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Inflation Prospects and Investment Policy

Mathematical Odds Held Against High-Level Inflation Over Next Five-Seven Years But Warns Investors Not To Act On This Premise

Says Present Level of Stock Prices Not Too High For Purpose—Policy Advocated Calls For Exclusion of Bank Stocks and Public Utility and Railroad Shares

By BENJAMIN GRAHAM

What I shall have to say will probably supplement rather than underscore Professor Wright's very informing address. Here and there our thoughts will intersect and may even seem to clash—but such conflict will be more in appearance than in reality.

Mr. Rotnem mentioned my modest connection with the Treasury Department. I must point out, of course, that everything I have to offer is entirely unofficial. However, not as a Treasury Department representative, but as an analyst of securities, I would like to say a word with respect to the relation of our government bonds to inflation, since that is a subject on which Prof. Wright has touched.

Benjamin Graham

In the first place, I agree with him entirely that inflation

EDITOR'S NOTE—This paper was delivered by Benjamin Graham in the form of an address at a meeting of the Association of Customers' Brokers in New York City on Nov. 23, presided over by Ralph A. Rotnem. Biographical material regarding Mr. Graham and explanatory comment concerning his references in the paper to Professor Wright and the latter's address will be found at the conclusion of the article.

(Continued on page 2217)

Suggestion For Organization For Post-War International Finance

With Special Reference To Matters Pertaining To Rehabilitation Of Economies Of Other Nations After War

By JAMES A. HOWE

Whatever internationally owned organization or organizations, if any, for the clearing and extension of foreign credits may be brought into being after the war, it seems probable that special domestic organization for foreign finance will also be desirable, because of the unusual conditions that will then exist.

The post-war foreign demand for many of our goods will be great. Unfortunately, the goods which will enjoy the strongest demand will be foods, other consumers goods, and raw materials and semi-manufactured goods to replenish depleted working inventories abroad, and to make consumers goods to be consumed abroad—goods which will not directly create exchange which foreigners may use to pay us. It will not be easy for Europe to find the means of buying all that it would like to buy. The pressure upon us to grant credits will, therefore, be intense.

James A. Howe

Experience has shown that short credits due from importing countries may appear to be self-liquidating, but not be self-liquidating in fact, if the importing country owes far more on short account than its liquid re-

(Continued on page 2224)

What About Gold?

Roger W. Babson Says Production Figures May Mean Gold Stocks A Buy

Currency stability will be most essential to a maintenance of trade and revival of business activity in the post-war period. Capital naturally gravitates to the countries which give it the best reception and which hold out the most return for its use. If the United States, Britain, Russia and China are to function as well together in peace as they have in war, they must all be anchored to a stable currency. This would enable these countries to encourage, rather than to discourage, the employment of capital.

Roger W. Babson

(Continued on page 2226)

NASD Profit Limitation Decree Violates Maxim "United We Stand, Divided We Fall"

J. A. White, of J. A. White & Co., Cincinnati, Admonishes Those In Securities Business Not To Adopt Mistaken View That They Are Helping Themselves By Advocating Or Condoning Policies That Are Destructive To Another Segment Of Their Industry

Editor, Commercial & Financial Chronicle:

I have noticed your various editorial and news comments about the recent action of the NASD regarding a profit limitation, and the purported desire of the SEC for establishing a profit limitation in one form or another. Although, perhaps, not directly affected by either of such news, I have endeavored to consider the entire picture presented by these developments, and many thoughts come to mind.

In the first place, it seems obvious that there is a considerable division in the ranks of the securities business over this entire project by the NASD and the SEC. Accusations are constantly heard that the stock exchange houses are endeavoring to increase exchange trading at the expense of the

(Continued on page 2220)

In This Issue

PENNSYLVANIA SECURITIES section containing information and comment pertinent to dealer activities in that State starts on page 2210.

For index see page 2228.

A Plea For A Free Economy And A Limited Supply Of Money

Editor, The Commercial & Financial Chronicle:

In your Oct. 21 issue, Dr. Benjamin M. Anderson, under the title, "What Can the Government Do to Promote Post-War Re-employment?" presents a thought-provoking analysis of some of the operations in a free economy; in fact, it would be hard to find a better comparison between certain processes of a free economy and their equivalents in a totalitarian state. When we have said this, it still holds that there is unlimited confusion in the science (save the mark) of economics, which seems to be at a stage of development comparable with the science of medicine when barbers practiced surgery as a side line, with blood-letting as their chief operation.

E. S. Pillsbury

Dr. Anderson puts great emphasis upon the necessity for prices that tell the truth, that is, reflect the supply and demand relationship. He says:

"The great obstacle to Governmental economic planning in a democracy in peacetime is that the wisdom does not exist, and I may add that the power does not exist, to know what 130 million people want and what they will pay for, and to have it produced for them. It has got to be a piecemeal job, with particular men, in particular industries, studying their particular markets."

I would not know where to look for a stronger plea for a free economy than Dr. Anderson's, as follows:

"Wages are part of the price system and a tremendously important part of the price system (elsewhere he says much over 70%). Unless they tell the truth about the supply and de-

(Continued on page 2222)

Treasury Renews Request For $10.5 Billion In New Taxes

The Senate Finance Committee on Nov. 29 began consideration of the $2,140,000,000 House-approved tax measure when Treasury officials appeared before the group to renew proposals for $10,500,000,000 in additional revenue. The Senate Committee is expected to reject the Treasury's recommendations, calling for sharp rises in income and excise rates and to enact a bill similar to the one passed by the House Ways and Means Committee.

The legislation approved by the House on Nov. 24 by a standing vote of 200 to 27 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.

The bill's revenue is estimated to be made up as follows: $154,800,000 from the individual income taxpayers; $616,000,000 from the corporation excess profits rate, $1,201,700,000 from boosted excises on so-called luxuries, including a rise in the liquor tax from $6 to $9 a gallon; and $166,800,000 by increased postal rates on some classes of mail. The alcoholic beverage excise increases account for $458,000,000.

In renewing his original request for $10,500,000,000 in new revenue, Secretary of the Treasury Morgenthau told the Senate Finance Committee that much higher taxes could be paid now and that this amount is needed to help combat serious inflationary dangers during the war and in the post-war period.

The Treasury program calls for $6,500,000,000 in additional individual income; increased corporation taxes to raise $1,100,000,000 more; higher estate and gift tax rates to yield $400,000,000, and increased and new excise tax rates amounting to $2,500,000,000.

(Continued on page 2226)

Meetings Sponsored By Edw. Jones Co. Attract Large Attendance

ST. LOUIS, MO.—W. Truslow Hyde, specialist in power and light company securities, was speaker at the second of a series of meetings here sponsored by Edward D. Jones & Co., members of the New York and St. Louis Stock Exchanges. Mr. Hyde, who is associated with the New York Stock Exchange firm of Josephthal & Co., discussed the "Outlook for Power and Light Securities." Over seventy-five bankers, brokers and utility specialists from Missouri, Arkansas and Illinois were present at the meeting.

The first meeting was on "Railroad Securities," with Patrick B. McGinnis of Pflugfelder, Bampton & Rust of New York, the speaker. The third will be held in about 30 days and will feature "Municipal Securities;" the speaker will be announced later.

Rise In White-Collar Wages Not Inflationary, Says Clark Of S. E. Firms

John L. Clark, President of the Association of Stock Exchange Firms, expressed the opinion on Nov. 17 that increases in salaries of white-collar workers would not be inflationary, but a return to a "normal" level in salaries. Mr. Clark, of Abbot, Proctor & Paine, New York, made the statement according to the Associated Press in Richmond, Va., where he had gone to preside over the first meeting of the association's new Board of Governors.

Mr. Clark stated:

"We believe that regulations of the 1942 wage-stabilization act should be adjusted, so that there is more equality in the wage increases of white-collar workers and unionized workers."

The reelection of Mr. Clark as head of the Association was referred to in our issue of Nov. 25, page 2125.

Chemical Bank & Trust Situation Interesting

The current situation in Chemical Bank and Trust Company offers interesting possibilities according to a bulletin issued by Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange. Copies of this bulletin may be obtained from Laird, Bissell & Meeds upon request.

Long Island Lighting Co. Situation Attractve

The 6% and 7% preferred stock of Long Island Lighting Company offers an attractive situation according to a memorandum prepared by Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange and other principal exchanges. Copies of this interesting memorandum may be obtained from the firm upon request.

Interesting Possibilities

Midland United Company offers interesting possibilities according to a memorandum being distributed by Bear, Stearns & Co., 1 Wall Street, New York City, members of the New York Stock Exchange. Copies of this memorandum may be obtained upon request from Bear, Stearns & Co.

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Brownell Replies to Sakolski's Article on Bimetallism Question

In an article published in the "Chronicle" of Oct. 28, captioned the "Ghost of International Bimetallism Reappears," A. M. Sakolski of the City College, New York City, took issue with the program advocated by Francis H. Brownell, Chairman of the American Smelting and Refining Co., regarding the use of bimetallism as the most suitable standard of international currency for the post-war world. The full text of Mr. Brownell's pamphlet on the subject appeared in the "Chronicle" of Sept. 30, on page 1304. Apropos of the views expressed by Mr. Sakolski in his article, we have received the following letter, dated Nov. 23, from Mr. Brownell:

Francis H. Brownell

The article in your issue of Oct. 28, headed "The Ghost of International Bimetallism Reappears," by Professor Aaron Morton Sakolski of The City College, is likely to prove so misleading to your readers that I take the liberty of presenting a reply.

The chief point made by Dr. Sakolski is that under bimetallism the market ratio of gold and silver prices will diverge from the mint ratios, and thus what is known as "Gresham's Law" will drive one or the other metal out of circulation.

But this could not happen under the modern theory of international bimetallism, which is that several important nations, especially the United States and British Empire, should apply to silver the same principle that has been applied to gold; namely, buying all silver offered, at a fixed price to be agreed upon, and what is equally important, selling whatever is required at the same price.

When England, after the Napoleonic wars, revised its currency and went to the gold standard, it fixed 113 grains of fine gold to the sovereign, but did nothing about the current market price of gold, which continued to vary up

(Continued on page 2214)

Organized Efforts To Upset NASD Profit Limitation Decree Inevitable

Since neither the Board of Governors nor the SEC has shown any inclination to rescind the NASD's obnoxious profit limitation decree, the ire of dealers has been aroused to the point where organized opposition has now definitely developed. The New York Security Dealers Association intends taking appropriate action in the matter and the Security Traders Association of New York at their Annual Meeting today will undoubtedly cast the die which will result in their doing likewise as it is a foregone conclusion that the vast majority of their members will indicate their utter disapproval of the profit limitation measure when they vote on the subject in accordance with prepared plans.

In addition to this, one group of dealers here and one out-of-town are talking about forming a protective committee to compel the NASD to rescind its profit limitation decree and to fight any future action by the Association or the SEC that is considered inimical to the interest of the securities business.

A couple of NASD officials have taken the attitude that the "Chronicle" has misinterpreted the Association's letter to its members on the subject of mark-ups. They say no ceiling has been put on profits but a "philosophy" has been set forth that should govern the conduct of members with respect to mark-up practices. The Editor of the "Chronicle" was momentarily confused because he had read the letter advising members of the decree at least ten times. He did not remain in this state long, however, after reading a subsequent letter sent out by the Association to all members of its Business Conduct Committees, but not to the whole membership, which elucidated the subject. It is necessary,

(Continued on page 2208)

More Dealer Comments On NASD Rule

DEALER NO. 69

In your issue of Nov. 18, you stated that at a recent meeting Mr. Riter made it clear that come "hell and high water" the NASD was prepared to fight any organized opposition to its recent edict in respect to the limitation on profit. Manifestly, if there is any organized opposition it would come from the members of the NASD. Is it Mr. Riter's intention to use the funds of the NASD to make such a fight? If so—at least in part—he would be using the money that had been contributed by those members of the NASD who are opposed to this edict. It would seem to me that by so doing Mr. Riter and the Board of Governors would be laying themselves open not only to considerable criticism, but also to a suit for the misappropriation of the funds of the organization.

I am strongly of the opinion that the Board of Governors as now constituted is not representative of the majority opinion of the membership of the NASD. For instance, it seems an anomaly to me to have an organization, which polices the activities of the over-the-counter business, headed by a member of the New York Stock Exchange and the New York Curb Exchange. The interests of these Exchanges are diametrically opposed to the over-the-

(Continued on page 2214)

Attempt To Establish The "5% Rule" As A Recognized Practice Of Dealers In Securities

By A. M. METZ and EDWARD A. KOLE

Years ago after elections, there were parades of citizens many of whom wore a band around their hats with the legend, "I told you so."

In that same spirit the writers approach this article. During a luncheon within the month, they said, "The Securities and Exchange Commission at its first opportunity will use and quote the 5% spread rule of the NASD as evidence of the established practices and customs in the securities business."

Lo and behold—it has come to pass! There is pending in the United States Circuit Court of Appeals for the Second Circuit, the case of Charles Hughes & Co., Inc., petitioner, against the Securities and Exchange Commission. In this appeal, a review is sought of a Securities and Exchange order revoking the petitioner's representation as a dealer in securities. The Commission contends that the petitioner continually sold securities to its customers at prices substantially in excess of prices prevailing in the "over-the-counter" market without disclosing that fact to the customers. These prac-

(Continued on page 2219)

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.

Organized Efforts To Upset NASD Profit Limitation Decree Inevitable

(Continued from page 2207)

however, to quote just one sentence from this letter to make it clear that the "Chronicle's" interpretation of the decree was not incorrect. Here it is: "Isolated transactions where the spread or mark-up is in excess of 5% may warrant only informal inquiry or a precautionary letter but where practice is established formal complaint procedure is a recommended course."

Those interested in this phase of the matter will want to read the letter from Dealer No. 79 in this issue and the article entitled "Attempt to Establish The '5% Rule' As A Recognized Practice Of Dealers In Securities," which appears on page 2207, for an insight into the meaning others have placed on the NASD's letters relating to their decree.

In our Oct. 28 issue we questioned the validity of the method used by the Association to determine the mark-up practice of its members and last week revealed that 25% of the transactions reported by one dealer had been consummated at cost or at a loss. Now we find that when it came to listed securities, the Association did not take the cost price to the dealer to determine the percent of profit he took but rather the price at which that security sold on the exchange it happened to be listed on.

At the meeting of the Officials of District 13 (which takes in the whole of New York State besides Connecticut and New Jersey) on Nov. 16 it was brought out that during the last four years only eight or ten complaints had been received from customers of dealers. This being the case, it is pertinent to ask "who is it that is clamoring for a profit limitation measure if it isn't the public?"

We give as many of the letters received on the profit limitation decree as can be accommodated in this issue. None favoring the decree was omitted. They start on page 2207. The one received from J. A. White of Cincinnati appears on the front cover under the caption "NASD Profit Limitation Decree Violates Maxim 'United We Stand, Divided We Fall.'" Mr. White gave us permission to publish this including his name.

The vicious NASD profit limitation measure MUST and WILL be killed. Every dealer should use his utmost efforts to make this an accomplished fact. 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.

House Group Contends OPA And FDA Exceed Authority Granted By Law

The special House committee investigating Federal agencies on Nov. 29 charged the Office of Price Administration and the Food Distribution Administration with exceeding the authority granted by law and asserted that these agencies were using the subsidy program, the Lend-Lease Act and the needs of the armed forces "as a subterfuge to impose legislation upon the country which Congress had failed or refused to enact." According to Washington advices, Nov. 29, to the New York "Times," in its third intermediate report, the Committee charged the OPA with violating the Price Control Act by setting maximum prices on meats "that were not generally fair and equitable" and by recommending to the Economic Stabilization Director Fred M. Vinson, that "indirect ceilings" be put on live cattle. It was further stated in these advices that the Committee said that the FDA inserted two clauses into Surplus Commodities Corp. contracts dealing with purchases for lend-lease and the armed forces, one of which "amends existing law" while the other "enacts new legislation."

The advices to the "Times" went on to say:

The meat prices established by OPA, according to the Committee, resulted in continuing for nonprocessing meat packers operating losses of 1½ cents a pound.

"The effect of the order," the Committee reported, "was to favor, foster and encourage monopolistic tendencies to concentrate the meat-slaughtering business in the hands of the comparatively few large processing slaughterers and to destroy the much greater number of small independent slaughterers who operate without processing facilities."

The agency further violated the Price Control Act by failing to take remedial action within 30 days after complaints were filed, the Committee said.

The order to establish ceilings on prices of live cattle without the consent of the Secretary of Agriculture, to whom the Price Control Act gives exclusive jurisdiction over prices of agricultural commodities, had the effect of nullifying an Act of Congress, the Committee charged.

"For all practical purposes," the Committee said, "the Price Control Act has been repealed by subsidy."

"Your Committee recognizes," the report stated, "that the Office of Price Administration was dealing with a very difficult situation in its endeavor to keep meat prices within a noninflationary range without fixing a price ceiling upon live cattle, but we wish to emphasize the fact that whatever difficulties may be encountered in effectively administering the law, no administering agency should exceed the powers granted it by the statute.

"The Constitution recognizes but one legislative body, namely, the Congress.

"When an executive agency finds that it cannot perform its functions efficiently under the authority granted it by Congress, it has but one alternative; that being to report the facts to Congress and request an extension of its powers.

"In this instance, by the payment of a subsidy to those slaughterers who conform to the price ceiling fixed, and by penalizing those who do not, the act of Congress has in practical effect been nullified by administrative regulation, since a price ceiling on an agricultural product has been set without consent of the Secretary of Agriculture.

"This Committee was created for the purpose of bringing to the attention of Congress and the people of the nation instances where executive agencies have exceeded the authority granted by law. No one devoted to democratic government can remain unconcerned whenever such action is taken by an executive agency."

In contracting for dairy products for military and lend-lease purposes, the committee alleged, the FDA amended existing law by requiring producers and manufacturers to pay their employes for overtime work whereas the Fair Labor Standards Act specifically exempts processors of dairy products from its overtime provisions.

The same agency enacted new legislation by requiring contractors not to discriminate against employes because of race, creed, color or national origin, the committee said.

"Congress has never enacted such a law and, however laudable its purpose may be, no government agency has been authorized by legislation to impose such a condition."

It was noted by Robert E. Smith, United Press Staff correspondent in a Washington account to the New York "World Telegram" that the report, declaring that the "Constitution recognizes but one legislative body, namely the Congress," said:

"When an executive agency finds that it cannot perform its functions efficiently under the authority granted it by Congress it has but one alternative; that being to report the facts to the Congress and request an extension of its powers."

Halbkat With Sidlo, Simons

(Special to The Financial Chronicle)

DENVER, COLO. — James E. Halbkat has become connected with Sidlo, Simons, Robert & Co., First National Bank Building. Mr. Halbkat was previously with Halsey, Stuart & Co. and Brown, Schlessman, Owen & Co.

Wilson Of GM Urges Conversion Plans Now

C. E. Wilson, President of the General Motors Corp., said on Nov. 24 that if the war ended next week and the company were "turned loose" it could be producing some new cars in three months and turning out many within six months. He made this statement in testimony before the Senate War Investigating Committee, headed by Senator Truman (Dem., Mo.).

From United Press Washington advices as given in the New York "World Telegram" we quote further as follows:

Mr. Wilson predicated his answer on the idea that he could clear his plants of government machinery immediately, without waiting for audits and shipping orders, and that raw materials and all necessary machine tools were available at once.

"I think that the first things the people will want when this war is over are new automobiles and household appliances," Wilson said.

Mr. Wilson pointed out that the country had about 18 months to get prepared for war before Pearl Harbor and advocated that conversion planning be promoted now to reduce as far as possible the production lag when the war ends.

He recommended that General Motors be permitted to place orders now for machine tools which it will need to produce automobiles again. He pointed out that many machines absolutely essential to automobile production have been transferred to the government and to sub-contractors because the corporation could not use them for war production.

"Many of them were bottleneck machines without which there could not be a steady flow of civilian production," he said.

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.

Tomorrow's Markets Walter Whyte Says—

Recent market action points to a base closer to current prices. Foreign and domestic developments still dominate price levels.

By WALTER WHYTE

The reaction of the past few days—a dull, draggy affair—was in line with the forecasts made here last week. But since that statement appeared the market has taken on a new tinge. In my previous column I wrote that a setback to about 125-26 was expected sometime before the middle of December. The other day the averages sold under 130 by a small fraction and the long faces of market habitues began making their appearance. But despite the feeling that prices are headed lower the market action of the past few days seems to point if not to higher prices then to a base much closer than I envisioned last week.

* * *

Certain offerings which were pressing for sale when last week's column was written have either been pulled or have been sold privately. Certain bids which lay dormant under the market, waiting for prices to get down to them, have been lifted. True, the latter does not involve large amounts of stock, but the size of the potential buying doesn't impress me as much as the quality. If that was all I had to go by I would have no hesitation in coming out flatly and advise buying. But with conditions being what they are, certain other considerations must also be recognized.

* * *

One reason why selling has dried up and new buying shows a desire to lift its bids may be attributed to the elimination of the tax factor. But that isn't enough reason. There is something else. What this something else may be is a matter of conjecture. Peace talk is increasing. Whether or not this is justified time alone will tell. I don't, for example, care for the picture of post-war planning I have seen painted by various word artists. Most of the conferences which start off with a terrific whoop-la and die aborning increase my dislike for the deep undercurrents that certain elements in and out of Washington seek to foster.

* * *

But if the international picture is confusing the domestic outlook is equally foggy. Congress with its eyes on 1944 seems to have relegated the war to the cloak room. What all these things will lead to I don't pretend to know. At times I feel the market must give the answer; not in so many words, but in action which will foretell if the developments will mean less or more pressure on business, and indicate this by either good or bad market performance.

* * *

The trouble is that the mar-
(Continued on page 2225)

Four Leading Banks Compared

Goodbody & Co., 115 Broadway, New York City, members of the New York Stock Exchange and other principal exchanges, have issued a table showing thirty-five different comparisons between stocks of the Guaranty Trust Company, Irving Trust Company, Chemical Bank and Trust Company, and Manufacturers Trust Company, indicating the relative degree of improvement during the past decade. Specific purchase and switch recommendations are made in the study, which also discusses the basic improvement in the banking industry as a whole over the past decade. Copies of this interesting table may be obtained from Goodbody & Co.

Railroad Securities

The railroad earnings reports for October, which have started coming in within the last week and a half, have pretty generally shown a sharp acceleration of the rate of year-to-year declines in net income. The results as compared with the like 1942 periods have been affected by the gradual flattening out of the traffic curve which had been expected in view of the near saturation point reached last fall. To this has been added the increasing tax burden of recent months and, as a particular distortion to October results, the accrual of retroactive wage increases. Few roads had made any provision for the increases in earlier months due to the complete uncertainty as to what the burden would be.

The earnings results as they have come along are hardly calculated to generate a broad demand for railroad securities, particularly securities of a highly speculative nature. To this relatively unfavorable earnings picture has been added, as a market influence, uncertainty as to the probable early future trend of international affairs. The war news has been fairly generally favorable although perhaps not so spectacularly so as it had been. There has also been the speculation on the anticipated announcement of a meeting of the heads of the United Nations. While rumors have been thick it is generally accepted that decisions made at this meeting will have an important bearing on the probable further duration of at least the European phase of the war.

A speculative community conditioned to the theory (however erroneous) that railroad securities are inherently "war babies" has naturally enough been inclined to adopt a cautious side-line attitude in the face of the possibility of some spectacular announcement in the immediate future. With buyers cautious, and bids in many instances withdrawn or materially shaded, fairly sharp price declines have taken place on relatively little volume. The one encouraging feature of the market is that even the combination of poor earnings comparisons, war optimism, and fairly steadily declining prices has not been sufficient to bring any heavy liquidation into the market.

Lack of any real selling pressure on the way down is considered in many quarters as presaging a fairly fast turn around once the present uncertainties are resolved. As to the uncertainties surrounding the probable further duration of the war, no one is competent to say when they may be resolved. It is doubtful, however, that a peace psychology can permanently influence the market once the aggravating influence of year-to-year earnings declines has been removed. This is particularly true inasmuch as it is extremely doubtful if the entire war will end at one time—it is generally conceded that if the European war should be terminated shortly the Pacific phase would take a further extended period to wind up.

With respect to earnings trends, that is year-to-year comparisons, the picture should tend to improve from here on for most roads. The distortion caused by accrual of the retroactive portion of the wage increases will presumably be eliminated in November reports but the mounting level of taxes will continue. For the balance of the year, then, earnings in general will presumably run materially below like 1942 intervals. After the turn of the year there should be a decided change for the better in earnings comparisons for a number of the major carriers, giving a better appearance to railroad earnings as a whole, with others falling in line in early subsequent months.

The more favorable early 1944
(Continued on page 2221)

F. S. Fischer, Jr., Is With H. N. Nash & Co.

PHILADELPHIA, PA.—H. N. Nash & Co., 1421 Chestnut Street, announces the association with the firm of Frederick S. Fischer, Jr., and that the firm will act as correspondents for Frederic H. Hatch & Co., of New York.

Mr. Fischer, formerly manager of the trading department of Hendricks & Eastwood, Inc., will supplement the bank and insurance stock business of H. N. Nash & Co. by dealing in local and general market corporate issues. He is secretary of the Investment Traders Association of Philadelphia.

Pennsylvania Brevities

U. G. I. Divestment Order Sustained

The U. S. Circuit Court of Appeals has unanimously sustained two SEC orders entered July 30, 1941, and May 7, 1942, against the United Gas Improvement Co., ordering the divestment of nine public utility corporations and nine non-utility companies.

The decision does not affect any of the proceedings covered by the company's voluntary plan previously approved by the SEC and now in the process of consummation.

U. G. I., in company with other holding companies fighting for the right to conduct an orderly rearrangement of their affairs, continues to challenge the constitutionality of confiscatory provisions of the Holding Company Act of 1935. North American Co., under similar circumstances, has carried its fight to the U. S. Supreme Court. Inasmuch as the Supreme Court has not yet ruled on the North American case, it is likely that the present U. G. I. decision will be likewise appealed.

The Holding Company Act of 1935 has long been regarded as a typical example of the "Thou Must" philosophy of the Administration. It presumes the premise that all holding companies, as defined, are evil both in theory and in practice and must therefore be banished with scant, if any, consideration of individual circumstances or of private or public interest. Compulsory divestment of large holdings of securities and forced sales of properties under unfavorable conditions can only result in widespread losses for the investing public, whose interests the SEC, by statute, was created to protect.

Delaware Power Stock Next

Delaware Power & Light Co. common stock, carried on the books of U. G. I. at $16,463,014, will constitute the next distribution to be made to U. G. I. stockholders. The distribution, which will be in the ratio of 1/20 share of Delaware to each share of U.G.I., will be made as of a record date to be fixed by the Board after acceptance by a favorable vote of not less than a majority of outstanding common stock. Since there are 23,252,005 shares of U. G. I. outstanding among upwards of 100,000 stockholders, the mechanics of the distribution present something of a problem. Physical issuance of the shares is not expected before spring.

Including the value of Delaware Power & Light, residual assets of U. G. I. common were estimated at $3.25 per share as of Nov. 1. Other principal holdings including cash and Government securities of $6,857,890, are comprised of substantial amounts of Niagara Hudson Power preferred and common, Commonwealth & Southern preferred, Kansas City Gas preferreds and Consumers Gas Co. of Reading common.

It is reported that the management of U. G. I. will soon take favorable action on the suggestion of dealers and many large stockholders to change U. G. I. common stock from no par to a stated par value, thus reducing the stock transfer tax and facilitating trading. Also under consideration is a reduction in the shares outstanding by an exchange of one new share for each present 10 shares.

On Nov. 21 it was announced that the one-billionth passenger had been carried on the lines of the **Philadelphia Transportation Co.**, a new all-time annual high for the system. By the year-end, it is estimated that the 1943 total will soar to 1,125,000,000 fares. By comparison, 672,136 passengers were transported in 1940. Despite

(Continued on page 2211)

Delaware River Joint Commission Refunding Bonds

By WILLIAM F. MILLS

July 1, 1944, will mark the 18th anniversary of the opening to traffic of the Philadelphia-Camden Bridge. A glance at the record of operation from the date of opening amply testifies to the economic necessity of the bridge to the territory which it serves, to the ability of the management and to the high degree of earnings possibilities after the war.

TABLE OF OPERATIONS

	Traffic	Gross Receipts	Expenses	Net Receipts
1948 (½ Year)	4,355,923	$1,197,769.16	$338,225.26	$859,543.90
1942	12,463,283	3,069,647.27	702,687.82	2,366,959.45
1941	15,638,687	3,653,611.09	653,401.11	3,000,209.98
1940	14,185,835	3,340,113.26	562,054.96	2,778,058.30
1939	13,378,235	3,155,259.05	526,546.73	2.628.712.32
1938	12,820,338	3,027,489.36	581,672.32	2.445,817.04
1937	12,293,129	2,969,423.52	452,810.03	2.516,613.49
1936	10,614,475	3,067,967.87	461,260.66	2.606,707.01
1935	10,156,929	2,899,563.25	441.146.59	2.458,416.66
1934	9,981,615	2,846,116.26	429,412.63	2,416,703.63
1933	9,886,705	2,820,018.71	418.516.46	2,401,502.25
1932	10,804,557	3,091,576.91	456,397.44	2,635,179.47
1931	12,308,225	3,479,337,93	430,856.72	3,048,981.21
1930	12,285,359	3,517,730.64	500,597.53	3,017,133.11
1929	11,615,609	3,331,754.46	398,496.20	2,933,258.26
1928	9,725,470	2,827,786.83	378,590.01	2,449,196.82
1927	8,593,201	2,435,784.40	346,678.59	2,093,921.89
1926 (½ Year)	4,137,674	1,110,108.38	158,109.47	946,682.83

It is interesting to note that from the end of 1927, the first full calendar year of operation, volume of traffic increased substantially each year until 1932 and 1933, generally considered the "peak" depression years, when successive declines were registered. Beginning with 1934, however, traffic volume increased rapidly to a high of over 15,000,000 vehicles in 1941. A reduction in toll charges, effective Feb. 1, 1937, accounts for the slight reduction in gross receipts that year, but traffic volume showed an increase of approximately 1,700,000 vehicles.

With 1942 and our entry into the war, came gasoline rationing and periodic bans on pleasure driving, resulting in the second decline in traffic volume in the then sixteen years of operation. Also with the war came increased operating expense as a result of the increase in the cost of materials and protection. The $32,000,000 War Risk insurance carried on the bridge costs $38,400 alone. The last quarter of 1943, and sub-

(Continued on page 2211)

Phila. Bond Club Gets Slate Of Candidates

PHILADELPHIA, PA. — The nominating committee of the Philadelphia Bond Club has presented the following slate of candidates to be voted upon at the annual election to be held December 15th:

President: Robert G. Rowe, Stroud & Company, Incorporated.

Robt. G. Rowe

Vice-President: Chauncey P. Colwell, Merrill Lynch, Pierce, Fenner & Beane.

Secretary: O. J. Matthews, Kidder, Peabody & Co.

Treasurer: Bertram M. Wilde, Janney & Co.

Governors: Walter A. Schmidt, Schmidt, Poole & Co.; Alfred Putnam, Auchincloss, Parker & Redpath; and E. F. Beatty, W. H. Newbold's Son & Co.

Porto Alegre Bond Payment

Ladenburg, Thalmann & Co., as special agent, is notifying holders of City of Porto Alegre (United States of Brazil) 40-year 8% sinking fund gold bonds external loan of 1921, that funds have been deposited with them, sufficient to make a payment in lawful currency of the United States of America, of 16.25% of the face amount of the coupons due June 1, 1941, amounting to $6.50 for each $40 coupon and $3.25 for each $20 coupon. It is further announced:

"Pursuant to the provisions of the Presidential Decree of the United States of Brazil, such payment, if accepted by the holders of the bonds and coupons, must be accepted in full payment of such coupons and of the claims for interest represented thereby.

"No present provision, the notice states, has been made for the coupons due Dec. 1, 1931, to Dec. 1, 1933, inclusive, but they should be retained for future adjustment."

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.

Pennsylvana Brevities

(Continued from page 2210)

the increased strain on equipment and personnel, figures for the first 10 months show a 19.4% drop in the number of accidents per 100,000 miles of operation. Accidents per million passengers were 25.73% fewer, compared with the corresponding 1942 period. Total miles covered by P. T. C. cars and buses is estimated at 109,222,170 for the year.

The report of Philadelphia City Treasurer **Edgar W. Baird, Jr.,** for the first 10 months of 1943 shows that from all sources of revenue $77,475,681 has been collected. This amounts to approximately 95% of the budget estimate of $81,816,000 for the entire year, and it is now apparent that the City Treasury should receive in excess of $84,000,000 for the 12 months ending Dec. 31.

In mid-November, **York Corporation,** manufacturers of air-conditioning and refrigeration equipment, sold $4,500,000 1st 4¼s, 1958, at 102½, the proceeds of which were applied, in part, to the redemption of the company's 6% mortgage issue. **There now exist no restrictions against dividends on the 962,046 shares of common stock outstanding.** Net income for 10 months of the fiscal year was reported as $800,246, after all deductions and provisions for excess profits taxes in the amount of $933,000.

Growing in popularity among Pennsylvania investors are the common shares of **Christiana Securities Co.,** chief assets of which are 3,049,800 shares of duPont common and 85,000 shares General Motors. The current asset value of one share of Christiana is equal to more than 19 shares of **duPont common,** but the proceeds from about 16 shares of duPont at the present market will buy one share of Chrisitiana and at the same time increase the return on the investment about 9½%, based on present indicated dividends. The fact that Christiana offers an ideal medium to invest in duPont at a substantial discount and on a more favorable income basis, has increased public interest despite its price per share (about $2,250). **Number of common stockholders increased from 132 in 1934 to 2,409 in 1942.**

Cash or equivalent in the hands of the trustees of **Pittsburgh Railways Co.** was reported at $12,657,000 in November. Net earnings for the year, after depreciation, provisions for Federal taxes and service on Car Trust Certificates, will approximate $4,000,000. **Many owners of the minority-held outstanding securities believe there is no good reason for a continuance of the trusteeship.** To come out of receivership without reorganization would enable the company to retain the benefits of its present very favorable tax base.

Brill Corporation 7% preferred presents an interesting study to investors with an analytical turn of mind. Indications are that 1943 earnings will equal if not exceed the $36.84 per share recorded for 1942. Net current assets are approximately $175 per share with an equivalent book value of about $300 per share. As of Oct. 31, 1943, dividends were in arrears to the extent of $77.58 per share. Reclassification, perhaps similar to that offered the preferred stockholders of **American Locomotive Co.** would seem to be in order. Of equal interest is the 7% preferred stock of Brill Corporation's principal subsidiary, **American Car Foundry Motors Co., which, in turn, owns Hall-Scott Motor Car Co., A. C. F. Motors Co. and Fageol Motors.**

Philadelphia & Reading Coal & Iron Co., in the process of reorganization, has asked the U. S. District Court for permission to distribute $1,710,979 among its bondholders and creditors. This followed a petition filed by a bondholder on Oct. 15 asking that $8,000,000 be so distributed. The company states that the lesser amount can be taken from working capital without impairing the company's position. **In the 12 months through June, the company reported net income of $735,565, indicating a fixed charge coverage of 1.25 times.** The time for filing acceptances to the amended plan of reorganization has been extended to April 9, 1944.

The court and trustees in bankruptcy have ordered the payment of June and December, 1943, interest coupons on **York Railways 5s, 1947,** thus bringing payments up to date. Previously, payments had been deferred for the purpose of making property improvements.

Consolidated net income of **Philco Corporation** for the first nine months of 1943 totaled $2,445,034, equivalent to $1.78 per share of common stock. This compared with $1.45 so earned in 1942, according to John Ballantyne, President.

PERSONALS

James T. Buckley, Chairman of the Executive Committee of Philco Corporation, has been elected a director of the **Federal Reserve Bank of Philadelphia** to succeed Frederick C. Stout.

Joseph Morley With W. H. Bell & Co.

PHILADELPHIA, PA.—Joseph E. Morley has become associated with W. H. Bell & Co., Inc., 1500 Walnut Street. Mr. Morley was formerly in charge of corporation securities in the Philadelphia office of Warren W. York & Co. Prior thereto he was with Hornblower & Weeks and Yarnall & Co. In the past he was a partner in Morley, Wood & Co.

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.

Delaware River Joint Commission Refunding Bonds

(Continued from page 2210)

sequent years, however, will reflect the substantial saving in the interest cost on the bonded debt of the bridge as a result of the refunding of the 4¼% bonds in September with an issue of $37,000,000 2.70s. At the time the call of the 4¼s was issued, interest cost amounted to approximately $1,500,000. Annual interest requirement on the 2.70s amounts to $999,000, reflecting a saving of approximately $500,000, which should more than offset presently foreseeable increases in cost of operation.

As to the ability of the Delaware River Joint Commission to meet the interest charges on the bonds for the duration, without indulging in a guessing contest as to the length of the war or the future supply of civilian gasoline, one fact should be noted. Under the terms of the indenture relating to the $37,000,000 2.70s, the approximately $6,200,000 surplus existing at the time of their issuance, has been placed in a "Reserve Account." The Commission covenants that, until revenues from operation shall amount to $3,300,000 annually, the money in the Reserve Account may be used only to meet deficiencies in funds available for the payment of interest on the bonds. Thus, if gross earnings should decline to the point that they were sufficient to cover operating expenses only, interest on the bonds could be paid in full from the Reserve Account for six years. The above table shows how great a decline in revenues would be necessary to simply cover operating expense.

As a further indication of the economic importance of the bridge, it is interesting to note that in 1941 the bridge's share of all cross-river traffic using facilities within ten miles of the bridge was 75.94%. In 1942 this percentage rose to 76.62%. A post-war project vitally important to future bridge traffic is the widening of the Vine Street approach to the Philadelphia entrance to the bridge. The Commonwealth of Pennsylvania has provided the necessary funds and notices have been served by the City Solicitor of Philadelphia upon the owners and tenants of properties in the affected area, condemning the whole in the name of the Commonwealth. With the availability of materials for road building after the war this improvement should proceed without delay.

Formula To Avert Mass Idleness Outlined By Eric Johnston Of U. S. Chamber

Eric Johnston, President of the United States Chamber of Commerce, on Nov. 30, outlined a formula to avoid mass unemployment after the war, which he said could achieve the same four-fold unity at home that the Moscow agreement portends abroad. This was reported in an Associated Press dispatch from Washington, on Nov. 30, which also had the following to say:

Asserting that despite conflicts the things that make management, labor, agriculture and Government one "are a thousandfold greater than the things that divide them," the President of the United States Chamber of Commerce added that unity among them "will mean that we are on the threshold of America's greatest development."

To attain that unity, he said in an address to the Women's National Press Club, the four must try in a spirit of cooperatioin to map the "areas of agreement" among them.

"Management, in this spirit of unity," he declared, "must understand that labor unions are here to stay; that we must have lower and lower profit a unit and bigger and bigger volume of sales; that high wages are important if based on a correspondingly high level of production; that monopoly is a sissy way of doing business; that the umbrella of monopoly is only held up over the heads of those who are frightened by their own inefficiency.

"Labor, in this spirit of unity, must remove any acts or policies which restrict or retard production. Labor organizations must be more free, more democratic, more socially minded. Labor must clean its own house of those abuses which have crept into some of their organizations.

"Agriculture must recognize the necessity for constantly lowered costs and greater efficiency; that an economy of scarcity is an economy of ruin; that a prosperous management and labor are essential to absorb the production of the farm.

"Government must understand that you don't increase purchasing power by taking a dollar from somebody and handing it to somebody else; that the individual should be stimulated to his greatest productive capacity; that there should be revisioin of tax laws to stimulate the investment of risk capital to give jobs to men; that we must have the maximum amount of private enterprise and the minimum amount of Government regulation, consistent with our complicated modern economic society."

Bioren & Co Admits Larzelere As Partner

PHILADELPHIA, PA.—Bioren & Co., 1508 Walnut Street, members of the New York Stock Exchange, announce that Walter D. Larzelere has been admitted to general partnership in the firm.

That Mr. Larzelere would become a partner in Bioren & Co. was previously reported in the "Financial Chronicle" of Nov. 11.

Pay On Brazilian 8s

Dillon, Read & Co., New York, special agent of the United States of Brazil, announce that interest was being paid Dec. 1, on United States of Brazil 20-year external loan 8% bonds, due June 1, 1941, at the rate of $10 for each $1,000 bond and $5 for each $500 bond, or on the basis of 25% of the dollar amount payable, in accordance with the provisions of Decree-Law No. 2085 of March 8, 1940.

Public Utility Securities

Standard Gas & Electric Plan Modified

The Utilities Division of the SEC recently released its "proposed findings and opinion" on the voluntary plan submitted last March by Standard Gas & Electric for simplification of its capital structure. It had been surmised in the Street for some time that bondholders might receive recognition of their demands for a larger proportion of the new common stock issue, and this has been recommended in the staff report. In addition to $500 cash, 5 shares of California Oregon and 2 shares of Mountain States, each $1,000 bond will now receive about 27¼ shares of new Standard Gas class A stock in lieu of the 23 shares originally proposed. Moreover, the class A stock has had its 85 cents preferential dividend strengthened by making it non-contingent on earnings—the original plan would have made it cumulative only if earned.

The balance of the common stock, designated as class B, will share in dividends equally with the A stock after the preference is satisfied. In other words, the A receives 85 cents, the B 85 cents, and then both share equally in additional payments. (Class B cannot receive dividends, however, during the life of a proposed collateral bank loan.) While the complete text of the staff report is not yet available, the data contained in the press release appears to indicate that the $7 prior preferred stock will receive 6.7 shares of new B common, the $6 prior preferred 5.8 shares and the $4 preferred .21. At the current price of about 35½, this would seem to indicate a value of about 5¼ for the new B stock.

It is a little difficult to estimate current earnings on the new basis because of the numerous changes proposed by the plan. However, the pro-forma consolidated income account for the calendar year 1942 indicated net income of $6,283,000 on the new basis, as compared with $5,647,637 actually reported, an increase of about $635,000. Applying this increase to the net income reported for the 12 months ended June 30, 1943 ($6,050,327) results in estimated earnings of $6,685,000, which amount is equivalent to about $1.37 on the 4,854,802 class A and B shares. On this basis, the indicated market price of 5¼ would be equivalent to about 3.8 times earnings.

However, the staff report appears to indicate the possibility that Oklahoma Gas & Electric might be sold by Standard Gas within the next few months, while a sale of Louisville Gas & Electric might also be consummated. A plan for "readying" Oklahoma has already been submitted to the SEC, providing for the usual adjustments and common stock split-up. An offhand estimate would appear to indicate that Standard might obtain around $12,000,000—$13,000,000 from the sale of Oklahoma. Possible sale proceeds of Louisville are more difficult to guage but might be in the neighborhood of $3,000,000 after retiring the Class A stock of the Delaware sub-holding company. Standard Gas probably has about $6,000,000—$7,000,000 liquid assets, in the parent company treasury. The sum of these three amounts, together with some $5,500,000 obtainable from sale of Standard's investment holdings of 200,420 shares of Pacific Gas & Electric might aggregate about $27,000,000, as compared with the amount of $29,601,000 required to pay $500 cash per bond on Standard's six bond issues. This would almost avoid the necessity for the proposed $21,000,000 three-year collateral bank loan, and would greatly simplify the problem of system simplification under Section 11.

If the loan could be avoided, the provisions in the plan prohibiting dividend payments on class B shares while the loan remains outstanding, could also be avoided. However, there might be some loss of income from this arrangement since Standard received about $1,446,000 from the securities to be liquidated, and interest on the bank loan would presumably be only about $735,000 (although earnings up to $2,000,000 a year would have to be applied as a sinking fund). There would thus be a net loss of over $700,000 in parent company income, of which only a small amount would be recouped in taxes.

The net loss in earnings per share on the new A and B stock might be in the neighborhood of 15 cents on a parent company basis, and 23 cents on a consolidated basis, which would not be a serious factor as compared with the lifting of the dividend embargo. It seems probable that the SEC would also favor more rapid sale of the properties than was contemplated in the original plan.

Summarizing, under the plan as devised, Standard Gas $7 preferred appears to be selling at around 4 times system earnings, as contrasted with the present ratio of 2¾ based on recent share earnings of $12.92 on the preferred. If the Louisville and Oklahoma properties are sold and proceeds can be used in lieu of the proposed bank loan, the ratio would be nearer 5.

Scrapping Of New Deal Is Debated At Forum

The New Deal was denounced on Nov. 25 by John T. Flynn, member of the New York Board of Higher Education, as a venture in the direction of fascism and was extolled by Max Lerner, political economist, as a democratic base on which the foundations of an enduring peace were being built, according to the New York "Times" of Nov. 26.

Mr. Flynn, former Chairman of the America First Committee, argued affirmatively on the question, "Should the New Deal Be Scrapped?" at the Town Meeting of the Air, broadcast over WJZ from Town Hall in New York City. Mr. Lerner, columnist on the newspaper PM, took the negative.

The following regarding the speakers' remarks, on the domestic aspects of the New Deal, was reported in the "Times":

Mr. Flynn charged that the New Deal was based on an economic theory of continuing unbalance of budget and the crowding of private industry by government "partnership in business." He said its continuation would mean the growth of the national deficit to "astronomical figures."

"You can argue for socialism, or for communism, or for capitalism," Mr. Flynn continued, "but the New Deal is none of these. It is a degenerate form of socialism and a debased form of capitalism. It can keep going only so long as it keeps the country in a state of crisis."

Mr. Lerner countered that the New Deal was ready to stand upon an unbalanced budget when that was necessary, but "only so long as necessary." He said it would not be necessary always.

"The New Deal came in being as a receiver in bankruptcy for a nation in the chaos created by an economy of greed," Mr. Lerner said. "Ask any ordinary American, in any income group, if he wants to scrap social security. Ask him if he wants to scrap lend-lease or the Moscow Pact? The New Deal is not over. It came into being in an economic emergency, but its most important phase has just begun, building the foundations for an enduring peace."

Mr. Flynn said that the building of roads and schools and other vast public works by the New Deal had been paralleled by prewar Germany and Italy. He called this economic technique "a nice, polite, pleasant, pretty form of fascism" and added that the New Deal was centering more powers in Washington, taking more powers from the individual States, vesting more powers in the President and stripping Congress of much of its authority.

Mr. Lerner declared that the Government's vast public works projects had been made necessary to preserve the national economy after the blow dealt it by the pre-New Deal economic collapse and that it had preserved democratic institutions. Some of its emergency phases must be viewed in the light of the emergency, he said.

Burlington's Credit Improvement Possibilities

Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock Exchange, have issued a study of Burlington's credit improvement possibilities, with an interesting switch suggestion, copies of which are available to brokers and dealers upon request.

Real Estate Securities

We Hear That—

. . . Bullish for downtown office buildings, is the rumor that tenants whose leases expire May 1, 1944, have been told that in order to renew their leases they will have to pay considerably more rent. A couple of years ago, because of so much space available, these tenants were able to get their offices at very low rentals per square foot. Now the landlord has the advantage because there is very little space available and, besides, because of priorities, telephone equipment and materials necessary for equipping new offices are difficult to get. There is no ceiling on rents for commercial buildings, and if higher rents are obtainable in the financial section better earnings will aid the bondholders of these buildings.

. . . Holders of United States Realty & Improvement Co. 6% sinking fund debentures and 6% Gorge A. Fuller Realty Corp., guaranteed by United States Realty & Improvement Co., debentures, both due Jan. 1, 1944, have been tendered a plan under which they may exchange their debentures for $300 in cash and $800 in new 4% debentures payable Jan. 1, 1950—an alternate privilege of accepting $650 in cash for each $1,000 principal amount is also offered. Bonds recently sold at 72 and yesterday went up from 58 to 65 on news of the plan.

. . . A letter from the Management of the Savoy Plaza Hotel said that for the first quarter ending Oct. 31, 1943, interest earned on the bonds was over 10%, and should the same relative earnings continue through the remainder of the fiscal year, bondholders should receive a minimum return of $60 per bond Oct. 1, 1944.

. . . Apartments in the London Terrace are about 100% rented at the present time. Earnings have improved considerably under the new management. Bondholders should benefit if earnings continue good as extra interest payments are payable in June. There are several points in accrued interest due on these bonds. Bonds are fixed at 3% and at least 1% accrued interest might be expected June 1. Current market 43-43¾.

. . . Those interested in real estate securities might do well to look into the stock of Lawyers Mortgage Corp. and the Home Title & Guarantee Co. Both are selling considerably below their book values and have some real merit.

. . . Last week a plan was offered by the management on the Hotel Victoria. This is a stock issue with a $168 a share bid—paid $14 per share in dividends this year. The plan provides an exchange of a $200 debenture with fixed interest at 3% and additional 4% interest, totaling 7%, if earned, plus 5 shares of new $15 par value stock for each share now held.

Stockholders will still retain 100% ownership of the hotel. $19.89 per share was earned on the stock for the year ended Dec. 31, 1942. The stock was originally issued in a plan of reorganization on a basis of two shares for each $1,000 bond held. Creation of a funded debt once more probably will result in considerable tax savings for the stockholders.

Halsey, Stuart & Co., Offers $25,000,000 Central Pr. & Lt. $3^1/_8$s

Public offering was made Dec. 1 by Halsey, Stuart & Co., Inc., and 76 other investment banking houses of $25,000,000 Central Power & Light Co. first mortgage 3⅛s due in 1973. The issue was priced at 99½, to yield about 3.15%. Proceeds of the financing will be used to retire an equal amount of the company's 3¾% first mortgage bonds.

Associated in the offering are A. C. Allyn & Co., Inc.; Blair & Co., Inc.; Lazard Freres & Co.; Otis & Co., Inc.; Phelps, Fenn & Co.; Wertheim & Co., Bear Stearns & Co.; Burr & Co., Inc.; Baker, Weeks & Harden; Harvey Fisk & Sons, Inc.; Gregory & Son, Inc.; Hirsch, Lilienthal & Co., and others.

Central Power & Light, a subsidiary of the Central and South West Utilities Co., supplies electric, water and ice service in 46 counties in south and southwest Texas. About 74% of the company's revenues are derived from sale of electricity, 19% from the sale of ice and 7% from sale of water.

Revenues of the concern, according to the prospectus, have increased from $9,514,000 in 1940 to $12,148,000 for the 12 months ended on Aug. 31, 1943. In the last three years and eight months net additions to the company's property and plant account, against which no additional bonds were issued, were reported to exceed $3,600,000.

The bonds will be secured by a first mortgage on substantially all permanent physical property owned by the company. Beginning in 1953 an annual sinking fund will operate to retire the bonds.

Public And Private Investment After The War

A. H. Hansen Calls For Program Of Public Investment To Achieve Economic Stability And Full Employment

Sees No General Price Inflation Unless General Over-All Demand Outruns Supply

The necessity of undertaking a constructive compensatory and developmental program of public investment designed to achieve economic stability and full employment was stressed on Nov. 23 by Alvin H. Hansen, special economic adviser to the Board of Governors of the Federal Reserve System.

Speaking before the 255th meeting of the National Industrial Conference Board at the Waldorf-Astoria Hotel in New York City, Mr. Hansen contended that "a vigorous program of public investment can provide not only a compensatory and stabilizing balance wheel to our economy, but can also open and enlarge private investment opportunities, revitalize enterprise and give us in the generation that lies ahead an expanding economy with high and rising levels of income and employment."

Alvin H. Hansen

He said that had such a program been used in the 1929 depression "it cannot be doubted" that the decline in private capital outlays would have been much smaller.

Calling attention to the great importance of investment, Mr. Hansen said that "a relatively small fall in investment will induce a tremendous decline in income and employment"; citing the $15,000,000,000 drop in private capital outlays from 1929 to 1932 as inducing a decline in consumer expenditures of $30,000,000,000 and the fall in national income of $45,000,000,000.

With respect to inflation, Mr. Hansen expressed the belief that "unless the general over-all demand outruns supply, there will be no general price inflation" in the post-war period.

"Special areas of temporary scarcity," he says, "can be managed by price control and rationing. These controls should be removed as soon as supply catches up with demand." He expresses the view that "the fear of a sustained post-war inflation has been enormously exaggerated." Likewise, he says "the percentage of bonds available for spending has been enormously exaggerated. "Nor do I think it reasonable to suppose," he states, "that the public will cash in these bonds at once and engage in a wild spending spree." According to Mr. Hansen "the high post-war boom for industrial equipment is likely to ease off rapidly as after the last war. Thus, after two, three or four years the deferred demand boom is likely to end in a slump unless we do something about it." He adds:

"The answer is to push up construction to a volume of 15 to 18 billion dollars per annum. I do not know of any other way to prevent the impending slump following the re-stocking boom. Total investment must be held at a high level and construction will be the only field left for stimulation."

Mr. Hansen's address follows in full:

Public and private investment after the war cannot be considered apart from the pattern of the transition from war to peace. In this transition period, what may we reasonably expect?

Widely divergent views are currently held about the post-war prospect, both from the short-run and the long-run standpoints. First, there is the view that though we may succeed in holding the price line fairly successfully during the war, we shall inevitably experience, either in the immediate post-war or in the long-run post-war, a price inflation of 100, 300, or even 500%. Another view is that we shall automatically move smoothly into a high level of prosperity lasting for 10 to 15 years. Finally, there is the view which I myself hold that (if we are to escape turbulent conditions, inflation and deflation) it will be necessary to undertake a constructive and well mapped out compensatory and developmental program of public investment designed to achieve economic stability and full employment.

I shall consider first the transition period, and second the long-run aspects of the post-war problems.

The transition period can be divided into: (1) the partial war demobilization in the interval between the defeat of Germany and the defeat of Japan; (2) the critical war demobilization period after the defeat of Japan (6 to 12 months), and (3) the post-war deferred demand boom. Following this deferred demand boom, we shall face the long-run post-war problems.

In the transition period, is it true that we shall inevitably experience a violent price inflation? Many have held that by reason of the huge holdings of cash and war savings bonds, together with the accumulated deferred demand, the public will rush out and spend their savings in one grand buying spree, giving us a tremendous post-war inflation. Such a buying spree would obviously sooner or later collapse.

I do not think this dismal prospect is at all necessary or even likely, granted even a moderately sensible program. To begin with, if the war in the Pacific should continue for some time after the defeat of Germany, a gradual demobilization from war to peace is in prospect. Wartime controls in this interval would facilitate a gradual readjustment. A part of the most pressing needs of peacetime industry could be satisfied. Some new automobiles to meet the urgent needs of workers, for example, could be produced. Some raw materials could be released for rebuilding inventories, some needed equipment for civilian production could be supplied. All this would help to ease the final transition problem.

The critical demobilization period after the defeat of Japan will indeed present difficult problems of adjustment. Millions of people will be thrown on the labor market from the military forces, from the aircraft, ship building and munitions industries. This demobilization crisis will, however, be quickly followed by a large demand for inventories, for consumers' durables, and for certain kinds of equipment; there will be a huge net export surplus of foodstuffs and other materials for relief and rehabilitation; we shall experience a general all-around re-stocking boom. It will be a turbulent, spotty, uneven prosperity. There are likely to be important depressed regions and

(Continued on page 2218)

Public and Private Investment After the War

Terborgh Anent Doctrines of "Mature Economy" Declares Supposed Dearth Of New Securities "A Scarecrow."

Insufficiency of Private Investment After War Will Not Be Because We Lack Technological Opportunity

In an address on "Public and Private Investment After the War," George Terborgh referred to the fact that the subject was likewise dealt with on the same occasion (the forum session on Nov. 23 of the meeting in New York of the National Industrial Conference Board) by Alvin H. Hansen. Mr. Terborgh, who is Research Director of the Machinery and Allied Products Institute, undertook to state in his remarks that he did not imply that his remarks "should be considered a direct answer to Dr. Hansen's statement." "I have not had opportunity to see this statement in advance," said Mr. Terborgh, "and have therefore prepared no analysis or rebuttal. What I wish to do instead is to discuss the basic doctrines of the 'mature economy' school as set forth in the writings of its principal adherents." "Incidentally," he noted, "these doctrines have nowhere been more effectively presented than in Dr. Hansen's statement before the Temporary National Economic Committee."

George Terborgh

According to Mr. Terborgh "Dr. Hansen and his disciples appear to regard a sufficiency of private investment as an abnormal and transitory condition in defiance of the laws of nature." Mr. Terborgh added that "the decline of investment for expansion which characterizes the 'mature' economy thus precipitates chronic over-saving, and ushers in an era of secular stagnation and recurring crises from which there is no escape except through the intervention of government. In short, the private economy has become a cripple, and can survive only by reliance on the crutches of government support."

In looking at the evidence refuting the doctrines of the "mature economy," Mr. Terborgh pointed out that "one melancholy refrain in the writings of the 'mature economy' school is what they conceive to be a present dearth of new industries of major importance from an investment standpoint." Mr. Terborgh further observed:

"Capital formation is a tree with a thousand roots. The great bulk of its nourishment comes always from long-established industries, not from new ones. . . . The necessity for a spectacular 'new' industry for the support of private investment, if it ever existed, is definitely past. . . . The important thing is the total flow of technological development, not its concentration.

"With the expansion of industrial research technical progress is not only accelerated but made more even in flow, thus eliminating the gaps between major inventions which affected the continuity of investment opportunity in an earlier day."

The declaration was made by Mr. Terborgh that, "if we have an insufficiency of private investment after the war it will not be because we lack technological opportunity. This is one respect in which the situation will be almost fabulously propitious. The supposed dearth of new industries is a scarecrow."

The following is Mr. Terborgh's address in full:

The subject of the evening, "Public and Private Investment After the War," has so many ramifications that it defies comprehensive discussion in 30 minutes. I should like to focus your attention, therefore, on a single question: "Will it be necessary after the war to have more public investment than we want for its own sake, in order to make good a deficiency of private investment?"

A few years ago this question would not have arisen, for the simple reason that it would not have occurred to anyone to ask it. Now it is the central issue, thanks to the depression and to the economic ideologies that emerged from it. I refer especially to the doctrines of the "mature economy" school, of which my good friend Dr. Hansen is the acknowledged American leader. It is a tribute to the brilliance and effectiveness of his leadership that it is impossible today to discuss the role of public investment, post-war or otherwise, without debating the theories he has developed and disseminated.

To discuss these theories and their bearing on the post-war period within the limited time available this evening is so formidable an assignment that I have some doubt of its feasibility. Dr. Jordan has assured me nevertheless that he wants a debate on fundamentals, and Dr. Hansen and I have agreed to proceed accordingly. I hasten to add that Senator O'Mahoney is in no way affected by this agreement, but will exercise the pregorative of his position to say anything he pleases.

I do not imply that my remarks should be considered a direct answer to Dr. Hansen's statement of this evening. I have not had opportunity to see this statement in advance, and have therefore prepared no analysis or rebuttal. What I wish to do instead is to discuss the basic doctrines of the "mature economy" school as set forth in the writings of its principal adherents. Incidentally, these doctrines have nowhere been more effectively presented than in Dr. Hansen's statement before the Temporary National Economic Committee, of which the Chairman was the distinguished Senator who shares this program.

Dr. Hansen and his disciples appear to regard a sufficiency of private investment as an abnormal and transitory condition in defiance of the laws of nature. Formerly youthful, vigorous, and expansive, our economy has become "mature," with symptoms of chronic debility. The frontier is gone. Population growth is tapering off. Our technology, ever increasing in complexity, gives less and less room for revolutionary inventions comparable in importance with the railroad, electric power, or the automobile in earlier times. The weakening of these dynamic factors leaves the economy with a dearth of opportunity for private investment, which is increasingly confined to the mere replacement of existing capital assets upon retirement. This replacement, and such limited expansion as remains, can be largely financed from depreciation accruals and the retained earnings of business enterprises, hence absorbs little or no personal savings. Meanwhile, these savings accumulate inexorably, unaffected by the attrition of investment opportunity, and pile up as idle funds for which there is no outlet in new physical capital, their accumulation setting in motion a downward spiral of income and production. The decline of investment for expansion which characterizes the "mature" economy thus precipitates chronic over-saving, and ushers in an era

(Continued on page 2215)

Organized Efforts To Upset NASD Profit Limitation Decree Inevitable

(Continued from page 2207)

counter business. This is demonstrated by the efforts of the Curb to extend trading privileges to many unlisted issues.

I am firmly convinced that the Board of Governors should send out a questionnaire immediately to the entire membership of the NASD to ascertain whether it does represent the views of the membership. If it is found that it does not, then the Board of Governors should either rescind their edict or resign.

I might add, that with all due respect, that I doubt whether Mr. Fulton is the proper man for his job. He has always been associated with the bigger investment houses and hardly can have the viewpoint of the smaller dealer.

To summarize, I believe that the root of the trouble with the NASD lies in its management as now constituted. What is needed is a better and a more representative management. How the smaller dealers can become organized to bring this about, I am frank to admit, I don't know. Probably one of the greatest services you can perform is to offer a solution to this problem.

P.S.—If you publish this letter, please do not use my name as I have already protested by letter directly to Mr. Riter, Mr. Fulton and Mr. Theis. The latter is the representative from this district on the Board of Governors. I might also add that I have written a letter to the Chicago "Journal of Commerce" stating that, in my opinion, the series of articles by Mr. Ayers, which it recently published, were unfair and not in accord with the facts.

DEALER NO. 70

Perhaps "The Chronicle," in its sincere efforts to help the membership lift, before it succumbs to, the ukase of the Governors of the NASD, could have a real fighting Congressman—one who possesses knowledge of the NASD 5% rule—sponsor a "bill to limit profits" on producers, wholesalers, retailers of any and all commodities and merchandise, real estate brokers and subdividers and let it include limitations on doctors' and attorneys' fees but specifically to include members of the NASD.

A precedent has been established by one of our so-called democratic governmental agencies, and surely no SEC sponsored rule could be tainted with even a savor of unconstitutionality? Let's have our lawmakers ponder the equity (sic) of any such restrictions.

If such a bill could be passed we would at least know where the "free" United States is heading—to that condition where there will be no securities or anything else of tangible or intangible value left to John Citizen. If, by accident or otherwise, such a bill should fail to be passed it could be that the NASD Governors might recognize that its membership is not entirely wrong in its present vociferous but unheeded objects to be ruled "out of business."

Surely Congress has spent time in considering bills less vitally important to the abolishment or preservation of the freedom supposedly guaranteed to law-abiding and ethical business men under the Constitution of the United States.

DEALER NO. 71

Especially was I interested in the various letters from the various dealers who have so clearly expressed their opinions of the NASD in respect to "write ups" of transactions and heartily concur in most of these opinions.

Due to the fact that I am a one man office, I feel that I am almost too small to be of much consequence in this controversy, however, when I think of the recent heavy increase in the annual dues of the NASD I feel that I am getting very little in return and am of the opinion that the end is not yet here as it appears that the membership is constantly shrinking, which will automatically make for further increases as time goes on.

Incidentally, I have been told repeatedly by various wholesalers that my commissions were entirely too small, but have always endeavored to play safe with all my customers which I scarcely ever lose except by death.

I am very definitely of the opinion that membership in the NASD is constantly becoming of less value to the average member, moreover I feel that comparatively few dealers have little or no need for these NASD rulings and I will predict that sooner or later these policies will make the Association crumble under the weight of its own short sightedness.

I do not want this letter published over my name for the same reasons as expressed by those dealers whose letters you have published. However, I do want to register my feelings in these matters, hoping that you will keep the crusade going.

DEALER NO. 72

Inasmuch as practically all of our business is in municipal securities which are exempt from SEC supervision, we resigned from NASD and withdraw our registration several months ago.

We are, however, in hearty accord with your view and feel that the restrictions on dealer's profits is unfair and further feel that if such a move is made that it would only be a short time before regulation of municipal dealers is also effected. We are definitely against any such move for any dealers.

DEALER NO. 73

With reference to your editorial of Nov. 18, on the subject of Limitation of Profits by the NASD through a degree issued to its members.

I, like many members of this Association, have found myself wondering more from year to year just what value is received by individual members in return for the financial outlay they are required to make for the assessments levied each year, and frankly, the two have never seemed to balance out.

An arbitrary limitation on profits in the investment business is, in my opinion, an impossibility. No two accounts are alike and there are many cases, over a period of time, where a 5% profit does not suffice considering the time and effort required in particular cases and extraordinary services rendered. Consequently, an arbitrary limitation on profits will, in my opinion, over a period of time defeat its own purpose.

As a small dealer who has been in business for quite a number of years, it is becoming an increasing burden to file the many reports required by various State and Federal agencies, and frankly, if this trend continues, I'm afraid there are going to be a large majority of independent dealers in securities operating outside of the realm of the law.

Frankly, both the SEC and the NASD are accomplishing very little towards eliminating the unscrupulous, dishonest dealer, and on the other hand, are making it increasingly difficult for an honest person to remain in business. The ultimate result of such a course leaves little question as to its outcome.

DEALER NO. 74

With reference to your article which appeared in the "Commercial and Financial Chronicle," dated Thursday, Nov. 18, 1943, and entitled, "Need Does Not Exist for Forced Limitation of Profits on Transactions in Securities," the sense and logic of your discussion are beyond comment.

We sincerely believe that you have summed up the situation exactly as it exists, that the large majority of over-the-counter houses are operated by men of ability and integrity who are a part of the community in which they live and who conduct themselves and their business on a basis commensurate with that situation. As far as profits are concerned, we see no reason for a ceiling, regardless of what that ceiling may be. This thought is prompted by our belief that good business dictates sound, sensible profits and, as said before, the large majority of investment dealers are good businessmen, who realize that excess profits as a result of wide spreads and large mark-ups in time can do nothing but "kill the goose that lays the golden egg."

We wish to express our sincere thanks for the publicity you are giving this situation and hope that it will prompt every investment dealer to use every effort to resist this deadly type of regulation.

DEALER NO. 75

Bravo! You are certainly to be congratulated for putting into print the feelings and reactions of the host of securities dealers who make an honest career in selling investment securities.

While we are members of the NASD we are bitterly disappointed in the timidity shown by the organization in leading the fight against the SEC's attempts at discrimination towards our industry. At a meeting in 1942 the writer similarly pointed out the unfairness of such discrimination in limiting the profit for individual initiative while permitting units in other industries to make mark-ups in their products of fabulous proportions. We, the dealers, who marked clearly labeled merchandise, by a test are shown to have averaged profits of 5%. But the SEC not being satisfied with this house cleaning is asking for further concessions. **The results of the NASD's investigation is based on the successful trades but how about the trades we dealers failed to complete because the customer checked prices and got it cheaper elsewhere despite the fact that the salesman or the house spent a lot of time in digging up and presenting the information?** It takes a long time to build up the customer's faith in the salesman and the house yet the retail store being merely located on a busy thoroughfare and getting its business from the traffic that passes its location is permitted mark-ups from 50% to 100%, on merchandise that is blind and can't be checked by the consumer.

How many industries could be canvassed today or any other day and show their houses to be in as good order as the securities dealers? It is a known fact that many companies, having their first taste of governmental supervision through the OPA, have thrown up the sponge and admitted that they are violating the laws and just can't do anything to avoid the situation. We have had almost ten years of supervision and instead of being slapped on the back and congratulated, we are to be subjected to further regulation. Carry on the fight, Mr. Editor!

DEALER NO. 76

You are, of course, to be commended for carrying the lance for the bulk of the country's investment dealers in the various injustices which have been heaped upon them; or more correctly, directed at them. The power of your publicity has thwarted several malodorous SEC gestures which have found their way to the bottom of the scrap basket.

It is increasingly evident that those directing the affairs of the NASD have been trying to crawl in bed with the SEC. This thought has been openly expressed from time to time and always met with the fear complex that if we don't do this and that they (the SEC) will crack down on us completely.

It is deplorable, that in a Nation which has been built by courage and daring and largely through speculative channels, to find a group of men who have devoted entire careers to the investment business, herded now into an organization which quivers and appeases. Now it is the profits limitation plan, probably an appeasement to the bid and asked disclosure plan of the SEC. All of these rules and regulations which have come to us with the New Deal start off with some phrase which would lead you to believe you are a criminal being headed for trial. Dr. Benjamin Anderson sounds a note of courage when he says we can do without the SEC; that where good conduct and fair dealing are lacking, a strong penalizing power should be invoked.

It is a sad commentary on all of us that the fear of reprisals make our contributions anonymous, as this must be. Your valiant championship, I am sure, is appreciated by all of us.

DEALER NO. 77

I recall seeing figures sometime ago to the effect that of the people who trade the market, 4% do so profitably, 4% break even and the rest lose. The figures were supposed to have been compiled by some insurance company. My quarrel with the percentage was that they were to liberal on the side of those who profit and break even. There were many in and out of the securities business who agreed with me. I thought that the solution to the problem was study and trading without emotion.

Comes now the NASD with the solution. All one needs to join and increase the percentage of those who trade profitably is to have the dealer publish his profits. There is the result of the mental effort of centuries. I wonder if this intellectual result was SEC inspired. Here's the solution to all our problems, social as well as financial. Let each one disclose what he makes, in terms of the monetary unit, and there will be no problems.

I am not a member of the NASD, never was and don't intend to join—not even if the name is changed. Incidentally no NASD member has ever refused to trade with me because I am a non-member.

I had thought that one answer to our problems was to put some guts into our abdominal cavity and to develop the reasoning power of the organ that occupies our cranial cavity. Carrying that thought a bit further, it seemed to me to be logical to try a program of

(Continued on page 2216)

Brownell Replies To Sakolski on Bimetallism

(Continued from page 2207)

and down with supply and demand. When the bullion value of the sovereign exceeded its face value, the coins were either melted down and sold as bullion or went into hoarding and disappeared from circulation. When the gold value fell below the value of the coin, the coin became, to a corresponding extent, of token value. It was not until 1844 that England finally solved this difficulty when, by Act of Parliament, the Bank of England was directed to stabilize the price of gold, which it did by buying all the gold that was offered, at a fixed price (equivalent in our money to $20.67 per ounce, delivered to a United States mint), and selling whatever gold was required at the same price, plus the small handling charge of 3½ pence per ounce.

The Bank of England had little difficulty in thus pegging the price. Once its policy was known, it rarely had to buy or sell any very great amount of gold, since other nations and the market at large accepted the price as settled and no serious effort was ever made to break it. The price, thus pegged, did not change for 90 years, when the United States raised it to $35 in 1934.

The price of gold, pegged in 1844, remained absolutely constant, notwithstanding the fact that the greatest gold fields the world has known were thereafter discovered—California, Australia, South Africa, Alaska, Canada, etc. The annual production of gold varied very greatly from time to time, gradually increasing from less than 2,000,000 ounces in 1844 to over 25,000,000 ounces in 1933, the last year of the $20.67 price. But the price, being pegged, remained at a constant level throughout.

Pegging the price of silver and continuing a pegged price of gold make any fluctuations in either price impossible. No changes in ratio could happen because of increase or decrease in production of either metal. Gresham's Law would have no opportunity to work.

Dr. Sakolski airily dismisses all thought of an international agreement to adopt bimetallism, as equivalent to "an attempt to control weather conditions or the movement of the waves and winds." Great Britain alone was able to peg the price of gold. Certainly, Great Britain and the United States together can peg the price of silver, for the United States has done it alone for some years past. When we have seen the "tripartite monetary agreement" of 1936 adopted by a number of leading countries, when we read of the current negotiations among representatives of 30 nations on the White plan for monetary stabilization, and when we remember the long period in which the Latin Monetary Union functioned in Europe, Dr. Sakolski's pessimism on this score is obviously baseless. After all, what is the international gold standard itself but an implied agreement among leading countries to buy and sell gold at a fixed price?

Professor Sakolski mistakenly assumes that I was concerned in my paper on international bimetallism solely with the increased use of metal coins as circulating medium. I do think that the devastated countries of Europe and Asia which are now in the throes of a paper money inflation will want to return to the use of metallic circulation, to hard money, after the war. However, regardless of whether metal coins actually constitute the bulk of a nation's circulating medium, the restoration of stable monetary conditions requires that all countries have adequate **reserves** of mone-

(Continued on page 2218)

Public And Private Investment After The War

(Continued from page 2213)

of secular stagnation and recurring crises from which there is no escape except through the intervention of government, which must either expand public investment or tax out of existence the excess savings which are poisoning the economy. In short, the private economy has become a cripple, and can survive only by reliance on the crutches of government support.

This defeatist philosophy is rationalized by an imposing conceptual apparatus and a special technical jargon. We read of the marginal propensity to consume, the marginal efficiency of capital, liquidity preference, the multiplier, leverage, leakages, the acceleration principle, and so on. The mathematicians follow hard on the heels of the theorists with their still more puzzling lingo of coefficients, correlations, functions, regressions, and parameters. All this creates an impression of esoteric wisdom beyond the ability of the ordinary citizen to criticize or refute.

Although the implications of this doctrine may go counter to his long-established beliefs, the layman is eventually constrained to accept what the experts tell him. That the experts are divided on this as on other questions he is only dimly aware, so ably and aggressively have the champions of this philosophy disseminated their views in recent years. While we compliment them on the brilliancy of their campaign, we must in justice add that they have enjoyed almost exclusive use of the vast educational and propaganda resources of the Federal Government. In any event their success has been so sweeping that their views have won widespread acceptance even among business men. The effect on public opinion has been subtle and insidious. It is due in no small measure to this new revelation that the country has come to distrust its own power to advance economically, or even to survive, without continuous aid and support from Government.

It is futile to deny the truth—if it is the truth—merely because we find it unpalatable and distressing. However, when we are told that an economic system under which the country has grown and prospered for 300 years has suddenly contracted in these later days an incurable disease and must hereafter subsist on the stimulant of extraordinary government investment, we have every right to demand that the doctors who advance this diagnosis assume the burden of proof. Let us look at the evidence.

Declining Rate of Population Growth

It is possible to present a theoretical argument that a reduction in the rate of population growth tends to diminish the opportunity for private capital investment. It is possible to argue also that it tends to reduce the volume of savings that have to be absorbed in such investment, hence that it presents no problem. Without using the limited time at my disposal to review these contentions, I merely point out that there is no real historical evidence that the tapering of population growth brings economic stagnation. The relative increase in population in this country began to fall off shortly after the middle of the last century, and had been reduced by more than half before 1929. Do we find evidence of increasing economic stagnation as this decline proceeded? On the contrary, the first three decades of the twentieth century showed a more dynamic and sustained prosperity than the last three decades of the nineteenth. Moreover, if we look outside the United States we find no credible evidence that countries near their population peak have been in general less prosperous than others with high rates of increase, or even than they themselves were in earlier stages of their development. Until they can supply some real substantiation of their lamentations, the "maturity" economists would do well to give us a rest on this theme.

Passing of the Frontier

Great emphasis is laid on the investment opportunities opened up by the development of new territories such as our own West. No one will deny that a considerable part of the new capital formation in this country during the nineteenth century was incident to the conquest of the frontier. So what? Are we to infer, with the mature economy theorists, that because the geographical frontier has disappeared we confront a dearth of investment opportunity? The western frontier vanished fifty years ago. If its passing created an investment vacuum, surely we would have heard about it long since. We are fortunate in having reliable estimates of private capital formation in this country since 1879. The record shows no evidence that the passing of the frontier reduced investment even relatively. The first three decades of this century showed about the same ratio of private capital formation to national income as the last two decades of the preceding one, and if anything a higher rate of growth in the real national product. To invoke the vanishing frontier a half century after the event to support a gloomy view of the future of private investment is to rattle dry bones.

Dearth of New Industries

One melancholy refrain in the writings of the "mature economy" school is what they conceive to be a present dearth of new industries of major importance from an investment standpoint. It is the practice of these writers to explain the vitality of private investment in the past by reference to some so-called "new" industry then in a phase of rapid growth. For the early decades of the nineteenth century they cite turnpikes and canals; for the remainder of the century, railroads. For the early years of this century it was the electrical industries; for the post-war period, the automobile.

This interpretation of economic history reminds me of one of Nietzche's aphorisms: "The man is a thinker; that is to say, he makes things simpler than they are." No one will deny that these industries stimulated investment in the periods with which they are so glibly identified, but it is easy to exaggerate their importance. Capital formation is a tree with a thousand roots. The great bulk of its nourishment comes always from long-established industries, not from new ones. Even in the periods of their greatest relative contribution, the railroads, the electricals, or the automobile composed only a minor fraction of the total current investment, and were dwarfed by the single industry of building construction, one of the most ancient of all outlets for capital.

The railroads expanded their investment after 1900, when they were supposed to have yielded leadership to the electrical industries, more than they had done prior to that date. The electrical industries in turn increased their investment more during the alleged leadership of the automobile than during their entire previous history. But this is not all. More money was invested in railroads during the era tagged "electrical" than in the electrical industries themselves, while more was invested in electrical lines during the era tagged "automotive" than in the automobile industry. Moreover, the investment in railroads and electricals together during the "automotive" era (the decade of the twenties) exceeded by a wide margin the investment in the automobile and satellite industries, plus the investment in highways and in petroleum production and distribution which can reasonably be credited to the influence of the automobile. For this same period the investment in all these current and former leading industries was less than 20% of the total capital formation of the country. This illustrates the gross oversimplification and exaggeration inherent in the bellwether industry theory.

The necessity for a spectacular "new" industry for the support of private investment, if it ever existed, is definitely past. In a primitive economy a single invention like the steam engine can have a revolutionary impact, but the chance for such sensational effects diminishes as the technology becomes more highly elaborated and complex. Progress becomes diffused in thousands of innovations of less consequence individually but with cumulative effects just as dynamic, and just as stimulative of investment, as the single revolutionary invention in a simple society. The important thing is the total flow of technological development, not its concentration.

With the expansion of industrial research technical progress is not only accelerated but made more even in flow, thus eliminating the gaps between major inventions which affected the continuity of investment opportunity in an earlier day. When we recall that expenditures for industrial research are now three times 1929 and twelve times 1920, we must acknowledge that we have a new and potent engine for creating investment opportunity on a wholesale basis, the implications of which the Jeremiahs of the mature economy have failed to grasp.

This already accelerating pace of technogocal advance has been stepped up tremendously by the impact of the war, which has in many cases telescoped into a few years what would otherwise be the progress of decades. We face the post-war era with an unprecedented accumulation of new materials, new techniques, and new products, that will create hundreds of new industries and revolutionize scores of old ones. I can even see several industries that within the next decade or two may rival the much-touted bellwethers of the past in the opportunities for investment they open up. Aviation is one. Prefabricating housing is another. Each of you, I am sure, can name candidates of his own.

If we have an insufficiency of private investment after the war it will not be because we lack technological opportunity. This is one respect in which the situation will be almost fabulously propitious. The supposed dearth of new industries is a scarecrow.

Increasing Importance of Depreciation Reserves

This is perhaps the most extraordinary item in the catalog of sorrows that constitutes the theory of the "mature economy." Let me introduce it by quoting from Dr. Hansen's testimony before the Temporary National Economic Committee:

"When a society has accumulated a vast amount of capital goods, it is evident that the mere expenditure of depreciation allowances provides wide scope for continuous improvement of plant and equipment. The larger the amount of capital equipment, the larger will be the depreciation, depletion, and obsolescence allowances which are available each year for capital outlays. Frequently large portions of these allowances are available not merely for renewals and replacements but even for new and additional equipment. The expenditures from depreciation and depletion allowances may often have no relation to any specific worn-out machines. Newly built plant and equipment will not need to be replaced for many years and sometimes even decades, yet the annual depreciation allowance on

(Continued on page 2216)

Public And Private Investment After The War

(Continued from page 2215)

such equipment will be available year by year for expansion.

"Obviously, a society with large depreciation and depletion allowances can modernize and improve its capital equipment in producing continuously new technics and even at times expanding its plant and equipment without tapping any new savings."

This statement reveals a very curious conception of the process of capital formation and investment. It implies that the investment opportunities available in any given period are a fixed and predetermined magnitude, and that if they are used up by the expenditure of funds reserved by business enterprises for depreciation there will be no outlet left for the investment of personal savings. The latter are shouldered out of the picture, to stagnate in inactivity. Nothing could be more unrealistic. There is no fixed or predestined volume of investment opportunity to be divided up between the internal funds of business organizations and the disposable savings of individuals. Investment is a dynamic and cumulative process which creates opportunities for other investment as it develops. The expansion of one enterprise from internal funds may stimulate expansion elsewhere from external funds, and thus provide indirectly the outlet for personal savings that it fails to provide directly. The Ford Motor Company absorbed no personal savings after the first few thousands of dollars, but the outlets which its development and activity opened up in other companies and other industries have been tremendous.

Enterprises absorb outside funds when they are expanding too fast for their available internal funds. We have always had companies, even in our most prosperous periods, that have grown almost entirely from internal sources, Ford being the classic example. We have always had others, the American Telephone and Telegraph Company for instance, that have resorted more or less continuously to the capital market. Still others have absorbed outside funds in a sporadic and highly irregular manner. This pattern has not proved in the past incompatible with the absorption by business enterprises collectively of a sufficient volume of personal savings. Has anything changed recently to convert the internal funds of business into a menace?

It is sometimes argued that the systematic accrual of depreciation allowances by business enterprises which has become almost universal since the enactment of the income tax, has augmented their internal funds relative to business capital formation, and has therefore diminished the share financed from personal savings. Before the First World War depreciation allowances were frequently sporadic and highly variable in amount, sometimes even nonexistent, but we must remember that the internal funds of industry include not only these allowances but also retained income. The plowing back of earnings in this period was very heavy. I know of no credible evidence that since 1913 industry as a whole has financed any larger fraction of its capital formation from internal funds than it did under comparable conditions before.

Dr. Hansen refers to the natural increase in business depreciation accruals as we expand the national stock of productive capital goods. What of it? Granted that these accruals have grown and will continue to grow in absolute amount, does this mean that they will be larger **in relation to the opportunities for further capital investment?** There is no reason to think so, unless we **assume** that the "mature economy" is here. Certainly we cannot **prove** it is here by **assuming** that it is. A rise in the proportion of business capital formation financed from internal funds would presumably be one of the **effects** of the mature economy, rather than one of its causes. As a generative factor it is a false alarm.

The Depression of the Thirties

Declining population growth, the passing of the geographical frontier, the dearth of new industries, the increase in depreciation allowances—these are the four horsemen of this new apocalypse. They are spectres, conjured from the fear and frustration of the great depression to explain that unparalleled calamity.

That the American economy was ill during the thirties none can deny. It is undeniable that this illness was the gravest and most prolonged in its history. To the prophets of the "mature economy" it represented the first sudden onset of a chronic malady destined to leave the system with a permanent functional deficiency to be made good by continuous injections of government investment, like the insulin of a diabetic. I have a different theory of the depression, namely that it resembled an attack of pneumonia on a strong man who had never in his life had anything worse than a severe cold. We must not assume that he cannot regain full health and vigor, or that every time he contracts a cold in the future it will turn into pneumonia. He may never have it again.

If I may continue the figure, why did he get pneumonia this time and not before? The occasion does not permit an adequate discussion of this question, and I shall simply indicate my belief that the illness did not signify anything **fundamentally** wrong with him, much less anything commensurate with the gravity of the attack. The doctoring was inexpert, treatment was tardy and inadequate, complications were allowed to develop, and what might have been simply an attack of grippe went into pneumonia. I am sure that the seizure was not due to the four horsemen of the "mature economy."

Declining population growth? Changes in population growth rates are glacial in movement, a statistician's dream of orderly gradualism. Why should a trend that had proceeded harmlessly for three-quarters of a century suddenly turn malignant in 1929? The vanishing frontier? A tired ghost, exhumed from the grave of yesteryear. The death of new industries? Why was the supposed dearth suddenly manifest in 1929, without warning, on the heels of a vigorous investment boom? Surely the rich and varied technological progress of the twenties did not abruptly reach a stalemate at that point. The increasing importance of depreciation reserves? I am at a loss to see that this had anything to do with the case.

If these factors fail to explain the collapse of 1929-32, they fail also to account for the halting and half-way recovery that followed. Why did we stand in 1939, seven years after the turning point of the depression, with 10,000,000 unemployed, still reaching for an elusive prosperity like Tantalus for the mocking fruits? Was it because of declining population growth? Our labor force had expanded by almost 6,000,000 since 1929, the number of families by 5,000,000, increases only slightly below those of the previous decade. Was it a dearth of inventions? More patents were issued in the thirties than in the twenties. Was it because the increased internal funds of business enterprises had excluded personal savings from investment? The total of such funds in the thirties was only a third of the total for the twenties. No, it was not for these reasons that among the great nations we had the poorest recovery from the depression, with the possible exception of France.

The Prosperous Twenties

The "mature economy" theory explains neither the great depression nor the prosperity that preceded it, a fact that has been tacitly admitted by its proponents as to the prosperity but not as to the depression. The vigorous activity of the twenties has always been something of an embarrassment to them, and they have been impelled to find special reasons why the economy, in the face of the unfavorable trends which they assume, enjoyed one of the best decades in its history. Why did it defy the slow doom inherent in its maturity? They conclude that it lived in that decade on borrowed time, under a reprieve from its predestined fate. Time does not permit an analysis of the factors that are said to have suspended this sword of Democles for a decade, but in my judgment they do not support the inference that the twenties represented the last era of natural prosperity, or that opportunity for private investment will be inadequate in the future.

It is always easy, in retrospect, to identify the principal elements in the capital formation of a prosperous period, and always possible to point out that if they had not been present there might have been no prosperity. That is all that this enumeration of special factors in the twenties amounts to. Each wave of prosperity has its own combination of elements, differing sometimes sharply from the preceding one. For this reason it is absurd to predict a dearth of investment opportunity in the future merely because we cannot envisage a repetition of the pattern of the last boom. This sort of forecasting has been indulged at intervals for a hundred years, with results that have always proved laughable. The exponents of the "mature economy" are the modern exemplars of this prophetic tradition.

Post-War Investment

I come now to the goal of this discussion, public and private investment after the war. One conclusion is obvious: if private investment, together with normal public investment, fails to support a satisfactory level of production and employment it will **not** be because the economy has become "mature." It will not be because of population factors, or for lack of a dynamic technology. Nothing in the purely economic or technical situation indicates that private investment will have to be propped up by public investment not desired for its own sake.

Indeed, the situation is so favorable for a boom after the inevitable transition period that many economists are more worried about how to control it than about a depression. An unprecedented accumulation of liquid funds in the hands of individuals and business enterprises, a tremendous deferred demand for most categories of durable goods, and a very heavy volume of exports—these are potentially the makings of a dynamic movement. I do not imply that we will necessarily and inevitably have such a movement, but simply that it is in the cards if we play them well. Our capacity in recent years to frustrate and inhibit business expansion obviously called for by economic and technical factors has amounted to pure genius, and may again prove equal to the occasion.

A sound public investment policy for post-war should be based on the premise that private investment can again carry its proper load. This does not mean that the **timing** of useful and legitimate public investment should disregard fluctuations in private activity. Appropriate timing can contribute substantially to the stabilization of production and employment. It does mean, however, that we should not seek a permanent expansion in the role of public investment **for the purpose of supporting the economy.** We should renounce unequivocally the demonology of the "mature economy," with all the incantations and exorcisms appurtenant thereto.

But this act of renunciation, though essential, is not enough. If we have eyes to see we must recognize that the severe depressions which have afflicated the private enterprise economy at intervals at least since the industrial revolution are rapidly becoming intolerable politically, and must be substantially alleviated if the system is to survive. The admission that the collapse of 1929 was not due to the maturity of the economy does not erase the event itself, or make its repetition any more acceptable. It merely avoids a mistaken diagnosis. The problem remains. I am convinced that its solution cannot be achieved by industry single-handed, but only by the enlightened and friendly collaboration of business, labor, and government.

Organized Efforts To Upset NASD Profit Limitation Decree Inevitable

(Continued from page 2214)

education in the field of finance. How naive of me! Why waste mental effort when the desired result can be obtained by knowing the dealer's profit.

I am deep in the second decade in the securities business. My education was entirely in the field of economics and finance. Until the present, I did not know that all that was needed to achieve financial success was a profit disclosure on the part of the Securities Dealer.

I am considering liquidating my business to trade as an individual with one of the NASD'ers—who is a member of the group that discovered the new method of joining the ranks of the financillay independent. Those who would like to have my account please get in line, on the left. GIMME A NUMBER.

DEALER NO. 78

We agree entirely with the reasoning in your article and, in addition, we feel that the policy discussed has a further shortcoming, in that it totally disregards the value of the service rendered by a dealer; in other words, whether or not a security is presented after the expense of research and professional study, all of which has quite a bearing on the value of the services provided. A doctor's charges are based on his ability as a result of expensive study, whereas a druggist simply fills the doctor's prescription.

DEALER NO. 79

I refer you to a letter from dealer No. 64 in the Thursday, Nov. 25 issue, paragraph 5.

From reading the article, I assume he believes that a retail house can make 5% from his sale price to his client. That is incorrect. The way the NASD locally have interpreted it, and they claim it's national, it is 5% above your cost, which makes a few cents difference on a low-priced transaction, but it amounts to something on a high-priced transaction. We tried to tell them we never heard of anyone doing business on this basis, and we showed them that, for example, if we bought a block of bonds from a corporation at par, and they allowed us a 5% commission, we would buy the bonds actually at 95 and not 95¼. We had quite a little discussion on this item, as all dealers have always figured they could make 5% on the actual sales price and not 5% from their actual cost. While I don't see where they actually laid down this law, nevertheless the local NASD advised us that that is the strict interpretation of the rule. However, I have yet to see the ruling in print.

As in my previous correspondence, do not quote me or the town as they will certainly know where the whole thing came from.

DEALER NO. 80

As time passes we are becoming more and more disgusted with the NASD. This organization has innumerable possibilities for constructively assisting the profession but their efforts have been devoted, for the most part, to the promulgation of restrictive rulings.

Our firm stands ready to make an initial contribution of $50 towards the organization of an association which will truly represent and defend the best interests of the unlisted security dealer. We suggest that any other readers who are in a mood similar to ours write you if they wish to join their contributions with ours. If a sufficient number respond our names can be released to a responsible security dealer who could then put in motion plans for an organization to qualify under the Maloney Act.

We respectfully request that you withhold publication of our name until you have obtained an indication of others' sentiments.

DEALER NO. 81

The NASD action should be seized by we, who are members and who suffer, and used as a stepping stone to make our "last ditch battle" and force elimination of the SEC itself in this nation. You may quote me. I have been in business for 40 years—18 years in Portland and 22 years in Chicago.

Portland, Ore., Nov. 17, 1943. F. B. ANDREWS.

DEALER NO. 82

The SEC and the NASD are dominated by IBA minded men in the business and have no idea of the business as it is carried on by the small dealer. I am rendering a service to a class of customers who are not the sophisticated class. Most of them buy for investment and income and are not bothered about the price or what the profit is. This business has been built by years of work and acquaintance with my customers. I have established myself locally and am not thought of as our trade association would lead one to believe after reading some of their outbursts.

I am not strong enough to incur the wrath of the SEC or the NASD and therefore request that you keep my name anonymous.

N. Y. Stock Exchange Weekly Firm Changes

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

Donald M. White, member of the Exchange, retired from partnership in Hackney, Hopkinson & Sutphen, New York City, effective Nov. 24.

Mrs. F. R. Sincere will retire from special partnership in Sincere & Co., Chicago, on Dec. 1.

Charles Tifft, member of the Exchange, died on Nov. 14.

Inflation Prospects and Investment Policy*

(Continued from first page)

would be a very bad thing both for the typical investor and for the typical business man; and that, if at all possible, it should be prevented. I want to insist that one of the best means to prevent it is for you and for all of us to assist the Treasury Department in its effort to convert high-potential inflationary money into the form of much less inflationary Savings Bonds.

Prof. Wright raised the question whether the existence of a large amount of redeemable Treasury securities will not contribute to inflation during a period of depression. It seems to me, in the first place, that such a fear is somewhat contradictory, because during a period of depression bond redemptions are more likely to counteract deflation than to cause an active inflation. But, more fundamentally, I would insist that if the United States Government has been able to raise $50,000,000,000 of new money during a single year of war, it will have no difficulty in meeting whatever problems grow out of the replacement of some securities by others during any period after the war. Of that I am absolutely certain.

Now, with respect to the program of my address, I have four things in mind. First, to tell you what I am going to talk about under the title of "inflation"; secondly, to consider whether or not we shall have it; thirdly, to indicate how an investor can guard himself against it, assuming we shall have it; and fourth, to consider inflation safeguards with relation to investment programs in general. That may well sound like a fairly coherent and well-connected program for an address, but I am afraid that my answers will not be merely as straightforward and consistent as the questions themselves.

By inflation in this context I mean that degree of rise in living costs from present levels which would warrant the purchase of different securities than the investor would otherwise select. The investor that I have chiefly in mind is an individual (or institution) who under ordinary conditions would have all his funds invested in bonds and limited-income fixed-value securities.

How great an advance in the cost of living would warrant a change in policy by such an investor? What I have in mind is a maintained rise of 50% or more from the present level. If that should happen, we would have an overall increase of just about 100% from the 1939 average—a figure closely equal to the advance after World War I from 1914 to 1926. If an investor expects this or more to happen he would want to rearrange his program so as to be able to count on a higher income than he now receives from bonds exclusively—and also to increase the value of his principal in terms of depreciated dollars. We are thinking, of course, of a plateau of higher prices continuing for several years at least, and not of a mere speculative upsurge followed by a quick collapse.

Let us now consider our first question, namely, "What are the arithmetical chances of high-level inflation taking place over a period of years to come?" In my view, there are three necessary conditions for such inflation. You need, first, a multiplication of purchasing power; secondly, a relative shortage of goods; and thirdly, an absence of determined efforts towards governmental control.

As you well know, the first two conditions are now present. But the third condition—absence of determined efforts at governmental control—is not present, and that is why we do not have a large scale inflation at the present time.

Looking forward to peace times and the completion of the reconversion period, it is clear that we shall have a very large potential supply of civilian goods. Therefore, the second condition, of a relative scarcity of merchandise, will not be met; and hence I do not consider that an active inflation will begin **after** full civilian production is restored.

There remains the relatively short reconversion period to take into account. As all of you are aware, there are two very divergent schools of thought on that subject. One emphasizes the possibility of a sudden withdrawal of governmental controls at a time when there will be very large purchasing power and a continued shortage of goods. If that is so, we may well have a very sharp upsurge in the price of commodities and in the cost of living. Against this there is the other possibility that with the shutting down of war plants and consequent unemployment we may have a relative business depression and deflation.

Here is a striking illustration of the unscientific nature of economics. The period we have in mind is quite short, certainly not more than two years; the facts that will confront us are pretty well known; and yet, there is room for authorities to express themselves in diametrically opposed fashion as to what will eventuate—that is, whether the net result will be highly inflationary or at least moderately deflationary.

My own opinion comes down to this: It seems to me that the probabilities divide themselves rather evenly in three directions. One is that we will have no serious inflation at all, even in the reconversion period, either because the unemployment problem will make for deflation or because governmental controls will be continued. That is one 33⅓% possibility. A second is that we may have quite a speculative upswing in prices, which will be followed shortly by a corrective recession or even depression of the kind witnessed in 1920-1921. The third equal possibility is that an advance in prices, caused by the relative shortage of goods, will set off a vast inflation which will continue and maintain itself in a higher cost of living for a number of years.

If my division of the probabilities of inflation is correct, the chances are two to one against a substantial and maintained increase in the cost of living. In other words, the mathematical odds are against our having a high-level inflation over the next five to seven years.

Coming now to the second portion of my subject, I shall state a conclusion in apparent contradiction to the first. For even though inflation may not be probable I feel that the prudent investor will take the possibility of inflation into account and adjust his investment policy accordingly. For that view there are a number of reasons.

It seems to me that it is always desirable not to have to make a risky decision if you can follow a course that avoids substantial risk. It is not necessary for the investor to make a flat determination that there will be no inflation and hence that he can continue to hold a 100% bond portfolio. It would be more logical to follow a course which will provide some protection if inflation comes and at the same time need not involve loss should we escape inflation. To my mind the purchase of a diversified group of common stocks at or below present levels will supply this combination of advantages.

As Dr. Wright has indicated, common stocks have only a limited capacity to withstand the impact of high-level inflation. I agree with him on the whole that one cannot put his money in stocks and be sure that he will be immune to the adverse effects of such a disaster. But his figures do seem to show quite clearly that in the European inflations the diversified stockholder (not necessarily the shrewd buyer who selected particularly good stocks) did fare considerably better than the man who held only bonds or cash. For that reason I subscribe to the conventional view that for those who wish to guard themselves against influation a division of their funds between the bond and stock categories is far more logical than the holding of money in the bank or in the form of bonds only. An investor wishing to follow that program would normally put somewhere between 25% and 50% of his funds into the stock portion of his total portfolio.

In my opinion practically all the bond component should best be invested in U. S. Government obligations. At present relative yields these are clearly preferable to high-grade corporate securities.

As alternatives to buying common stocks the investor has the choice of commodities, real estate, jewels or works of art. There are special problems and hazards connected with each of these avenues of protection. They are definitely less suited than stocks for the investor who wants to play it safe both ways and be prepared either for inflation or no inflation.

One obvious advantage in buying sound common stocks is that the investor obtains from them a 50% higher yield than from standard bonds. Assuming he could count that no **reduction** in overall dividends will occur under inflation — which is certainly plausible—he is protected from the start against a 50% increase in his living costs.

As a further reason for diversification of investments between bonds and stocks, there is the unbalanced state growing out of the multiplication of cash and bond elements in our total economy. Cash and bonds represent at best intangible or indirect claims upon the wealth of this country. Common stock ownership, if properly assumed and administered, represents a relatively tangible interest in the national wealth. Even in the philosophical sense it would appear wise for the investor to put his affairs in such shape so that he owns both direct and indirect claims against our tangible, productive facilities.

There is a final reason I would like to add to justify my recommendation of stock investment as part of the investor's program—which is that sound common stocks, bought at sound prices, are always good investments. They are good investments not only when you are afraid of inflation, but also when you do not have inflation particularly in mind. I think the underlying stability of stock values is shown in an astonishing degree by the market's behavior in the last three years—a time which has offered an unparalleled challenge to our national life and institutions.

Most of you may be dimly aware that the industrial averages closed today at exactly the same price as was registered on the day war broke out in September, 1939. You may not be equally conscious that the maximum variation in price in those 3¼ years has been less, percentagewise, than for any similar period of time since 1895, except the relatively eventless years of 1910 to 1914. We have had an advance

(Continued on page 2219)

Canadian Securities

By BRUCE WILLIAMS

The Canadian authorities are to be congratulated on the prompt attention which they have given to the question of United States shareholders' liability for inheritance taxes under the Succession Duty laws of the Dominion. Conversations are now being held between the Department of External Affairs and the State Department, with the object of negotiating an agreement whereby double taxation in respect of death duties will be avoided.

It is understood that representatives of the Provincial governments will be called in as soon as a working arrangement is evolved. In the meantime, the U. S. shareholders of International Nickel have recently received a circular letter which explains how Canadian inheritance duties can easily be avoided. Not only should such action allay the fears of shareholders in this country of Canadian companies, but it is also indicative of the proper concern of the Dominion Government in these matters, which, in many cases, are of a petty nature, but which sometimes have far reaching and unexpected repercussions.

Another welcome item is the report that the Montreal City Executive Committee has at last reached an agreement with regard to a debt reorganization plan, to be submitted to the City Council. The rate of interest involved is said to be 3¾% and the plan provides for repayment of the whole of the debt by instalments over a period of 35 years.

As previously mentioned, both in the case of the City of Montreal and the Province of Alberta, the nearer we approach the end of the war, the more urgent it becomes to reach a satisfactory settlement of these situations. Alberta has if anything more at stake than Montreal, as in the post-war period it has possibly greater prospects of development than any other Canadian province.

During the past week, the market failed once more to exhibit the long expected renewal of activity. However, large blocks of various City of Toronto issues, and also a considerable amount of longer term Nova Scotias, New Brunswicks and Manitobas changed hands. These transactions were the largest since the commencement of the Fifth Victory Loan drive and indicate that one of the principal causes of the market apathy is the lack of supply in any interesting volume.

Apart from this activity, there was little to record in other sections of the market. Direct Dominions were mixed and in most cases quoted slightly lower. Nationals were dormant and virtually unchanged. There was little turnover in Ontarios and Quebecs but the undertone was still firm. Scattered demands for British Columbias, Nova Scotias, New Brunswicks and Manitobas caused little variations in the price level, but Saskatchewans and Albertas were again a little easier.

Internal issues also were slightly under pressure with the free exchange market once more erratic on a small volume of offerings. It is possible that end year factors are now exerting their influence to a certain extent, and during this period this market is likely to be difficult to follow. As previously pointed out, the unofficial quotation of the Canadian dollar has little reference to its actual value, as the volume of transactions in the free market represents less than 1% of the U. S. Canadian Foreign Exchange total.

With regard to the market as a whole, there are a few signs of increased activity but, as in other markets, potential buyers have been deterred from effecting their normal operations by recurrent peace rumors. As soon as this uncertainty is removed, there should be renewed interest in the high grade investment class of security generally.

U. S. Trust Co. Joins N. Y. Clearing House

The admission of the United States Trust Co., New York City, to membership in the New York Clearing House Association was announced on Nov. 29. The decision to join the Clearing House is understood to have been influenced by the increasing volume of the company's banking business and by the numerous operating advantages which the Clearing House provides.

The announcement further stated:

"The United States Trust Company was established in 1853 with a capital of $1,000,000 which was later increased to $2,000,000. During its 90 years of operation the company has accumulated a surplus of $26,000,000 and undivided profits of $2,196,941. As of Sept. 30 the company reported total resources of $155,595,111 and total deposits of $123,321,090. Dividends to stockholders have been paid regularly since organization with total disbursements over this period in excess of $67,000,000.

"The company is headed by Williamson Pell, President, who is also a Director of Great Northern Paper Co., Atlantic Mutual Insurance Co., and the Greenwich Savings Bank, New York City."

The admission of the United States Trust Co. brings the number of member banks of the Clearing House to 21. In October, J. P. Morgan & Co., Inc., was admitted to membership—the first new member bank since 1931; this was reported in our issue of Nov. 4, page 1800.

Public And Private Investment After The War

(Continued from page 2213)

industries, with considerable unemployment.

I do not agree that the widespread holdings of cash and bonds must inevitably produce an extreme price inflation once the war is over. While there will be shortages in certain areas (food and consumers' durables, for example), I do not think that the general over-all effective demand will outrun the prodigious capacity of the American economy to produce an adequate supply. Unless the general *over-all* demand outruns supply, there will be no *general* price inflation. Special areas of temporary scarcity can be managed by price control and rationing. These controls should be removed as soon as supply catches up with demand.

The fear of a sustained postwar inflation has been enormously exaggerated. This fear is based on a very crude and indefensible quantity theory of money. It is based on an exaggerated notion of the liquid cash holdings of the general mass of consumers. To begin with, while the volume of currency in circulation has risen to $19,000,000,000, we must not forget that the national income has doubled and that the currency needs of the country have for various reasons increased. Moreover, a recent survey indicates that of $55,000,000,000 of privately owned demand deposits, only $14,000,000,000 are held by individuals, the rest being held by business units and corporations. Of the $14,000,000,000 held by individuals, some considerable amount is held by the well-to-do. The amount of demand deposits, therefore, which the general mass of the public hold is relatively small. Moreover, of $160,000,000,000 of Government bonds, nearly $100,000,000,000 are held by institutions such as commercial banks, savings banks, insurance companies and Government trust funds. These institutions are not potential spenders. Only $25,000,000,000 of the public debt is in the form of savings bonds, of which some considerable fraction, certainly a third, is held by the well-to-do. Thus the percentage of bonds available for spending has been enormously exaggerated.

Nor do I think it reasonable to suppose that the public will cash in these bonds at once and engage in a wild spending spree. Following the last war, in 1919 and 1920, the savings of individuals reached an all-time high. While some will cash in their bonds, many are likely to add further to their nest-egg of savings.

Finally, and of utmost importance, let us not forget the tremendous safeguard against a major price inflation inherent in the prodigious capacity of the American economy to produce a vast supply of all kinds of goods. The war has taught us how vast is our productive power. Any nation capable of producing $200,000,000,000 of goods and services in a single year is in great danger of not finding adequate markets, but not in much danger of inflation. In all lines we have tremendous productive capacity. This is true not only of agriculture but also of our heavy goods industries, and of our consumers' industries in general. There will be temporary scarcities, yes; but by and large the American economy can swamp any prospective demand with a prodigious supply of goods adequate to prevent price inflation.

The post-war deferred demand boom immediately following the demobilization crisis is likely to be fed after this war, as was true after World War I, from: (1) outlays on inventories, (2) net export surplus, (3) outlays on industrial equipment, and (4) expenditures on consumers' durables.

After World War I, these stimulating factors petered out in about 18 months. They are likely to last longer, perhaps twice as long or more, this time. Yet it is quite clear that the demand for automobiles, for example, can be thoroughly saturated after say three or four years. Inventory accumulation and relief requirements will run out in perhaps two or three years. The high post-war boom for industrial equipment is likely to ease off rapidly as after the last war. Thus, after two, three or four years the deferred demand boom is likely to end in a slump unless we do something about it.

The answer is to push up construction to a volume of $15,000,000,000 to $18,000,000,000 per annum. I do not know of any other way to prevent the impending slump following the re-stocking boom. Total investment must be held at a high level and construction will be the only field left for stimulation.

We need now to plan to insure an adequate construction program to offset this impending slump. For example, there is much that we can do to insure a large private house building program. Unless we do plan for a large construction program long ahead, we shall again be forced to improvise boondoggling relief works to take care of unemployment.

We are discussing tonight public and private investment after the war. Why do we concern ourselves so greatly with the rate of investment? The reason certainly is not that expenditures on capital goods occupy any large part in the total economy. They do not. Percentagewise by far the greatest part of our productive activity—over 85% in fact—is devoted to the production of consumers' goods. Yet investment outlays, while relatively small, are of extraordinary importance. This is true first because it is new investment that makes possible a rising productivity and higher living standards, and second because the level of income and employment is peculiarly determined by the volume of new investment.

Let me illustrate this from the great depression which began in 1929. The essence of that depression, as indeed of all depressions, can be quite simply and plainly stated. There occurred a decline from 1929 to 1932 of private investment outlays from the annual rate of $17,000,000,000 in 1929 to $2,000,000,000 in 1932. This decline of $15,000,000,000 in private capital outlays caused unemployment in all the heavy goods industries and in turn induced a decline in consumption expenditures of $30,000,000,000. Thus the fall in investment had a magnified effect upon the economy causing a fall in income not of $15,000,000,000 but of $45,000,000,000. The national income in fact fell from $85,000,000,000 in 1929 to $40,000,000,000 in 1932. Had investment been maintained at $17,000,000,000, we can be sure that there would have been no decline in consumption expenditures. Here we see the great importance, therefore, of investment. A relatively small fall in investment will induce a tremendous decline in income and employment. Investment occupies, indeed, a relatively small part in our economy, but it is a dynamic and vital part. Unfortunately, however, as the record of a hundred years shows, the rate of investment is a highly uncertain and undependable quantity. It rises and falls and creates thereby, through its magnified effect, boom and depression.

You will remember the new era talk of the twenties. The belief had widely spread that now at last we would have perpetual prosperity. I observe again now a good deal of new era talk about the postwar. Yet we have a hundred years of experience, not to mention convincing economic analysis, to show that unless we do something about it, we can be certain that any postwar investment boom will again end in collapse.

Confronted with the serious problem of violent fluctuations in the rate of investment, what is the answer? There are, I think essentially two solutions to this problem: (1) a compensatory public investment program, and (2) a cycle compensatory tax program. I am not able to develop a compensatory tax program in this brief time at my disposal. I would merely suggest that we now have at our command, thanks to collection of income taxes at the source, a powerful and effective mechanism for a compensatory tax program that can have a tremendously stabilizing effect upon our economy. I am compelled for lack of time to limit myself to the public investment aspect of a compensatory cycle policy.

Consider how a compensatory public investment program might have been used in the 1929 depression. The $15,000,000,000 decline in private capital outlays was unprecedented in amount, exceeding anything ever before experienced. The decline, once started, proceeded in a cumulative manner, each decline inducing a further decline. As income and employment fell there was less and less inducement to invest. Suppose the government had been prepared with an adequate compensatory investment program—useful public works and development projects—to counter the decline. Had this been done, it cannot be doubted that private capital outlays would have fallen by much less than $15,000,000,000, perhaps by no more than $6,000,000,000 or $7,000,000,000, and consumption expenditures would have fallen not at all. Thus a relatively small amount of public investment outlays, quickly and boldly thrown in, could have held the line and prevented the ever widening breach which brought us close to a national bankruptcy.

We need, however, not only a *compensatory* public investment program but also a *developmental* public investment program in order to insure an expanding economy. Let me illustrate in the international field. Everyone is agreed that there is scope for great industrial development in China, for example. Such development, however, requires, in the first instance, a basic development program including railroads, highways, port facilities, power development, and the like much of which involves public investment. Without this basic development program a general program of industrialization becomes quite impossible. Basic development projects are essential in order to open up the whole wide area of industry, manufacture, and trade on a large scale. Much of this basic development can be made only by public investment.

Our own past history affords numerous illustrations of the fundamental importance of a developmental public investment program. In the early part of the last century we undertook a huge internal development program. This involved the building of canals and other internal improvements. Later we granted enormous subsidies for the construction of transcontinental railroads. And more recently we have built a nation-wide network of free public highways involving vast outlays of public funds. We have made a beginning in resource development. In the Pacific Northwest, in the Tennessee Valley, we have already opened up private investment opportunities that could not have developed except for the basic public investment in these areas. In other parts of the country we have only scratched the surface. The Arkansas Valley and many other areas offer wonderful opportunities for development.

We have done almost nothing in the enormously important field of urban redevelopment. The rebuilding of the slum and blighted areas in our towns and cities obviously presents one of the major areas for private investment outlets in the generation that lies before us. But nothing will happen unless we develop a program, such as that provided in the Thomas and Wagner bills, now before Congress. If we are to have an expanding economy, we must search out public development projects which increase the productivity of the community, raise purchasing power and real income, and open new private investment opportunities.

The question is always asked: Does not such a program mean the end of private enterprise? I do not think so. A well conceived public investment program will enlarge the opportunities for private enterprise. The role of government under such a program would be a marginal one. It would operate in a small but important area in the whole economy—an area which could not be undertaken effectively by private enterprise. The government would not enter the general field of production at all. It would make those basic investments without which private enterprise would find its opportunities limited and restricted. A public investment program can and should be designed to stimulate and enlarge the volume of private investment.

The question is often asked, if the public can economically make these investments, why may not private enterprise itself do so? The answer is that only the government can take the larger view of the whole impact of a basic development program upon the economy as a while. The Tennessee Valley development has demonstrated already its profitableness from the standpoint of the whole economy. It has opened up new private investment outlets in that area, it has raised productivity and purchasing power, it has contributed to an increase in the national income. It may not return 100 cents on the dollar to the Federal Treasury, but the repercussions of the project upon the economy as a whole make it worth manyfold the public investment made. Private enterprise cannot undertake a development which does not offer an adequate direct return. The government alone can look beyond the direct return to the Treasury to the benefits accruing to the economy as a whole. If we are going to have an expanding and progressing economy in the decades ahead, we must search out useful and productive public development projects which can open up new private investment opportunity and raise the productivity and real income of the community as a whole.

All the available evidence which I have studied and examined, points to the conclusion that we shall need, after the war, to find each year investment outlets for about $25,000,000,000 to $27,000,000,000 of savings. Included in this figure are the savings of individuals, net corporate savings, depreciation reserves, and other funds for replacements and renewals.

Never in the past have we succeeded, except for brief periods, in finding sufficient investment outlets to maintain continuously high income and employment levels. We shall not succeed now unless we revitalize our economy by a well conceived program of expansion fed and sustained by public development projects. These involve public investment aspects of urban redevelopment, slum clearance, terminal and transportation facilities, river valley development, resource development, irrigation projects, flood control, reforestation, soil conservation, rural electrification, international loans and investment, and finally investment designed to raise the productivity of our human resources. A vigorous program of public investment can provide not only a compensatory and stabilizing balance wheel to our economy, but can also open and enlarge private investment opportunities, revitalize private enterprise and give us in the generation that lies ahead an expanding economy with high and rising levels of income and employment.

No modern society can endure for long the shock, the strains and stresses of serious deflation, depression and unemployment. In the 70's, 80's, and 90's of the last century we could tolerate them because we were then largely a rural, agricultural society. Highly urbanized and highly industrialized societies are extremely vulnerable to economic instability and economic depression. We can no longer take a laissez-faire attitude toward these problems. We shall get no place if we relegate the role of government to a do nothing policy. We have not even begun to adopt a positive and vigorous compensatory and developmental fiscal program. The spending program of the thirties was nothing more or less than a salvaging process. We salvaged the banks, we salvaged the railroads, we salvaged agriculture, we salvaged the 17,000,000 unemployed with work relief. We need a positive program to prevent depression, to maintain high levels of employment and income. Yet we are making right now no adequate preparations. We have done nothing so far which gives us any assurance whatever that we shall not again get caught in a devastating depression; and let us not forget that under modern conditions the national income can fall to substantially low levels within a few months. Our utter unpreparedness for such an event is a shocking revelation of utter irresponsibility. We shall remain unprepared until we are willing to adopt a positive compensatory and developmental fiscal program. We may fool ourselves by new era talk. But some day there will be a rude awakening.

In the November issue of "Fortune Magazine" there appeared a supplement devoted to reorganization of governmental machinery necessary to carry out a rational fiscal program. The program there suggested may not be the best, but it points the way to the kind of problem we ought now to be wrestling with. That way lies economic statesmanship. I am personally encouraged by the fact that I find more and more business leaders who are realistic enough to face these problems.

Brownell Replies To Sakolski on Bimetallism

(Continued from page 2214)

tary metals so that they can settle their balances of international payments, and thus prevent their currencies from depreciating in the foreign exchange market.

Since the United States today holds some 70% of the monetary gold of the world, other countries do not possess the metallic reserves needed to stabilize their currencies on a firm basis. The adoption of international bimetallism by inter-governmental agreement would vastly facilitate the provision of adequate monetary reserves to the nations of the world, since this country does not hold materially more than 50% of the world's monetary silver supply at this time. Hence, I believe the advocacy of international bimetallism is a major contribution to the cause of sound monetary conditions in the post-war world.

Attempt To Establish The "5% Rule" As A Recognized Practice Of Dealers In Securities

(Continued from page 2207)

tices, the Commission concluded, constituted fraud and deceit. We quote verbatim from the Commission's brief:

"The importance of fair price as the foundation of transactions between securities dealers and their customers is evidenced by the rules of the National Association of Securities Dealers of which petitioner was a member at the time of the transactions in question. Those rules provided at part III, paragraph 4, as follows:

"'In "over-the-counter" transactions, whether in "listed" or "unlisted" securities, if a member buys for his own account from his customer or sells for his own account to his customer, he shall buy or sell at a price which is fair, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that he is entitled to a profit. . . .'

"'42. It should be noted that the confirmation forms used by petitioner contain a specific statement on their face that ::All transactions shall be subject to the regulations and usages of the New York Stock Exchange or other Exchange or market where executed and/or subject to the recognized customs and practices of brokers and dealers in securities."' **The quoted rule of the NASD clearly sets forth one of the recognized practices of dealers in securities.**

"A recent study of the mark-ups over the current market actually taken by members of the National Association of Securities Dealers shows that 47% of the transactions were effected at a gross mark-up over the current market of not over 3%, and 71% at not over 5%. See New York 'Times,' Oct. 26, page 31."

It did not require the vision of Nostradamus to prophecy that this would come about. Those familiar with the history of the Maloney Act and the setup of the NASD well know that the National Association of Securities Dealers was intended, and is playing Charley McCarthy to the Securities and Exchange Commission's Edgar Bergen. Anyone who says either directly or by implication that a 5% profit spread represents the custom and practice of dealers in over-the-counter securities has done so without proper search or understanding of the facts.

We criticize the citation by the Securities and Exchange Commission of the NASD rules and studies as authority because in our opinion that only tends to confuse the courts, unless direct evidence is introduced showing how these rules are arrived at and what safeguards are employed to attain correct results in these so-called "studies."

We believe these rules to be an inspired and manufactured product which do not reflect the practices actually existing among dealers and in direct contravention of the United States Constitution because they constitute an illegal delegation of legislative power.

We believe there is no necessity for a limitation of profits of any kind nor a duty incumbent upon any dealer to disclose prices. There should be no compromise. There is nothing in the past practices, customs or trade usages of the industry that would make this procedure mandatory.

What is to be done about all this—you will ask. Drastic surgery! Amputate the dread which the average dealer has of the supervisory power of the Securities and Exchange Commission and the NASD. The many letters received critical of those powers **asking in each instance that the writers name be withheld** are striking testimony of a fear characteristic of the existence of an "OGPU" or "Gestapo."

In the last analysis the courts are a refuge and courage must characterize business if it is to survive.

A spineless industry is a lost industry. Men must have the courage to protect their rights. Hiding behind anonymity will make the cause a lost one. Bureaucracy will continue its encroachments and by gradations democracy and free enterprise in business will die.

This is the time for courage. Fortright, unrelenting courage. Pure pragmatism dictates this because to many it must be courage to fight for rights or death, that is, commercial death.

We believe that over-the-counter security dealers should organize forthwith to protect their interest. Such organization should be militant and proceed at once to combat the efforts of the NASD in their relations to the over-the-counter security business. Proper safeguards should be exercised so that the activities of supervisory forces are kept within strict constitutional limitations and where those forces become oppressive instead of merely regulatory that they be completely deleted. There is urgent need for renaissance in the security field. The regulators are becoming more of a problem than the regulated. **An organization truly representative of the over-the-counter dealer fighting endlessly in his interest is the immediate vital need.**

Our Editor asked Messrs. Metz and Kole to read the recent issues of the "Chronicle" containing letters from dealers anent the NASD's profit limitation decree and to write this article reflecting their views on the course of action they think dealers should take in the matter.

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

Inflation Prospects And Investment Policy

(Continued from page 2217)

from the present level of about 15% and a decline from this level of about 30%. That has been the limited degree to which the market values of securities have changed due to the extraordinary conditions that we have lived through. This means, in turn, that the real values of common stocks must have varied over an even narrower range.

The fact that the stock market itself, the institution which you represent, has acquitted itself in such a stable and common-sense fashion during these critical years is a persuasive argument in favor of the inclusion of a group of common stocks in the portfolios of substantial investors. By "substantial investors" I mean not only well-to-do individuals but also the non-profit institutions which have large capital funds, and which have been facing the problem in recent years of whether or not they should deviate from their long established and sound policy of investing exclusively in bonds. My own conclusion has been, in the case where I was consulted, that such a deviation is justified under present conditions to the extent and for the reasons I have indicated.

Now coming to the question of what types of stocks should be purchased, I am afraid I am going to disappoint you by not having anything of great value to offer. I listened with great interest to Dr. Wright's historical distinctions between the behavior of one kind of stock and another. My own study of the matter leads to the conclusion that it is not advisable to make advance selections or predictions with respect to the relative merits of different stocks under inflation, except within very obvious limits.

It is clear, of course, that if you are seeking protection against loss of the purchasing power of money, you would not invest in bank stocks. For these represent primarily the ownership of money capital. It is also clear that you should not purchase railroad or utility shares, because of the relative inflexibility of their rate structures. But in the field of manufacturing, producing and trading companies, I am not at all convinced that the performance of groups of issues shown in the European inflation of a number of years ago would necessarily be followed under the conditions of inflation we might conceivably face.

My own inclination would be to emphasize rather the diversification of holdings among a variety of manufacturing enterprises, and even companies in wholesale or retail trade. The advantage of oil producers is quite evident, and this is shared—perhaps to a lesser degree — by sugar, metal and other raw-material enterprises. I do not believe that you can be certain, by laying greater emphasis on one category rather than another, to assure yourself of substantially different or better results.

I would agree with Dr. Wright that the investor should avoid common stocks with heavy prior debts, in the same way as he should shun trading on margin. The supposed lightening of debt burdens through inflationary conditions is more than offset by the unexpected complications that are certain to be met, and under which debt might well prove an embarassing handicap.

In our common stock selection it would seem logical to emphasize the possession of large tangible assets in relation to the price paid, as distinguished from "good will," which in Wall Street means the expectation of high earning power under normal conditions. We don't know what new circumstances will affect the established trend of earnings if we have inflation. I do feel that the ownership of assets considerably in excess of the price paid might turn out, under inflation, to be more advantageous than the payment of a premium above assets for the past earning power coupled with normal expectancy of increased future earnings.

This preference would mean a tendency to emphasize the selection of the secondary issues, many of which today combine both substantial asset value and adequate earning power—as compared with what might normally be a more exclusive interest in earning power alone. During the last few years, such emphasis on the secondary issues has been much more profitable than the conventional devotion to the market leaders. I rather feel that if you consider inflation as an important development to guard against there would be good reason to continue such a discriminating procedure.

Now I turn to the fourth subject, which is that of inflation-hedge policy in its relation to general investment policy. Although inflation forces add a reason, and a good reason, to the normal justification for stock buying, they also add complications as regards the selling of what you have bought. Under ordinary conditions, a bona-fide stock investor can deal with stock market fluctuations quite successfully. He can follow the policy of buying securities when prices are not particularly high (or preferably when they are definitely low) and he can sell them later when they do appear to be definitely high in accordance with well established principles of value. But if inflation is a real possibility, then there is no longer a well-defined selling range for stocks. The investor must hold even beyond the level at which ordinarily he would be impelled to sell—and by holding he must run a serious risk of missing an excellent opportunity for profit.

This drawback is an unavoidable one under the given circumstances. To deal with the problem generally I venture to submit a few concrete suggestions. The first is that the investor who wants to protect himself against inflation should buy only at prices which do not include payment of any extra premium for the inflation hedge. I believe this can be done at the present levels for most common stocks. Hence today's prices appear to me to be quite suitable for putting into effect such a program of protection against inflation.

Of course, there is a possibility that stocks will decline from present levels, and as usual after a recession there are many people in Wall Street who expect further weakness in security prices. But I would like to point out how minor this question is in the light of long-term investment policy. Suppose a 10 or 15% decline in prices from this level is a fair possibility, what sense would there be for the true investor to take that into account? In the first place, there is still a substantial chance that it won't happen at all, and, in the second place, if it does happen, there is a still greater chance that he will put his buying orders too low and miss his market. All my experience indicates that the proper method to buy stocks for a particular purpose is to buy them at once, unless you have a definite reason to believe that the price level is too high—which I do not believe is the situation today.

The second point for the investor is that as long as he believes there is a definite possibility of inflation he must consider himself bound to hold his stocks, even though the price may have advanced to levels which ordinarily would have been a signal to sell. That is the real risk he must run to gain protection against inflation — the surrender of the opportunity to sell out at a high level in the expectation of repurchasing at a considerably lower figure.

The relatively shrewd investor may wish to retain freedom of judgment and action so as to determine whether a rise in the stock market really anticipates inflation or is only a repetition of the usual cycle of speculative advances and collapses. Such an investor might be wise to take his cue from the bank borrowings and inventories of the typical manufacturing and merchandising companies. If you have a rise in commodity prices and stock prices, accompanied by an expansion of inventories and bank loans, then the investor who wants to belong to the shrewd class rather than to the conservative class would probably be well justified in selling out his securities. For almost regardless of inflation, the age-old law that a speculative fall follows a speculative rise is almost certain to be operative under such dangerous business conditions.

What I have said could be summarized by referring to a rule basic to both the stock market and business—which is that buying right is more than half the battle. If the investor follows the invariable principle of not paying higher prices than are justified by the underlying statistical facts, he will be in a relatively good position whether we have inflation or whether we don't. Furthermore, he can forego his opportunity to sell at the right time without courting disaster, because his underlying position will always be a sound one. You Customers' Brokers can render a great service to your clients by emphasizing this principle in your own advice to those people who wish to function as common-stock investors.

I have nothing to say on the subject of stock speculation, except that I am skeptical of the possibilities of success. But I do wish to express my unalterable opposition to that most costly of all financial self-deceptions—namely, calling oneself an investor and acting and thinking as a speculator. The menace of inflation, while it underlines the logical justification of common-stock investment, will tend to increase its psychological hazards. It will take intelligence and self-control on the part of both investors and their advisors to withstand these risks. If you assist your investor clients to remain common-stock investors, if

(Continued on page 2220)

NASD Profit Limitation Decree Violates Maxim "United We Stand, Divided We Fall"

(Continued from first page)

over-the-counter business; that the "big houses" operating on a narrow margin of profit are seeking to increase their volume of business at the expense of the "little fellow," who operates on a much wider margin of profit; that the corporate business, both listed and underwriting, wants to see the municipal business subjected to the same regulations suffered by the corporate business; that it is the small portion of the business that operates on the "ragged edge of scrupulousness" that causes all our troubles and should therefore be eliminated somehow, anyhow.

In short, there is, and has been for years, considerable bickering and fighting in the business itself. If this situation continues it is likely to be the means of the elimination of freedom for all of us. It would seem to be the better part of wisdom for all of us to consider the problems, not just of our particular phase of the business, but the problems of all of us, and act as a whole. United we may stand, divided we will fall. As Sam Pettengill so well put the situation, in an address before the Bond Club of Chicago last summer: "That is the great weakness of our free enterprise system. United, 'one for all and all for one,' it could defeat the enemy on every field. Dis-united it loses one battle after another."

Let us look at the record. First, perhaps, were the railroads, who lost their freedom to the ICC. Next, perhaps, was the radio, which has lost its freedom to the FCC. Then, in our own field, the corporate underwriting houses lost their battle to the SEC. Then, the stock exchange houses lost theirs. Next came the over-the-counter corporate business. Next on the program is the municipal business. During all this development, did we ever present a united opposition? Unfortunately, we did not. Did we ever in fact, all even appreciate what was happening to our associates businesses? Apparently, we did not.

Likewise, were the utilities left to fight their battle alone—and they, too, have lost. Let us but look around at the groups that are waging a lone battle against bureaucracy and socialism. The medical profession is faced with socialized medicine, and, although there is not one of us who would not be directly affected by such a panacea, there is not a one of us who is going to the aid of the doctors. The insurance companies right now are fighting their battle against government control—alone. For years the banks of this country have been crying out against the deadly competition they are fighting from government subsidized credit—but their cries go unnoticed. What help will we, as citizens, give to the newspapers and the Associated Press in their fight to preserve even the freedom of the press?

The plight of the stock exchange houses, of the corporate underwriters and of the over-the-counter business as a whole is unfortunate. But the solution to their problems does not lie in inflicting the same plight on the entire securities business, and pulling the entire business under the thumb of bureaucracy. Rather should the entire business work together to remove the shackles already placed on those of our associates who were left to wage their battle alone. Nor should such a battle against bureaucracy be confined to the securities business alone.

Recent election returns give strong indications that the spreading tentacles of bureaucracy have clutched enough people that the citizens of the country are sufficiently aroused to throw off this yoke en masse. Thus, we need no longer resign ourselves to the belief that governmental control is coming in ever increasing doses, and that there is nothing for us to do but make the best of a bad situation. On the contrary, the people seem sufficiently aroused that this appears an opportune time to resist with all the power we, as a group, can muster against the forces that are destroying freedom of enterprise in America.

The familiar maxim of "Divide and conquer" works as well in peace as on the battlefield. Not only have we in the securities business, but we as citizens have been divided, and we have been conquered in most battles against bureaucracy. Unless we close our ranks, we shall lose again, and again, and again. The immediate task for us, therefore, is to join together the entire securities business for our common good, rather than pull apart to our common destruction. The larger task is for us all as free men to join together for a united program against bureaucracy.

In the second place, it seems to me that the most effective means of combating excessive profits is competition. Not being a member of the NASD, I do not feel free to discuss their recent pronouncement regarding profits. Moreover, in the municipal business in which my firm engages solely, profits run far less than 5%—probably they average less than 1% even on purchases entailing considerable risk. But, do not be deceived in thinking that these profits are under 1% because of "conscience." The margin of profit is low because competition makes it so.

Undoubtedly, there are some people in the securities business who take undue advantage of their clients. Undoubtedly, there are people in this business of whom, or at least of whose practices we are ashamed. Undoubtedly, the vast majority of the dealers would like to see these people, this fringe of undesirables, removed from our midst. But let us be practical. The end may not justify the means. Assuming that it is possible to eliminate these undesirables, one should consider gravely any means of doing so, lest he introduce a remedy worse than the evil.

As a practical matter, one should realize that neither "conscience" nor morality can be legislated. Improvement in ethics comes from within the business, not from without, or above it. Consequently neither a profit limitation of 1%, 5%, or 10%, nor a "bid and asked disclosure rule" will improve on conscience or ethics. Let us therefore direct our action toward a goal that is attainable.

Cannot the NASD ferret out singly the culprits in the business without setting a dangerous precedent of a profit limitation on all the business? Cannot the SEC eliminate the long profit offenders, without punishing the entire business with such impractical, needless and expensive regulations as a "bid and asked disclosure" rule? It would seem possible, and practical, for either such body to ascertain the people in this business who are likely to act without "conscience" or without ethics, and eliminate them—to the great relief of the rest of the business, let it be emphasized. Any such action against a particular person, would be based on a consideration of the particular circumstances surrounding the particular case in hand, and should, therefore, in no way injure or embarass reputable dealers.

Such a procedure in individual cases may not eliminate all bad practices, but any practical person will admit that all such practices will not be eliminated in any business. Moreover, from a broad social viewpoint, it should be realized that unscrupulous people without a sense of ethics will likely act without conscience wherever they are, so that if they are driven from the securities business they will probably prey upon the public from some other business.

Nevertheless the aim of all of us, it seems, should be to remove from our midst the unethical contemporaries, not because they make a profit of over 5%, or over 10%, but because they are no credit to our business. But who is to decide what the standard of ethics will be? In the long run, competition will weed out the unethical dealers and salesmen, as it more quickly weeds out those who take excessive profits. There is no more powerful force than competition in leveling profits in all business to a degree proportionate with the risk. Likewise competition will eventually set the standard of ethics as it sets the standard of profits. Of course, there will always be some customers who will not appreciate the value of dealing with a house that practices good ethics. These customers among the public are as much a disadvantage to society as are the unscrupulous dealers, because without this non-discriminating "fringe" of public, the unscrupulous "fringe" of dealers could not exist. The "Greatest Show On Earth" was built on the premise that "There's a sucker born every minute." Until we eliminate the "suckers" among the investing public, we are not likely to eliminate those dealers who will take advantage of the suckers.

In the third place, the thing that is to be most regretted is the low estate to which our business has fallen when so many dealers are afraid to speak openly. The fear of reprisals has caused one writer after another to request that you not divulge his name nor the identity of his firm. Are these people—and they appear to be quite numerous—afraid of reprisals from the NASD, or from the SEC? In either event, it would seem that we have lost the courage even to discuss our own problems amongst ourselves.

What has happened to the government of the people, by the people and for the people—that the people are afraid to speak? Have we built a Frankenstein that will destroy all who raise a finger in objection? If such be our frame of mind, we are indeed in a sorry plight.

Unless we freely and openly discuss these, and other problems, we shall not only not solve these problems, but we shall be faced with others of even greater import. With a fervent belief in the value of sincere debate, I sign this letter openly and with a reliance upon the similar good faith of those who may disagree.

Finally, I want to congratulate you for pointing out so fearlessly in the "Chronicle" the broader aspects of this question. For many years I have felt that it is to be regretted that the entire capitalistic system did not have more defenders with the courage, and foresight that the "Chronicle" has shown on many occasions during its hundred year history.

J. AUSTIN WHITE.

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.

Inflation Prospects And Investment Policy

(Continued from page 2219)

you discourage them from changing over into stock speculators, you will act not only in their interest but your own—for this policy will pay you and them the best dividends over the long pull.

Note—The Professor Wright referred to throughout Mr. Graham's article is Dr. Ivan Wright of Brooklyn College, whose address at the meeting is not given at this time since his views on the subject of inflation were covered rather extensively in two articles which were written by him and published in the "Chronicle." These papers, bearing the captions, "Managing A Business For Stockholders Through The Vicissitudes Of Inflation" and "When Inflation Comes, Deflation Cannot Be Far Behind," appeared in our issues of July 8 and July 22, 1943, respectively. Ralph A. Rotnem, who presided over the meeting of the Association of Customers' Brokers, is Chairman of the Association's Educational Committee.

Mr. Graham is a former Lecturer in Finance at Columbia University, is author of "Security Anaysis," President of Graham-Newman Corp. of New York and is connected with the Treasury Department as Associate Director of New York State War Finance Committee.

Acts To Protect White Collar Wages

In a move designed to protect the salaries of the large white collar class, employed in the New York metropolitan area, against the effects of the prospective abandonment of the Little Steel formula, Thomas Jefferson Miley, Secretary of the Commerce and Industry Association of New York on Nov. 9 telegraphed President Roosevelt, the Economic Stabilization Board, Office of War Mobilization and the National War Labor Board requesting an opportunity to present the Association's views before any new policy is adopted.

Mr. Miley, referring to a statement by William H. Davis, Chairman of the NWLB, that the Little Steel Formula may have to be abandoned, wired:

"If a new formula has to be adopted whereby rates are revised upward this will still further increase disparity between take-home pay of white-collar and production employees.

"Such a result would have serious effects upon this area. The center of management of the whole United States is the New York metropolitan area. Great numbers of white-collar workers are employed here.

"Strongly urge that while no limits be set on the take-home pay of production employees, nevertheless, consideration should be given to the lower take-home pay of office and professional employees and a sliding scale adopted to prevent distress among this class."

Discussing the relationship of wages to subsidies, Mr. Davis recently said he believed it was clear to everyone that increases in the cost of food will immediately result in a demand for higher wages on a nation-wide scale and that it undoubtedly would be necessary to abandon the Little Steel wage formula. Mr. Davis told a press conference that while he believed the Roosevelt Administration's stabilization program had worked thus far, it was entering the "doubtful period." This was doubly true, he indicated, if Congress managed to forestall the developing food-price subsidy program.

Municipal News & Notes

"Because of the importance of the subject and the interest evidenced in it" at the open meeting of the Municipal Securities Committee of the Investment Bankers Association during the course of the latter's convention in New York City early in November, a summary of a report on the Cochran County, Texas, bond redemption matter is being sent to all of the members of the IBA, according to an announcement by Dudley Smith, Municipal Secretary of the IBA. The report itself was presented at the open meeting by P. B. Garrett, of Garrett & Co., Dallas, who explained that the analysis was that of the Municipal Securities Committee of the Texas Group of the IBA and said that he was presenting it at the request of W. E. Knickerbocker, chairman of the group's committee, who was unable to attend the meeting. (Further below, we give the views of B. V. Christie & Co., Houston, Texas, regarding the situation.)

After reciting a brief history of the case "for the benefit of bondholders and dealers who are not familiar with it," the summary states that while certain members of the Texas Group accepted the decision of the Texas Supreme Court as final and have proceeded to effect such refunding contracts with counties which they "considered advisable," there are, however, "a large number of Texas Dealers who continue aggressively with their plans to exhaust every possible legal avenue to overcome the damaging effects of the Cochran County decision." These dealers, the summary says, have recommended against surrender of bonds "in accordance with the call" in the belief that during the "next year" decisions will be rendered on many questions raised by the Cochran County decision, "which, in our opinion, have not yet been settled."

The summary then observes that there are many questions still to be settled, "even on the bonds directly affected by the decision and, therefore, additional litigation was recommended." Mention is made of the suit recently filed contesting the efforts of Tom Green County, Texas, to refund an issue of courthouse bonds, the original issue of which was sold by the county on a "contract which specifically stated the bonds would mature serially without option of prior payment." In addition, it is said that plans are also being made to file suit on another issue of bonds in the Federal Court and, the summary points out, "the litigation will require time, but certainly it should be well worth while when the benefits to the bondholders which may be derived from it are considered." Continuing, the summary says:

"The decision of the Supreme Court was such a shock to dealers and many municipal bond attorneys that it was felt necessary after studying the decision to determine whether or not it might possibly affect any other bonds. W. P. Dumas and John D. McCall, both nationally known municipal bond attorneys of Dallas, studied the matter and reached the conclusion that other classes of county bonds might possibly be affected under a strained construction of the law and have rendered opinions expressing these views. They considered that the bonds **directly** affected as a result of the decision are original voted issues for the following purposes:

1. Courthouse and jail,
2. Homes or schools for dependent and delinquent boys and girls,
3. County poor houses and farms,
4. Bridge construction,
5. Maintenance of public roads.

"The bonds which may **possibly** be affected are the special road and road district issues which were supported by an unlimited ad valorem tax, bonds issued to refund the original voted issues above specified, and certain non-voted county bonds authorized by a special act of the Legislature. The question of the decision affecting these other classes of bonds cannot be settled without direct test cases, and it is anticipated that test cases will probably be brought at an early date on a number of these issues.

"A notice to bidders has recently been issued by El Paso County. It is quite possible the notice may bring about a contract which may result in the various issues being tested in the courts. The date for receiving the El Paso County bids is Nov. 23, 1943, and what will happen remains to be seen." (Editor's Note: The county rejected the two bids submitted pursuant to the offering; only one of the offers was made for the total of $1,786,000 refunding bonds that were offered.)

By way of background, it should be noted that the Texas Supreme Court ruled on June 16, 1943, that Cochran County, Texas, had the right to call for redemption in advance of maturity certain of its outstanding bonds, notwithstanding the fact that no such option was contained in the bonds at the time of issue. The court ruled that the statute pursuant to which the bonds had been issued permitted the county to exercise the redemption option and, as a consequence, the State Attorney General was directed to approve the refunding bonds proposed to be issued by the county. The effect of the decision, naturally, was not confined exclusively to Cochran County, but was also applicable to the various other counties in the State having outstanding bonds that were issued under the statute in question. As a result of the court ruling, a considerable number of other counties have issued calls for redemption of various bonds coming within the orbit of the decision.

In connection with the subject, it should also be noted that the municipal bond house of B. V. Christie & Co., Houston, Texas, has issued a pamphlet entitled "The Cochran County, Texas, Decision—Its Cause and Effect." According to the bond house, the "court held that certain county limited tax bonds are optional as a matter of law," and goes on to state that the decision "covers only original voted courthouse, jail, road and bridge, juvenile home and poor house bonds, and that the total amount of bonds of the class which are held to be redeemable under this decision represent approximately 1% of all Texas municipal bonds now outstanding." The pamphlet, dated Aug. 17, last, further states as follows:

"Some publicity has recently been given by certain security dealers in the State to the effect that this decision may make redeemable unlimited tax special road bonds of counties and road districts and refunding bonds issued to refund original county bonds covered by the decision. We do not know the purpose behind this publicity but the effect is to raise a serious question as to the market value of these bonds with the result that those who sell such bonds now will be forced to sell them below their normal value. Our attorneys advise us that, in their opinion, such refunding bonds and unlimited tax special road bonds issued under the general laws **are not redeemable** under the terms of this statute and we understand that this opinion is held by other municipal bond attorneys who have studied the question. We, therefore, strongly urge the present holders of these bonds not to sell them at depressed prices brought about by any representation that they may be redeemable under the recent decision of the Supreme Court.

"Anticipating that the Supreme Court would hold that the bonds mentioned in the Cochran County case are optional and believing that the bondholders' interests could be better protected if refunding contracts were entered into prior to the court decision, we attempted to secure contracts with all counties in the State which had outstanding bonds of this class. We were successful in part and because of the contracts which we hold with several of these counties, we are able to prevent or minimize losses by holders of these particular bonds when called for redemption. Our method of accomplishing this purpose is as follows: Any holder of bonds of counties under contract with us, who purchased his bonds prior to the Supreme Court decision (June 16, 1943) and who paid a premium therefor in excess of the total interest which has accrued on his bonds from the date of his purchase to the date of call, shall be permitted to exchange his original bonds for a like principal amount of refunding bonds on the basis of par for par or, at our option, shall be paid a cash sum equal to the excess of premium over accrued interest.

"The refunding bonds bear interest at such rates that they obviously can be sold immediately at premiums which, together with the interest previously collected on the original bonds, will, in almost all cases, return the full premium to the investor. In fairness to us and those customers who have expressed an interest in the refunding bonds, we must know at once what bonds are eligible for adjustment on this basis in order that the necessary amount of refunding bonds may be reserved for exchange. Eligible holders are, therefore, urged to send us at once a full description of their bonds, including the numbers, maturities, date of purchase and price paid.

"This effort to prevent loss of premium paid by holders of these bonds is voluntary on our part. Our contracts with the counties do not in any sense require us to do so."

Railroad Securities

(Continued from page 2209)

earnings comparisons are expected to stem from more nearly comparable tax deductions. At the present time heavy excess profits taxes are being accrued, whereas a year ago a large proportion of the roads was still sheltered by carry-backs. A fair proportion of the larger tax-sheltered roads used up their entire deductions by the end of 1942 and started accruing the excess profits tax liability in the early months of 1943. When the time arrives, as it will in early 1943, when the corresponding months in each year include excess profits taxes, the year-to-year comparisons of net income will be correspondingly improved. Many rail men expect that when year-to-year earnings comparisons begin to display stability, even though the earnings will be below the wartime peaks, a better speculative attitude towards railroad securities will be generated again.

Post-War Postion Of St. Louis-S. F. Ry.

Raymond & Co., 148 State St., Boston, Mass., have issued a new discussion of the post-war position of St. Louis, San Francisco Railroad bonds. Copies of this interesting discussion may be obtained from the firm upon request.

Investment Trusts

"Virtue of Simplicity"

A letter received this morning from a dealer in the Mid-West closed with these words: "Hope some day Bureaucratic Washington will realize the virtue of simplicity." A rather forlorn hope as far as "Bureaucratic Washington" is concerned! But wherever it is important that ideas be transmitted without confusion and without loss of strength or flavor, intelligent men will strive to achieve the "virtue of simplicity."

Investment company literature in recent years, particularly the literature of the more successful sponsors, reveals a definite trend toward simplicity of language and presentation. In the mailbag this week, for instance, were a number of examples of this trend.

Selected Investments Co., national distributor of Selected American Shares, has prepared a simple little folder entitled, "Four Freedoms of Investment." Featured by its eye-appeal and readability, this little folder lists the following freedoms toward which Selected American Shares makes an important contribution to the investor:

1. Freedom from detail.
2. Freedom from worry.
3. Freedom from risks (of abnormal character).
4. Freedom from inflation fear.

"One might mention still others," concludes the folder, "Freedom to obtain up-to-date information on the company's policies and portfolio at any time; freedom from duplicate estate taxes; freedom to liquidate promptly if he (the investor) needs his money. In these ways **Selected** makes an important contribution to an investor's freedom."

* * *

Calvin Bullock's revised folder, "A Brief Description of Dividend Shares," is another example of effective simplicity of presentation. Here are a few of the points made in the folder:

"Incorporated in 1932, Dividend Shares, Inc., is one of the largest investment companies with redeemable shares in the United States. On Sept. 30, 1943 the company had approximately 40,000 stockholders and assets of more than $44,000,000. . . ."

"Dividend Shares has paid an aggregate of $22,089,907.21 to its stockholders in quarterly dividends since incorporation (of which $7,993,160.24 represents dividends derived from net profits on sale of securities). In the 11 years 1932 to 1943 the return from dividends paid each fiscal year, on the basis of the offering price prevailing at the beginning of the respective fiscal year, has averaged 5.55%. . . ."

"From the Dunkirk lows of June 10, 1940 to Sept. 30, 1943 Dividend Shares' per share net asset value increased 36.35%. In the same period the Dow-Jones Industrial and Composite Averages rose 25.29% and 30.63%, respectively. . . ."

"Dividend Shares—a low-priced, high-grade, dividend-paying security, tested over 11 years; subject to Federal regulations; managed by an experienced research organization, and combining in one security to a high degree the features of protection, marketability, satisfactory return and appreciation opportunities—is an investment security unusually well

(Continued on page 2226)

Myers In Dunkirk

DUNKIRK, N. Y.—Albert E. Myers is engaging in a general securities business from offices at 136 West Second Street.

A Plea For A Free Economy And A Limited Supply of Money

(Continued from page 2206)

mand situation in the labor market, unless they are flexible in making adjustments to changing conditions, we shall have appalling rigidity and appalling delay in making transitions and a wholly unnecessary volume of unemployment, with, of course, a very big reduction in the annual income of labor and in the real income of labor."

Probably there is no stronger argument than Dr. Anderson's for a free economy—wages and prices that truthfully reflect the supply and demand situation in the markets involved, although we have to concede that he fails to mention the money market, which is really the most important of all markets. Furthermore, we also find the following by Dr. Anderson on the labor problem:

". . . if the labor leaders of the country will prove themselves to be good merchants, study their markets, see what these markets can afford to pay, and aid in bringing about wage readjustments, can move rapidly in eliminating unemployment as we go through our post-war readjustments. If they try to hold up war-time wages after the war there are ominous things ahead. We can have gigantic unemployment and chronic unemployment just as England did in the 1920's, through wage scales held too high in the union policy."

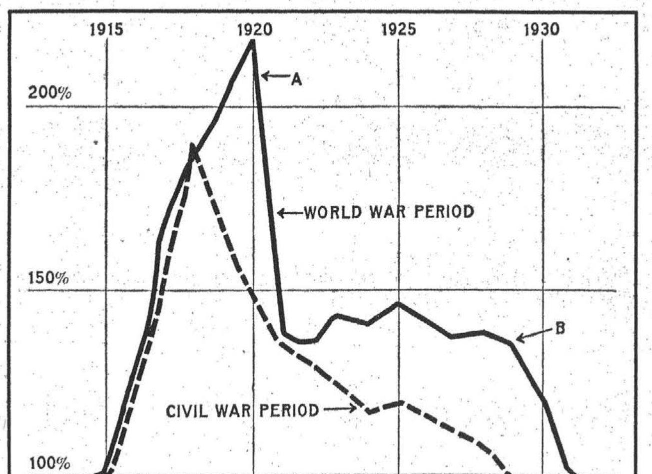
The obvious question in connection with this buck-passing proposition is: Does Dr. Anderson, in suggesting the passing of wage-rate problems over to labor leaders really intend this as a solution of the post-war wage-rate readjustment problem, to be substituted for free market processes for which he has been contending, or is this suggested possible solution brought forward to serve as an alibi to be called up, if and when things shall have gone haywire with employment, as he is sure they will unless labor leaders aid in bringing about wage readjustments with a measure of wisdom which he says no one ever possessed. The reader can figure this out for himself. It is too much for the writer.

So much for Dr. Anderson on wages. We will now look at another task he has outlined. Here is what he says he is going to try to do:

"In contrast with the policies which many are proposing for the Federal Government today, I want to exhibit first the policies employed by the Federal Government in the crash of 1920-21, and in the period of recovery to full employment that took place from August of 1921 to the spring of 1923. The picture of our policy in those years will make a very useful point of departure for the study of what our policy ought to be when the present war ends."

Following this statement of purpose, Dr. Anderson devotes much of his paper to showing what happened during 1921-23. Since the law authorizing limitless currency dates from December, 1913, we have been managing our limitless supply of currency just 30 years. When the 240% pre-war price level was attained in 1920 we had had managed money seven years. In this quotation Dr. Anderson proposes to study first the 1920-21 "boom collapse" to the 140% level. Then he proposes to take the recovery period of the years 1921-23, as he says, "for a study of what our policy ought to be when the present war ends."

We are in thorough accord with Dr. Anderson upon the desirability of studying price movements, but there is little of significance in such movements over so short a period as two years. We have, therefore, had reproduced a chart showing commodity prices over 20 years, from just preceding to some 15 years after the Civil War and World War I, respectively. These curves of Figure 1 are reproduced from a chart arranged by the National Industrial Conference Board.



The broken line in this chart shows that after the Civil War commodity prices declined rather evenly until they hit the pre-war level 11 years after the war and 14 years from the time they started to rise. The solid line of the chart shows that prices started up also with the outbreak of World War I; that they went, say, 65% higher than during the previous war; that the decline in lieu of being gradual over a decade was taken in two jumps, the first of, say, 100% of prewar prices and the second, eight years later, of, say, about 50% of prewar prices.

These eight years of commodity prices, maintained by money and credit manipulation at an artificial level, in between two abrupt declines of about 100% and 50%, respectively, of prewar prices, were years of wonderful booms—the farm land, Florida land and the bull market booms all came or collapsed within this period. To the farmer it was a most disastrous period, for it cost him, probably for all time, a large part of our export trade in wheat and cotton, lines that had been a growing factor in our production for more than a century.

The over-all result of the 12 years of the Harding-Coolidge and Hoover administrations dating from March 1921, was to leave the nation in the depths of a depression that is still kind of a nightmare to workers dependent upon employment for the support of their families. Prior to this depression Uncle Sam had never had enough unemployment for a long enough time to create the need for statistical data upon unemployment. Since these 10 years from 1930, we know what it is to have six to ten million unemployed for a nearly a decade.

In conclusion, Dr. Anderson started to tell how government can "promote post-war reemployment." After a strong plea for a free economy, he makes three pretty definite suggestions:

(a) Follow the pattern of 1921-1923.
(b) Let the labor leaders do it.
(c) Grease the ways by restoring the free movement of capital, etc.

We have shown to any one who will grasp the implications of a commodity price curve over a couple of decades that the two years selected for a pattern (1921-23) were part of a much longer effort that resulted as disastrously as any similar episode in our history.

The other two suggestions are OK so far as they go, which is a very short distance. The labor leader's excuse for existing is his ability to get something directly for those who support him. To expect him to lead off in downward revisions of wage rates is too idealistic to be taken seriously. As to removing obstructions and greasing the ways for capital—fine, but a long way from solving the problem.

What is the real solution? The real solution is to return to a free economy: not for the price and wage-rate side of the trade only, but a free economy for the money side of the trade also. We kid ourselves if we think we have a free economy with managed limitless money.

Here is what Governor Strong of the New York Federal Reserve Bank testified to on this point about 1928:

"Question: Do you think that the Federal Reserve Board could, as a matter of fact, stabilize the price level to a greater extent than they have in the past by giving greater expansion to market operations and restriction or expansion of credit facilities?

"Governor Strong: I personally think that the administration of the Federal Reserve System since the reaction of 1921 has been just as nearly directed as reasonable human wisdom could direct it toward that very object."

Governor Strong is quoted by Irving Fisher in his work, "Stable Money" (this work contains the testimony herein reproduced) to this effect:

"Fixing the price of wheat or any other price is far more difficult than fixing the general level of prices, just as it is far more difficult (impossible, in fact) to fix a little wave on the surface of a mill pond, than to regulate the level of the whole pond."

These hearings, which extended over several years, show that Federal Reserve Officials were afraid of price fixing. Governor Norris, of the Philadelphia Federal Reserve Bank, for example, testified thus:

"I am personally prepared to agree that stabilization of price levels is a desirable thing—but when we consider the enormous number of elements that enter into the price of a single commodity or the price index, is it safe, to undertake to stabilize an existing price level?

". . . the stabilization of prices is a doubtful, not to say dangerous experiment," Mr. Norris concluded.

Dr. Goldenweiser, a Federal Reserve Expert, testified to the following effect:

"Only the short-term fluctuations in the price level are felt by the public, and not the long trends. It would be difficult however, to determine what kind of trend is developing at any given moment."

Governor Norris, on another occasion, said this:

". . . the System has the power to restrict the excessive issue of currency through the provision that the Federal Reserve Board may disapprove the application of a Federal Reserve Bank for the issuance of Federal Reserve notes. **As a matter of fact, that power has never been used, because if member banks have a demand from their customers for currency, and apply to us for it, we have practically no alternative but to give it to them. . . .**" (Bold face ours.)

This testimony shows that none of these officials contemplated fixing prices or price levels, and yet, there can be no question that the funds with which prices were maintained at around the 140% level for eight years, were made available by the Federal Reserve System under the policy outlined in the previous paragraph. If we think we can delegate authority to a banking system to provide limitless money or public credit at its discretion, and still enjoy prices that tell the truth about the supply and demand situation in commodity and labor markets, we are just shutting our eyes to reality.

E. S. PILLSBURY.
St. Louis, Mo., Nov. 22, 1943.

German Peace Rumors Dismissed By Hull

Rumors that Germany might possibly be making a peace bid were discounted by Secretary of State Hull on Nov. 29 as an attempt to hinder the Allied war effort by creating over-confidence.

In response to a question at his press conference, as to whether he had any information "to support rumors that a German peace move is afoot either through the Vatican or other channels," Secretary Hull replied:

"I think I would be same in authorizing you to quote me entirely in the negative about such rumors at every day's conference until I notify you to the contrary. They are evidently put out most of the time with a view to creating over-confidence among the Allies in carrying on the war to a successful conclusion, and in that way impairing the whole vigor of the war situation on the Allied side."

Widespread reports from Europe have been current as to German peace-feeler negotiations—most of them emanating from Swiss newspaper sources.

The Swiss newspaper "Basler Nachrichten" first reported on Nov. 25 in a dispatch from the Swiss border town of Chiasso that Pope Pius XII had undertaken a mission of mediation between Germany and the Allies.

On the same date Senator Downey (Dem.) of California, said he had received information from "unusually well-informed" sources that influential Germans are attempting to open negotiations for their country's surrender, and that some United Nations leaders expect a collapse of the Reich about Christmas.

A report was circulated on Nov. 28 that a high German personage, possibly Franz von Papen, the German Ambassador to Turkey, was a visitor to the Vatican. Talk of German peace overtures was viewed in Washington on Nov. 30, the Associated Press said, as indicating that Nazi leaders have launched a propaganda offensive to counter the expected big news from a conference of President Roosevelt, Prime Minister Churchill and Marshal Stalin.

Utilities Situations Offer Possibilities

Missouri Utilities Company common stock offers interesting possibilities according to a memorandum discussing the situation contained in the current issue of "The Preferred Stock Guide" published by G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y. Copies of the "Guide" containing quotations on public utility preferred and common stocks may be had upon request from G. A. Saxton & Co. Also available are interesting memoranda on Utilities employees Securities Company bonds and notes, 6s of 1981; and the $6 cumulative preferred stock of Green Mountain Power Corporation.

The Securities Salesman's Corner

Personal Integrity Is The Foundation Of Success In The Securities Business

The other evening a few of us who have been selling securities long enough to remember a few things which might better be forgotten were discussing a most interesting subject. The point at issue was what is the most important personal asset that anyone should have in order to be consistently successful as a salesman of securities.

Of course, when a group of old-timers get together, a number of observations can be made upon this subject. With the help of an elusive half-bottle of Scotch, we finally decided that one thing in particular was absolutely essential if you wished to make a success AND STAY IN THE SECURITIES BUSINESS. "You either have it or you don't, and if not, you might as well bow right out of this business." So said our own version of Mr. Clifton Fadiman and the rest of us experts agreed.

He was referring to **inherent personal integrity.** The sort of thing that is part and parcel of some men; who, when they speak to you, impress you with the fact that their sincerity is genuine and that the things they say ring true.

After all, when you go back in your own memory and think of all the individuals who have come and gone among your own acquaintance, it can be proven that those who have stayed in the business and have weathered the stormy years we have passed through, have not been the outwardly brilliant, personality-plus boys, but those who have built their business solidly and conservatively.

This was obvious right in our own little group. None of us would qualify as outstandingly gifted talkers, nor were there any of us who would get a second nod from a Hollywood talent scout. We were just plain, ordinary, average individuals that no one would ever recognize as the type that many laymen would think of as typical "Wall Street Stock and Bond Salesmen." Yet, each one of us had been making a substantial living out of the securities business and some were doing even better than that.

There is probably no other business that pays such a handsome reward for knowledge, based upon a foundation of integrity, as does the investment securities business. If you have judgment that is sound, if you know security values, if you can sell the right type of security at the right time to your clients, if you know what your clients NEED and supply it, and if you do these things with the earnest purpose of MAKING CUSTOMERS AND KEEPING THEM, it is academic that you will prosper and build up a substantial and satisfied clientele.

It is strange that by this time the SEC doesn't recognize that this is true. This may be an unfair charge, but based upon the record we doubt it. It is such an obvious fact to anyone who knows the securities business, that it is difficult to conceive of anyone not realizing that out of all the businesses that exist today, there are few instances where personal integrity, fundamental honesty, and sound ethical business principles pay such large rewards as does the securities business. In other words, only the damned fools, the floaters, the fly-by-nights, and those who don't know any better, are the ones who abuse customer confidence and take advantage of fleeting opportunities for inordinate profits. Yet the SEC continues to look for every opportunity of restricting the industry as a whole. Straitjackets are placed around the operations of individual firms and individual salesmen. No differentiation between the wheat and the chaff is ever made by the Commission. It has never taken the position that the bulk of the industry can be put upon its own resources and that most of the successful, responsible people engaged in the business can be trusted with fairness and can be dealt with, without suspicion.

It might be a very helpful procedure for everyone concerned if some day Congress amended the Securities Acts so as to provide that at least a portion of the enforcement and executive officials of the Commission must be selected from those who have had at least five to ten years experience in the securities business—and in the writer's opinion some of this experience should be in the retailing of investment securities.

Retailing is where you meet the public, sit down with them, hear their problems, gain and keep their confidence, and help them find investments to fit their needs. It is where you learn that our friend was right when he said, "You either have it or you don't." And if you do—you don't need a policeman to stand over you every time you sell Mrs. Jones ten shares of stock—because Mrs. Jones also knows that unless you have that personal integrity we have been talking about, you might sell her once, but very seldom will you do it again. Successful securities men know this too.

Managem't Conference To Be Held In N. Y.

A conference on management problems of conversion, sponsored by the Society for the Advancement of Management, will be held tomorrow and Saturday (Dec. 3 and 4) at the Waldorf-Astoria Hotel in New York City. The conference will cover various aspects of the conversion problem, including manpower utilization, planning techniques and cost reductions for the post-war period. Prominent representatives of management, labor and government will take part in the conference, which will be the third national meeting sponsored this year by the Society in an effort to develop plans for all phases of management's conversion problem.

Senator Harry S. Truman (Dem. Mo.), Chairman of the Senate's war investigating group, will be the principal speaker at the dinner meeting on Dec. 3. Among others scheduled to address the conference are R. J. Thomas, President of the United Automobile Workers (CIO); Van A. Bittner, labor member of the National War Labor Board and Assistant to the President of the United Steel Workers (CIO); Dr. George B. Bewkes, of the War Manpower Commission; Donald Davenport, Department of Labor official; George W. Romney, Managing Director of the Detroit Automotive Council for War Production, and Paul Smith, Manager of the Buffalo War Production Board.

Tickets for all meetings of the two-day conference will be available to the public.

Attractive Situations

National Radiator Company and Public National Bank & Trust Co. offer attractive possibilities according to circulars discussing these situations prepared by C. E. Unterberg & Co., 61 Broadway, New York City. Copies of these circulars may be had upon request from C. E. Unterberg & Co.

Bank and Insurance Stocks

This Week—Bank Stocks

By E. A. VAN DEUSEN

Things are stirring in the banking world. A nationwide trend to strengthen the ratio of capital funds to total deposits seems to be starting. This column discussed on Oct. 7, 1943, changes in capital funds already instituted during the year by Bankers Trust, Chase National and New York Trust, of New York City. This week recent and proposed capital changes by banks in Chicago will be reviewed.

Directors of Continental Illinois National Bank & Trust Co., which is Chicago's largest commercial bank, have called a special meeting of shareholders for Dec. 17, 1943, to vote on a plan to increase its capitalization. The latest balance sheet, dated Oct. 18, 1943, shows the following figures:

Common stock	$50,000,000
Surplus	50,000,000
Undivided profits	26,258,000
Total capital funds	$126,258,000
Deposits	$2,385,685,000
Deposits to capital funds	18.9
Number of shares	1,500,000
Book value per share	$84.17
Approximate Market 107¼ bid—110¼ asked	

The proposed increase in capitalization involves a 20% stock dividend to present stockholders, i. e., one additional share for each five held; and a transfer of $20,000,000 from undivided profits. The capital set-up after this change, including an estimated $1,500,000 credited from current earnings to undivided profits, will be about as follows:

Common stock	$60,000,000
Surplus	60,000,000
Undivided profits	7,558,000
Total capital funds	$127,558,000
Deposits	$2,385,685,000
Deposits to capital funds	18.7
Number of shares	1,800,000
Book value per share	$71.00

It will be noted that actually no new capital is being furnished the bank, and that the so-called increase in capital and surplus is a bookkeeping increase, yet one that will result in the bank's paying out 20% more of its earnings as dividends, since the directors state that the current rate of $2.00 per share semi-annually will be continued.

Another Chicago bank, American National Bank & Trust Co., announces a change in capitalization of a different character. Its stockholders on Nov. 19, 1943, approved the issuance of 5,000 new shares of common stock to be offered present stockholders at the par value of $100 per share, on the basis of one new share for each two shares held. There will also be issued 5,000 additional common shares through a 50% stock dividend on the 10,000 common shares currently outstanding. At the same time the present $600,000 of preferred stock will be retired. The balance sheet for the third quarter of 1943, showed the following items:

Preferred stock ($100 par)	$600,000
Common stock ($100 par)	1,000,000
Surplus	2,500,000
Undivided profits	743,190
Total capital funds	$4,843,190
Deposits	$134,652,220
Deposits to capital funds	27.8
Number of shares (com.)	10,000
Book value (common)	$424
Approximate market 327 bid—337 asked	

After the proposed capital changes are effected, the balance sheet items, assuming $100,000 credited to undivided profits from current earnings, will be substantially as follows:

Common stock	$2,000,000
Surplus	3,000,000
Undivided profits	343,190
Total capital funds	$5,343,190
Deposits	$134,652,220
Deposits to capital funds	25.3
Number of shares	20,000
Book value per share	$267

Dividends on the 10,000 shares during the past three years have been at the annual rate of $8.00; it is expected that the January dividend on the 20,000 shares will be at the annual rate of $6.00. Final action with respect to the stock dividend is dependent on no unfavorable changes by Congress on the tax status of stock dividends.

First National Bank, Chicago, also proposes to increase its capital shares through a stock dividend, provided the tax status of such dividends is not upset by Congress this year. The latest balance sheet of this bank, dated Oct. 18, 1943, shows the following items:

Common stock ($100 par)	$30,000,000
Surplus	50,000,000
Undivided profits	5,319,000
Total capital funds	$85,319,000
Deposits	$1,969,006,000
Deposits to capital funds	22.8
Number of shares	300,000
Book value per share	$284.40
Approximate market 376 bid—381 asked	

The proposed stock dividend, if authorized by stockholders at a special meeting late in December, will be 66⅔%, thereby increasing the bank's capital from $30,000,000 to $50,000,000. Funds will come from surplus and reserves. The revised balance sheet items after the proposed change, and assuming approximately $500,000 credited to undivided profits from current earnings, will be about as follows:

Common stock ($100 par)	$50,000,000
Surplus	40,000,000
Undivided profits	500,000
Total capital funds	$90,500,000
Deposits	$1,969,006,000
Deposits to capital funds	21.8
Number of shares	500,000
Book value per share	$181

The bank is expected to pay dividends on the 500,000 shares at the rate of $8.00 a year, compared with $12.00 per year on the 300,000 shares.

Suggestion For Organization For Post-War International Finance

(Continued from first page)

sources. It has also been shown that long-term credits, of such unwieldly size that they cannot be serviced in times of some stress, will add materially to the difficulties of any period of recession. When such weaknesses are known to exist, a slight reaction in general trade activity checks further liberal extensions of credit, leads to a general pulling in of horns, accelerates liquidation, and finally leads to crisis and default. The sale of exports against unsound credits of any type has not proved to be advantageous in the end.

Usual business considerations probably cannot govern all aspects of our immediate post-war foreign trade policy completely. Consideration will be given to foreign relief. But the United States cannot feed the world, because it does not have enough food. It cannot supply all the denuded working inventories of Europe. It can help by supplying *some* food, *some* other consumers goods, *some* raw material, and *some* semi-manufactured goods. But the available supplies will necessarily fall short of the needs, and the means of foreigners to pay for them will fall still shorter. For these reasons, the aid to be extended is already planned to include measurers to assist distressed populations to recover their own productive power by such methods as sending them seed and other supplies which will enable them to raise enough, as soon as possible, to avoid further famine. Aid could also be given by making available our "know how" on many problems. Because of the limited supply of goods available for export, and the limited means of Europe for making payment, it will be necessary to extend aid with the best practical combination of economy and efficiency, if the job is to be well done.

An excess of exports over imports, if a large proportion of the exports fall into the category which does not produce the means of paying for them, supplies an unsuitable basis for credit, because the credits will not only be beyond the capacity of the importers to pay immediately, but no means will have been created by which payment may be made in the future. Huge so-called "favorable" balances of trade in the immediate post-war years will constitute a gift to the extent that they represent the sending abroad of physical merchandise in exchange for credits which will not be paid. They will even be in small part a gift, when they are exchanged for gold which earns us nothing. To create a mass of credits of poor character will not only deceive ourselves, but will create conditions which will ultimately prove to be detrimental to trade conditions throughout the world. The only approach which can offer any hope of effecting a really satisfactory solution is one which is realistic, takes off the rose colored glasses, and does not exaggerate the possibilities. It must have some similarity to the Churchill promise of "Blood, Sweat, and Tears," rather than the promise to supply everything to everybody at somebody else's expense. It must face the fact that any so-called "favorable" balance of trade, to the extent that it is financed by uncollectable credits, is a gift. To the extent that such exports are gifts, they can be properly financed only by the Government.

The demand for goods which need not be paid for, or which may be bought against over liberal payments, will be almost without limit. The practical limitations of our exports should be the sum of the following:

1. The amount of internationally liquid resources already available to importers abroad.

2. The amount of the means by which importers may pay us, created by our then current imports.

3. The amount of truly sound long credits collectible on the installment basis which the importers may be able to sell to us.

4. The amount of profitable equity investments, natural resources, or other property abroad paid us in exchange.

5. The amount which we are willing to give away knowingly.

It is desirable first to determine what we mean to give away, and with what restrictions, and then to see to it that the credits which we extend are only those which can be liquidated according to their terms. To go beyond these limits is not only to make gifts without immediately realizing that they are gifts, or without caring, but also to create unsound credits, the existence of which will in the future produce liquidation and crisis. Such events always follow the extension of credits without proper consideration of the means of paying them.

The instrumentalities through which the credits are extended are less important than the underlying realities, and no instrumentality, however appealing in name or apparent purpose, can change, overcome, or disregard the underlying realities without disaster. The success of any financial instrumentality lies in its skill in interpreting, applying, and obeying the limitations of the underlying realities, and not in any ability to disregard them by ingenious devices. It cannot so disregard them with success merely because it is large, national or international in its scope. An international clearing arrangement will not work successfully merely because its assets and liabilities are express in Bancors or Unitas, or any other monetary unit, if the amounts owed by it to each participating nation vary by more than small amounts from the amounts due to it by each such participating nation. If the United States, by reason of its creditor position, ultimately is found to own a very large proportion of the deposits of the clearing organization, but the assets of the organization are obligations due chiefly from other nations, the organiaztion will be illiquid, and unable to meet its obligations on demand or short term, when it is subjected to any strain. It will btcome a frozen institution. Clearing accounts should be clearing accounts, and should not be classified as such when they are actually illiquid, and therefore long. What are in fact long-term obligations should also in name and provisions be long-term obligations. Therefore, the clearing organization should be liquid within the limits of seasonal and other very short time variations, and if there is any tendency for short credits to become illiquid by reason of their unbalance, balance should be restored by arranging for long credits to maintain balance, or by changing exchange rates sufficiently to bring about balance. If it appears to be impossible to restore balance by either of these methods, then it will be entirely impractical to extend long credits in the disguise of short credits.

We arrive thus at the general principles that (1) what cannot be exported against imports, sound credits, or in return for other valuable assets abroad, should be supplied as a gift, or not at all, (2) that credits extended to foreigners which have a short maturity should be kept liquid in fact by not permitting their volume to exceed the liquid resources which are available to pay them, (3) when the international short-term obligations of any nation and its nationals begin to exceed their liquid resources, balance should be restored by adjustment of exchange rates, or by extensions of long credits, and (4) long credits should be extended only to the extent that they are sound and can really be serviced.

It is probable that the American people will want to give something towards the relief of post-war distress in Europe, and that they will be willing to supply more help in exchange for certain assets abroad, and in exchange for a limited amount of credits. Those in this country who benefit personally from the sale of goods which we will give away, or send abroad in exchange for such assets or credits, will surely favor such transactions. In fact, exporting interests are always likely to favor too extensive gifts and credits. It will, however, be to the best interests of all to preserve a sense of the proper relativities in these matters, and not allow enthusiasm to carry us to extremes which do not take a sufficient account of the practical fundamentals and realistic limits.

An international organization or organizations designed to clear international credits, and to arrange and pass upon intermediate and long credits could be capable of great service as a central point at which the necessary information as to the status of international balances of accounts of the various nations could be collected, and as an advisory and consultative body on long credits and all monetary matters. Its influence could be of great value. But it will succeed only if it follows realistic and sound policies. This in turn will depend partly on the men who manage it. It seems reasonable to assume that the management of such an organization would be experienced and able, and their acts would be sound, especially if the design of the institution does not permit it to allow the amounts due and from each clearing nation to get out of balance, or permit it to commit any nation to extend intermediate or long credits, which are not fundamentally sound.

Whether or not such an organization comes into being, we will gain little from a large accumulation of unpayable credits due from foreigners, or from further extensive additions to our gold stock, which will earn us nothing. Therefore, it would seem reasonable for us to refuse to sell abroad in exchange for an undue amount of either of these types of assets, or even of foreign natural resources or other foreign assets.

If the United States is to become a lender to foreigners on a large scale, and is to obtain the benefits of owning large resources abroad, she must realiez that a major change in other policies is unavoidable. She cannot obtain payment on any large amount of foreign credits, or receive the full benefit of natural resources owned abroad, unless she is willing to become a liberal importer. In theory the extension of our industrial system to industrially undeveloped areas offers a very great market for our machinery for a long period. This would give employment in our machinery manufacturing industries. But if we are to adopt this policy, we cannot receive payment of the long credits on which such machinery would have to be sold if it is to be sold in quantity, unless we are willing to accept imports in payment. All the imports would not necessarily have to be goods manufactured by the machines which we had exported. They might be tea, natural rubber, chromium, tungsten, or anything else that we do produce ourselves. But the quantity of imports of materials that we do not produce ourselves, and would like to import, would probably be limited. Therefore, the products of the machinery that we had exported would probably compete with our own manufactured goods, not only in the markets of the world, but even at home. It is possible, therefore, that the exports of our latest types of machinery, and their use by cheap foreign labor, might have an adverse effect on employment and wages in industries other than the machine tool industries. The policy of becoming a large lender and exporter to foreigners and a large owner of foreign resources would, therefore, necessarily and inevitably connote policies as to imports not likely to be acceptable to much of our labor and domestic industry.

It seems probable that this country will gain more by devoting its attention primarily to the development of domestic industry, as in the past. The possibilities within the country are still almost unlimited. The law of progress is a law of acceleration. Each discovery, instead of closing the door to further progress, opens larger vistas of thing to be done. For example, improved transportation has made it possible to cover great distances in a mere fraction of the time formerly required, but this has not caused less time to be spent in travel. On the contrary, the amount of travel has increased as travel has become easier, and far more time is spent in travel than ever before. Improvements in the construction of, and facilities within homes have not decreased the demand for housing or the conveniences within them, because standards and demands have risen fully as fast as the means of satisfying them have been devised. There is no limit to the domestic demand for the products of our industry as a whole, provided they can be made at the right price, and labor can be fully employed in making them — that is to say, provided there is a proper adjustment among the multitude of factors in our economic interrelationships, which from time to time get out of adjustment, especially when there is a war. Unfortunately, we are able to see only very imperfectly by means of statistics, or the use of pure economic theory, what the nature of these maladjustments may be, and what may be done to overcome them. This is due in part to the fact that such unchartable matters as styles, individual preferences, customs, the progress of research, and weather are involved. The answer with respect to many such matters can be determined only by the intangible "experience" or "judgment" of men who have spent their lives in particular specialized activities, or by the process of trial and error in actual practice. For this reason, overall "controls" and "planning" are suitable only for general and rather crude adjustments. They produce better results than the ordinary operation of unrestrained economic forces when the interrelationships of supply and demand are thrown very far out of line by war, but they are inferior to the operation of ordinary economic forces in normal times, because they are insufficiently sensitive, and do not permit individuals to express either their desires or their abilities freely. Success with our domestic industry lies not so much in grand attempts to plan the accomplishments of our industrial geniuses, which cannot be planned, as in avoiding the creation of unsound credits or unsound financial programs which result in periods of great financial and business confusion, and in preserving freedom of opportunity for creative effort. Grandiose schemes for public construction, and undue reliance upon the creation of indebtedness, public and private, are not likely to produce the kind of results that are hoped for, because many Government enterprises compete with private enterprise, and many are not self-sustaining, if all costs are taken into account. The creation of large make-work projects financed by debts connotes heavier graduated taxes, or in other words, increased penalties on success. Debts to finance such enterprises increase the inflexibility of the financial structure, and decrease its power to adjust itself to change. The net effect of this sort of approach to the problem is either negligible, or in the direction of retarding business activity. This is shown by the small size of the demand for new capital by private industry in the entire decade before the war, and by the low level of interest rates which then pertained—a clear indication of a lack of vitality in the business situation. The ideal solution would obviously be to find enterprises which can be self-sustaining, and which can be financed even in depression by sale of equity securities, or directly from savings, thus increasing the flexibility of the financial structure, and tending towards a reduction of the penalties on business success. It seems more than likely that we can progress at an even faster rate than in the past, if we do not allow our economic and social structure to be frozen by creation of excessive and unbalanced credits, overorganization, unnecessary restrictions, cartels, trusts, and other excessive regulation, but seek rather to preserve a high degree of decentralization, to enlarge the opportunity for creative ability, and to maintain a high degree of flexibility. Reduction of the tax penalties on success, changes in the tax laws to encourage the installation of new equipment and hasten the obsolesence of old machinery, measures to promote the discovery of new and less expensive ways to build, and measures to stimulate rather than to repress the flow of equity capital into industry are among the things which may be done to encourage forward action by central policy. If we realize that technological progress creates jobs and better pay, instead of creating unemployment, we will have laid the foundation for recovery. Thus were all the jobs in the automobile industry, and all those in collateral activities, created out of nothing in a little more than 25 years—jobs which simply did not exist before. Standards and demands rise fully as fast as the means for satisfying them are devised, and speeding the discovery of ways and means of satisfying them more abundantly and more cheaply is the mainspring of progress towards the abundant life. It will, nevertheless, be desirable to continue price controls and rationing of products, the demand for which will be entirely out of line with the supply for a brief period after the war. In no other way will it be possible to prevent unwarranted temporary increases in prices, and the creation of unsound credits against inventories at such prices, which will later produce difficulties, losses, and at least a temporary period of readjustment and stagnation. But such restrictions should be continued only with respect to those commodities in which a marked degree of unbalance exists between the demand and the supply, and they should be removed as soon as the state of marked unbalance has disappeared. Thereafter, business men will be able to lay their plans on the basis of their knowledge of their own industries, and will not have to guess what action is going to be taken by central planners. Then they can proceed confidently with their plans.

The course of our foreign trade cannot be fully planned, nor is it desirable that it be so planned, because so much will depend upon events at home and abroad which cannot possibly be forecast. We can determine the demands which we will make upon foreigners in payment for lend-lease or other aid, but, in this connection, we must also consider what we are willing to import in payment, or what exports we are willing to give up so that we may be paid. To demand payment, but to refuse to take it in the only ways in which it can be made would be to repeat the shortsighted French attitude towards German reparation payments after the last war—to demand what sounds and is morally just, but what is not practically possible—thus creating a condition of unbalance in the exchanges which will ultimately constrict trade for years. We may determine that it is impracticable to ask for any return from lease-lend, except what may be obtainable in the form of concessions for air bases, or possibly a limited amount of certain natural resources abroad. We may also determine specifically what we are to give away for the relief of Europe. We may take some part in some international clearing arrangement, if we finally decide that it will be advisable. In any event, we know that there will be a state of great unbalance in the international accounts of many nations, including our own. The demand for various commodities which enter into international trade will be, at least temporarily, far beyond the supply available for export, and far beyond the volume of liquid resources of many importers to pay for them. This will reflect itself in a great unbalance between the demand for and the supply of dollar exchange, and will require measures for temporary control designed to prevent the erection of a large mass of unsound credits, arising from our international activities, exactly as price control and rationing will be necessary for some time for the same purpose in the case of some domestic commodities. There may be certain other ways in which we can plan certain aspects of our foreign trade and international business relationships for a time, such as through bilateral or multilateral tariff arrangements. But in the main we have cited the only principal ways in which our foreign trade can be centrally planned to advantage.

Unless we are to leave the extension of our credits to foreigners to an international organization of some type, which seems hardly likely, or entirely to our Government, there will be a place for a domestic organization designed to take a part in our post-war international financing, and to exert an influence in the direction of preventing the erection of a large volume of unsound credits, while at the same time approving credits which seem likely to be advantageous either directly, or because of their contribution to international trade conditions in general. It is to this aspect of the problem that our attention is primarily directed. Under the extraordinary conditions likely to exist for some years after the war, the risks would be minimized by provisions for a limited profit corporation of the kind hereinafter described, which we call for convenience, Federal Finance Corporation, or simply the corporation, with a nominal capital owned by commercial banks engaged in foreign finance.

This corporation would be semi-public in character, and might have nine directors elected by its stockholders. Four of such directors might be officials of commercial banks, four might be representatives of commercial concerns engaged in foreign trade, and one an official of one of the Federal Reserve Banks.

Legislation would be required to give the corporation the following powers:

1. The right to require reports from banks, banking institutions and others giving such information as may be pertinent and necessary to enable the corporation to know the status of balances due to and from each foreign country and its nationals in their relations with the United States, and any other facts concerning our foreign financial transactions which may be necessary to enable it to carry out its functions intelligently.

2. The right to determine daily official exchange rates (buying and selling) for all other currencies, not on a gold basis, in terms of the dollar, which rates would be the rates to be paid or charged, as the case may be, by all banks, banking houses, and others in the United States, to the extent that such power is not delegated to any international organization.

3. The law under which the corporation would be set up would require that such exchange rates be set with a view to maintaining a reasonable degree of balance between the amount of short credits and current funds due from this country and its nationals to each foreign nation and its nationals, and the amount of the short credits and current funds due to this country and its nationals from such foreign nation and its nationals, provided that in determining whether or not such a balance exists in the case of any foreign nation, the corporation might, if in its opinion in the public interest, disregard all or any part of any excess of such short credits and current funds due from this country to such foreign nation and its nationals over the amount of such short credits and current funds due to this country from such foreign nation and its nationals, at the time the corporation commenced operations.

4. In the event that the corporation believes that it is in the public interest to restore a closer degree of balance between the current funds due from or to any nation and its nationals, it shall take such of the following actions, and in such degree, as it shall deem advisable:

(a) Alter the buying and selling prices in dollars for the currency of any such nation, provided that such nation is not on the full gold standard basis.

(b) Suggest to the Secretary of the Treasury that the Stabilization Fund or any other fund that may be voted by Congress for the stabilization of foreign exchange rates be used for this purpose.

(c) Suggest or approve the granting or public sale of intermediate or long-term credits in the United States, provided that it believes that such credits are suitable for investors in this country. In the event that it finds that no lenders are willing to extend such credits, and that no underwriter is willing to sell them in the United States, or it believes that such credits involve an undue risk for investors, it may suggest that the borrower apply to the Secretary of the Treasury for a guarantee of a portion of the interest and principal of the proposed credit. This power would be exercised by the Secretary of the Treasury within such limitations, and for such purposes as Congress would by law prescribe. It is assumed that the proportion of the principal and interest of any loan to be guaranteed would be selected by the Secretary within the range of 25% to 75%, as the particular case might require.

(d) If necessary to prevent the undue accumulation in this country of balances due to any foreign country or its nationals, the corporation would have power to impose restrictions on capital movements towards the United States, through rules and regulations applicable to banks, banking houses, and others engaged in foreign trade and finance.

5. The corporation would have power to approve all long-term credits (maturity more than 18 months) granted to foreign countries or their nationals by any bank, or financing or financial institution in this country, and all foreign issues offered by underwriters in this market, and no such credit or sale would be permitted without such approval.

6. The powers and duties of the Securities and Exchange Commission with respect to foreign loans would be transferred to the corporation, but no loan partially guaranteed by the United States would have to be registered.

7. The corporation would be required by law to consult with the following with respect to all such matters as shall be appropriate for such consultation:

(a) The Secretary of State.

(b) The Federal Reserve Board or a Federal Reserve Bank.

(c) The Secretary of the Treasury.

(d) Any international organization for the clearing of foreign transactions, or the granting of foreign credits, in which the United States shall be a participant.

8. The corporation would be sustained by a system of charges to underwriters for examination of applications to sell foreign credits in this market, and to others granting long credits not offered through underwriters, and by a system of charges on all foreign exchange transactions within the United States in which both of the currencies involved are not on a full gold standard basis, but so limited as to provide the corporation with no more than a reasonable reserve for future operating expenses and a reasonable return on its capital.

In addition, changes in our banking set-up should be made such that gold movements will no longer change the volume of reserves of banks which are members of the Federal Reserve System, and thus remove an influence which may, under the extraordinary conditions with which we are likely to be faced, interfere with the convenient execution of domestic monetary policy.

OUR REPORTER'S REPORT

At least two and possibly three large syndicates are expected to seek the Illinois Power Co. (formerly Illinois-Iowa Power Co.) $65,000,000 of first mortgage and collateral trust bonds when bids are opened next Monday.

This undertaking will represent the largest single offering in the new issue field in recent months and will be handled, naturally, by a syndicate that has prepared itself for nation-wide distribution.

It will serve, moreover, to start the current month off properly from the dealers' point of view since the business is of proportions which will demand work in marketing.

However, since the market had experienced a veritable dearth of new offerings, until the middle of last month, dealers have had ample opportunity to work off unsold balances of other issues and their shelves are literally bare.

Meanwhile behavior of most recently marketed public utility issues suggests a receptive market. Institutional investors have been hard put to find outlets for their funds, except, of course, in Government loans.

While they have been buyers of the latter securities on a huge scale, there is nonetheless a disposition to seek out corporate obligations when these are available.

Central Power & Light

The Central Power & Light Co.'s $25,000,000 of first mortgage 3⅛% 30-year bonds, offered publicly yesterday at 99½, brought out bids from three banking groups on Monday.

And the spread between the winning bid and that made by the third competitor indicates that bankers have their own ideas as regards the market and prices.

The winning tender yielded the company a price of 98.269 and was a full 1.30 points above the lowest bid of 97.139. The third bidder came in between, offering to pay 97.259 for the issue.

Latest reports last night indicated that the bonds were moving out in satisfactory manner to investment sources.

Another Issue Clears SEC

With its refinancing plan, as amended, having passed muster at the Securities and Exchange Commission, subject to certain conditions, the Utah Power & Light Co. should be sending out a call shortly for bids on its projected new offering.

This deal involves the sale of $42,000,000 of new first mortgage bonds which will provide funds necessary to finance the retirement of $32,187,000 outstanding mortgage bonds of the company and $11,813,000 additional of subsidiary company obligations.

The Commission qualified its approval of the program to the extent that the company must agree to eliminate alleged write-ups and other inflationary items involving $32,000,000 in accounts of subsidiaries, and adjust its equity capital to one class of stock.

Dealers vs. Underwriters

Underwriters who have maintained close working affiliation with well-established dealer firms are finding that such associations are paying big dividends these days.

Discussing this particular phase of the investment set-up, an official of one of the largest underwriting houses pointed out that dealer firms have not been hit nearly so hard by the draft and other consequences of the war as have the larger organizations.

Consequently, he said, whereas the bigger firms have lost many of their active salesmen, usually the younger fellows in an organization, and thereby their direct contact with many investors, the dealers, on the other hand, mostly older men and long in the business, are still able to go out and do a real selling job.

Memorial Service To Honor War Dead Of NYSE Community

A memorial service in honor of the members, partners and others of the New York Stock Exchange community who have made the supreme sacrifice in the war will be held on Dec. 7 in Trinity Church, Wall Street and Broadway. The half-hour service will commence at 8:45 o'clock a.m.

Prayers will also be offered at the solemn service for the 5,632 Stock Exchange associates, who are on the far-flung battle-fronts of the world. The service will be conducted by the Rev. Father Donald H. Morse, and the Rev. Dr. Frederic S. Fleming, Rector of the Parish of Trinity Church, will deliver the memorial address.

Emil Schram, President of the Stock Exchange, invites all members, partners and employees, as well as members of the financial community generally, to attend.

"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 2209)

ket (with rare exceptions) refuses to act as a unit. One part of the market may indicate higher prices, while at the same time another part indicates lower prices. Frequently both are right at the same time. A farm bloc clamoring for higher commodity prices should mean the renewal of inflation fears with the market acting as a mirror for all these fears. Yet we know that despite Congress' willingness to give certain interests what they seek the market has refused to budge. Attempting to analyze all the known factors and applying them to market forecasts seem only to stir up an already muddy pool.

* * *

Based on market action alone, however, certain stocks act well enough to warrant a little nibbling; but nibbling only. Don't take a mouthful. You may not be able to swallow it, and if you can, you may get indigestion.

* * *

I still consider U. S. Steel as the leader in any new move. If Big Steel can't go anywhere, I don't think the rest of the market will go anywhere either. So I advise buying U. S. Steel between 46 and 48. I know this means lower prices, but that's what I expect. I have some other stocks in mind but I would like to watch them for another week before I recommend them.

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.]

Treasury Renews Request For $10.5 Billion In New Taxes But Opposes Sales Levy

(Continued from page 2206)

After presenting the Treasury's proposed tax boosts, Secretary Morgenthau was questioned by Committee members as to the merits of a sales tax. He reiterated the Treasury's position that it was not recommending any type of sales tax and that its opposition to compulsory savings was unchanged. Mr. Morgenthau said he had no "phobia" against the sales tax but believes it is the least desirable of all methods of raising additional revenue. He also expressed the opinion that the House bill "falls far short even of an attempt to meet our fiscal needs in a realistic and courageous way."

In Associated Press advices from Washington Nov. 29 it was stated:

Mr. Morgenthau's renewal of the Treasury recommendation for a tax shift which would lift income levies off about 9,000,000 persons in the lowest brackets was accompanied by the assertion that this group would pay out about $1,000,000,000 through increased excise levies. This prompted Chairman George to assert that the figure showed the sources of some of the inflationary pressure on prices.

"It seems very clear," he said, "that if these 9,000,000 people are spending anything like $1,000,000,000 in excise taxes, that you are close to the inescapable conclusion that there is a tremendous pressure on prices in that group."

Senator George asked whether it was Mr. Morgenthau's position that the Treasury was not recommending any type of sales tax and that its opposition to compulsory savings was unchanged.

"That is correct," the Secretary replied.

"If we are to step up taxes, in view of the already rapid step-up that has been made, then the committee probably would want to take the view that all methods of rasing taxes ought to be left open, even though you don't agree," Mr. George said.

Randolph Paul, General Counsel of the Treasury, also appeared before the Senate group on Nov. 25, testifying in opposition to several phases of the House-approved bill. Mr. Paul particularly criticized the House's formula for integrating the present 3% Victory tax with the regular income levy and also said the Treasury would prefer higher normal and surtax rates for corporations to the excess profits tax rate increase voted by the House.

The debate in the House on Nov. 24 for passage of the $2,140,000,000 revenue measure was led by Representative Doughton (Dem., N. C.), Chairman of the Ways and Means Committee, and by Representative Knutson (Rep., Minn.), ranking minority member of the Committee. A reference to the bill appeared in our Nov. 25 issue, page 2125.

A summary of the $2,140,000,000 tax bill adopted by the House follows, according to United Press advices:

Personal Income Taxes

The present 5% Victory tax is integrated with the normal income tax; technically, the Victory tax is repealed, but the normal income tax rate is raised from 6 to 10% and the earned income credit provision of existing law is repealed to make up the revenue derived from the Victory tax. A few slight changes also are made in the surtax schedules to effect the integration. The changes result in slight decreases in taxes due in some of the lowest brackets, and slight increases in brackets starting at about $2,500 for a married person with no dependents, or $4,000 for a married person with two dependents. In all, the changes are expected to yield an additional $154,800,000.

Corporation Taxes

Present corporate normal and surtax rates are retained. The excess profits rate is increased from 90 to 95%. The present 80% overall ceiling with respect to corporate normal, surtax and excess profits taxes is retained.

A new schedule is adopted which reduces the invested capital credit with respect to invested capital in excess of $5,000,000, for purposes of calculating the excess profits tax. The new credits allowed are 8% for the first $5,000,000; 6% on $5,000,000 to $10,000,000; 5% on $10,0000 to $200,000,000, and 4% on more than $200,000,000. Present rates, on the same amounts, are 8, 7, 6 and 5%, respectively.

The specific exemption credit allowed for excess profits taxes is increased from $5,000 to $10,000.

All corporate tax changes are expected to yield $616,000,000 more than present law.

Excise Taxes

These excises would be increased, yielding an estimated additional $1,201,700,000:

Distilled Spirits—From $6 per 100-proof gallon to $9; yield $370,000,000.

Beer—From $7 a barrel to $8; yield, $70,000,000.

Wines, Still — Under 14%, 10 cents a gallon to 15 cents; 14 to 21%, 40 cents a gallon to 60 cents a gallon; over 21% $1 a gallon to $2; sparkling, 10 cents a half pint to 15 cents; other wines, 5 cents a half pint to 10 cents; total yield, $18,000,000.

Electric Light Bulbs and Tubes—5% of manufacturers' sales price to 25%; yield $20,000,000.

Jewelry—10% of retail price to 20%, yield $72,500,000.

Fur and Fur-Trimmed Articles—10% of retail price to 25%; yield $54,800,000.

Luggage, Handbags, Wallets, etc.—10% of manufacturers' sale price on luggage only to 25% of retail price on all; yield $53,400,000.

Toilet Preparations — 10% of retail price to 25%; yield, $51,400,000.

Telephone, Telegraph, Radio, etc. — Local telephone, 10% of charge to 15%; long distance telephone, 20% to 25%; telegraph, radio and cable, 15% to 25% for domestic and 10% to 15% for international; leased wires, 15% to 20%; wire and equipment service, 5% to 7%. Yield, for local telephones $48,900,000, for all others $48,800,000.

Transportation of Persons—10% to 15%; yield $75,000,000.

Transportation of Property, Present Rates—3% in general, and 4 cents a short ton for coal retained, and applied also to fourth-class mail. Yield, $4,500,000.

Admissions—General admissions, from one cent for each 10 cents or fraction thereof to 2 cents; leased boxes, from 11 to 20%; yield, $163,500,000.

Cabarets—From 5% of charge to 30%; yield, $91,300,000.

Club Dues and Initiation Fees—From 11 to 20%; yield, $5,100,000.

Bowling Alleys, Billiard and Pool Tables—From $10 an alley to 20% of charge, and from $10 per table to $20; yield, $27,000,000.

Pari-Mutuel Wagers—None at present to 5% of total wagers; yield, $27,500,000.

Postage Rates

First Class—From 2 cents an ounce for local mail to 3 cents (no change on out-of-town mail); yield, $44,000,000.

Air Mail—From 6 cents to 8 cents an ounce; yield, $11,000,000.

Third Class—From 1 and 1½ cents for each 2 ounces (according to type of mail) to 2 and 3 cents; yield, $74,400,000.

Money Orders—From 6 to 22 cents an order, depending on amount, to 10 to 37 cents cents; yield, $21,000,000.

Registered Mail—From 15 cents to $1 an article, depending on value, to 20 cents to $1.35; yield $4,500,000.

Insured Mail—From 5 to 35 cents an article, depending on value, to 10 to 70 cents an article; yield, $6,500,000.

C.O.D. Mail—From 12 cents to $1.20 an article to 24 cents to $2.40 an article; yield, $5,400,000.

Total postage yield, $166,800,000.

What About Gold?

(Continued from first page)

Gold the Only Answer

Changing values in money bring great personal hardships. They also disorganize and retard all economic progress. In the hesitancy of the investor, in the uncertain moves of business, in the fear of labor and in the ineffectiveness of legislation, we see continually growing signs of distrust in the value of our dollar. In terms of pre-war values, today's dollar is now worth 75 cents. As inflation increases and under our present system of managed currency, I can visualize in the next five or six years a dollar worth perhaps only 35 cents.

After the last war, during the '20s and '30s, the business interests in Germany, France and Central Europe were paralyzed because of the rapid changes in the value of their currencies. Good money and sound trade are boon companies. Poor money and even fear that money will become less valuable causes waste and panic. The most prosperous times and the period in which trade and industry advanced the most both here and abroad were when the British pound and the American dollar were tied to a gold standard. Then they were exchangeable for a definite amount of gold of a definite weight and fineness.

World Bank Coming

I doubt if gold soon circulates again as money. I believe, however, that a world-wide bank or gold corporation may be organized with actual gold in the form of coin or bullion as its capital. Private capital will then be encouraged to finance post-war trade and business. If such capital became frightened, this "International Bank" could guarantee any loans. It could also make loans on its own account to private business to cover goods in transit. Like our Federal Reserve System, it might prove a highly profitable and useful enterprise.

Dr. Harry D. White of our Treasury Department and John Maynard Keynes, the British money authority, have both proposed plans for stabilization of international currencies. The White plan favors an actual gold fund. The Keynes plan favors large credits over a long period of time without requiring member countries of the World Bank to put up any gold. This Keynes idea is highly inflationary. At the moment the White proposal looks the best. Unquestionably a bank plan will be worked out with most of the 25 United Nations' governments.

People Want Gold

In World War I it was gold, not currency, which Colonel Lawrence used in order to win the support of Arab tribesmen. History repeated itself when our own General Mark Clark landed in Africa with a bag of gold. Gold will always talk when no other form of money is effective. That a natural demand for gold exists today is shown by the price of gold in the Bombay and Cairo markets where it is selling for almost double the United States price of $35. This strengthens my belief that international currencies, including our own, will be further reduced in value. This would mean further monetary inflation and a rise after World War II of consumer inflation followed by even more monetary inflation.

Countries in which gold will freely circulate as a medium of exchange will be the best off. Countries which attempt to get along with some form of managed currency will be in the worst shape. Hence, we should ultimately have in some form a currency which even if the circumstances were restricted would be exchangeable for gold. Thus, I predict that our present managed money system is on the way out.

Watch Gold Stocks

More money has probably been lost through speculating in gold shares than in any other stocks. On a long-term basis, however, I now favor stocks of gold-mining companies which were profitably producing before World War II. During the war gold is subordinate in importance to nickel and copper and to the products of many other mines. In view of this, and the manpower shortage, nearly 60% of the mines in the United States, Canada and South Africa have shut down. The remaining are operating on a greatly reduced basis; in fact, gold production in United States and Canada is less than at any time in 100 years.

After the war, when all efforts are turned to stimulating world trade, gold may prove the only medium through which international payments can be made. Thus, gold may rise in value in terms of our present currency. Furthermore, as restrictions are lifted with respect to manpower and materials, after the war there should be a return of earning power to the gold industry. Certainly it is no time to sell gold stocks. New purchases should be confined to producing companies with the best ore rating whose over-all cost of production is reasonably low.

Investment Trusts

(Continued from page 2221)

adapted to the needs of many investors today. . ."

* * *

Lord, Abbett's current issue of **Abstracts** makes an interesting comparison between the market action of "war" stocks and "peace" stocks during and after the First World War. Charts are presented to show a wide variation in performance between these two groups. The bulletin concludes:

"In November of 1918 a poorly diversified account, or an account weighted in wrong industries, experienced a difficult period despite the generally rising market. This drives home the necessity of a diversification pattern geared to actual conditions, and explains why informed management and careful supervision will be as essential over the next two years as it was 25 years ago."

* * *

National Securities & Research Corp. announces that total net assets of its six **National Securities Series** as of Oct. 31, 1943 were $6,225,339 compared with $3,669,463 a year ago. The following comparison of net asset values is given:

	—October 31—	
	1943	1942
Bond series	$6.73	$5.95
Low-priced bond series	5.96	4.97
Preferred stock series	6.46	5.50
Income series	4.28	3.61
Low-priced common stock series	2.89	2.08
International series	13.73	10.82

* * *

The current issue of **Investment Timing** contains a discussion of "Advantageous Security Transactions from Tax Standpoint." The 75% abatement, the "anti-windfall" tax, capital gains and losses and other features of the present tax laws are discussed.

* * *

Keystone Corporation has reissued its "Planned Investment Program" schedule which facilitates the setting up of an investment program to yield a regular monthly income. All 10 of the various Keystone Custodian Funds are used in this program.

As of Nov. 1, 1943, the 10 Keystone Custodian Funds had total net assets of $64,000,000, owned by 34,000 individual and institutional investors. Total distributions, regular and special, since inception of the Funds, amounted to $16,100,000.

* * *

Distributors Group has issued a new folder on Railroad Shares, a class of Group Securities invested in high-yielding railroad bonds. The folder is entitled, "What Measures Value in Bonds?" and sets out to answer this question in clear-cut, simple language.

Two amazing facts are brought out by this folder. One is that the ACTUAL "times fixed charges earned" figure for all Class I railroads this year will be approximately 5.60 times as compared with an approximate REPORTED coverage of only 2.53 times. The other is that the net working capital position of the railroads is now approaching $2,000,000,000, or enough to pay all fixed charges for nearly three years.

The folder is attractively prepared and the major points are illustrated by means of colored charts.

* * *

Massachusetts Distributors' latest **Brevits** contains an interesting "definition" of Massachusetts Investors Trust, the "granddaddy" of the common stock investment funds.

According to a recent survey of MIT shareholders, "There are over 1,770 trust accounts located in 42 States in the Union in which shares of Massachusetts Investors Trust are held, including some 640 where banks are acting as trustees for individuals or estates. In addition, shares are held by some 1,200 institutional investors, including 296 associations, societies and lodges, 72 banks and trust companies, 110 churches, 455 corporations, 111 homes and hospitals, 53 insurance companies and 100 schools and colleges."

Grade Labeling Step Against Free Enterprise L. R. Maxon Declares

Grade labeling of canned goods represents the first step toward eventual destruction of the American system of free enterprise by government standardization and regimentation of goods and services, Lou R. Maxon, head of the advertising agency bearing his name and former Deputy Administrator of the Office of Price Administration, said on Nov. 23 in a talk before the Sales Executive Club, of New York. Mr. Maxon said: "Grade labeling, in my sincerest estimation, presents a serious threat to American industry and our way of life because it is, without question, the spearhead in the drive to eliminate brands, trade marks and eventually free enterprise."

His further comments are taken as follows from the New York "Herald Tribune" of Nov. 24:

Mr. Maxon declared that college professors, leftists and "dreamers" were still in the great majority on the staffs of government bureaus despite the recent sizable influx of business men in key posts.

"A strong part of this group," he said, "believes that the manufacture, standardization and distribution of all essential products should be placed under the arbitrary control of the government not just during the war, but permanently. And grade labeling, in my estimation, is the keystone of their effort."

Declaring that the OPA favored impractical theorists to men of sound business experience, he said young professors were considered most desirable because of their economic views.

Declaring that he was not opposed to grade labeling if it was instituted as a descriptive selling device, Mr. Maxon said:

"No one objects to honest descriptive labeling that gives the consumer complete information about the contents of a package. No one objects to the pure food laws designed to protect the health of the nation. No one objects to the law requiring the listing of ingredients on a label.

"There is nothing wrong with the grade-labeling idea as such. But once grade labeling becomes effective the next step is for pressure to be put behind the second very natural question of why should one Grade A product cost more than another Grade A? They are both Grade A, aren't they? So, logically, why not a flat price to cover the grade?

"When that flat price is set low enough—and it will be set low enough—that will be the end of competition in the food business, of food research, of food progress and the beginning of a regimented, standardized, rationed world. In these two simple steps there can be the end of brand names, the end of a free press and the beginning of the end of quality backed by a manufacturer's reputation. And, since grade labelers definitely say they want grade labeling so they can have flat pricing, there is no doubt about step number two."

Mr. Maxon, acknowledging that many consumer groups supporting grade labeling were sincere and independent, nevertheless stated that much of the organized consumer agitation for such legislation is Communist-inspired. He quoted a Dies Committee report to bolster his contention.

Labor also was censored by Mr. Maxon for its endorsement of grade labeling. He declared that grade labeling was against the best interests of labor and, if carried to its logical conclusion of complete standardization of all products, would curtail production and inevitably result in widespread unemployment.

Mr. Maxon called for an immediate awakening of industry to the need for making the public aware of its great contributions to the American standard of living. He said the public must be informed now through the press, radio and other public relations media that business has discharged its social responsibilities creditably and will continue to do so after the war.

"I urge industry publicly and continually," he continued, "to match its actual achievement for the common man against the glowing promises of political opportunists."

Sternberger & Company Opens In Memphis

MEMPHIS, TENN. — David Sternberger has formed Sternberger & Company with offices at 71 Madison Avenue, Commerce Title Building, to engage in a securities business. Mr. Sternberger was formerly in the investment business in Memphis.

New Trends In Distribution Of Listed Securities

Several new conclusions are now possible with regard to the distribution of blocks of listed securities, according to an interesting brochure prepared by Shields & Company, 44 Wall St., New York City, members of the New York Stock Exchange. Copies of this booklet may be obtained from Shields & Company.

Calendar Of New Security Flotations

OFFERINGS

CENTRAL POWER & LIGHT CO.

Central Power & Light Co. has filed a registration statement for $25,000,000 first mortgage bonds, Series A, 3⅛%, 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, 3¾%, 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).

Registration statement effective 5:30 p.m., EWT, on Nov. 22, 1943.

Bonds Awarded Nov. 29, 1943, to Halsey, Stuart & Co. and associates on their bid of 98.269.

Offered—Issue offered Dec. 1, 1943, by Halsey, Stuart & Co., Inc., and associates, at 99½ and int.

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 4½% 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).

Offered Nov. 30, 1943, by Loewi & Co. at prices ranging from 101 and int. to 102 and int., according to maturity. Bonds carry int. rates of 4½, 4¾ and 5%.

PENNSYLVANIA ELECTRIC CO.

Pennsylvania Electric Co. has filed a registration statement for 34,000 shares of cumulative preferred stock, 4.40% Series B, $100 par value.

Address—222 Levergood Street, Johnstown, Pa.

Business — Production, purchase, transmission, distribution and sale of electricity.

Underwriting—Company has entered into an agreement with Mellon Securities Corporation and the First Boston Corporation to use their best efforts to obtain exchanges of stock and to enlist assistance of dealers in obtaining such exchanges.

Offering—Company offers to the holders of its cumulative preferred stock, 5.10% Series A, the opportunity to exchange their shares for cumulative preferred stock, 4.40% Series B, on the following basis: For each share of 5.10% Series A stock there will be delivered one share of 4.40% Series B stock plus $1 in cash. Any shares of the 5.10% Series A stock not deposited for exchange will be called for redemption on or about Dec. 31, 1943, at $108.75 per share plus accrued dividends. The exchange offer will expire 12 o'clock noon, Nov. 27, 1943.

Purpose—To effect exchange of stock.

Registration Statement No. 2-5248. Form S-1. (11-4-43).

Registration statement effective 3 p.m., EWT., on Nov. 20, 1943.

Offered—Unexchanged shares offered Nov. 30, 1943, by Mellon Securities Corp. and The First Boston Corp. at $108.75 per share and div.

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

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

Offerings will rarely be made before the day following.

THURSDAY, DEC. 2

MICHIGAN CONSOLIDATED GAS CO.

Michigan Consolidated Gas Co. has filed a registration statement for $38,000,000 first mortgage bonds, 3½% series due 1968, and 40,000 shares 4¾% 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).

Amendment filed Nov. 26, 1943, to defer effective date.

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 approximately 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).

SATURDAY, DEC. 4

INSURANCE SECURITIES, INC.

Insurance Securities Incorporated has filed a registration statement for 820 units—single payment plan—Series T to create 400,000 investment units; 1,400 units—accumulative plan—Series D to create 450,000 investment units.

Address—416 13th St., Oakland, Cal.

Business—Investment trust.

Underwriting—Trust fund sponsored by Insurance Securities, Inc.

Offering—At market.

Proceeds—For investment.

Registration Statement No 2-5255. Form C-1 (11-15-43).

TUESDAY, DEC. 7

KRUPP-FLAHERTY OIL CORP.

Krupp-Flaherty Oil Corporation has filed a registration statement for 20,000 shares of common stock.

Address—Caples Building, El Paso, Texas.

Business—Corporation was organized on March 11, 1940, under the laws of the State of Delaware for the purpose of, and has been engaged in the drilling of wells for oil and gas and the operation thereof.

Underwriting—None named.

Offering—Price $35 per share.

Proceeds—All proceeds go to issuer, subject to cost of sale of issue. Proceeds will be used for drilling expenses and payment of all or part of the obligations of the company incurred in development work.

Registration Statement No. 2-5256. Form S-2. (11-18-43).

KNUDSEN CREAMERY CO. OF CALIF.

Knudsen Creamery Co. of Calif. has registered $350,000 5½% sinking fund debentures due 1955.

Address—Los Angeles, Calif.

Business — Processing and distributing dairy products.

Underwriting—Dean Witter & Co.

Proceeds—For plant site, plant equipment and working capital.

Registration Statement No. 2-5257. Form S-1 (11-18-43).

SATURDAY, DEC. 11

CLEARING MACHINE CORPORATION

Clearing Machine Corporation has filed a registration statement for 20,000 shares of common stock, $1 par value. The shares registered are already issued and outstanding and do not cover new financing by the company.

Address—6499 W. 63rd Street, Chicago, Ill.

Business—Manufacture of metal working machinery.

Underwriting—Bacon, Whipple & Co., Chicago, head the list, with names of others to be supplied by amendment.

Offering—Price to public to be supplied by amendment.

Proceeds—The shares registered and to be offered are being sold by certain stockholders of the company who will receive the proceeds from the sale. The stockholders in the selling group and number of shares being sold are: Henry P. Isham, individually, 2,000; Henry P. Isham, trustee, 366; Henry P. Isham, trustee, 366; Henry P. Isham, trustee, 366; Elisabeth T. Isham, 796; John I. Shaw, nominee, 1,597, and Rudolph W. Glasner, 14,509. The latter is president, treasurer and director and held prior to proposed sale 30,272 shares.

Registration Statement No. 2-5258. Form S-1. (11-22-43.)

SUNDAY, DEC. 12

DIVIDEND SHARES, INC.

Dividend Shares, Inc., filed a registration statement for 12,500,000 shares of capital stock, 25 cent par value.

Address—1 Wall Street, New York City.

Business—Investment company.

Underwriting—Supervised by Calvin Bullock.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5259. Form S-5. (11-23-43.)

DATES OF OFFERING UNDETERMINED

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

BONWIT TELLER, INC.

Bonwit Teller, Inc., has filed a registration statement for 35,565 shares of 5½% cumulative convertible preferred stock, $50 par value, and 108,913 shares of common stock, par $1 per share. The latter includes 88,913 shares of common reserved for issuance upon the conversion of the 5½% cumulative convertible preferred stock registered, at the present rate of conversion, which may vary from time to time in the event of certain contingencies. The shares are issued and outstanding and the offering does not represent new financing by the company.

Address—721 Fifth Avenue, New York City.

Business—Owns and operates one of the outstanding large specialty stores in the United States.

Underwriting—Allen & Co., New York City, is named principal underwriter for both the preferred and common stock.

Offering—The offering price to the public of both the preferred and common stock will be supplied by amendment. The prospectus offers the 35,565 shares of 5½% preferred and 20,000 shares of common stock. The shares are presently issued and outstanding and are being purchased by the underwriters from Atlas Corporation and its subsidiary Rotary Electric Steel Co. Atlas Corporation, directly and indirectly, has been the controlling stockholder of the company since its organization.

Proceeds—Proceeds will go to the selling stockholders.

Registration Statement No. 2-5245. Form A-2. (10-29-43).

CENTRAL ZONE PROPERTY CORPORATION

George E. Roosevelt, Henry R. Hayes and Walter Frank, New York, as voting trustees, have filed a registration statement for voting trust certificates for not more than 21,165 shares of common stock of Central Zone Property Corporation, of the par value of $1 per share.

Address—14 Wall Street, New York City.

Business—Owns Central Zone Building.

Underwriting—None named.

Offering—Proposed offering to be made on or about Nov. 15, 1944. The voting trust agreement is dated Jan. 2, 1944. The maximum period of duration of the agreement is 10 years. The agreement provides for an initial duration of five years subject to extension by action of the holders of not less than 51% of voting trust certificates representing stock deposited under the agreement. The agreement shall be terminated without action by the voting trustees upon the liquidation or dissolution of Central Zone Property Corporation. It may also be terminated by action of the holders of certificates representing 80% of the stock deposited thereunder.

Purpose—To renew present voting trust which expires Jan. 2, 1944.

Registration Statement No. 2-5238. Form F-1. (10-26-43).

Registration statement effective 3 p.m., EWT., on Nov. 27, 1943.

CERTAIN-TEED PRODUCTS CORPORATION

Certain-teed Products Corporation has filed a registration statement for $6,737,300 4% cumulative income debentures (subordinated) to be due Oct. 31, 1973; 134,746 shares of common stock, $1 par value, and certificates of deposit for 67,373 shares of 6% cumulative prior preference stock.

Address—120 South LaSalle Street, Chicago, Ill.

Business—Business consists generally of manufacturing and selling asphalt roofing, shingles and related products, wallboard and gypsum products, boxboard and various other products.

Underwriting—Paul H. Davis & Co., Chicago, is named principal underwriter, or dealer manager and company will pay to selected dealers a commission for the deposit of shares of preference stock pursuant to an offer of exchange.

Offering—The company offers to the holders of the outstanding 67,373 shares of its 6% cumulative prior preference stock the right to exchange such shares for the new income debentures and shares of common stock on the basis of $100 principal amount of income debentures and two shares of common stock for each share of 6% cumulative prior preference stock. The registration statement states that the company proposes, under certain conditions, to issue to the holders of the 625,340 shares of common stock presently outstanding, common stock purchase warrants entitling the holders in the aggregate to purchase, at a price to be announced later, 208,446 additional shares of common, and to issue and sell such shares of common stock not taken up by the warrant holders. The company also proposes, under certain conditions, to issue and sell $5,500,000 principal amount of new senior debentures and to apply the proceeds of the sale of the new senior debentures, together with other funds, to the redemption of the outstanding debentures. There are $7,100,000 face amount of 20-year 5½% sinking fund gold debentures, Series A, due March 1, 1948, now outstanding. The interest rate of the new senior debentures has not been finally determined, but will not exceed 4½% per annum. The income debentures will be subordinated to the new senior debentures and to other indebtedness of the company. The company reserves the right to revoke the offer of exchange unless within a certain date holders of not less than 57,250 shares of the preference stock accept the offer. The proposal to issue common stock purchase warrants to present common stockholders and the procurement of a commitment for the purchase of any common stock not subscribed for by common stockholders and the issue and sale of the new senior debentures is contingent upon the exchange offer being declared effective by the company.

Proceeds—The proceeds to the company of the income debentures and shares of common stock offered will consist of shares of the preference stock exchanged and all such shares of preference stock will be retired and the capital of the company will be reduced by the sum of $100 for each share retired. For each share of common issued pursuant to offer, the sum of $1 will be deducted from capital surplus account and credited to capital account represented by such share.

Registration Statement No. 2-5241. Form S-1. (10-27-43).

Amendment filed Nov. 26, 1943, to defer effective date.

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).

Amendment filed Nov. 26, 1943, to defer effective date.

DERBY GAS & ELECTRIC CORP.

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

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

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

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

Offering—Terms will be filed by amendment later.

Registration Statement No. 2-5213. Form S-1. (9-15-43).

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

PACIFIC MUTUAL LIFE INSURANCE CO. OF CALIFORNIA

A. C. Balch, F. E. Rand and Leslie Waggener as the Pacific Mutual Shareholders Protective Committee have filed a registration statement with the SEC for voting trust certificates for 508,200 shares of common stock, par $1 per share, of Pacific Mutual Life Insurance Co. of California.

Address—Of issuer, 626 South Spring St., Los Angeles, Cal. Executive office, 523 West Sixth St., Los Angeles, Cal.

Business—Life insurance.

Purpose—The agreement places no limitation upon the powers of the committee to vote the shares held by it. However, one of the main objectives of the committee is to vote the securities held by them in connection with the said so-called plan and agreement of rehabilitation and reinsurance and mutualization affecting the Pacific Mutual Life Insurance Co. of California.

Registration Statement No. 2-5098. Form F-1. (2-19-43).

Amendment filed Nov. 24, 1943, to defer effective date.

(This list is incomplete this week)

"Our Reporter On Governments"

By S. F. PORTER

Those new 2¼% bonds well may be the best bond we've seen in years . . . . The best from a trading point of view, an investment point of view . . . . The coupon is exactly what the big non-banking buyers have been asking for . . . . It's intriguing the commercial banks, too, in a way this reporter hasn't witnessed in many, many a month . . . . At last Secretary Morgenthau is going to give us the obligation which will bring life, color and interest back to the Government market . . . . And unless the situation changes drastically between now and Jan. 18, you'll be seeing a subscription scramble by the important investors that will make the first three drives look tame. . . .

This is strong talk, but it is an accurate reflection of the sort of gossip in New York today . . . . The 2¼s will be dated Feb. 1, 1944, due Sept. 15, 1959, callable Sept. 15, 1956 . . . . The maturity is 15 years, therefore; but since the way to figure this type of bond is on the call date, the actual maturity may be placed at 12 years . . . . The coupon of 2¼% represents a concession to the out-of-town institutions which have been begging for a better-than-2% rate, and it surely looks attractive in comparison with the interest most investors have been marking on their books . . . . In addition, commercial banks will be able to buy as many of these as they want only two and one-half years from the date of issue . . . . Which is a major point in their favor . . . . And, as you know, banks will have some chance to pick up a few under a formula permitting limited investment of time deposits in either the new 2¼s or new 2½s . . . .

So often popular bonds become so because of the psychological reaction at the time they're sold . . . . The 2¼s have met so excellent a response to date that this column goes on record with the prediction that these will give us the first "real run" since the June, 1943, financing. . . .

Incidentally, the 1959 and 1956 years are relatively empty of maturities as of this moment . . . . There is a tax-exempt 2¾ of 9/15/59/56 outstanding and selling at 111⅜ to yield 1.47 after taxes . . . . And there is a taxable 2½ of 3/15/58/56 selling at 103½ to yield 1.30 after taxes . . . . But otherwise both years are clean . . . . Which is another point in favor of the bonds, for, obviously, an institution with a large portfolio will be predisposed to the purchase of a maturity rounding out its holdings. . . .

TOO MANY 2½s?

The 2¼, then, was an excellent choice and all the professionals are looking forward to the Fourth War Loan campaign and the outcome of this offering. . . .

But the 2½s present a different picture . . . . And the feeling of most experts here is that Morgenthau now is issuing too many of these . . . . He's overplaying the market a bit . . . . He's repeating himself on this loan too frequently and it may be smart to end these offerings as soon as possible . . . . Of course, the 2½s are decided upon now . . . . So this next one must be excluded from any calculations. . . .

Commercial banks will be able to pick up some of these too, depending on their time deposits and the Treasury's restrictions . . . . Chances are, though, that most commercial banks will stick to the 2¼s—not because of their lack of desire to get the higher interest but because of the due date involved. . . .

This will represent the fifth "tap" or "on sale" 2½s sold in the last two years . . . . With maturities ranging from 1967 to 1970 and due dates from 1962 to 1965 . . . . There already are $12,500,000,000 of these out . . . . When the Fourth War Loan drive ends, the total probably will be up to the $15,000,000,000 mark . . . . Which is plenty for a single type of loan. . . .

INTEREST AGAINST CAUTION

In at least one sense, the people holding off from buying the market now in order to wait for the Fourth War Loan are cheating themselves and ignoring a prime rule of the Government market . . . . Which is, bluntly, that interest can make up for a hoard of price sins . . . . Consider the 2½s, for instance. . . .

The outstanding 2½s due in 1969/64 currently are selling at 100.1 to 100.3 . . . . Between now and Feb. 1, when interest will begin accruing on the 2½s of 1970/65, the interest to be collected on the 1969/64 2½s amounts to about 16/32! . . . .

That's ½ point in interest alone . . . . On a bond identical to the new loan with the exception of due date . . . . And that's in favor of the outstanding security. . . .

In the old days, upon announcement of a new financing, the market immediately would move up or down in a range of one point in order to place the outstanding securities in line with the pending offerings . . . . But today the market just sits . . . . Nothing has happened especially to offset this tremendous difference in interest. . . .

The advantage of holding the outstanding 2½s to the date of the new offering is so obvious that this observer admits utter befuddlement at the lack of comprehension . . . . Actually, the outstanding 2½s as of this date of writing are ½ point cheaper (based on the old axiom about interest and price sins) than the to-be-sold bond. . . .

It's amazing . . . .

The same thing applies to the outstanding 2s of 1953/51. . . .

No more of these will be sold for months . . . . Perhaps for the balance of this fiscal year . . . . Yet the 2s are selling at 100.4 to 100.6 . . . . Interest to be obtained on these between now and the time the 2¼s are sold amounts to approximately 12/32. . . .

That's ⅜ of a point in interest alone . . . . On a bond due in 10 years, selling close to par and free from the pressure of a new offering of similar securities. . . .

If you have some cash around and are thinking of letting it lie until February, study these comments . . . . And see if you're acting wisely. . . .

RESTRICTING FREE RIDERS

There's lots of talk around about limiting subscriptions to the new 2¼s and new 2½s in January and February . . . . About drastic restrictions on bank lending to individuals who are buying bonds on thin margins . . . . There's no point in hiding from the fact that free riding in various forms reached excessive heights in September and October during the Third War Loan . . . . To be completely frank about it, that's the prime explanation for the sluggish action of the 2s and the fact that the 2s today are the cheapest bond on the list. . . .

During the Third War Loan there were some limitations on bank and Stock Exchange firm lending to speculators . . . . A few gentlemen's agreements among the banks, a few resolutions by individual boards of directors, a rule by the Stock Exchange. . . .

But huge numbers of people still bought the 2s and 2½s on margin . . . . Borrowed cash from their banks at lower rates than the bonds returned and made interest by so doing . . . . And sold out at the disappointly low premiums of 2 to 8/32 to freeze another small profit. . . .

It's no secret in Washington and Wall Street that this has been going on . . . . And the discussion now is what to do to prevent a repetition in January . . . . The Federal Reserve Bank of New York already has been holding meetings on the subject . . . . Restrictions already are being studied in detail. . . .

One idea is to demand cash payment for all bonds from individual subscribers . . . . That's terribly harsh and is unlikely . . . . Another is that the Federal Reserve clamp down with a rigid rule covering member banks and outlining terms for loans to individual subscribers . . . . That is more probable . . . . A third is that a minimum margin of from 10 to 40% be demanded . . . . That's being considered . . . . A fourth is that a minimum term for holding be imposed . . . . Not so probable. . . .

But there'll be some action, it's believed . . . . Which will cut the overall subscription total to the $14,000,000,000 loan by a greater amount than most people anticipate. . . .

INDEX

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.

Payment On Rio Grande 6s

Holders of State of Rio Grande do Sul (United States of Brazil) 6% external sinking fund gold bonds due June 1, 1968, are being notified that funds have been remitted to its special agent, White, Weld & Co., for the payment of coupons due June 1, 1941, at the rate of 17.5% of the dollar face value, or $5.25 per $30 coupon. These funds have been remitted in accordance with the provisions of Presidential Decree No. 23829 of Feb. 5, 1934, as reenacted and modified by Decree Law No. 2085 of March 8, 1940. Cash payment of the above rate in full satisfaction of these coupons is now being made upon presentation and surrender of the coupons to the special agent at 40 Wall St., New York.

Unpaid coupons maturing Dec. 1, 1931, to Dec. 1, 1933, inclusive, must remain attached to the bonds for future adjustment.