes and surtaxes, deriving most of the revenue from higher postal rates, boosted excises on so-called luxuries and an increase in the corporation wartime excess profit levies.

Passage of the bill by the House group was referred to in these columns Nov. 18, page 2020.

Bank and Insurance Stocks

This Week—Insurance Stocks

By E. A. VAN DEUSEN

Although there are no such things in human experience as "riskless" investments, there are "sound" investments. A "sound" investment is one whose characteristics do not violate certain fundamental requirements, the most important of which may be stated as follows: Diversification, stability, income, marketability and growth. This column submits that the stocks of many old-line fire insurance companies may properly be considered as belonging in the category of "sound" investments. We shall now dicuss briefly the five requirements enumerated and see how closely fire insurance stocks, as a class, meet them.

Diversification—Few investors disagree with the principle of spreading risk through adequate diversification. Concentration of investment in one "risk" is unwise. Fire insurance companies inherently represent the very essence of "diversification." Their underwriting commitments are spread geographically throughout the 48 states, and are diversified as to industry and type of risk; furthermore, special large individual risks are shared by several companies through the device of re-insurance, whereby no single company carries an unduly heavy proportion. Premium writings, moreover, are not confined to fire insurance alone, but other classifications of hazards are also insured. For example, Home Insurance Co. reported the following allocation of net premium writings in 1942: Fire, 54%; motor vehicle, 10%; ocean marine, 14%; inland navigation and transportation, 7%; tornado, 3%; extended coverage, 5%; hail, 5%; miscellaneous, 2%. The investment portfolios of fire insurance companies are themselves good examples of investment diversification. The average portfolio of twenty-one leading companies, as of Dec. 31, 1942, showed the following percent classification of invested assets: Real estate and mortgages, 3.5%; U. S. Government bonds, 23.4%; foreign government bonds, 2.1%; municipal bonds, 5.3%; other bonds, 8.3%; (total bonds, 39.1%); preferred stocks, 12.6%; railroad common, 1.8%; public utility common, 2.3%; bank stocks, 4.1%; insurance stocks, 22.3%; industrial and general stocks, 14.3%; (total common stocks, 44.8%). A fair degree of investment diversification can thus be indirectly obtained through the purchase of the stock of a single insurance company; superior diversification, however, can be secured through the purchase of a selection of a few of the choicest insurance stocks.

Stability—The stability of an industry or of a company is essential, if one's capital invested therein is to be secure. There is no question as to the stability of the insurance business in the United States. The service it renders the public is basic and is indispensable in a capitalistic society. Leading companies in the business have a long and honorable record, and their history is part of the warp and woof of our national fabric. The Insurance Company of North America was founded sixteen years after the Declaration of Independence, when President George Washington was still in office; Providence-Washington Insurance Company's history dates back to 1799, when John Adams was President; Hartford Fire started business two years before the War of 1812, and so it goes. Best's 1943 edition of "Aggregates and Averages" lists 24 domestic stock fire insurance companies whose organization history dates back one hundred years or more.

Income—The primary purpose of investment, as distinct from speculation, is income. Stocks which are not paying dividends are, generally speaking, speculations rather than investments. Leading fire insurance companies have an enviable record as steady and long-term dividend payers. Some interesting examples of long and unbroken records are as follows: Franklin Fire, since 1831; North River, since 1838; Continental Insurance, since 1853; Hanover Fire, since 1860; Agricultural Insurance, since 1864; Springfield Fire & Marine, since 1867; New Hampshire, since 1870; National Fire, since 1872; Hartford Fire, since 1873; Home Insurance and Insurance Company of North America, since 1874; Boston, since 1875. The list could be extended.

Marketability—Stocks which are difficult to buy and sell are, other things being equal, less desirable than those which can promptly be turned into cash. No investor wants to hold "frozen assets." Fire insurance stocks are traded nationally on the over-the-counter market, their prices are quoted daily in a large number of newspapers, and they enjoy, generally speaking, excellent marketability. There are degrees of marketability, however, for certain leading and popular issues are more readily marketable than are some of the smaller and lesser-known issues.

Growth—No alert and prudent investor will invest his funds in a declining industry. He demands, not only stability, but also growth. The fire insurance business has been growing with the country since the days of the "founding fathers," and will continue to

(Continued on page 2129)

DIVIDEND NOTICES

Bayuk Cigars Inc.

A dividend of thirty-seven and one-half cents (37½¢) per share on the Common Stock of this Corporation was declared payable December 15, 1943, to stockholders of record November 30, 1943.

Checks will be mailed.

John A. Snyder
TREASURER

Philadelphia, Pa.
November 19, 1943

MAKERS OF PHILLIES

ANACONDA COPPER MINING CO.
25 Broadway
New York 4, N. Y., November 24, 1943
DIVIDEND NO. 142

The Board of Directors of the Anaconda Copper Mining Company has declared a dividend of One Dollar ($1.00) per share upon its Capital Stock of the par value of $50. per share, payable December 20, 1943, to holders of such shares of record at the close of business at 3 o'clock P. M., on December 7, 1943.

JAS. DICKSON, Secretary & Treasurer

THE ALABAMA GREAT SOUTHERN RAILROAD COMPANY
New York, N. Y., November 23, 1943.

A dividend of $4.50 per share on the Preferred Stock of The Alabama Great Southern Railroad Company has been declared payable December 24, 1943, to stockholders of record at the close of business December 4, 1943.

A dividend of $4.50 per share on the Ordinary Stock has been declared payable December 24, 1943, to stockholders of record at the close of business December 4, 1943.

C. E. A. McCARTHY,
Vice-President and Secretary.

CONSOL

The Board of Directors of the

CONSOLIDATION COAL COMPANY
(Incorporated in Delaware)

has this day declared the regular quarterly dividend of 62½ cents per share on the $2.50 Cumulative Preferred Stock, payable on January 1, 1944, to stockholders of record at the close of business on December 16, 1943. Checks will be mailed.

C. E. BEACHLEY,
Secretary-Treasurer

November 23, 1943

DU PONT

E. I. DU PONT DE NEMOURS & COMPANY

WILMINGTON, DELAWARE: *November 15, 1943*

The Board of Directors has declared this day a dividend of $1.12½ a share on the outstanding Preferred Stock, payable January 25, 1944, to stockholders of record at the close of business on January 10, 1944; also $1.25 a share, as the "year-end" dividend for 1943, on the outstanding Common Stock, payable December 14, 1943, to stockholders of record at the close of business on November 22, 1943.

W. F. RASKOB, *Secretary*

THE ELECTRIC STORAGE BATTERY CO.

Exide BATTERIES

The Directors have declared from the Accumulated Surplus of the Company a final dividend for the year 1943 of Fifty Cents ($.50) per share on the Common Stock, payable December 21, 1943, to stockholders of record at the close of business on December 1, 1943. Checks will be mailed.

H. C. ALLAN, *Secretary and Treasurer.*
Philadelphia, November 19, 1943.

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company declared a final dividend on the common stock of the Company for the fiscal year ended October 31, 1943, of fifty cents (50c) per share, payable December 15, 1943, to stockholders of record on November 30, 1943. At the same time, the Directors declared a quarterly dividend of fifty cents (50c) per share on the common stock, payable January 15, 1944, to all holders of record at the close of business on December 20, 1943.

SANFORD B. WHITE, *Secretary.*

INTERNATIONAL SALT COMPANY
475 Fifth Avenue, New York 17, N. Y.

A dividend of One Dollar a share has been declared on the capital stock of this Company, payable December 15, 1943, to stockholders of record at the close of business on December 2, 1943. The stock transfer books of the Company will not be closed.

HERVEY J. OSBORN, Secretary.

DIVIDEND NOTICES

COMMERCIAL INVESTMENT TRUST CORPORATION

Common Stock, Dividend

A quarterly dividend of 75 cents per share in cash has been declared on the Common Stock of COMMERCIAL INVESTMENT TRUST CORPORATION, payable January 1, 1944, to stockholders of record at the close of business December 10, 1943. The transfer books will not close. Checks will be mailed.

JOHN I. SNYDER, *Treasurer.*

November 24, 1943.

A. HOLLANDER & SON, INC.
COMMON DIVIDEND

HOLLANDER DYED FURS

A dividend of 25¢ per share on all outstanding common stock has been declared November 22, payable December 15 to stockholders of record at the close of business on December 6, 1943.

AN EXTRA DIVIDEND of 50¢ per share has also been declared payable as follows to stockholders of record at the close of business on December 6: 25¢ payable on December 15, 1943 and 25¢ payable on January 4, 1944.

Checks will be mailed.

Newark, N. J.
November 22, 1943

Albert J. Feldman
Secretary

Johns-Manville Corporation
DIVIDEND

The Board of Directors declared a regular quarterly dividend of $1.75 per share on the Cumulative 7% Preferred Stock payable on January 1, 1944, to holders of record on December 17, 1943, and a dividend of 75c per share on the Common Stock payable December 24, 1943, to holders of record December 10, 1943.

ROGER HACKNEY, *Treasurer*

KANSAS CITY POWER & LIGHT COMPANY
First Preferred, Series B — Dividend No. 68
Kansas City, Missouri — November 17, 1943

The regular quarterly dividend of $1.50 per share on the First Preferred, Series "B", Stock of the Kansas City Power & Light Company has been declared payable January 1, 1944, to stockholders of record at the close of business December 14, 1943.

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

H. C. DAVIS, Assistant Secretary.

KENNECOTT COPPER CORPORATION
120 Broadway, New York City
November 19, 1943.

A cash distribution of twenty-five cents (25c) a share and a special cash distribution of one dollar ($1.00) a share have today been declared by Kennecott Copper Corporation, payable on December 22, 1943, to stockholders of record at the close of business on November 29, 1943.

A. S. CHEROUNY, Secretary.

OFFICE OF NORTHERN STATES POWER COMPANY (WISCONSIN)

The board of directors of Northern States Power Company (Wisconsin), at a meeting held on November 16, 1943, declared a dividend of one and one quarter per cent (1¼%) per share on the Preferred Stock of the Company, payable by check December 1, 1943, to stockholders of record as of the close of business November 20, 1943, for the quarter ending November 30, 1943.

N. H. BUCKSTAFF, *Treasurer.*

SOUTHERN PACIFIC COMPANY
DIVIDEND NO. 104

A DIVIDEND of One Dollar ($1.00) per share on the Common Stock of this Company has been declared payable at the Treasurer's Office, No. 165 Broadway, New York 6, N. Y., on Wednesday, December 22, 1943, to stockholders of record at three o'clock P. M., on Monday, November 29, 1943. The stock transfer books will not be closed for the payment of this dividend.

J. A. SIMPSON, Treasurer.
New York, N. Y., November 18, 1943.

UNDERWOOD ELLIOTT FISHER COMPANY

The Board of Directors at a meeting held November 18, 1943, declared a dividend for the fourth quarter of the year 1943 of 1.00 a share on the Common Stock of Underwood Elliott Fisher Company, payable December 8, 1943, to stockholders of record at the close of business November 29, 1943.

Transfer books will not be closed.

C. S. DUNCAN, Treasurer

THE YALE & TOWNE MFG. CO.

On November 23, 1943, a dividend No. 215 of fifteen cents (15c) per share was declared by the Board of Directors out of past earnings, payable January 3, 1944, to stockholders of record at the close of business December 10, 1943.

F. DUNNING, *Secretary.*

DIVIDEND NOTICE

UNION CARBIDE AND CARBON CORPORATION

UCC

A cash dividend of Seventy-five cents (75c) per share on the outstanding capital stock of this Corporation has been declared, payable January 1, 1944, to stockholders of record at the close of business December 3, 1943.

ROBERT W. WHITE, Vice-President

OUR REPORTER'S REPORT

Central Power & Light Company's $25,000,000 refunding operation will probably be the next sizeable piece of business to command the attention of underwriters and investors in general.

The Securities and Exchange Commission has approved the proposed new financing and, at the request of the company, has shortened the time for inviting bids to six days.

Wall Street hears that several banking syndicates are pretty well along toward formation for the purpose of competing for the bonds which will carry a coupon of 3⅛% and mature in 30 years.

Considering the ready reception accorded two other large-scale deals this week, notably the sale of 875,000 shares of Public Service Co. of Colorado common stock, and some 200,000 shares of new preferred stock of the Dow Chemical Co., it is expected that bidding for the Central Power issue will be brisk.

The company will apply the proceeds from the sale of the new bonds, together with such treasury cash as may be needed, to the redemption and retirement of $25,000,000 series A 3¾% first mortgage bonds now outstanding and due to mature August 1, 1969.

Utah Power & Light

Securities and Exchange Commission approval of the amendment to its original plan would enable the Utah Power & Light Company to call for bids for its proposed $42,000,000 of first mortgage bonds by December 6, it was pointed out in investment banking circles.

The company is reported as confident that the federal agency will view the amendment as sufficient to avert the need for filing a wholly new registration statement to cover its revised plan of financing.

If the Commission accepts the amendment as offered, it is expected the new securities will be available for competitive bidding by the middle of December. In lieu of such a course the financing probably would be thrown back close to the end of the year.

Pub. Serv. Co. of Colorado.

Given final clearance by the Securities and Exchange Commission over the last week-end, the offering of 875,000 shares of common stock growing out of recapitalization of the Public Service Co. of Colorado proved a quick transaction.

Representing divestment by Cities Service Power & Light Co., of its control of the properties, the equity shares of the big utility moved out quickly considering the size of the undertaking.

Syndicate managers reported substantial over-subscription and upon closing of the books proceeded with the task of making allotments.

Western houses participating in the business are said to have placed a substantial portion of the total in territory adjacent to the environs served by the company.

Dow Chemical Preferred

Another distribution which was marketed quickly involved some 200,000 shares of the new 4% series "A" cumulative preferred stock of the Dow Chemical Company offered on Wednesday.

This stock represented the unsubscribed portion of an aggregate of 249,741 shares offered by the company to its common stockholders on which subscription "rights" expired as of the close of business on Monday.

Handled as a "secondary" distribution, the stock was priced at $105 a share, with a discount of $1.25 a share to dealers.

Rapidity with which the stock was placed was indicative of the current popularity of chemical shares with investors.

Tomorrow's Markets Walter Whyte Says—

Market now approaching buying ranges. But expect new lows between now and mid-December. Current rally-top-signal already given.

By WALTER WHYTE

A buying spot is beginning to appear in the market, but before you go off and hock your family jewels let me clarify this further.

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The market is now at about 132. In the middle of last July it was at approximately 145. Between last July and the end of October it made three efforts to go up through the old highs. In mid-August it climbed up from about 133 to approximately 139 on declining volume. After spending a couple of days at that figure it broke down to 134 and a fraction. The rest of that month and practically all of September was spent in a laborious effort to get back to the old prices. On Sept. 20 it set a new high of 142.50. At that level optimism was riding high but despite the general feeling that the July highs would shortly be penetrated, a slow tiresome decline set in culminating in a base at about 135 in the second week of October.

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Following the usual pattern, pessimism set in but again the market confounded its interpretors by refusing to decline any further. Instead it began another advance this time managing to get up to just under 140.

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The rails, meanwhile, followed suit. They went up with the industrials and went down with them. Only once, between July and mid-October did they break the pattern; that was on Sept. 8 when they broke a previous low by about 20 cents, without an accompanying violation by the industrials.

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In the first week of November the picture changed radically. The industrials had begun shying away from the 140 price but were still above an old support zone of 135-136. But the rails refused to follow the industrial pattern. Their old support price, 34-35, could not hold. Under ordinary conditions the action of last September might be expected to be repeated. But the fact that the industrials were themselves close to old levels placed a pall on the immediate trend.

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Before the end of the first week of November the indications (which readers of this column were told about) lived up to their bearish promises when both averages broke badly and volume jumped up to over 2 million shares.

A retrace from such a break is a logical expectation, and the market for once recognized it and rallied slightly. The industrials went from about 130 to about 133; the rails from about 31.60 to 33. But logic and the stock market seldom have much in common. One reason is that by the time any well developed logic reaches the market, the chances are somebody, somewhere, has already acted on it long before customers' rooms began agreeing that such and such was likely to be the case. So instead of extending its rally (a logical development) the market again went down. This time the industrials plunked through their old lows to 129.86. But the rails acquired a streak of independence and reacted fractionally only.

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If I had the patience, and you had the inclination to read it, I might develop a link between market action and the news and point out why some things happened and why other things are likely to happen. But reasons are seldom more than academic. They are either hindsight or out and out crystal gazing;

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Suggest Procedure On NYSE Firm Changes

Member firms of the New York Stock Exchange were advised on Nov. 15 that drafts of any contemplated changes necessitating revisions in existing partnership papers should first be submitted to the Department of Member Firms for inspection before being executed. Under this procedure, the notice points out, any changes suggested by the Department can be made in the papers prior to their being formally executed.

The Exchange's announcement further says:

"If a proposed change in existing partnership arrangements involves the admission of a new partner, or new partners, or the formation of a new firm, it is suggested that the Office of the Secretary be consulted as to the procedure to be followed in connection therewith."

Resentment To Outrageous NASD Profit Limitation Decree At New High Pitch

(Continued from page 2103)

and SEC's policies the average dealer has become so profit-conscious for fear of being branded as a crook by these agencies that he has not, for many a moon, taken profits commensurate with his policy prior to the advent of these agencies and profits that were and are in keeping with the size they should be to insure the business remaining healthy. If the NASD wants to do a real constructive job they might start assembling data that would establish this fact for the benefit of all concerned. And this does not mean with the idea of using the results as a basis for limiting profits, for any attempts in this direction are at any time nothing more nor less than a deadly menace to free enterprise, and at this particular time, a peril to our war effort. Those interested in this phase of the subject will want to read the letter to the Editor of the "Chronicle," appearing on the outside front cover of this issue under the caption, "Intelligent Finance Should Oppose NASD Profit Limitation Decree!"

Because of the paper rationing program, we could not accommodate, in this issue, all of the additional letters received on the 5% profit decree but are giving as many as we can, starting on page 2103. However, none of them favoring the rule were omitted. It is quite likely that the SEC will compel the Association to rescind the decree—as it is obligatory upon the Commission to do under the provisions of the Maloney Act—or that the more sensible officials of the Association itself will see that this is done, before next Thursday's "Chronicle" goes to press. In the meantime it is obvious that the industry means to continue its aggressive fight against this obnoxious measure and the "Chronicle" invites other dealers to write in giving their views on the subject. The names of those submitting comments will be omitted where requested. Communications should be addressed to Editor, Commercial & Financial Chronicle, 25 Spruce Street, New York 8, N. Y.

"Deflation Hazards Post-War"

(Continued from page 2104)

Under the title, "Deflation Hazards Post-War," the firm's publication states:

Deflation Hazards Post-War

Almost all military commentators are now in agreement that Germany will be defeated before the end of 1944, and a growing number are leaning to the opinion that the end will come within six months.

Hitler's defeat will not close the book on the second World War, for hostilities in the Pacific may go on for a year or more thereafter. But Germany's collapse will bring American industry and investors face to face with the problems of peace.

Obviously it is going to take much less war material to fight Japan alone than to wage war both in the Pacific and in Europe. Russia's need for military goods—which we are now supplying in huge amounts—will cease, and the Allies will have on hand in the European theatre enormous supplies of planes, guns, tanks, trucks and ammunition which can be diverted to the Pacific.

The amount of war materials which can be used against Japan will be limited by available transportation facilities. It is hardly conceivable that the millions of Allied troops we are supplying in the European theatre can be employed in the Far East. To be sure, China has great armies, but there are several reasons why they cannot be highly mechanized: first, because transportation facilities into China will be extremely limited even when we reconquer Burma and, second, because the poor system of highways and railroads inside China is not sufficient to permit mechanized warfare on the European scale.

It seems evident therefore, that production of war goods will be substantially curtailed as soon as Germany is defeated, and industry may then be expected to start the partial reconversion to peace production.

War Taxes on Peace Business

Some industries will have the benefit of a substantial deferred demand for their peace-time products. But so far as investors are concerned, the profits from this business backlog may not be as large as the more optimistic are now estimating, for the reason that the excess profits tax may continue in effect for some time after peace-time production is resumed. Although Congress may wish to eliminate the excess profits tax immediately after Germany is defeated, there may be a considerable delay between the wish and the reality; the whole problem of war-time restrictions is involved—price fixing, wage fixing, rationing, etc. All these creatures of the war period can't be swept into Limbo over night. In short, industry may cut heavily into its backlog of deferred civilian requirements only to have the best part of the profits from such business skimmed off by the excess profits tax.

How Big Is The Backlog?

It would be easy to overestimate the importance of the deferred demand for civilian goods. A big backlog does exist in some lines, notably for metal products and building materials. But we are deluding ourselves if we assume that civilians have been going without their normal supplies of consumer goods. As a matter of fact, the opposite is true. Consumer expenditures for this year are estimated at $88,000,000,000 which compares with $65,700,000,000 in 1940, a boom peacetime year. Even adjusting for higher prices, consumer expenditures are at record levels.

On top of this the nation's productive facilities are turning out this year some $95,000,000,000 of war goods.

The implications of these figures are worth careful consideration. What is happening is that we are providing for the astronomical needs of a global war and at the same time supplying civilians with more goods than they consumed in the best recent peacetime years.

The nation's productive capacity which these figures demonstrate is nothing short of phenomenal. An economy of scarcity and of soaring prices hardly seems possible in the postwar period when virtually all this productive capacity becomes available for peacetime needs. If we can produce $95,000,000,000 of war goods and at the same time maintain civilian consumption at record levels while some 12,000,000 of our workers are in the armed forces, and therefore not producing, how is it possible to visualize shortages of civilian supplies for very long after the war?

Food Supplies at Record Levels

This condition exists in agriculture as well as in industry. Farm production is near record levels and far above the average of recent peace years. This production, too, has been accomplished in spite of a labor shortage. Whatever scarcities currently exist are due to the export of food for the fighting forces and for foreign civilian relief. The economics of the agricultural situation point ultimately to pressure on present high farm prices, though foreign needs and government price bolstering may prevent a sharp decline.

Excess productive capacity in industry and agriculture have deflationary influences—in other words, they tend to force prices down. Some economists will maintain that there is no such thing as surplus producing facilities. The old debate of overproduction **versus** under-consumption need not concern us here, however. In a postwar adjustment period, excess plant capacity will exist in many war swollen industries and will continue to exist until we learn how to maintain full employment. This was our great unsolved national problem before the war, and will remain with us in aggravated form after the war.

Unemployment is a powerful deflationary factor. It is by no means assured that we can easily reemploy the 10 to 12 million men in the armed forces, plus the millions who are now working in shipyards, plane factories, munition plants and Government offices. These millions seeking reemployment will tend to make the whole population more conservative in their spending habits.

Combating Deflation

It is quite possible that the postwar deflationary influences will be so strong that the Government will be compelled to make enormous deficit expenditures as an aid to employment. However, if that policy continued for many years after the war without any solution in sight, the nation might then enter a real period of monetary inflation—a flight from the dollar into goods and property—fear-type of inflation such as was experienced in Europe after the last war.

But our principal postwar concern, after the first surge of peacetime buying, seems likely to be with unemployment and deflation, not with inflation of the boom-psychology type. If inflation comes later, it may well be the inflation of despair not of optimism.

Chemical Bank and Trust Co. Bulletin

Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange, have prepared an interesting bulletin on Chemical Bank and Trust Company. Copies of this bulletin may be had from the firm upon request.

J. G. Stoll Opens

LEXINGTON, KY.—John G. Stoll is engaging in the securities business from offices in the Herald-Leader Building. He has an interest in the First Mortgage 5% serial bonds of the Lexington Herald-Leader.

Investment Trusts

Diversification And Management

It is hard to believe that there are still investors in this country who need to be convinced of the necessity for diversification and management. Yet experience shows that investment company sponsors are faced with a continuing educational job on these two vital points.

Many are the arguments and case histories which have been developed in recent years to drive home the importance of diversification and management. Sometimes these arguments tend to be tedious and complex. However, they needn't be. North American Securities Company of San Francisco, for example, has just gotten out a letter and folder on Commonwealth Investment Company which drive home these two points forcibly and with a minimum of excess verbiage.

The folder shows, by means of charts and text, that Commonwealth has outperformed the standard market averages in every year from 1933 to date—a period of 10½ years. The letter backs this record up as follows:

"You will no doubt remember when Illinois Central bonds were rated triple A. And when Chrysler sold at 5 and Auburn at 46. And when Sears-Roebuck and B-M-T both sold at 40.

"Whether you look back to 1929, 1932, 1934, or any other year, you are sure to find price relationships which later experience proved to be completely misleading. Changes in relative position are constantly occuring. Who will dare say that in five years Hercules Powder and Monsanto will still be selling within two point of each other?"

The letter concludes with the point that diversification is "protection against the unpredictable." To that one might add that management is "exploitation of the probable."

* * *

Distributors Group has just released a new folder, "What are Undervalued Investments?" in which the philosophy of this sponsor's Investment Research Department is presented in simple terms. Charts of General Motors and U. S. Steel are compared from the standpoint of historical price range. It is shown that, had the investor owned General Motors at its present level, he could have sold it at a profit in only four of the past eighteen years. Had he owned U. S. Steel at its present price, he would of been able to sell at a profit in fifteen of the past eighteen years.

From this simple price comparison the folder goes on to demonstrate that the disparity is not a result of past earnings, current earnings, tax position or even probable future earnings. The only logical answer for this present price disparity, according to the folder, is "mistaken investor psychology." By using this method of **Comparative Valuation**, the management is aided in its attempts to maintain investments in the relatively undervalued securities.

New issues of its Steel News and Railroad News contain interesting factual material bearing out the opinion of Distributors Group that selected steel stocks and discount railroad bonds are among the most undervalued groups of securities available today.

* * *

Lord, Abbett & Co. has prepared a comprehensive memorandum on dividends paid and payable this year by the investing companies in the Lord, Abbett group. The tax status of such dividends, where it is already fairly well established, is given. The memarandum shows that Affiliated Fund will make ordinary dividend payments amounting to 9¢ and extras totaling 10¢ this year. American Business Shares has paid or declared a total of 12¢ in ordinary dividends, plus extra dividends amounting to 8¢. The six Union Trusteed Funds have paid one semi-annual dividend, as follows: UBA 47¢, UBB 46¢, UBC 23¢, UPS 48¢, UCSA 18¢, UCSB 8¢. In the case of each Fund, the balance of undistributed net income for this year together with net realized profits available for the final semi-annual dividend, is larger than the amount of dividend already paid.

* * *

Most recent in the **Hugh W. Long & Company** series of "picture" folders on New York stocks is the one entitled "Fifth Avenue & Main Street." As the title indicates, this folder has to do with merchandising shares. In our opinion it is one of the most at-

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Municipal News & Notes

State legislation in the public utilities tax field this year indicates a trend toward expansion of special utility taxation to cover transportation and power services hitherto not subject to a special utility tax.

Action by a few states in granting new exemptions or reductions in utility taxes does not detract from the trend, according to an analysis by the Federation of Tax Administrators of 1943 state public utility tax legislation.

Though fiscal motives apparently inspired new legislation in some cases, the federation said, broader considerations, such as encouragement of cooperative or municipal enterprises to furnish utility services at low rates or on a non-profit basis, appear to have motivated many enactments, especially those where utility taxes at lower rates replaced all other property or income taxes imposed by the state.

Four states enacted new utility taxes this year. North Carolina levied a 3% tax on gross earnings from all sources of companies operating freight car lines, the tax replacing all other ad valorem taxes. Oklahoma levied a 2% gross receipts tax on rural electric cooperatives, the tax replacing all other taxes imposed by state or local governments. Oregon imposed a 2% tax on gross earnings of associations and cooperatives distributing and selling electrical power. Wisconsin levied an excise tax of 7 cents per 1,000 cubic feet of natural gas consumed.

North Dakota reenacted with some modifications its gross receipts tax on rural electric cooperatives of 1% for the first five years and 2% for subsequent years; the tax is in lieu of personal property taxes. Illinois made permanent its 3% utilities gross receipts tax; a decrease from 3 to 2% was scheduled to become effective last July 1 under the previous law.

New York and Pennsylvania also extended their public utility tax laws. In extending its 2% emergency tax on utility services until March 31, 1944, New York eliminated United States obligations from assets in allocating taxable property and authorized the tax commission to require a utility firm to file annual returns whether or not it is subject to the emergency tax. Pennsylvania extended its utilities tax on gross receipts to Dec. 31, 1944, the extension continuing at the old rate of 20 mills until Dec. 31, 1943, then at a lower rate of 14 mills for the next year.

Washington authorized creation of joint utility commissions, subject to approval by referendum, for the generation and distribution of electric power. Taxes, imposed on gross revenues of the commissions, will be collected at the rate of 5.6% for energy distributed directly to the consumer, 3.6% for energy sold for prposes of resale, and 2% on energy purchased and distributed to the consumer. This tax replaces ad valorem property taxes and all others except a 3% public utility tax imposed in 1939.

Tennessee, in excluding intra-municipal street car and motor coach service companies from a gross receipts tax levied in 1937, imposed a new privilege tax on such services. The tax rate is 2% of receipts from intrastate business if annual gross receipts exceed $3,250,000; 1½% if such receipts are lower.

Among 1943 laws granting exemptions or rate reductions in the utility field, the federation said the following are the most important:

Alabama authorized the organization of public non-profit corporations operating in three or more counties to furnish electric power, and made tax-exempt any bonds issued by such corporations and income from the bonds. California abolished its application fee of $50 for a "certificate of public convenience and necessity" if the applicant already is operating in the vicinity. New Mexico reduced utility inspection fees from $100 to $50 and $25.

A number of states amended their gross sales and gross receipts tax laws affecting utility enterprises. North Dakota, for example, specifically exempted from the sales tax gross receipts from sales of tangible personal property or from sales of steam, gas, electric, water and communication service to the United States, the state or any political subdivision. Tennessee exempted from its gross receipts tax any person selling water and electric current up to $5,000. Texas amended its chain store tax to exempt sales of electric appliances by utilities in small towns under certain conditions. Washington exempted from its sales tax the sale of the entire operating property of a publicly-owned public utility or of a complete section thereof.

Freedom Of Opportunity Keystone To Nation's Prosperity

(Continued from page 2103)

lems. And the final outcome of this global war will be of supreme importance in attempting to formulate any blueprints of concerted action.

Since you were kind enough to ask for any thought or observations one might venture to express, either in toto or in any particular, on the topics covered by the above able paper by Dr. Anderson, let me say that in some respects I have arrived in my own mind, at certain pretty definite conclusions which I feel are shared, in whole or in part, by a great many of our thoughtful citizens.

1. The rapidly increasing socialization of our Government, its methods of regimentation, its paternalistic and social relief theories, its waste and extravagance well exemplified in all the processes of bureaucratic Government, will lead to complete totalitarianism and despotic control centered in Washington, differing only in degree from Nazism and Fascism, which are rooted in centuries of oppression, fear, and dwarfed human opportunity. We are not fighting to maintain anything of this sort in the future, and this is the first fundamental reform to be tackled if we seek to restore democracy to the people. Now that we have gone thus far on the primrose path, which is leading us to destruction, by putting our heads in a noose of Federal control, by seeking incessantly Federal gifts or grants for all localities, and for all purposes, instead of standing up manfully for states' rights, Government "from the roots," state and local accomplishment of our needs without Federal patronage, it will not be easy to suddenly put on the brakes of reform, and return to the simple honesty and conscience and character of our forefathers who believed in wise economy, living within our income, sound currency, states' rights, and the profit motive, as inherent in sound business success, individual opportunity, and governmental balance. I think in making the change-over from war to peace conditions much governmental help may be needed, temporarily, because of the great magnitude of the job and its many problems. That sort of Government assistance is justified, while we are getting on an even keel again, in the interest of the public economy. Certain it is that at the end of the war, the expense of maintaining a large standing Army, and much the largest Navy in the world, a public debt of say $300 billion or more, huge pensions and Government subsidies in all their forms, we cannot go blithely along the primrose path of reckless waste and extravagance, unchecked and unrestrained, without financial collapse and all its unbounded misery.

2. I think we can begin by abolishing un-American and unnecessary bueaus. Reducing the size and waste of others. Getting geared to basic principles of demand and supply, cause and effect, and away from illusory dreams of "planned economy" for the simple reason that there are no brains big enough to plan a self-adjusting economy comparable to demand and supply, cause and effect, profit and loss, and all the intricate network of human relations resting on these sure foundations.

3. The edict of the Garden of Eden, that by the sweat of his brow man must live, has not yet been repealed. I am favorable to a sincere national effort to provide for the old and helpless, the sick and the indigent in every reasonable humane manner. On the other hand, I am distinctly opposed to the creation of an exaggerated idea of freedom from want or from fear by the creation of a large body who can live at the expense of taxpayers without work or without any contribution through individual effort to the prosperity and welfare of the nation while on "relief." What the nation needs is **freedom of opportunity** for everybody, "For maintaining in the world," in the words of Abraham Lincoln, "that form and substance of government whose leading object is to elevate the condition of men—to lift artificial weights from all shoulders; to clear the paths of laudable pursuits for all; to afford all an unfettered start."

4. Henry Ford began a new era in human existence with his model "T" and all that followed in its wake. The principle firmly established of high wages, as leading to great and profitable market, for all things from those who really make such markets, for the sale of goods of all kinds, possible. He showed the way to mass production, with its economies, and the widest distribution. And happy and satisfied human lives in contrast to sweat shop conditions of poverty, hunger and dirt described in Hood's "Song of the Shirt" where these toilers by night and day could hardly make enough to hold body and soul together.

5. I believe we have long outlived the day of the high protective tariff once necessary to infant and struggling industries. I believe one of the chief causes of war is to be found in the bottlenecks and impediments to the free flow of commerce between nations caused by tariffs and artificial restrictions. I believe in the utmost production of everything at the lowest possible price, and for the widest and most extensive distribution of everything that human needs require, as leading not only to the greatest financial return but more important to the tranquility of nations, human well-being and political security.

6. The horizons of our national experience, and achievement, and comprehension, have been widened immeasurably by this war experience. We are only just now learning what we are really able to do and how well we can do it, regardless of magnitude, and in the long future there will be simply endless needs of every sort to be filled by our skill and industry, affording ever-expanding opportunities, good jobs and good profits as rewards to industry such as the world has never seen. I quote from Mr. Arthur Kudner in his inspiring message "Beyond Victory" in The Atlantic Monthly:

"Look about you. The unlocking of the world imagination is under way. All the fruits of science are just beginning to ripen. In terms of factories, machines, transportation, almost anything material you can name, we have means and opportunities in such measure and variety as the past could scarcely have dared imagine. Under the pressures of the war there are developing in this country the makings of an era of prosperity and expansion so widespread and dazzling as to make anything in our earlier experience seem puny potatoes indeed. When the war is won—and it is only too plain now it will take a lot of winning—will the people be energized by the vision of the phenomenal possibilities before them, as once they were energized by 'the American dream'?"

Mr. Kudner goes on to vividly enumerate the future of aviation and increased need for new locomotive horsepower on a tremendous scale in peace time, the many almost uncountable new industries that are now incubating —the development of the great new rubber industry, of which he says, quoting a rubber executive, that even now more rubber can be produced with 350 men in a factory than can be produced with 10,000 men on a plantation. Further on he says:

"On the new industries side, we are just about to enter the plastics and light metals age. Our capacity in aluminum is on the way up from 300 million pounds a year to somewhere near a scheduled 3 billion pounds a year, and in its raw state aluminum is twice as plentiful as iron. Our magnesium output increase is also up by 1,000 per cent or more. What this can mean as a contributor to a new economy of plenty can be visualized from the fact that magnesium is available by oceanfuls; it is many times more abundant than such old and useful standbys as zinc, lead, copper, and nickel combined.

"It is not visionary to say that before we are through, this shift to light metals may be as consequential as the shift from the bronze age to the iron age. Think back to a time much later than that, and recall how steel ushered in an era of unprecedented progress and wealth that changed the face of the earth and refashioned the social and political idealogies of mankind. And already steel's day is passing the meridian. Around the corner is coming a new and fabulous time in the potential of light metals and plastics. The papermakers are exploding the fibers of wood pulp and recompressing them into gears and gadgets which they say will outwear steel. The coffee planters in Brazil are casting their excess into plastics in an amazing variety of shapes and forms. The chemists and chemurgists and capitalizers of plentitude and waste everywhere are at their epoch's great chance like a bear at a bee tree, so that in the lifetime of most of us the average American family will enjoy ampler and more satisfying living standards—in terms of cheaper and better housing, more conveniences and leisure, better education and health—than ever before.

"You know what is happening in fuels and in the utilization of them. The compact and efficient Diesels of the type that power the streamliners are, in smaller editions, driving tanks, submarines, tugboats, auxiliaries, trucks, and buses in such quantities to meet war needs that production this coming year will reach a rate more than twenty-five times that originally projected in peacetime for two years hence; and with the absorption of engineering and tooling costs involved in such production you can guess how much more widely available this low-cost power will be when peace comes than was originally contemplated.

"Again, the 100-octane gasoline capacity we are getting means, with the lighter metals, a world of smaller motorcar engines of higher power and lower costs—and the gasoline technicians already say they have in their laboratories fuels three or four times as powerful as our present 100-octane gas."

That is not all Mr. Kudner says in this wonderfully inspiring glimpse of what the future has to offer, only a very small part of it. I wish that everybody could read it all. It would be a liberal education for most of us; but I will make one more quotation:

"To speed and to ensure the coming of these things, we are recruiting, developing, and maturing under the forced draft of war necessity the greatest source of new wealth which any country can have—our stock of young managerial and executive talent. It is always this group which spurs and quickens progress and which, to have sweep, must penetrate up through and beyond entrenched conservatism of fearful and reactionary management.

"For a dozen years this group has been cramped, frustrate, unproductive, under the paralysis of the depression. Now it has suddenly sprung to action, its faculties challenged, its energies released and expanded. The process is something like this, to be specific: Normally 15,000 men work at Buick, say, on one type of product. Today the men who directed and managed that personnel are being swiftly spread thin over a personnel calculated to reach 40,000, making a whole variety of new and unfamiliar things. And these new things are unprecedentedly and inexorably fine in design, quality, precision, materials. No barriers of cost or competition stand between them and perfection. New plant layouts, new machines, new alloys, new tolerances, new techniques, new products, new training requirements—all these are crowding the heads and aspirations of these managers. They are in an educative hothouse, and they are burgeoning like nobody's business. I have talked with dozens of them. They are explosive with new ideas, new standards, new ambitions. Fifty years of peacetime would not offset the training for bigger things they are getting now."

Finally, I don't think we ought to turn to the task of regulating the economics or politics of other countries until we have learned how to do that for our own country. If we can get ourselves divested of the crushing burdens of reckless waste and spending, get out of the tentacles of maladroit administration by bureaucrats without any practical experience or knowledge of anything, and who could hardly find the links in a string of sausage, and if we could go full speed ahead on our native wits and capacity without highly specialized Federal planning to enable us to lift ourselves over a fence by our boot traps, I think the future would be bright indeed, and that we have nothing to fear except fear.

Smith, Barney & Co. Offers Dow Chemical Preferred

An offering to the public of $4 dividend cumulative preferred stock, series A, which will complete the raising of about $26,000,000 of new working capital for The Dow Chemical Co., was announced Nov. 24. The offering represents the balance of shares not subscribed by the common stockholders of record Nov. 10, who had until 3 p. m. Nov. 22, to purchase one share of the new preferred at $105 for each five shares of common stock held. 53,615 shares were subscribed by or reserved for the common stockholders, leaving 196,126 shares of a total of 249,741 shares, for public offering. The price to the public is $105 per share.

Smith, Barney & Co., headed a nation-wide group of 80 underwriters making the offering. Other principal underwriters are: Morgan Stanley & Co., Dillon, Read & Co., Kuhn, Loeb & Co., First Boston Corp., Harriman, Ripley & Co., Inc., Blyth & Co., Inc., Goldman, Sachs & Co., Lee Higginson Corp., Lehman Brothers, and Mellon Securities Corp.

According to the prospectus, additional working capital is required by Dow "because of the necessity of improving the company's current position by reason of the greatly expanded and expanding busines". Besides greatly increased sales, gross and net investment in property, plant and equipment of the company and its subsidiaries have increased from $80,171,713 and $57,836,292 as of May 31, 1941 to $110,376,859 and $75,041,878 as of May 31, 1943, respectively. "The company anticipates", says the prospectus, "that upon the return of peace additional funds will be required to enable it to participate in the developments which it is expected will take place in the chemical industry".

Simultaneously with its own recent offering to the common stockholders, Dow announced an exchange offer to holders of the company's outstanding 5% preferred stock, entitling them to one share of the new series A preferred for each share of old preferred held. This exchange offer does not expire until Dec. 15. The old preferred is to be redeemed on Feb. 15, 1944.

Interesting Situations

Brooklyn, Ohio 3-5% bonds of 1966, Consumers Public Power District (Nebraska all divisions and maturities), and South Euclid, Ohio 2-5% bonds of 1968 offer attractive possibilities, according to circulars being distributed by Kline, Lynch & Co., Inc., Carew Tower, Cincinnati, Ohio. Copies of these interesting circulars may be had from the firm 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.

Green Mt. Pr. Looks Good

The $6 cumulative preferred stock of the Green Mountain Power Corporation offers attractive possibilities for both income and appreciation, according to a memorandum just issued by G. A. Saxton & Co., Inc., 70 Pine St., New York City. Copies of this interesting memorandum, discussing the situation in some detail, may be had from G. A. Saxton & Co., Inc., upon request.

U. S. Nat'l Bank Of Portland (Ore.) Plans Cap. Stock Increase

The United States National Bank of Portland, Ore., has announced plans to increase its capital stock by offering present stockholders an additional 75,000 shares at $40 per share. This will bring the bank's outstanding capital stock to 300,000 shares. Stockholders will vote on the proposed plan on Dec. 2. The offering will be underwritten by a syndicate, headed by Blyth & Co., Inc., and Merrill, Lynch, Pierce, Fenner & Beane, which will purchase and reoffer to the investing public any shares not subscribed for by the stockholders.

The announcement further stated:

"The proposed plan marks one of the first moves among the nation's largest banks to adjust capital funds to recent rapid increases in deposits.

"Announcement of the proposal by Paul S. Dick, President of the Portland institution, cited recent growth of the bank's deposits as reason for the planned capital increase. Approval of the project is expected from both the stockholders and the U. S. Comptroller of the Currency.

"The United States National Bank of Portland has more than doubled its deposits since Pearl Harbor. Whereas at the end of 1941, deposits were $196,182,635, the bank's Oct. 18, 1943 statement of condition listed $398,585,377 in deposits. The Portland institution ranks as the largest bank in Oregon and the sixth largest in the West Coast 12th Federal Reserve district.

"Stockholders of record Dec. 2, 1943, will be offered the right to subscribe for one share of the new stock for each three shares held. All the unsubscribed for balance will be offered to the investing public

"The plan will add approximately $3,000,000 to the bank's capital funds. Under the setup proposed by the bank's directors, capital will be $6,000,000; surplus, $7,500,000; and undivided profits and reserves, $2,500,000—a total of approximately $16,000,000.

"Included also in the directors' proposal is provision for increasing the bank's annual dividend rate from $1.40 to $1.60 a share. This increase would accrue from Jan. 1, 1944, according to the announcement by the United States National of Portland which has paid dividends in every year since 1899.

"Also associated in the underwriting are Atkinson, Jones & Co. Blankenship, Gould & Blakely. Ferris & Hardgrove, Hemphill, Fenton & Campbell, Inc., and Conrad Bruce & Co., all of Portland."

Bank & Insurance Stocks

(Continued from page 2125)

grow so long as the United States expands in population and wealth. Population studies, as carried on by various economic and scientific organizations, indicate that the point of stationary population is at least half a century away, while the limits to economic expansion cannot be set. Fire insurance is still a "growth" industry.

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.

Investment Trusts

(Continued from page 2127)

tractive in the entire series to date.

* * *

In a recent issue of **Brevits**, Massachusetts' Distributors' Edward E. Hale discusses "Security Markets in Two Wars." The accompanying chart reveals, in striking manner, the divergence between stock price movements in World War II as compared with World War I. Stocks today are still selling below their level at the outbreak of the present conflict, whereas at the corresponding point in the last war they were approximately 50% higher than at the start.

* * *

Calvin Bullock's **Perspective** also deals with the movement of the market since the outbreak of the present war. This sponsor's index of "confidence" is shown in a chart extending back to 1929. Although it reveals a very sharp revival in confidence from the 1942 low, the present level of this index is only slightly above where it stood at the low point in 1932 and 1938.

Another chart in this bulletin compares New York and London stock prices. The spread between these two shows London still approximately 30% ahead of their corresponding position at the outbreak of the war.

* * *

Investment Company Report

Boston Fund—Net assets were $11,275,526 on Oct. 31, 1943, equal to $16.12 per share. This compares with net assets of $10,917,565 at the close of the preceding quarter on July 31, 1943 (equivalent to $15.91 per share).

Dividends

Affiliated Fund, Inc.—A dividend of 3 cents per share payable Jan. 15, 1944, to stock of record Dec. 31, 1943.

George Putnam Fund—A dividend of 25 cents per share payable Dec. 10, 1943, to stock of record Dec. 3.

N. Y. Security Dealers Elect To Membership

At a meeting of the Board of Governors of the New York Security Dealers Association, Nathaniel F. Glidden, Glidden, Morris & Co., New York City, was elected to membership in the association. The application of Allen & Co. for transfer of active membership from Frank H. Blair to Herbert Allen and the election of Mr. Blair of the same firm as an associate member was approved. The membership of Huff, Geyer & Hecht, Inc., was transferred to Huff, Geyer & Hecht, a co-partnership, with Mr. George L. Collins continuing as representative.

Attractive Possibilities

Chicago & North Western issues at current levels offer attractive possibilities in view of the probable early delivery of new securities, and the cash which goes with them, under the terms of the plan of reorganization, according to an interesting memorandum issued by Vilas & Hickey, 49 Wall St., New York City, members of the New York Stock Exchange. Copies of this memorandum discussing the situation, and a circular on the question of the disposition of surplus cash of systems now in reorganization, which is now before the ICC, may be had from Vilas & Hickey upon request.

Also being distributed by the firm is an interesting memorandum on the credit improvement possibilities of the Burlington Railroad with some suggestions as to switches the firm considers attractive. Copies of this may also be obtained on request from Vilas & Hickey.

STANY Election To Be Held December 3rd

The annual meeting of the Security Traders Association of New York, Inc. will be held on Friday, Dec. 3, 1943, at the Produce Exchange Luncheon Club for the election of officers to serve for the year 1944, amendment of the by-laws, and other business.

There being no nominees for the following offices other than those proposed by the nominating committee, and the nominations now being closed, the Secretary will be instructed to cast one ballot for their election:

President, Willis M. Summers, Troster, Currie & Summers; First Vice-President, Richard F. Abbe, Van Tuyl & Abbe; Second Vice-President, Chester E. de Willers, C. E. de Willers & Co.; Secretary, John S. French, A. C. Allyn & Co., Inc.; Treasurer, George V. Leone, Frank C. Masterson & Co.; Trustees of the Gratuity Fund to serve two years: Cyril M. Murphy, Mackubin, Legg & Co., and Gustave J. Schlosser, Union Securities Corp.

National Committeemen—Three Delegates: Robert A. Torpie, Merrill Lynch, Pierce, Fenner & Beane; Roger S. Phelps, Campbell Phelps & Co., Inc., and J. J. O'Kane, Jr., John J. O'Kane, Jr. & Co., and five alternates: Michael J. Heaney, Joseph McManus & Co.; Thomas Geoffrey Horsefield, Wm. J. Mericka & Co., Inc.; Oliver Kimberly, J. K. Rice, Jr. & Co.; Allison W. Marsland, Wood, Gundy, & Co., and Frank Edward Mulligan, E. H. Rollins & Sons.

Balloting will take place to select from the following nominees three members of the Board of Directors to serve two years: Herbert Allen, Allen & Co.; P. Fred Fox, P. F. Fox & Co.; Frank A. Pavis, Chas. E. Quincey & Co.; Wellington Hunter. Hunter & Co. and J. William Kumm, Dunne & Co.

Due to lack of a quorum, it was necessary to adjourn the special meeting called Oct. 22 to consider changes in the by-laws. A statement of the proposed changes, as recommended by the By-Laws Committee and Board of Directors, sent to the members, will be discussed and acted upon under "Report of Committees" at approximately 5:30 p. m. or as near thereafter as possible. Because of the large number of items to come before the meeting it is requested that, without attempting to stifle discussion in any way, those expressing views on this and other matters at the meeting do so as briefly as possible and confine their remarks to the point under discussion.

After the meeting supper will be served. This, of course, is free to members (including beer). As it is necessary that the club be advised of approximately how many to provide for, reservations should be made with Frank Pavis chairman of the arrangements committee, as promptly as possible.

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.

"Let's Sum Up"

Pflugfelder, Bampton & Rust 61 Broadway, New York City. members of the New York Stock Exchange, have prepared an interesting review of rail reorganization cases entitled "Let's Sum Up." Copies of this circular may be had from the firm upon request.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 2126)

neither has a place in the stock market. Yet, paradoxically, trends are gauged by past performances — not in news occurences—but in market action.

* * *

With the rails refusing to follow the industrials into new low ground the opinion has begun to spread that the bottom has been seen. Here is where I begin disagreeing, and clarifying my opening sentence.

* * *

I think the market is headed for new lows. I don't think they will go as low as some of the pessimists believe. For example: The industrials now at about 132.50 (Tuesday) will decline to about 125-26; the rails to about 30-31. I think these figures will be approximated before the middle of December. I also think that when you see this happen pessimism will be so thick you will be able to cut it with a knife. But that's when I believe stocks should be bought. Not for a great big new move, but for a rally that will carry them back to about present prices. This may not sound like much to try for. But 5 to 10 points in some stocks isn't anything to be sneezed at no matter what kind of a market it is.

So between now and the middle of the month start looking around. I'll give you suggestions, perhaps in the next issue.

* * *

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.]

More Comments On Dr. Anderson's Plan To Promote Peace-Time Reemployment

(Continued from page 2105)

of high industrial achievement and full employment when such had not been the accomplishment prior to the war. This is a false doctrine and cannot bring about any good. There must be a reaction and a readjustment and the public ought to be taught to expect it. The danger is, that having been made to believe the Government can prevent this and create an even better condition than has heretofore existed, the public and the voters will demand that the Government make good on its promises. It can only fail. The danger then arises that the populace will demand a change in Government and believe the demagogue who holds out rosy promises on such a change. How soon the readjustment will take place I do not know, but it must ultimately come. The Government and the Bureaucrat cannot do the post-war job. Maybe Business cannot do it unless freed from restraint and the impositions of Government.

HON. JAMES M. TUNNELL,
United States Senator From Delaware.

I note the criticism and veiled political import of Dr. Anderson's article. I also note that Dr. Anderson seemed to leave out of his article any discussion of the terrible conditions following the crash of 1929. He criticizes the efforts of the government to prevent starvation during the Democratic administration of Franklin Roosevelt. I see no criticism or suggestion as to the starvation period from 1929 to 1933.

Sen. J. M. Tunnell

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

I thoroughly enjoyed Dr. Anderson's discussion, "What Can the Government Do to Promote Post-War Re-Employment?" He approaches this subject in a refreshingly sensible and logical manner eliminating those theoretical notions that sound pretty but mean nothing.

In commenting on the proposed program by which the "Government" shall always provide employment for everybody, he states a significant fact when he says:

"The Government of the United States has not yet demonstrated its ability, despite very heroic measure in governmental economic planning and a very heroic spending program, to prevent unemployment in peace time. * * * Government spending from the end of 1933 to 1939 never brought us full employment or anything approaching full employment. Government spending as a sure and quick means of bringing even temporary revival was demonstrated to be a failure in its first employment in this country."

Those of us who recall the period between 1933 and 1939 will realize that Dr. Anderson is correct.

His conclusion, I think, is unanswerable:

"The economic planning which I think the Government can do most effectively is planning to increase the flexibility of our American economic life, to restore freedom of movement of capital, labor, and enterprise, to take sand out of the oil, and to reduce friction."

DR. JOHN THOM HOLDSWORTH
School of Business Administration, University of Miami

As the day of victory draws steadily nearer such discussions as Dr. Anderson's and related interchange of opinion are highly important. Though the day, the month, even the year of "unconditional surrender" cannot now be marked on the calendar, the event is recognized everywhere as inevitable. It is, therefore, none too soon to make plans and blueprints for the readjustments from a war economy to that of peace. And though it is true that definitive plans for conversion from war to peace, from all-over government control to private enterprise, must in many sectors of our economic and social life await the outcome of the war and the government's attitude toward many post-war problems, yet in many localities, economic areas and businesses concrete plans for conversion or resumption of business activity can be made, are being made. And in so far as these plans are soundly based with an ear to past experience, an eye to the future, and a nose for new technological developments and market developments, they give encouraging promise of "good business" with the return to peacetime pursuits. The Moscow pacts hasten the need for such plans.

John T. Holdsworth

With Dr. Anderson's main thesis I am in general accord. The Government failed dismally to demonstrate by its "spending-scarcity economy" and otherwise its ability to resuscitate broken business and achieve full employment, after a long and costly series of experiments. I agree that "the demand for full employment all the time, the demand that there shall never be any reaction or liquidation, is an erroneous demand." And I emphatically agree that under our seasoned economic system of free enterprise an approach to full employment of those who want to work for fair wages can be achieved only as capital is fully and profitably employed; and, further, that private capital will feel free to do its job—providing the tools, equipment and credit for labor and management to produce what consumers at home and abroad want—only when allowed to work without legislative straitjackets, political controls, and unnecessary restrictions, and be given a fair chance "to earn a decent living." This is what organized labor has demanded and gets in generous measure It is the assurance capital equally should have but which in recent years it has not had.

This is not to argue for a hands off policy toward capital and industry, for the elimination of all restraints and controls, for the repeal of sensible anti-trust laws, most of which are the necessary accompaniment of our astounding industrial evolution. Most corporate and individual enterprises, large and small, want to play the business game fairly, according to the rules—but the rules must be reasonable and understandable. It is because of the relatively few "pushers and profiteers," who because of size, or natural or artificial advantage resort to unfair practices, that restraints and regulations must be applied, both to insure free competition in the market and fair prices to the consuming public. The average motorist does not need a 50-m.-p.-h. law and highway police to insure safe driving, provided the traffic regulations are clear and reasonable. But rules, sensible, enforceable rules, there must be for the responsible driver and definite restraints and punishments for the irresponsible driver indifferent to the right of other users of the road and the safety of the public.

What is to be contended for is that capital and labor, the twins in production, shall both be assured a fair field and no favors under clear-cut, reasonable rules, with a minimum of interference, restriction, or regulation by outside agencies, including pressure groups and the Government. Of course this game of production and distribution, which we call business, must have an arbitrator or umpire, usually an agency of the Government, to enforce the rules of the game, but the umpire certainly must not himself get in the game. The spectators for whom the game is being played wouldn't stand for that, would they? And, yet, that's what the American public has tolerated, lo these many years.

War business is, of course, different. Winning the war is everybody's business, heading up in the Government, which must speak and act for the whole people. Price fixing and arbitrary regulation by Government agencies of almost every sector of our economic and social life in war times, yes, of course, but price fixing and regimentation in peace times are not only unnecessary but positively baneful in a democracy devoted to the principles of equality of opportunity.

As to the specific problem under review, "What can the Government Do to Promote Post-War Re-employment," Dr. Anderson concludes that the transition from war to peace "must mean that there must be temporary unemployment, there must be reaction, readjustment, liquidation, and the problem is one of bringing about the transition as rapidly as possible, rather than the problem of preventing the reaction." He cites our experience after World War I when after a short period of mounting prices, followed by the crash of 1920-21, the most abrupt drop in commodity prices in our history, business proceeded to pull itself out of the debris without Government aid or intervention, and by April of 1923 we had reached new levels of production and full employment, with "labor shortages in many lines."

Dr. Anderson points out that in this period of depression and quick recovery there was much economic planning, but it was not Government planning, and the recovery was "the achievement of the people, not of the Government." The planning was by "business executives as to how they could get new business, how production could be done more cheaply and efficiently." He explains that "basic in the planning was the fact that the Government credit was unshakably strong, that the gold dollar was undoubtedly sound, and men had a fabric of confidence on which to build. The reduction in taxes, especially in business taxes, was exceedingly helpful in making it possible for new activities to be undertaken and for venture capital to take risks."

Dr. Anderson's well-marshalled facts and figures bearing upon the post-World War I period and his basic deductions therefrom are unchallengeable. But this writer finds some disquiet in drawing the "deadly parallel" between that period and the as yet dim outlines of what may be expected when this war comes to an end. And what of the long, deep-seated depression which after a few years of "Coolidge prosperity" broke in fury in the autumn of 1929, and which despite, perhaps because of, the Government's scarcity policy and its attempt to spend the national economy into prosperity, its utterly unsound monetary program, its deficit financing, its policy of keeping interest rates abnormally low, its surrender to the demands of special interest groups, like the labor unions and the farm blocs, etc., continued without sustained recovery to rend the economic vitals of the whole country until another war came to break the grip of the depression?

Recapitulating, it appears that individual initiative and effort quickly broke the back of the depression following World War I, and for a few years we had full employment of labor and capital, but a much worse depression followed. Then came an orgy of Government spending, of regimentation and Government interference with virtual direction of much of our business economy resulting overall in a series of jerks and starts toward recovery, but with little advance toward full employment of labor, and nothing but discouragement and taxes—for capital and the brains of industry, management. On the basis of historical parallels, then, one is forced to the conclusion that individual enterprise, under reasonable rules and regulations, has done a better job than has the Government in solving the enmeshed problem of employment of both labor and capital, and that in facing the vastly more complex and complicated problems of post-war readjustment, reconstruction and restoration the job had better be "let" to business enterprise.

Finally, a note of caution, based on past experience, relative to the transition from a war economy to peace-time enterprise and the relinquishment of Government controls. The threat of a runaway inflation during and after the war persists, due to such factors as the widening gap between the greatly increased buying power of the country and the availability of civilian goods, the increasing demands of organized labor for higher wages (backed by strikes, current and threatened), and of the farm bloc for higher and higher farm prices, long-continued deficit financing, and the unwillingness of the Government for political reasons to face squarely the necessity of meeting a larger proportion of the cost of the war by taxes rather than by borrowing. Because of this inflation threat, which at the moment might seem fraught with more danger to our national economy than any blows the weakening enemy can deal, and which, if unchecked, could lose by disruption of our economic structure much of the fruits of victory and peace, a too-rapid relaxation of Government controls must be avoided. We must avoid the mistakes we and our Allies made after World War I when the too-rapid removal of public control of both consumers' goods and capital goods led to a sharp inflationary rise in prices and the excessive expansion of some industries having access to the necessary equipment. Gradual relaxation of controls rather than the precipitate abandonment of all responsibility before business is ready to take over again will ease the jolts which post-war readjustment will inevitably bring.

Take the brakes off business (Dr. Anderson's article suggests several legislative and administrative changes in that direction); give business a chance to demonstrate anew its capacity to increase production and distribution of peace-time products and so to expand our national income by which means we shall be able to carry the tremendous burdens the war will have bequeathed to us. Given a real partnership between labor and management, free access to markets, encouragement to venture capital, and a minimum of interference by the Government devoted to economy and impartial umpiring—a long-sustained peace prosperity can be ours for years to come.

The News Behind The News

(Continued from first page)

ism in Finland, Germany, Poland, the Balkans, and even in France, Italy, indeed in China, and throughout the rest of the world in trade and policing.

Mr. Hull is not trying to be coy in avoiding these matters, and thus keeping them from the public eye. I have reason to believe he has set himself a goal beyond the expectations of freer-flowing international spouters today. He wants unity on foreign policy in this country, a unity which would remove it from the field of politics.

Any enduring peace — despite internationalists, Anglo - philes and phobes, and isolationists — must have national approbation. Senator Pepper and his extreme internationalists have been complaining that the peace treaty would have to be ratified by two-thirds of the Senate, and they want to change the Constitution for a simple majority of one. Any vast commitment of this country to a new world, which is based on a majority alone, cannot possibly last.

The ins always will go out sooner or later. A peace founded on a partisan majority can last only until the opposition gets into power. Indeed, such a short-tempered and short-sighted decision would start an immediate public division and cause a continuous internal fight.

It is all right for us to argue among ourselves about domestic issues, but we should face the world as one people. If we cannot establish peace at home, how can we aspire to establishing peace in the world?

This, I think, is Mr. Hull's strategy. Some Democratic leaders, whose names you know, have considered him to be the ideal administration candidate for the presidency—the only man who might hold together the varied elements of the party. They reached this conclusion long before Moscow, on the ground that people seem to have confidence in Hull. If he can get unity on foreign policy, a goal some may believe to be unattainable, he will certainly justify these expectations.

Mr. Hull has brought us to this cross-roads, but the deciding factor of the road we will travel, and whether we will go in sensible unity as we should and must, is yet to be determined.

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.

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.

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 ratio 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

Offered — Unexchanged amount offered publicly Nov. 24, 1943 at $105 per share by Smith, Barney & Co.

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, $3\frac{1}{2}$%, 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.

Offered—Nov. 19, 1943, at $104\frac{3}{4}$ and int. by Estabrook & Co., Stone & Webster and Blodget, Inc. and associates.

PUBLIC SERVICE CO. OF COLORADO

Public Service Co. of Colorado has filed a registration statement for 875,000 shares of common stock $20 par value. The stock offered by the prospectus, constituting all of the common stock of the company to be presently outstanding, will be owned by Cities Service Power & Light Co.

Address—15th and Champa Streets, Denver, Col.

Business—Public utility operating company.

Underwriting—First Boston Corporation, N. Y., Boettcher & Co., and Bosworth, Chanute, Loughridge & Co., of Denver, are named principal underwriters. Others will be named by amendment.

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

Proceeds—The common stock offered by the prospectus is being sold to the underwriters by Cities Service Power & Light Co. The proceeds of such sale are to be received by Power & Light and not by the company, and such sale does not represent new financing by the company. After such sale Public Service Co. of Colorado will have ceased to be either a subsidiary or an affiliate of Power & Light or its parent Cities Service Co., both registered holding companies under the Public Utility Holding Company Act of 1935. The company says it is advised that such sale by Power & Light is consistent with the Securities and Exchange Commission divestment order of Aug. 17, 1943, which order is now the subject of an appeal to the courts.

Registration Statement No. 2-5244. Form S-2. (10-29-43).

Offered—Nov. 23, 1943, at $25 per share by The First Boston Corp., Boettcher & Co. and associates.

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 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 $3\frac{1}{2}$% bonds Nov. 16, 1943, on bid of 100.65.

Offered—Nov. 18, 1943, at 102 and int. by Harriman, Ripley & Co., Inc., Glore, Forgan & Co., Eastman, Dillon & Co. and associates.

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.

SUNDAY, NOV. 28

INVERNESS HOTEL CORPORATION

Barnet L. Rosset, Louis P. Borinstein and Walter Ballard, as trustees, have filed a registration statement for voting trust certificates representing 3,174 shares of Inverness Hotel Corporation.

Address—Of corporation, 712 Diversey Boulevard, Chicago.

Business—Apartment house.

Underwriting—None named.

Offering—On or about Nov. 25, 1943. Certificates are already outstanding in the hands of registered holders and it is proposed to extend the trust for five years from Jan. 14, 1944, with certain amendments to the agreement which is dated as of Jan. 15, 1934.

Purpose—To extend voting trust.

Registration Statement No. 2-5249. Form F-1. (11-9-43).

TUESDAY, NOV. 30

CENTRAL VERMONT PUBLIC SERVICE CORP.

Central Vermont Public Service Corp. has filed a registration statement for 197,954 share sof 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).

WEDNESDAY, DEC. 1

CENTRAL POWER & LIGHT CO.

Central Power & Light Co. has filed a registration statement for $25,000,000 first mortgage bonds, Series A, $3\frac{1}{8}$%, due Nov. 1, 1973.

Address—120 North Chaparral Street, Corpus Christi, Texas.

Business—Operating public utility company.

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

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

Proceeds—Proceeds from the sale of the bonds, together with other funds of the company as may be required, are to be applied to the redemption, at 105%, of $25,000,000 face amount of first mortgage bonds, Series A, $3\frac{3}{4}$%, of the company, due Aug. 1, 1969, the redemption of which bonds will require, exclusive of accrued interest, $26,250,000.

Registration Statement No. 2-5251. Form A-2. (11-12-43).

THURSDAY, DEC. 2

AUTOMATIC PRODUCTS CO.

Automatic Products Co. has filed a registration statement for $350,000 serial first mortgage bonds dated July 1, 1943, due serially each July 1, from 1944 to 1953.

Address—2450 N. 32nd Street, Milwaukee, Wis.

Business—Manufactures various types of air conditioning, refrigeration and heating controls.

Underwriting—Loewi & Co., Milwaukee.

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

Proceeds—To be applied to the payment of outstanding first mortgage $4\frac{1}{2}$% notes of the company and of Bolens Products Co. in the principal sum of $292,168. Balance will be added to working capital.

Registration Statement No. 2-5253. Form S-1. (11-13-43).

MICHIGAN CONSOLIDATED GAS CO.

Michigan Consolidated Gas Co. has filed a registration statement for $38,000,000 first mortgage bonds, $3\frac{1}{2}$% series due 1968, and 40,000 shares $4\frac{3}{4}$% cumulative preferred stock, par $100 per share.

Address—415 Clifford St., Detroit, Mich.

Business—Engaged in the natural and manufactured gas business in Michigan.

Underwriting—Securities are to be offered for sale at competitive bidding and names of underwriters will be supplied by amendment.

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

Proceeds—Company intends to use the proceeds from the sale of the bonds and the preferred stock together with a portion of the proceeds from the sale of additional shares of common stock, to redeem on or before Jan. 20, 1944, the entire issue of first mortgage bonds, 4% series due 1963, outstanding in the face amount of $36,000,000; to redeem the entire issue of 4% serial notes, due Aug. 1, 1944-48, outstanding in the face amount of $4,150,000, and to redeem on March 1, 1944, at $110 per share, the entire issue of its 6% preferred stock, par $100 per share, of which 20,000 shares are outstanding.

Registration Statement No. 2-5252. Form S-1. (11-13-43).

WALWORTH COMPANY

Walworth Company has filed a registration statement for 100,000 shares of 5% convertible preferred stock, cumulative, par value $50 each, and 500,000 shares of common without par value which are reserved for the conversion of the preferred stock.

Address—60 East 42nd St., New York City.

Business—Company and its subsidiaries constitute an integrated unit engaged principally in the manufacture, sale and distribution of valves and pipe fittings made of steel, iron, bronze and brass. It now manufacture sapproximately 50,000 different items of valves and fittings.

Underwriting—E. H. Rollins & Sons, Inc., and Paine, Webber, Jackson & Curtis are named principal underwriters. Others will be named by amendment.

Offering—Price, $50 per share.

Proceeds—Of the proceeds, $619,120 will be applied to the retirement of the 61,912 shares of 6% preferred stock now outstanding; $2,943,500 to the retirement in part of outstanding 20-year first mortgage 4% bonds of the company and reimbursement of company for moneys expended in acquiring such bonds and for working capital.

Registration Statement No. 2-5254. Form S-1 (11-13-43).

(This list is incomplete this week)

Post-War Outlook For Insurance Stocks Good

The post-war outlook for insurance stocks is most attractive, according to a detailed study of the situation prepared by F. L. Putnam & Co., Inc., 77 Franklin St., Boston, Mass. Copies of this attractive brochure may be had upon request from F. L. Putnam & Co., Inc.

Anti Subsidy Bill Approved By House

By the overwhelming roll-call vote of 278 to 117, the House approved on Nov. 23 legislation outlawing the Administration's consumer food subsidy program after Jan. 1. The ban on the use of subsidies to hold down food prices was contained in the measure extending the life of the Commodity Credit Corporation until June 30, 1945. A coalition of nearly all of the Republicans and many Democrats from the farm States made up the majority vote which came after two days of general debate. All efforts by Administration supporters to effect a compromise on subsidies failed in the House and the controversial issue now goes before the Senate where similar action is expected. It was predicted that should the anti-subsidy measure reach the White House it will be vetoed by President Roosevelt, thus requiring a two-thirds majority to override it. The House vote on Nov. 23 represented more than the two-thirds necessary, provided these members are in the same line-up.

A situation similar to the present one developed just before the Summer recess when Congress wrote a subsidy prohibition into a CCC extension measure and President Roosevelt vetoed it. In sustaining the veto then, the House and Senate agreed upon a truce extending CCC and the subsidy program until the end of this year.

The ban on subsidies was voted by the House despite the contentions of Chester Bowles, head of the Office of Price Administration, that an immediate 7% rise in average food costs would result. Mr. Bowles said on Nov. 21 that if the present cost line is broken there would be no place effectively to set up a new one.

FHLB Sell Debentures

The Federal Home Loan Banks sold on Nov. 18, at par, an issue of $64,300,000 0.85% Consolidated debentures, Series A-1944, it was announced by Everett Smith, New York financial representative. The issue was heavily oversubscribed. The debentures are dated Dec. 1, 1943, and mature June 15, 1944. The proceeds from the sale, together with $1,700,000 from the Banks' surplus fund, will be used to pay off two series of debentures maturing Dec. 1, 1943. These issues are $25,000,000 of $\frac{5}{8}$% Series O debentures sold privately on Sept. 15, 1943, the proceeds of which was used for new money purposes, and $41,000,000 $\frac{5}{8}$% debentures, Series P, also sold privately on Oct. 1, 1943, of which $6,000,000 was for new money and $35,000,000 was for refunding purposes. Giving effect to this refunding operation, the 12 regional banks will be confined to the new issue.

Ins.-Bank Stock Evaluator

Butler-Huff & Co. of California, 210 West Seventh St., Los Angeles, Calif., are distributing the October issue of their Insurance and Bank Stock Evaluator, containing a tabulated comparative analysis of 82 insurance companies and 38 banks. Copies of this interesting analysis together with a circular discussing the situation in Standard Accident Insurance Company may be had upon request from Butler-Huff & Co.

Elworthy Now Lt.-Col.

Mark C. Elworthy, head of the San Francisco investment firm of Elworthy & Co., and now stationed with the War Department in Washington, D. C., has been promoted to the rank of Lieutenant Colonel. He formerly held the rank of Major.

Compulsory Savings Are Necessary Leland Says

Simeon E. Leland, Chairman of the Board of the Federal Reserve Bank of Chicago and Professor of Government Finance at the University of Chicago, told the National Tax Association, in Chicago, on Nov. 22, that the Government is borrowing too much money and that the tax program so far has been too weak for the economic welfare of the country. A special dispatch, from Chicago, on Nov. 22, to the New York "World - Telegraph" noted that his remarks were his personal views and gave other statements of Mr. Leland as follows:

"The surplus of spendable funds available for the purchase of a diminishing amount of goods has not been sufficiently reduced by taxation," Mr. Leland asserted.

"The failure of the tax policy has increased the necessary borrowing. The War Savings Bonds, in their turn, also have drained off too little income.

"The payroll deduction plans seem to have approached their peak of effectiveness. About half of the civilian labor force is devoting 9% of its income to War Bond purchases. The other half undoubtedly is making a much smaller effort to help finance the war.

"This situation, together with the inadequate tax program and the failure of the War Savings Bonds to dig deeper into current incomes, calls for further consideration of compulsory savings. In that way non-bank and probably less inflationary financing can be increased.

"Finally, taking the amount of borrowing being done as one of the facts ('givens') in the situation, the short-term borrowing is both wise and well managed. It shows what can be done when there is coordination within the banking system and demonstrates the role that can be played by central banks in Government financing."

Seaboard Air Line Situation Interesting

With the purchase by the Receivers of Receivers' Certificates, Raleigh & Gaston, and Raleigh & Augustas, the first 4s of 1950 of Seaboard Air Line, behind which is pledged the Richmond & Washington Company Capital stock, offer a rather strategic position, according to L. H. Rothchild & Co., 120 Broadway, New York City. Copies of the firm's interesting study of the situation are available from them upon request.

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.

N. Y. Analysts To Meet

At the investment forum of the New York Society of Security Analysts, Inc., to be held on Monday, Nov. 29, F. Raymond Peterson, President of the First National Bank of Paterson, N. J., will speak on the problems of country bank portfolios.

On Tuesday, Nov. 30, W. C. Dickerman, Chairman of the Board of the American Locomotive Co., will address the Society on "Future Trends in Railroad Power."

All meetings are held at 12:30 p.m. at 56 Broad St.

Schram Opposes Proposal To Reduce Tax Allowance On Invested Capital

Views It As Punishing Companies Which Have Acted To Set Aside Conversion Reserves—Urges Action On Problems To Restore National Economy To Peace-Time Basis — Commends Naming Of Baruch By President

Opposition to the proposal which has been advanced by the House Ways and Means Committee in the pending revenue bill, to reduce the tax allowance on invested capital, was expressed by Emil Schram, President of the New York Stock Exchange, at a dinner given on Nov. 17 at the Country Club of Virginia in Richmond, Va., in honor of the Governors of the Association of Stock Exchange Firms.

Mr. Schram referred to the proposed reduction as "in effect an attack on business success."

Emil Schram

In voicing his opposition, Mr. Schram said:

"The proposal has been defended on the grounds that some concerns which use the invested capital credit have been enlarging this credit by retaining earnings. This tax plan would very severely punish such companies which have restricted dividends in order to set aside conversion reserves. A company, the invested capital of which in 1941 was $200,000,000, had its credit reduced under the 1942 Act so that it would have had to build its invested capital up to $238,000,000 to enjoy the same credit in 1942 that it had in 1941. Under the further reductions now proposed, this corporation would have to build its invested capital up to $296,500,000 to retain that credit. In the three years this is an average increase of 16% on the original amount of invested capital, after providing for dividends.

"A corporation with an original invested capital position of $500,000,000 in 1941 would have required $658,000,000 under the 1942 law and $821,250,000 under the proposed law to maintain its original credit. This is an average increase of 21.4%. The proposed reduction is, in effect, an attack on business success. More than that, in the industrial field it attacks so-called heavy industry companies such as steels, railroads, and railroad equipments—industries which earned subnormal profits in the years before the war and which must be counted upon to play a large role in sustaining a level of industrial activity after the war which shall provide full employment. Such heavy investment industries must always have a considerable investment in what might be called 'standby' equipment—the margin of facilities not fully utilized in normal and subnormal times, but which there is no time to build when demand surges upward.

"The 'feast' of one period must provide fat to survive through the 'famine' of another. A $200,000,000 corporation in this category, which just earned its invested capital credit in 1942, found its net return down to 3.64% afer paying the 40% combined normal and surtax rate. Under the proposed changes, including also the raising of the excess profits tax rate to 95%, this return is cut to 3.20%. In the case of a $500,000,000 corporation, the permitted net return is cut from 3.26% to 2.81%, and of course each additional 1% return before taxes is reduced by the excess profits tax rate to a net additional return of 0.145%. A further industrial group affected by this proposal is that comprising the oil companies. Thus far, Federal income and excess profits taxes have been comparatively light on reported earnings, reflecting the fact that in this industry a relatively small portion of reported earnings may be considered distributable to stockholders except at the risk of depleting the earning assets.

"The public utility companies, already seriously damaged by high income and excess profits tax rates, are further hurt by these proposals. A survey of 28 operating companies, accounting for about 55% of the gross revenues of the industry, shows that net income after taxes in 1942 was 15.6% lower than in 1939. Not all of these companies used the invested capital base, but the general effect of the proposed adjustment on those which do is to reduce earnings by a further 15 to 18%.

"The defense may be offered that the special relief provisions incorporated in the present act, including those for the carryback of unused excess profits credits and of operating losses, may correct the damage done by the proposed revision in the credit to the accumulation of post-war reserves. Industry should think twice before accepting the carryback generosity. Guy T. Helvering, just before retiring as Internal Revenue Collector, cited unofficial reports that tax refunds to corporations might run from $15,000,000,000 to $30,000,000,000, and pointed out that such rebates of previously collected taxes may present a grave problem of national financing. It is the easy way to excuse the present imposition of unduly restrictive taxes but merely postpones the day of reckoning. Apart from the strain which such refunds, even though the estimates may be too high, place upon fiscal policy, industry should consider what might be the effect upon the public mind of such large refunds of taxes at a time of economic dislocations resulting from the transition from a war to a peace economy. Industry might also consider that what purport to be refunds to correct past over-assessment of taxes may turn out to be grants of public funds for the purpose solely of maintaining employment."

Mr. Schram also urged that a program for the conversion of American industry and business from a war-time to a peace-time basis be developed as speedily as possible. On this subject he said that "next to winning the war, this is the most urgent problem that confronts us." Continuing, he said:

"Whether we are to have a life worth living after the war has been won depends, in large measure, upon the skill and speed we apply to the problem of restoring our national economy to a peace-time basis. I am sure that you will agree with me when I say that we will have lost the war, so far as this nation is concerned, if we fail to maintain a stable order and if we fail to protect those human values, rights and liberties which comprise the American system.

"I do not pretend to be a military authority, nor do I have any information with respect to the progress of the war which is not available to all of you. It is apparent to all thinking people, however, that we are in that period which Mr. Churchill described as the beginning of the end, so far as Hitler Germany is concerned. The handwriting is clearly on the wall for the Nazi regime. Informed people are saying that Germany no longer has the industrial capacity to keep her armies adequately supplied. She is now drawing heavily upon her stock-piles. For this happy situation we can thank chiefly our gallant air forces and those of our Allies.

"I do not say that the fall of Hitler Germany is imminent, although it may well be. I do say, however, that defeat of our enemy in Europe is not very remote and we cannot afford to lose any time in developing our conversion plans. No matter how long Japan may survive after the collapse of Germany, we know that the all-out war production in which we are now engaged will undergo susbstantial curtailment as soon as we have disposed of Hitler.

"Our danger at home was vividly emphasized the other day by a newspaper columnist who spoke of the possibility of a domestic Pearl Harbor in the sense that the termination of the war might find us wholly unprepared. The adjustments which must be made are enormous in scope and they will be far-reaching in their consequences. The dislocations in our business and industrial structure can be minimized if we will perfect plans in advance for an orderly conversion.

"It must be said, in all fairness, that competent men in both Houses of Congress and in the executive departments in Washington are applying themselves energetically, intelligently and patriotically to the development of plans and policies. Time is of the essence. A well-rounded program should be worked out by the Government at the earliest possible moment, in collaboration with the best minds in business and industry.

"We know, of course, that individual companies have made elaborate plans for the transition in their operations from a peace-time to a war-time basis. All business enterprises whose facilities have been placed at the disposal of the Government — and those include almost every business organization in the country — have been concentrating upon their own conversion problems, and their plans, in a great many instances, are far advanced. There are definite limits, however, to the planning which they can undertake without the guide-posts which only the national Government can provide.

"Unfortunately, much of the planning which thus far has taken place has been, to a large extent, uncoordinated. I realize that some confusion and some delay are unavoidable under our processes of Government, but the time has come when we should be assured of a sound and constructive program not only for the partial conversion which is approaching and for the total conversion which will follow the defeat of Japan, but for that post-war stability which we must have if the victory which is on the horizon is to have any real meaning for the American people.

"We can take great encouragement from the fact that the President has placed in the competent hands of Bernard M. Baruch the task of building a conversion program. Mr. Baruch is one of our ablest business statesmen. He believes fervently in the American way of life, in our enterprise system, in freedom of opportunity. Moreover, he has a special talent for the particular kind of work which has now been assigned to him. He also has a most capable associate in John M. Hancock. We may depend upon these two men and the others with whom they are surrounding themselves to produce the type of over-all blueprint which is so urgently needed. Given the necessary authority, I have no doubt that they will also supply the force and the direction essential to the acceptance and implementation of their program.

"The plans and policies which we work out must, if they are to measure up to our expectations, be free of any suspicion of ideological or political influence. We may be sure that such influence will not enter into any plans which Mr. Baruch and his associates decide upon, and this is another reason why we should be encouraged by the fact that this most vital task has been turned over to him. We know that we can rely not only upon his craftsmanship, but also upon his vigilance in forestalling any effort to pervert our American way of life. The full restoration of our democratic methods in all spheres of life is the least that we should settle for as we look ahead to the removal of the necessary restraints which we have willingly accepted in order to win the war."

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