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Post-War Foreign Exchange Stabilization Further Considered

A Discussion Of The Revised White Plan, Britain's Blocked Balances, And The Post-War International Investment Bank—The Author's Constructive Program Of Post-War Currency And Financial Reconstruction

By BENJAMIN M. ANDERSON, Ph.D.

(Dr. Anderson is Professor of Economics at the University of California, Los Angeles. He was formerly Economist of The Chase National Bank of the City of New York. He is Consulting Economist of the Capital Research Co., Los Angeles; is a member of the Executive Committee of the Economists' National Committee on Monetary Policy, and is a member of the Post-War Committee of the California Commission on Interstate Cooperation.—Editor.)

I welcome the invitation of the "Commercial and Financial Chronicle" to renew the discussion of the British and American Treasury proposals for post-war foreign exchange stabilization in the light of the revised plan issued by the U. S. Treasury on July 10, 1943, and the U. S. Treasury plan for an international investment bank issued on Oct. 8, 1943 and to elaborate my own alternative constructive proposals for financial and currency stabilization in the war-stricken countries.

Benj. M. Anderson

The criticisms which I made of the Keynes and White plans in my address before the Los Angeles Chamber of Commerce[1] on May 11 in general still stand. There are, however, some changes in the new version of the White Plan which call for discussion.

Unitas Deposits

The original plan had provided for the deposit of gold with the International Stabilization Fund, creating Unitas deposits against which 100% gold reserves should be held, and had provided that a 100% gold reserve should be held against all Unitas deposits. I had objected that Unitas deposits would also arise whenever the Fund gave credit on its books as it purchased for-

[1]This address was printed in full in two installments of the *Commercial and Financial Chronicle* of May 20 and May 27. It appears in *The Economic Bulletin* issued by the Capital Research Company of Los Angeles of May 11, 1943, and was re-printed by the Economists' National Committee on Monetary Policy, 70 Fifth Avenue, New York City. It appears in full in *Vital Speeches* of June 1, and in the May issue of the *Bankers' Magazine* (Boston). It is assumed for the purposes of this article that the reader is familiar with the British and American plans, and that it is not necessary for Dr. Anderson to repeat what he said in his original discussion.—Editor.

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The Critical Period Of Transition After V-Day

Fennelly Holds Accumulated Purchasing Power A Serious Inflationary Danger Unless Production Is Speedily Increased To Satisfy Demand — Visualizes Post-War Price Level 50% Above 1940 And Value Of Gross National Product 140 Billions Making Tax Yield Of $20 Billions Based On Existing Tax Structure

Characterizing as a "highly dangerous fallacy" the assumption by many of our statesmen and business leaders "that we shall have a fairly easy period of transition between the defeat of Hitler and the final crushing of Japan," John F. Fennelly, Executive Director of the Committee for Economic Development, in an address in New York before the American Society of Mechanical Engineers, declared that "we shall face a critical period of transition as soon as Hitler throws in the sponge, and we must make our plans accordingly." The title of Mr. Fennelly's address, delivered on Nov. 30, was "The Critical Period of Transition After V-Day" and he stated therein that "army experts now estimate that, after the end of the European war, we may be forced to cut back our munitions production by approximately 80% and still have enough to fight a full-scale war against Japan." Mr. Fennelly indicated that practically every specific post-war

John F. Fennelly

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Restoration Of American Freedom Pattern For World Liberty: Bricker

Says America Must Return To System Of Government By Representatives Of People Rather Than Bureaucracy To Remain Force For World Good.

Asserting that the nation "must meet a threefold challenge beyond winning the war," Gov. John W. Bricker of Ohio, on Dec. 11, cited, as first, the devotion of all our ability toward establishing "a just and lasting peace in the world"; second, the setting free of America "from economic and political totalitarianism" and, third, the lifting "ever higher of the moral and spiritual standards of our people." Governor Bricker outlined these aims at the Waldorf-Astoria Hotel, where he spoke at the annual dinner of the Pennsylvania Society of New York.

John W. Bricker

In making the statement before the gathering that "we must move forward with the confidence that the American people will work in

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In This Issue

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

For Connecticut see page 2419; Michigan, 2420; and Missouri on page 2418.

General index on page 2444.

Forecasting The Management Problems Of 1944

Leo M. Cherne Sees Spectre Of 4 Million Unemployed At End Of 1944 Challenge To Management As Continued Large-Scale Unemployment Would No Longer Be Accepted As Inescapable—Holds Anti-Inflationary Dam Will Be Breached Early Next Year And Effect Will Be Echoed In Political Arena.

In summarizing events which, in his opinion, will occur next year and which "will form the backdrop against which American business management will be called upon to perform its responsible tasks," Leo M. Cherne pointed out on Dec. 4 that "first, the only event that will happen with certainty in 1944 is the election in November; second, less likely, but highly probable, is the defeat of Germany, and third, the inflationary spiral will get into motion again shortly after New Year." Mr. Cherne, who is Executive Secretary of the Research Institute of America, brought out these and other events likely to transpire in the coming year, in an address, "Forecasting the Management Problems of 1944," before the Society for the Advancement of Management national conference at the Waldorf-Astoria, in New York. He also advanced among other views that "manpower and womanpower shortage will grow in intensity during the first half of the year, but will lessen perceptibly during the second six months." In summary, said Mr. Cherne, "1944 promises to be a year in which we shall witness the defeat of Germany, the revival of economic frictions, and a widening gap between the legislative and executive branches of our Government."

Leo. M. Cherne

Making the statement that "the spectre of 4,000,000 unemployed at the end of 1944—the estimate of the Research Institute—will not

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Folger Says Investment Banking Business Has Benefited By Decentralization

Investment banking has grown less "global" and more down-to-earth because of a decentralization that has occurred in recent years, according to J. Clifford Folger, President of the Investment Bankers Association of America, speaking before the Bond Club of Philadelphia last night (Dec. 15).

"Out of this change has come," Mr. Folger said, "a more personalized and wholesome system of distributing securities, one where the customer-banker relationship is more direct and, therefore, more salutary. Our business has become more like that of the average merchant, possibly less glamorous. On the whole, our machinery for distributing securities is a sound one—one to be stimulated." In this connection, he laid emphasis on the need of the business being sufficiently profitable to attract ambitions and energetic young men, in order that it will be adequately staffed. "Business regulated to the bone," he said, "is not necessarily the ideal goal."

John Clifford Folger

Describing investment banking as a business which traditionally suffers in war time, the IBA President pictured it as occupying a strategic and vital position in the post-war period. "There is a tremendous amount of money being dammed back awaiting opportunity to be put to use," he said.

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Lazard Freres & Co. Announce Contemplated Partnership Changes

Lazard Freres & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, announce the following contemplated changes in their firm:

Frank Altschul will retire from partnership as of Dec. 31, 1943. He will continue his membership in the New York Stock Exchange, and will continue as President of General American Investors Company, Inc.

Pierre David-Weill and Andre Meyer, resident in New York, and members of the firm of Lazard Freres & Cie., France, a continuing partner of the New York firm, will be admitted as resident partners.

William Howard Schubart, senior Vice President of the Bank of the Manhattan Company and Albert J. Hettinger, Jr., Vice President of General American Investors Company, Inc., will be admitted to partnership on the same date.

Goodbody Co. To Admit Two New Partners

Goodbody & Co., 115 Broadway, New York City, members of the New York Stock Exchange and other leading national exchanges, will admit Howard Froelick and Arthur F. Hetherington, a member of the Stock Exchange, to limited partnership in the firm as of Jan. 1, 1944. Both were partners in De Coppet & Doremus for many years.

Spencer Trask & Co. To Admit Partners

Spencer Trask & Co., 25 Broad Street, New York City, members of the New York Stock Exchange and other leading Exchanges, will admit Charles F. Bryan, Harold H. Cook, B. C. Eustis, and Anton H. Rice, Jr. to partnership in the firm on Jan. 2, 1944. Mr. Bryan has been with the firm as manager of the bond department. Mr. Cook is public utility analyst for Spencer Trask & Co.

Insurance Stock Attractive

The current situation in Great American Insurance Co. offers attractive possibilities, according to a detailed circular on the company prepared by Butler-Huff & Co. of California, 210 West 7th St., Los Angeles, Calif. Copies of this circular may be had from the firm on request.

Brill Corp. Looks Good

The 7% cumulative preferred stock of Brill Corporation offers attractive possibilities, according to an interesting memorandum issued by Buckley Brothers, 1529 Walnut St., Philadelphia, Pa., members of the New York and Philadelphia Stock Exchanges. Copies of this memorandum will be sent upon request by Buckley Brothers.

Recent Developments In Seaboard Reorganization

Frederick M. Stern, member of the New York Stock Exchange, with offices at E. F. Hutton & Co., 61 Broadway, New York City, has prepared a memorandum on "Recent Developments in Seaboard Reorganization." The report discusses the court-approved compromise plan of reorganization and concludes that "the most interesting prospects for price appreciation seem to be offered in the Seaboard General Mortgage issues and particularly Consolidated 6s of 1945 which enjoy the most active market." Copies of this interesting memorandum may be obtained from Mr. Stern upon request.

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Jobs And Taxes

J. Cheever Cowdin Stresses Essentiality of Balancing Federal Budget to Insure Sound Post-War Economy and Proposes War Refunding Tax to Service and Refund $300 Billion Debt Over Next 100 Years—Offers Suggestions For Simplification of Tax System and Advocates Special Tax Incentive to Encourage Production.

Looks For National Income Of $125 Billion And Pleads For Post-War Federal, State And Local Budget of $30 Billion—Holds Vital Need Is For Venture Capital And Reasonable Dividends Thereon—Present Plight Of Stockholders Is Distressing.

A three-point program covering overhauling of the tax structure, balancing of the Federal budget and refunding of the war debt was declared essential on Dec. 10 by J. Cheever Cowdin, Chairman of the Universal Pictures Co., Inc., if business is to accomplish many of the problems facing post-war America.


J. Cheever Cowden

Before the National Association of Manufacturers' convention in New York City, Mr. Cowdin, in proposing this program, stated that the future of American business and American government must be based on vital, all-important production, which is the crux of the problem of jobs.

Calling on businessmen of America to take the leadership in the post-war program, Mr. Cowdin warned that, unless this is done, the country is liable to have "greater regimentation, a larger dole system, nationalization of industry and a more serious depression than we have dreamed of in the past."

Mr. Cowdin, who is Chairman of the NAM Government Finance Committee, said that the "greatest single deterrent to free competitive enterprise, to sound business economy, to production and therefore to jobs, is taxes" and urged that the present "vicious and socially harmful" system be simplified as the first step in building a sound post-war tax program.

(Continued on page 2430)

Hughes Decision Stuns Dealers

Small And Large Dealers Alike Are Astounded As Worst Interpretation Of NASD 5% Decree Is Now Made Possible.

As Snuffy Smith would say, "now the rag is off the bush." In the Charles Hughes & Co. case the SEC, in an attempt to prove to the U. S. Circuit Court of Appeals in this District that it was justified in revoking the dealer-broker registration for marking up securities on the average by 25%, pointed out that an NASD Business Conduct Committee had fined a member dealer $500 for making a practice of marking up securities by only approximately 10%.

The Commission contended that when the Hughes firm sold securities substantially above the prevailing market price without disclosure of the mark-up to the customer, such practice constituted fraud and deceit upon the customer. Now the way the SEC is attempting to show that a dealer's mark-up practices do not have a reasonable relationship to the current market price is to establish the fact that the "custom of the trade" is to go in for smaller mark-ups. Hence the Commission's citation of the disciplinary action of an NASD Committee in a 10% mark-up case. The Court affirmed the Commission's order revoking Hughes & Co.'s dealer-broker registration and in its opinion made reference to this citation. (Full opinion of Court appears in this issue, starting on page 2418.)

If today under the 5% profit limitation decree a dealer should be disciplined by an NASD Business Conduct Committee for marking up securities by 6% you may be sure the SEC will seize upon such action as indicating that the mark-up practice of the industry is then such as to place a dealer in a position where he can be held to have acted in a fraudulent manner if he marks up securities by as much as 6% and fails to disclose just what the mark-up is to the customer.

This opens up the whole question as to the point at which a dealer on a non-disclosure of mark-up basis should

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STRIKE THREE!

Future of Average Over-The-Counter Dealer Jeopardized —SEC Gets Disclosure Rule

By A. M. METZ and E. A. KOLE*

The United States Circuit Court of Appeals for the Second Circuit has just handed down a decision, which in the opinion of the writers, will be used by the Securities and Exchange Commission to exercise and to justify a more rigid "supervision" of security dealers than ever before, a supervision which will mark the gradual demise of the small over-the-counter dealer.

The issues arose in the case of Charles Hughes & Co., Inc., petitioner, against The Securities and Exchange Commission, respondent, and involved the review of an order of

**Editor's Note*—Messrs. A. M. Metz and E. A. Kole are members of the New York Bar and have successfully defended litigation involving "market price" and "mark-up" practices.

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More Dealer Comments On NASD Rule

DEALER NO. 88

I have been reading, with a great deal of interest, recent editorials and comments by dealers regarding limitation of security dealers in NASD at 5%. At the moment this does not affect me because I am no longer a member of NASD, having resigned in protest about a year ago when they tried to force down the throats of the Association a ruling requiring all brokers to have a minimum capital of $5,000—thanks to your efforts this ruling was rescinded.

The immediate plan for limtation of profits will affect me in the long run. Because, if this rule stands, the SEC will make it mandatory upon all security dealers. I have shown to Congressman T. G. Burch the December 2nd issue of the "Commercial & Financial Chronicle." He stated that if I could find out for him the proper authorities in Washington to contact regarding this he would do what

(Continued on page 2421)

The Market Outlook

It's smart to be bearish. Most of the services we see are hedging for all they are worth (although some of them in our opinion are not worth very much). Floor traders are deeply concerned over lack of bids (and hence are not bidding). Tax sellers are generally planning to hold their cash for that condition known as "a safe buying level." The same people who only a few months ago were forecasting a post-war boom that would eclipse anything yet seen to statisticians, are guessing now how many millions will be unemployed, how low the Federal Reserve Index will drop, and how thin the corporate profit margin will be squeezed.

We do not have a crystal glass. In fact, we do not even have an infallible chart system. But we are surprised that more attention has not been given to the changed political situation and the extreme likelihood that the basic tax conception will change with it. Every industrialist with whom we have discussed the subject agrees that the present system is basically unfair, that the equivalent in money could be raised by shifting a major part of the tax burden from corporations to stockholders and adoption of a form of incentive taxation . . . a reduction in excess profits taxation seems certain in any event.

It's time for a New Deal and we think there will be a New Deal. That alone makes us say, "Caution, Mr. Bruin," entirely apart from such considerations as: the market is discounting peace and never discounts the same thing twice . . . the huge reservoir of capital awaiting the "proper buying level" will miss out and buy higher, as surely as later it will miss the "proper selling level" and sell lower . . . there is no urgent incentive to convert equities to cash . . . the whole psychology of the country is to use cash . . . every conceivable bearish fact has been thought of and discussed and the market remains comfortable above its lows for the year.

Perhaps the most convincing of all bull arguments is that every bear to whom we have talked is nevertheless trying to guess the "buying level." Their predictions range from 125 Dow Jones to 90. Not a one of them has said it will be at least several years (or never) before stocks are a safe buy. And we think a person should be that bearish before he can properly run the risk of withdrawing from common stocks at this critical and confusing juncture in the affairs of the world. For the stock market, unfortunately, is never that easy to interpret.—Washington Dodge in Arthur Wiesenberger & Co.'s "Notes and Comments."

Pittsburgh Bond Club To Hold Xmas Luncheon

PITTSBURGH, PA.—The Bond Club of Pittsburgh announces their annual Christmas luncheon to be held at the Duquesne Club on Saturday, Dec. 18, at 12:30 p.m. Guest speaker will be Dean N. R. H. Moor.

There is no charge for members; guests $4.00. Reservations should be made promptly with H. S. Parker of Kay, Richards & Company.

Day Appointed V.-P. Of Chicago Exch.

CHICAGO, ILL. — Harry M. Payne, Chairman of the Board of Governors of the Chicago Stock Exchange, announced that the Board had approved the appointment of James E. Day of Chicago to the office of Vice-President of the Exchange.

Mr. Day recently resigned as President of the firm of Ryan-Nichols & Co., Chicago, to accept the office. He helped form the firm in 1939 becoming its Vice-President, and in 1941 became President. He has been in the investment business for seven years on LaSalle Street and for five years was engaged in bank relations work in the Middle West.

He will assume his new position on or about Jan. 1, 1944.

L. M. Totten Is Now Masterson Partner

Leonard M. Totten, member of the New York Curb Exchange, has become a parnter in Frank C. Masterson & Co., 64 Wall Street, New York City, New York Curb members. Mr. Totten was previously active as an individual Curb floor broker.

"They'll Miss Mr. Buckley . . ."

E. Buckley Lewis Jr. has resigned as executive vice-president of the Pioneer Ice Cream division of Borden Company due to ill health. Vice-Presidents Harry Fauerbach, Harold Miller, Alfred Ricciardi and Joseph Reydel Jr. will assume his duties. — *From Business Notes in the New York Times of Dec. 10.*

Railroads Have A Great Future

But They Must Go Out To Meet It, Speaker On Post-War Railway Equipment Tells Engineers

"There is a great future for the railroads, but they must go out to meet it," said William I. Cantley, mechanical engineer, of the Association of American Railroads, Chicago, in an address at the annual meeting of the American Society of Mechanical Engineers in New York early this month on "Post-War Research Possibilities in Railway Equipment."

W. I. Cantley

"There are unlimited fields to work in after the war," said Mr. Cantley, associated for six years with the mechanical research office of the Association. "While progress has been slowed down during this difficult period, research has been continuing. Out of this, new materials and ideas are going to develop; new transportation policies will emerge to take care of changed needs and tastes; new alliances will be formed; some of our old customs must go."

Mr. Cantley foresees further reduction in weight of rolling stock, but warned against over-optimism because of the operating problems involved.

He advocated a central research and testing laboratory owned, operated and controlled by the railroads and said that such a plant would have a beneficial effect on all associated industries.

Continuing, Mr. Cantley said:

Unjust Criticism

"In the light of all the criticisms directed toward the railroad industry for many years concerning their alleged lack of research and initiative, it seems as though people refuse to understand that the railroads have only one commodity to sell—transportation. It has been our custom to purchase on the open market the thousands upon thousands of items necessary for the complete railroad system, relying upon the ingenuity of competitive business, guided by the demands of the individual needs of the railroads, to keep us abreast of new developments in materials and equipment.

Safety Is First Aim

"We have not done so bad in spite of the handicaps inherent in an industry of such great size and in which the first consideration of all is the safety of the passengers and cargo entrusted to our care. This factor of safety always has been, and always will be a brake on any efforts to bring about quick, radical, or spectacular changes in railroad equipment, no matter how great the popular appeal of such changes might be. Inventors and the public sometimes become impatient with our caution in adopting new devices, but they should try to understand that the industry in its entirety feels it is better to be safe than sorry.

"This does not mean new products, new materials, or progressive ideas are disregarded. In spite of what some people say the railroads have always, individually and collectively, worked quietly and tirelessly to improve their equipment whenever it was possible to do so. They have always engaged in applied research, which is the type of research best suited to the needs and facilities of the railroad industry. In this field we investigate, test, and check products already in use, or new ones submitted for investigation.

Competition Spurs Improvements

"The demands of the railroads for new and improved products, together with the keen competition inherent in free enterprise, have kept the manufacturers on the alert. We expect them to continue in this frame of mind, but if we feel they are lagging, or taking advantage of some situation within the industry to the extent where progress has become stagnated, we have in the past, and shall continue in the future, to correct such a condition through basic research within the industry until the condition has been corrected. In such matters the entire railroad industry must act in unison, as it often does in problems passing through the Association. It is well, however, to bear in mind the limitations of the Association with regard to research. Essentially it is a clearing house of railroad problems and as such, is often called upon to undertake a research project that may last for years. Such a project is exemplified in our passenger car axle investigation, now in its sixth year.

"Scope for research actually covers a tremendous field. So many pieces of equipment are involved in the operation of a railroad that there is an endless chain of problems arising, improvements to be made, changes in basic design, new equipment and designs to be considered and tested. There is nothing spectacular in this type of research, which has been one of the reasons for much unfavorable criticism, but it is necessary and will always be a part of the gigantic effort called the railroad industry.

Lighter and Stronger Materials

"Progress has been somewhat retarded during the war period because of our inability to secure certain materials and as a result some phases of locomotive and car construction have remained static, but this is a temporary condition which we hope will soon be alleviated. In the meantime, planning and development are being carried forward and as soon as it becomes possible to do so, the use of higher grades of steel and various alloys will be greatly extended and entirely new applications of lighter weight and stronger materials will enter all fields of railroad construction.

Locomotive Improvements

"A question frequently asked is 'How much can we reduce the weight of locomotives and what would be gained?' There can be no stock answer to this, as the weight must be based upon the necessary tractive effort for the work it is required to do, coupled with the restrictions imposed by the type of roadbed and bridges over which it must operate. Under good working conditions and with heavy traffic to be hauled there is not much to be gained by a reduction in weight. However, where it is necessary to run locomotives on a weight-limit basis, where the capacity of bridges and roadbed limit the weight of the engine, much can be done in reducing dead weight through the use of alloy steel, as well as by using a better grade of steel.

"With present-day equipment we must retain weight where possible so as to achieve the necessary factor of adhesion which establishes the weight on drivers. It is expected that the use of light-weight cars, both freight and pas-

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With John Nordman Co.

(Special to The Financial Chronicle)

ST. LOUIS, MO.—**William R. Humphrey** has become connected with **John Nordman Company,** 3615 Olive Street. Mr. Humphrey previously was with the War Department Corps of Engineers Real Estate Branch, Washington, D. C.

Missouri Brevities

During recent weeks the principal topic of conversation among Missouri dealers has been the 5% Profit Limitation Ruling of the National Association of Securities Dealers. One organization canvassed its members and found a surprising uniformity of opinion. Almost without exception the dealers were resentful toward the governors of the NASD for having issued the ruling without polling the membership on such an important and vital matter. The NASD was further criticized for not holding conventions at which the members would have an opportunity to discuss the problems confronting the association from time to time.

The opposition to the Profit Limitation Rule is practically unanimous in this district, varying only in the individual reasoning. For instance: Most of the smaller dealers and particularly those located outside of the largest trading centers are opposed to the percentage of profit allowed and point out that in most cases 5% would not provide a fair remuneration for the service rendered nor permit profitable operation. Others point out that the rule makes no differentiation for the size of the order, the amount of work involved on the individual transaction or the price of the security being handled. Some expressed amazement that the NASD calculated the 5% against the dealer's cost and likewise against the bid side of the market where a dealer had a position, particularly since this previously unheard of method of calculation of a commission was not stipulated in the NASD ruling. Others pointed out that there was no such thing as a "riskless" transaction and cited instances of customers reneging on commitments, leaving the dealer hooked with an unexpected long position.

One chap remarked on the opposite activities of the right and left hands of the Government with the comment that the Attorney General's office was actively engaged in breaking up monopolies while the Securities and Exchange Commission was abetting and encouraging the practises of monopolies, especially in forcing a dealer to belong to the NASD in order to obtain a participation in new underwritings and again through assent to the NASD's nonflexible Profit Limitation rule.

Some of the deeper thinking individuals expressed fear of the consequences to the industry in general. They mention that the little known, closely held stock or bond, particularly the obligation of a small company, does not enjoy a ready-made market. Some dealer has to spend time and money delving into the company's position and prospects or locating a buyer or seller. The character of the security is not conducive to purchase for position or short-selling by the dealer. Hence an ultimate trade is usually the result of an order against an option and would appear on the dealer's records as a "riskless" transaction. But if the profit which can be obtained is not commensurate with the time, effort and money sent and if it does not vary in proportion to the sum of these 3 items, dealers will refuse to handle securities of this type. Unwillingness of a legitimate dealer to develop a market for a security would defeat the purposes of the Securities Act by robbing the stockholder of a market away from the Corporation officials. It would further prevent the development of a market sufficiently broad to enable a growing corporation to meet the requirements for listing on a national securities exchange except through the sale of a large block of stock by an underwriter. But to what dealers could this underwriter look for his secondary market? Any legislation which tends to destroy the normal function of one section of an industry is bound to have its adverse effect upon all other sections of that industry.

Several dealers stated that the article by A. M. Sakolski in the Dec. 9 issue of the "Commercial and Financial Chronicle" expressed their sentiments in better words than they could use. Most of those contacted seemed loath to write their local NASD or the National Board of Governors for fear of reprisal. This attitude seems to be a mistake because there is no other way for the local directors of the NASD to learn the feeling of the local members and pass it on to the Board of Governors of the National Association.

Another topic of conversation among dealers in St. Louis was the action of Ely-Walker Dry Goods Company common stock since its delisting from the St. Louis Stock Exchange. The last sale prior to the delisting on November 10th was at 28. Since that time several St. Louis dealers have prepared descriptions and have advertised a sponsorship of the stock. As a result it has advanced to 35½ bid under active trading, a new high since 1929. This price would appear to more truly reflect the earnings and dividend record and high Net Quick Asset Value (over $46.00 a share) of this stock. Incidentally, buying inquiries are reported to have been received from many parts of the United States.

Demand among local investors has held up exceptionally well, with greatest interest showing in Associated Gas & Electric bonds; Southwestern Public Service; York Corporation; Hearst Consolidated Publications stocks; bonds and stocks of coal companies like Peabody, Old Ben and Chicago, Wilmington & Fraklin and St. Louis, Chicago and Kansas City tractions. Other favorite stocks have been Missouri-Kansas Pipe Line, Panhandle Eastern Pipe Line, Boston & Albany RR. and Marathon Paper Mills. There has likewise been a good demand for many high grade and several discount preferred stocks. Some salesmen have noted that customers they haven't been able to see have been showing up voluntarily with funds for investment.

Interesting Rail Data

Under the amended St. Paul compromise plan approved by the ICC, St. Paul generals, Milwaukee & Northern Consolidated 4½s, and St. Paul 50-year 5s of 1975 offer attractive situations according to a detailed memorandum issued by Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock Exchange. Copies of this memorandum and a circular discussing the attractions of Texas & Pacific Railway Company Ref. 5s may be had from Vilas & Hickey. Also available on request is a general discussion of railroad trends in October.

Joins Barrett-Herrick Co.

(Special to The Financial Chronicle)

KANSAS CITY, MO.—**George T. Scott** has been added to the staff of **Barrett Herrick & Company, Inc.,** 1012 Baltimore Ave.

Kelly Joins Lamson Bros.

(Special to The Financial Chronicle)

KANSAS CITY, MO.—**Joseph L. Kelly,** for many years with Lamson Bros. & Co., has become affiliated with **H. O. Peet & Company,** 23 West Tenth St.

Schroder Banking Corp. Elects Schumann Asst. Sec.

George R. Schumann has been elected assistant secretary of the J. Henry Schroder Banking Corporation, 46 William Street, New York City.

Full Text Of Opinion Of U. S. Circuit Court Of Appeals In Case Of Hughes Vs. SEC

Court Holds Dealer Committed Fraud In Mark-Up Case —Cites Action Taken By NASD Business Conduct Committee Involving 10% Mark-Up And Illinois Circuit Court Judgment Sustaining Revocation Of Dealer's Registration In 25% Mark-Up Case.

We give below in its entirety the decision handed down on Dec. 10 by the U. S. Circuit Court of Appeals, wherein the Court upheld the action of the Securities and Exchange Commission in revoking the registration statement of Charles Hughes & Co., Inc., as a broker or dealer under the Securities Exchange Act of 1934.

UNITED STATES CIRCUIT COURT OF APPEALS
For the Second Circuit

No. 154—October Term, 1943.
(Argued November 18, 1943 Decided December 10, 1943.)

CHARLES HUGHES & COMPANY, INC.,
Petitioner,

—v.—

SECURITIES AND EXCHANGE COMMISSION,
Respondent.

Before:
AUGUSTUS N. HAND, CHASE, and CLARK,
Circuit Judges.

Petition to Review an Order of the Securities and Exchange Commission.

Petition by Charles Hughes & Company, Inc., to review an order of the Securities and Exchange Commission revoking the petitioner's registration as a broker or dealer under the Securities Exchange Act of 1934. Order affirmed.

DAVID V. CAHILL, of New York City (Murray R. Spies, of New York City, on the brief), for petitioner.

MILTON V. FREEMAN, Asst. Sol., Securities and Exchange Commission, of Philadelphia, Pa. (John F. Davis, Sol., Olga M. Steig, Asst. Dir., Trading and Exchange Division, Orrin C. Knudsen, Counsel, Trading and Exchange Division, and Irving J. Galpeer, Aaron Levy, and Alfred Hill, Attys., Securities and Exchange Commission, all of Philadelphia, Pa., on the brief), for respondent.

CLARK, *Circuit Judge:*

This is a petition, pursuant to §25 (a) of the Securities Exchange Act of 1934, 15 U. S. C. A. §78y (a), to review an order of the Securi-

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Tomorrow's Markets Walter Whyte Says—

Further strength anticipated followed by reaction of about three to four points. On such set-back I think stocks below are a buy.

By WALTER WHYTE

During the past seven days the market had a few choice bits of news to chew on. The conferences at Cairo and Teheran were naturally the piece de resistance but the developments at home were not far behind. From the action of more than just a handful of stocks it was obvious that the developments were not unfavorable. The implications of these conferences, however, are too far-reaching to be gone into here.

* * *

Well, in the past two weeks we have seen the averages hit a low of 129 and a high fraction followed by a rally which carried them to across 135. In the last few days a feeling of optimism, always latent, has revived and the opinions that the market is now going up again are again coming to the fore. The fact of the matter is, however, that the advance of the past two weeks was an anticipatory move based on the news which has since become public. It is not a reflection, as many seem to believe. If that is the case, the market must now be fed by additional news—or anticipate it—before any further move in stock prices can be looked for.

* * *

I believe more and more of this kind of news will occur. But I don't believe the market will start right up from here. On the contrary, from the action of the averages, I look for a little more "up" followed by more "down." Paraphrased into point movements, I look for something like the following: The industrials (now at about 135) will stay at approximately that level for the next few days. This will be followed by a short but rapid advance to about 136-137. At that level it is logical for bullishness to increase. It always does on

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Connecticut Brevities

Little interest was displayed in the Connecticut municipal market during the past month. There was a general decline in prices, although an issue of $195,000 Water System Bonds of the Town of Portland sold on Dec. 10 brought 100.81258 and accrued interest for 1.40s. The bonds, dated Dec. 15, 1943, and due $10,000 each Dec. 15, 1944 to 1962, inclusive, and $5,000 on Dec. 15, 1963, were reoffered on a scale ranging from a .50% to a 1.50% basis.

In the short-term category there are two sales of Tax Anticipation Notes scheduled. On Dec. 16, the City of Waterbury will receive bids for $700,000 notes to be dated Dec. 28, 1943, and mature Feb. 5, 1944. On Dec. 20, the Town of Darien will likewise seek bidders for $150,000 notes dated Dec. 22, 1943, and due May 1, 1944.

* * *

While official figures have not yet been released, it is expected that there will be a reduction of some $5,000,000 to $6,000,000 in the grand list of the City of Hartford. Unless substantial savings can be effected in the budget for 1944, it may be necessary to have an increase in the tax rate.

* * *

The Southern New England Telephone Company reports for the first ten months of the year, net income available for dividends of $2,303,538 against $2,579,022, or $5.76 compared with $6.45 a year ago on a per share basis. Total telephone revenue for the month of October showed an increase of 10.6% over a year ago.

* * *

Recent action of the directors of the United Aircraft Corporation has given effect to the promotion of three of its principal officers. Eugene E. Wilson, formerly President, was appointed Vice-Chairman of the corporation. Raycroft Walsh, previously Senior Vice-President, has been made a Vice-Chairman. Former Vice-President in charge of manufacturing and General Manager of the Pratt & Whitney Aircraft Division, H. Mansfield Horner, has been elected President to succeed Eugene E. Wilson.

* * *

According to estimated figures for 1943 submitted to the Federal Court by the Trustees of the New York, New Haven & Hartford Railroad, it is expected that the road will produce the largest gross in its history—$179,604,388. This figure shows an increase of $23,464,195 over last year. After all expenses and taxes, net income will probably be $33,621,599 which shows a 12% increase, or $3,608,755, over 1942. The report shows that taxes will total $26,303,216—an increase of $4,048,040 over a year ago.

It is reported that the War Production Board has directed Remington Arms Company to curtail its small arms production 30% beginning Jan. 1, 1944. It is estimated that this will result in the dismissal of some 2,500 workers.

* * *

Yale & Towne Manufacturing Company, in addition to turning out its regular line of products which are used in the war effort, is now producing special items including pumps for airplane engines, superchargers, cylinders for hydraulic control of airplanes and miscellaneous airplane parts.

* * *

With the payment of a total of $2.25 a share on Dec. 31, Greenwich Water System 6% preferred stock will have cleared up dividend arrears to Oct. 1, 1943. As of Jan. 3, 1944, total arrearages per share will be 75c.

* * *

Recent dividend declarations in the insurance field show the following extra payments: Aetna Life Insurance, 20¢ on Jan. 3, 1944; Aetna Casualty, $1 on Jan. 3; Automobile Insurance 40¢ on Jan. 3; and Phoenix Insurance $1 a share on Jan. 3. Extra payments scheduled on industrial stocks include: New Britain Machine 50¢ payable Dec. 18, and American Hardware, 25¢ on Dec. 18.

A year end payment of 75¢ on North & Judd Company stock brings the total dividend for the year to $2.50, which is 50¢ less than that paid in 1942.

Colt's Patent Fire Arms Manufacturing Company likewise shows a lower dividend for the current year. The payment of $1.25 on Dec. 18, makes a total of $3.50 against $5 paid in 1942.

Arrow-Hart & Hegeman Electric Company's dividend payment is off 25¢ from a year ago. After a final payment of $1.25, this year's total will be $2.75 a share against $3 paid the previous year.

Toronto Bond Traders Elect New Officers

TORONTO, ONT., CANADA—At the Annual Meeting of the Toronto Bond Traders Association, held at the King Edward Hotel on Nov. 25 last, the following Executive Committee was elected, for the 1943-1944 year:

President: George Rose, Goulding, Rose & Co., Ltd.

Vice-President: L. M. Wightman, Fairclough & Company.

Secretary: W. E. Parker, Dominion Securities Corp., Ltd.

Committee: D. K. Cassels, Cochran Murray & Co., Ltd.; T. H. Baker, A. M. Ramsay & Company; S. Cox, J. R. Meggeson & Co., Ltd.; R. A. Webster, Royal Bank of Canada; L. L. Bell, James Richardson & Sons; R. P. Howard, Gairdner & Company, Ltd.

Clark Electronics Shares Offered

J. F. Reilly & Co. are offering a new issue of 33,333 shares of common stock of the Clark Electronics & Aviation Corp. at $3.00 per share. The stock is of $1.00 par value. The corporation produces commercially various products in the general field of radio and aviation.

Situation Interesting

A. W. Benkert & Company, Inc., 70 Pine Street, New York City, have prepared an analysis of the Illinois Central Railroad Company. Copies of this interesting study may be had from the firm upon request.

Real Estate Securities

Demand For Office Space In New York City Rental Rates Being Increased

Rental conditions, from an owner's standpoint, which in turn must react to the benefit of real estate security owners, have improved greatly in the last year, to a point where many properties are close to 100% rented.

A survey made of several buildings and discussion with various managing agents reveals the fact that on renewals tenants were being asked from 10% to 20% more and that in many cases an even larger increase could be secured from new tenants.

In mid-town New York, there is very little space available and it is decidedly an owners' market. While it has been true that operating costs have risen since 1942, it is the general belief that they have become stabilized and that from this point on increased rental rates would be reflected to the benefit of the property.

In recent years, most properties have operated on the basis of short term leases and the wisdom of this policy will be reflected in the opportunity owners will now have in effecting increases on a larger ratio of renewals.

It would seem to be a logical conclusion that increased net available income from the operation of a property must have a favorable effect upon the outstanding first mortgage securities which it secures. In many of the reorganization indentures, provision is made for fixed or income interest up to a certain percentage, providing for surplus earnings above the determined interest distribution being used as a sinking fund for purchase and retirement of bonds.

The difference that a 10% increase in rental rates can mean is easily reflected in the following example of a property that has been making a 4% interest distribution on funded debt and having a small sinking fund operation even though the property has been only about 87% occupied. This property now close to 100% rented should, with the increased occupancy and with the advantage of only a 10% increase in rates, produce about $50,000 more cash available for sinking fund operations. In relation to the outstanding mortgage this increased sinking fund would amount to about 3% and in consequence a favorable market action for the outstanding bonds should be the result.

Many office building securities merit the investigation of those investors looking for attractive yields and appreciation possibilities due to the greatly changed rental situation in New York City.

Hyde Reviews Profit Possibilities Of Operating Co. Stocks

W. Truslow Hyde, Jr., public utility analyst for Josephthal & Co., addressed the Boston Securities Traders Association last Wednesday. He pointed out the profit possibilities for investors and dealers which will be presented in increasing volume as the stocks of operating companies, now locked in the portfolios of holding companies, are brought onto the market as unknown and unseasoned, but sound investment equities. Reviewing the market record of stocks such as Southwestern Public Service, Houston Lighting, Philadelphia Electric, Puget Sound Power & Light and Idaho Power, Mr. Hyde concluded that, whether the new issues reached the market through underwritings, exchanges or recapitalizations, the initial prices of new operating company stocks would probably reflect investor confusion as to their value in relation to more seasoned issues.

As plans for compliance with the integration provisions of the Holding Company Act progress, he said, dealers will have an increasing number of relatively undervalued stocks to offer their customers, while investors will be afforded opportunities to acquire sound equities at "auction prices."

Utilities On Auction Block

Many utility holding companies have completed the groundwork for compliance with the Holding Company Act; and, as their plans approach consummation, a larger number of new operating company stocks will come onto the market, Josephthal & Co., declares. The profit possibilities for dealers presented by these approaching developments are discussed in a booklet, "Utilities on the Auction Block," which the firm has just issued. Copies may be obtained upon request from Josephthal & Co., 120 Broadway, New York City, members of the New York Stock Exchange and other exchanges.

Scovill Mfg. Interesting

Charles W. Scranton & Co., 209 Church Street, New Haven, Conn., members of the New York Stock Exchange, have issued an up-to-date appraisal of Scovill Manufacturing Co.'s current and post-war outlook. Copies of this interesting circular may be obtained from Charles W. Scranton & Co. upon request.

Public Utility Securities

American Power & Light Has New Florida Refunding Plan

American Power & Light has just presented to the SEC a new plan for refunding the bonds and preferred stock of its subsidiary, Florida Power & Light, and readjusting its security holdings in the subsidiary. The plan does not differ a great deal from that of September, 1941, except that a slightly larger amount of bonds will be issued, in lieu of bonds and preferred. Moreover, American will receive $7,000,000 debentures which it can sell at some future date, whereas in the first plan it was to receive nothing but additional stock (mere bookkeeping, since it already had the entire equity) in exchange for cancellation of its holdings of bonds and preferred stocks aggregating $26,347,700 face value.

With the cash received from the sale of new bonds and notes (together with cash on hand) Florida will call for redemption $52,000,000 of 5% bonds and $14,652,300 face value $7 preferred. The plan does not specify coupon rates on the new issues, but assuming that the new mortgage bonds are 3¾s, the serial notes 3s, and the debentures 5s, the aggregate saving in interest and dividends from the refunding and subordination should approximate $3,000,000. However, such additional earnings, combined with other factors, might push the company into the excess profits tax bracket—although loss on call premiums should go far toward reducing such a tax in 1944. Because of the difficulty in appraising taxes, estimated net savings from the plan might vary between $600,000 and $1,800,000.

It has never been clearly understood why the 1941 plan failed to materialize, since the company at that time was apparently willing to accept complete subordination, but possibly Pearl Harbor interfered with the refunding plans. It appears unlikely that a revised version of the plan would be submitted at this time unless there was some assurance of favorable consideration by the SEC—though the holding companies have submitted many plans in the past which failed to enlist SEC approval.

The SEC also has before it a recapitalization plan of American Power & Light to give 90% of new common stock issue to the $5 and $6 preferred stocks and 10% to the common, of which Electric Bond and Share holds 31% (it also has 5% of the $5 preferred and some bonds of subsidiaries). American is in process of retiring its own debenture bond issues ($44,933,000 at the end of last year), and has been granted SEC permission to use about $10,000,000 cash for open market purchases. At first the company was only allowed to pay as high as par and purchases lagged; later it was allowed to raise the price to 106. Since the SEC has been generally opposed to purchases above par, on the theory that bond issues will be retired at 100 in dissolution, the increase to 106 was explained in a rather novel way: the six points were to reimburse holders for loss of a full year's interest (Sept. 1 this year to Sept. 1 next year, the date when dissolution was considered likely to be effected). Accordingly, the amount of interest would decline as the period of time was reduced and American announced that the price would drop ⅛ of a point each week. Regardless of SEC reasoning, this proved a good "bait" so far as investor's psychology was concerned, and bond sales immediately increased as holders visualized a steadily declining market.

American Power & Light has a portfolio of saleable subsidiary bonds (together with some notes and advances) from which the company should be able to realize sufficient cash to complete the repurchase or redemption of its own bonds. While this estimate includes the $7,000,000 debentures to be received from Florida, it is possible that these might not prove necessary should the SEC require complete subordination. Thus, American's stockholdings in its 13 important subsidiaries might eventually be available (to the extent of 90%) for holders of the preferred stocks, if present plans are consummated.

It is a difficult matter to estimate liquidating values of holding company securities because of the tremendous importance of taxes, and Congressional tax policy cannot be successfully forecast. American's earnings, like those of several other large holding companies, have skyrocketed this year due largely to the privilege of returning a consolidated system tax return. For the 12 months ended Sept. 30 consolidated earnings were equal to $10.27 on the preferred stock compared with only $3.83 in the corresponding previous period. Some of this gain will be lost in the 10 months' statement, since in October, 1942, excess tax accruals amounting to $2,700,000 were largely readjusted.

If the stocks of subsidiaries should be turned over to American's stockholders, these companies would lose the tax advantage gained this year, since they could no longer file a consolidated return, and thus some part of the 1943 increase in earnings is fictitious so far as liquidating value is concerned. On the other hand, several companies pay excess profits taxes and it is generally hoped that these taxes may be repealed by Congress after the war, resulting in a saving of at least half the amount (the regular income tax rate would still apply to such income).

There are numerous other factors which make it difficult to gauge liquidating value with any degree of accuracy—prospective plant write-offs and possible rate reductions for several important subsidiaries, questions of public ownership (always an important market factor), the poor capital structure of certain subsidiaries, etc. Recent estimates of potential liquidating value have ranged from 50 (a few points over current market price) to 80. Future SEC action on the two plans now before it may help to narrow the range of these estimates.

With Mercier-McDowell

(Special to The Financial Chronicle)

DETROIT, MICH.—**Charles H. Forsberg** has become associated with **Mercier, McDowell & Dolphyn, Buhl Buiding.** Mr. Forsberg was formerly with C. G. McDonald & Co. and Humphries, Angstrom & Co.

Joins Allman-Moreland

(Special to The Financial Chronicle)

DETROIT, MICH. — **Gladys I. Wade** has been added to the staff of **Allman, Moreland & Co.,** Penobscot Building.

Reuter With Merrill-Lynch

(Special to The Financial Chronicle)

DETROIT, MICH.—**George A. Reuter** has become associated with **Merrill Lynch, Pierce, Fenner & Beane,** Buhl Building. Mr. Reuter was previously with Baker, Simonds & Co. and Palmer, Everham & Co.

Seaboard Reorganzaion Situation Of Interest

Van Tuyl & Abbe, 72 Wall Street, New York City, have issued a circular describing recent developments in respect to the Seaboard Air Line Railway Company reorganization. Copies of this interesting circular may be had from Van Tuyl & Abbe upon request.

Michigan Brevities

The &250,000,000 VT credit arranged for Chrysler Corporation through the National Bank of Detroit and the Central Hanover Bank and Trust Company is now operative and constitutes the second largest such credit ever arranged, according to an announcement by Walter S. McLucas, chairman of the National Bank of Detroit.

The credit was said to have been subscribed to the extent of $400,000,000 by banks throughout the country.

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Mr. McLucas, already a director of a number of corporations including Chesapeake & Ohio Railroad and American Airlines, was named a director of Bendix Corporation last week.

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Seven Michigan firms were added to membership rolls of the Investment Banking Association of America this month. They are: Baker, Simonds & Co.; Bankers Trust Co. of Detroit; Commonwealth Bank, Detroit Trust Co.; Mercier, McDowell & Dolphyn; National Bank of Detroit and William Roney & Co.

* * *

Charles G. Oakman, City Controller of Detroit, accepted offerings of City of Detroit non-callable bonds to the extent of $238,000 last month for the Detroit City sinking fund — street railway division. No bonds maturing beyond May 1, 1949, were accepted.

* * *

In the dividend news were declarations by the Manufacturers National Bank of Detroit amounting to $2 a share, payable Dec. 3 to stock of record Nov. 15, and by the United Savings Bank for 50 cents a share, payable Dec. 20 to stock of record Dec. 10.

* * *

Michigan National Bank of Battle Creek was the successful bidder for the $100,000 worth of tax anticipation notes of the school district of the City of Battle Creek, offered last month.

The successful bid was 1¼%.

Other bids were the Security National Bank, Battle Creek, 1¾%, and the Central National Bank of Battle Creek, 2%.

The Security Traders Association of Detroit and Michigan held its annual winter dinner party on Dec. 1 at the Detroit Leland Hotel.

William H. Duff, senior partner of Duff & Phelps of Chicago, utility consultants, addressed the group on "Public Utility Securities and Their Place In the Investment Field."

Attendance was very satisfactory, Robert R. Stoettzer of Stoettzer & Carr, who was in charge of the reservations, announced following the meeting.

* * *

On a sad note was the revelation by Edwin G. Hoover, chairman of the banking division of the War Finance Committee, that his only son, Gordon Phillips Hoover, Lt. j. g., is missing in action in the South Pacific while on submarine duty.

Ed Hoover, one time First of Michigan Corporation executive, held a similar commission in the last war.

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Hughes Decision Stuns Dealers

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he could to have this ruling done away with, if the order is as unfair as it appears on the surface. If you wish you may contact him direct and I believe you will find him cooperative.

One thing that amazes me is, in all the comments that you have in your paper 99% of the dealers haven't got the guts to endorse what they write. Any industry or institution that is so spineless because of fear of reprisals doesn't deserve, in my opinion, better treatment. I realize, of course, that SEC can put anybody out of business today or tomorrow if they wish—but what of it? Most of us can make a living doing something else.

In sincere appreciation for your efforts on behalf of the security dealers, I am

Respectfully yours,
JOHN W. YEAMAN.

Martinsville, Va., Dec. 8, 1943.

DEALER NO. 89

Pertinent to status of small dealer in NASD:

"Homer, in the 'Illiad,' Book 1—(800-900 B.C.).

Calchos said: "A plain man cannot stand against the anger of a being who, if he swallow his displeasure now, will yet nurse revenge till he has wreaked it."—A Small Dealer in Midwest.

DEALER NO. 90

I don't see why employees who have been elected to an NASD post should tell us employers how to run our business.

DEALER NO. 91

As a small-town broker, having a limited clientele, I am in full sympathy with your campaign to discourage the bureaucratic experiment of limiting profits of brokers, as inspired by the rather discredited NASD.

As a practical matter, all my transactions are on a disclosed and mutually acceptable basis with my clientele, and presumably as such I am not affected by this latest edict of our All-Highest and his satellites; however, the thought is repugnant to any decent American, and is evidence of the creeping destruction of things American which has been so conspicuous since 1933.

I was once a member of the NASD, solely for the reason that its chief ballyhoo artist upon its formation specifically replied to my question from the floor that only if I joined this parasite organization could I continue to trade with member dealers. When I found I had been taken for a ride I immediately sent in my resignation, as a member in good standing, and resolved that I could find better use for the annual dues than to conitnue feeding and maintaining the smug personnel of this outfit who "toil not neither do they spin" while some of us are still willing to believe that we should render value to the public for our services rendered, without being burdened with a lot of useless barnacles. If anyone can offer any intelligent person any justification for the continued existence of this decadent outfit striving to justify its existence with its membership but a small fraction of the brokers in this country, I am keeping an open mind available to listen to such allegation of its value to the brokerage fraternity or to the general public.

It does not take a student of history to justify the assertion that the patriots in 1775-1776 fought to free themselves from much less in the way of burdensome taxes, bureaucratic offensiveness, etc., etc., than has been patiently accepted by the decent citizens in this Nation during the past decade; if we do not return to principles of free enterprise and the discarding of the myriad of parasites who have fastened themselves upon the Ship of State during the past decade during the coming elections, it is difficult for me as one sole individual to see what is left for any of us, brokers, undertakers, grocers, or any other group.

I am ashamed to ask you to keep my name out of article if used, but my modest livelihood is at stake. and until decency is again in the ascendency in this Nation we small and helpless individuals must remain incognito; God helping us, remaining alert to assert ourselves when able to do so collectively and effectively, I hope.

DEALER NO. 92

I question the wisdom of the NASD in promulgating this rule. It seems to me that any *gross* abuses that may exist in dealer transactions are really outside of the NASD fold and should be regulated by the SEC who have ample facilities for discovering such irregularities.

I should be inclined to feel that the admittance of an individual or a firm to the NASD would, of itself, be a reasonable endorsement of their integrity, and that therefore there was no sufficient need for the 5% profit edict.

DEALER NO. 93

Just a word to approve of your attitude on the 5% profit limitation matter.

We think that it is best that a small dealer not have his name registered on these matters, however, here is one that will lend his support wherever you think it worthwhile.

Keep the good work up.

DEALER NO. 94

As a Governor of New Jersey stated once years ago, "You can't make laws to govern thieves or put common sense into fools."

DEALER NO. 95

We have read with considerable interest your editorials as well as letters from dealers concerning Attempt to Establish "5% Rule" as a Recognized Practice of Dealers in Securites.

In our opinion it is a crime for our boys and men to fight overseas for democracy and freedom, we mean those boys who were stock and bond salesmen and the men who were in the investment business, and to find on their return that this rule if successfully put over by a small click of members of the New York Stock Exchange and a few highly paid members of NASD who we thought were looking after our interests, but we now find that they are pulling down salaries from the NASD, salaries that we are paying them, and they are trying to put us out of business.

We agree with the letter of Dealer No. 69 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. We also feel that if it is found it does not, then the Board of Governors should either rescind their order or resign.

We would be willing to contribute to a fund that would employ a good law firm to carry this matter to the courts if necessary and end this thing for once and all.

No doubt you recall that the NASD about two years ago tried to put over an amendment to the by-laws that dealers must have $5,000 cash in the bank over and above their fixed assets and this $5,000 was to insure the investing public in the event a dealer would abscond with his customer's money. Why didn't these braintrusters think of a surety bond if they really wanted to protect poor investing public—that would really be protection. We are wondering how many lawyers could put $5,000 cash in the bank or any other professional man handling money.

We believe Mr. J. A. White of J. A. White & Co., Cincinnati, in his article in your paper Dec. 2, 1943, really started something and we do hope that other firms with wealth and influence will do the same thing as the more than seventy-two letters that we read in the various issues of "The Commercial & Financial Chronicle" were afraid to sign their names to their letters lest the NASD power boys would be on their necks.

We note that dealer No. 80 stands ready to make an initial contribution of $50.00 toward the organization of any association, and, as previously mentioned, if you could start something in this respect, we would be glad to contribute.

Like Dealer No. 82, we are not strong enough to incur the wrath of the SEC or the NASD and, therefore, request that you keep our name anonymous.

DEALER NO. 96

In my humble opinion, not only the small unlisted securities dealers, but all dealers and brokers in the industry should be grateful to you for the fight you are putting up in their behalf. I say all dealers and brokers because, just as sure as the sun rises and sets, once a 5% profit limitation becomes a fact, it is then only another step to reduce it and continue to reduce it until even those who are left will do well to break even. In additon, this would only be the first step toward extension to other businesses. This profit limitation scheme is nothing more nor less than the twin brother to the salary limitation scheme. In other words, the insidious thing about this business of profit limitation is not the amount of limitation, but, LIMITATION ITSELF.

Some of the letters you have received and published would indicate that their authors did not believe the NASD was actually limiting profit to 5%. Your article on pages 207 and 208 of the December 2nd issue should completely dispel this thought. It also indicates that the author of letter No. 28, written as you stated by a governor of the NASD, might be having the wool pulled over his eyes. To state more clearly I quote from your article on page 208, "Isolated transactions where the mark-up or spread 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" (caps are mine). Note the "MAY warrant only informal inquiry" or "a precautionary letter." In other words, informal inquiry or a precautionary letter is the least that can be expected if the Gestapo catches anyone taking over 5%. Truly, none are so blind as those who will not see.

Personally, I feel that profit limitation imposed upon legitimate business by any association or government bureau is wholly socialistic and entirely and completely un-American. It has no place in the American way of doing things.

Furthermore, I cannot subscribe for one moment to the manner in which this rule was adopted. Why wasn't the membership allowed to vote on this proposition? And by secret ballot, and not as we were ALLOWED to vote on the minimum capital proposition? The method used was most un-democratic to say the least.

The Board of Governors of the NASD surely is an intelligent group of men, and I am sure they have the well-being of the industry at heart. However, it would seem that they too are afraid to make any move contrary to the wishes of the "higher ups" who crack the whip. If this were not true, why, in the past few years have they seemingly done more to antagonize the membership than they have to help it? Off hand, they seem to base their actions on such false premises as—might makes right; size or wealth is the measuring stick of honesty or integrity; that by legislation or rule or edict you can chase the sharp-shooters out of the business. A casual reading of the SEC releases prove the fallacy of such thinking. If they would only put their ears to the ground they would quickly realize these truths. Again I say, none are so blind as those who will not see.

What is being accomplished by this antagonizing, this cracking down on the entire membership just to try to catch a few sharp-shooters? The answer is simple and plain. The membership is dwindling. Members are afraid to write letters such as this, honest criticism, over their signature, for fear of being cracked down upon; they fear and distrust the officers of their own organization. If this were not true, why do nearly all the dealers that write you request that you do not print their names just as I must do? I ask you, isn't this a fine state of affairs, a fine condition to exist in a country such as ours? Such a condition cannot continue to exist, and it will not continue to exist. Jim Farley had the right answer when he was reported to have said, "The people are tired of being kicked around." If anyone doubts this statement just let him look at the results of the recent elections in New York, New Jersey, Philadelphia, Detroit, and two in Kentucky. Wow!!!

We have been members of the NASD since its inception. Our dues are going up each year. In so far as I can see we have not received one bit of benefit from our membership. In so far as I can see, we are just helping an organization to exist that any day may come in and raise the devil with us for almost any reason, real or fancied, not for what we have, or may have done, but for some stupid little thing we failed to do.

It is my opinion, and I am sure the opinion of hundreds of other dealers, that the NASD has utterly failed to represent the industry as such an association should do. That, instead of fighting for the industry as it should, it has become nothing more nor less than a tool of some "higher ups" through which they continue their process of cracking down upon the industry. That, it is entirely unsound in principal to chance the ruining of an industry in which thousands of fine, and I may say above average, people are employed by thousands of reputable, respectable dealers, approximately 2,200 of which are members of the NASD, in order to weed out a handful of sharp-shooters. Hitler's Gestapo will eliminate hundreds of innocent persons in order to get one or two culprits, but that surely is not the American way of doing things.

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The Prospect for the Stabilization of the Chinese Dollar

By HENRY C. CHEN, Ph. D.
Bank of China, New York Agency

I

China's fight against Japanese aggression has already passed the mark of six long and bloody years. During the past six years she has suffered great losses both in lives and in property. Millions of people have been driven homeless and thousands are starving to death daily for want of food and shelter. This is China at War today.

But behind the grim military resistance of a war-torn China there are many economic problems which are probably not yet sufficiently appreciated by the average observer to form a better judgment of the real hardships that have befallen the people of China. One of these seemingly unspectacular but equally, if not more, important problems is the fight against an insidious inflation which is ravaging the country and is threatening to undermine the morale and economic virility of the people.


Henry C. Chen

The evil effect of this dreadful inflation may be attributed to many different causes. Perhaps the most fundamental factor is the fact that due to the impossibility of diverting the flow of money from the general public to the Government either through adequate taxation or by borrowing to syphon off the excess purchasing power of the people, China in financing her war effort has been forced to resort to the crude, inequitable method of printing money. Thus when the Government is in need of money, all that it has to do is to turn over so much Government obligations to the Central Bank of China which, in turn, issues so much paper notes as "cash" for the bonds thus bought. How much paper money has been issued in this fashion since the outbreak of the present Sino-Japanese war in 1937, is indeed a very difficult question to answer. One estimate[1] puts it at $60 billion in total issued since the Lukouchow incident, and this magnitude may be appreciated by the fact that at present there are approximately fifteen tons of bank notes issued each month to meet the demand for deficit financing.[2]

Today there are many different kinds of currency circulating side by side with one another in China. In the so-called occupied territories there are perhaps more than five or six kinds of notes issued by the Japanese occupation army and its sponsored puppet regimes. How much of each of these has been issued there is indeed no way of determining and it will have to remain unknown at least until the war is over. All we can say at present is that the total amount issued does run into billions.

The situation in unoccupied China, of course, is much better, so far as uniformity is concerned. At the moment there are only two kinds of paper money in circulation which possess legal tender power on a nation-wide basis. They are the yuan, otherwise known as fapi, and the recently issued customs gold unit notes whose rate of exchange with the former is legally fixed at one to twenty.[3]

Prior to the outbreak of the war on July 7, 1937, there was about $2 billion of notes in circulation throughout all parts of China except Hongkong, Outer-Mongolia, and the former Three Northeastern Provinces, or Manchuria.[4] If it is assumed that $60 billion is the total amount of notes issued since the outbreak of the war in 1937, then the total amount of money in circulation as of today is $62 billion, or at an average rate of increase of approximately $10 billion per year for the period from July, 1937, to the time of writing (August, 1943). And if the war is to end in 1945, as predicted by Generalissimo Chiang Kai-Shek,[5] and if the present rate of increase in the notes issued is maintained in the next two years, that is, $10 billion per year, then the total note issues from July, 1937 to, say, December, 1945, should be in the neighborhood of $80 billion. This no doubt is not an exact figure, but for our present analysis it may well serve our purpose.

Any one who is familiar with the rudimentary principles of money and banking will readily see that under such circumstances the amount of money in circulation is no longer determined by the need of the business man, but rather by the need of the Government to finance the war, and as soon as this state of affairs is known to the public, the confidence of the people in the value or purchasing power of the currency immediately fades away. What happens next is generally a common flight from the currency into commodities, real estate and whatever things the people think would be appropriate to protect them from the working of the vicious circle — namely, the greater the need for Government deficit financing, the larger becomes the note issue; and the higher the commodity prices due to greater amount of money in circulation, the larger will become the deficit, etc., etc. The following table shows the effect of this situation on the price structure in Chungking as late as November, 1942:

CHUNGKING'S WHOLESALE PRICE OF INDIVIDUAL COMMODITIES, NOV. 22 TO 28, 1942
(January-June, 1937 = 100)

Name of Commodity—Unit:	Price (in NC)	Ratio (a)
Rice, picul	710	52
Flour, bag	170	32
Pork, picul	1,200	54
Vegetable Oil, picul	820	33
Sugar, picul	1,350	66
Salt, picul	390	42
Cotton Cloth, piece	190	25
Cotton, picul	148	75
Coal, metric ton	580	69
Alcohol, gallon	97	95
Wire, picul	4,800	291
Iron Bar, picul	3,800	229
Board, piece	260	871
Blue Dye, case	31,000	127
66% Sulphuric Acid, lb.	14	24
Grey brick, per 10,000	4,150	53
Native Paper, per ream	580	97
Cigarettes, case	1,000	301

(a) Number of times of its rise as compared with its pre-war price.

Source: National General Mobilization Council and the Foreign Department, Bank of China, Chungking, China.

The number of times prices have generally risen in Chungking, and to that extent in all parts of China, is frightening indeed. Various measures have been taken by the National Government to arrest further rises in the price level. But to our distress little effect has been obtained to ameliorate the situation. To begin with, in view of the lack of a sound fiscal policy, further recourse to the use of the printing presses in all probability could not be discontinued if the war effort is to be financed at all. Secondly, due to the occupation of all the maritime provinces and especially the loss of Burma to the Japanese, China's foreign trade is brought practically to a standstill, thus making it well-nigh impossible to import goods from abroad for civilian consumption. It is true that attempts invariably have been made to develop industries in the interior, but because of the lack of capital equipments, skilled labor, essential raw materials, and, above all, a well developed transportation system,[6] it is a foregone conclusion that an integrated economy of relative abundance is an objective hard to strive for under wartime conditions and much therefore cannot be done to relieve the country from the distress of shortages. In addition, though price control measures have been introduced, nevertheless due to administrative inefficiency and inexperience, enforcement of Government regulations is extremely difficult and as a result black markets are rampant everywhere. When coupled with the fact that hoarding and speculation are indulged in not only by private profiteers but also by corrupt government officials, the whole picture of inflation does look very discouraging.

This is an overall picture of China's inflation at the moment, and it shows that China on her domestic front is really facing a serious predicament. Needless to say, on the military front she is still able to fight back the Japanese with ever increasing valor, but it cannot be expected that a nation at war can long endure extreme economic hardships without showing signs of cracking. Perhaps the only solution to the entire problem of arresting a runaway inflation is through the recapture of Burma, thereby making it possible to resume the inflow of foreign goods to relieve the acute shortages which along with the wholesale and indiscriminate issuing of paper money is the crux of the situation facing the country today.

II

Such being the situation there is indeed no question about the necessity of reorganizing the currency system once the war is over.

Any attempt made to bring about a proper alignment of fictitious wealth and real wealth probably will encounter the first question as to how much of the inflated currency is to be withdrawn or contracted before an approximate equilibrium can be established between the amount of currency in circulation or "quantity of money" on the one hand and a normal price level on the other. The concept of the quantity of money in circulation is vague and uncertain, just as the amount of goods and services coming on the market is not easily definable; what is the quantity of money necessary for all types of business transactions within an economy at a given time is something difficult if not impossible to determine. As commonly understood, money consists of bank notes and subsidiary coins circulating in the community and deposits which may be drawn on by checks. This in addition to the rate at which the quantity is turned over in the course of a year—that is, the velocity of circulation — will give us a fairly good index as to the quantity of money in circulation at a given time.

In this connection it may be recalled that in China at the outbreak of the war in 1937 the total money in circulation was in the neighborhood of $2 billion, all represented by yuans, otherwise known as fapis, or legal tender notes. The fapi, as also was shown, was circulating widely in all parts of China with the exception of several outlying districts such as, Outer Mongolia, Hongkong and the former Three Northeastern Provinces. After the war, with these places returned to China and with the blockade of the sea-coast lifted, thus making it possible to resume the import of goods from abroad to relieve the situation of scarcity, there is every reason to believe that an important deflationary effect will be brought to bear upon the sky-high price level which is now being experienced by the country. Thus, other things being equal, if the factor M in the equation of exchange, MV=PT;[7] is reduced, then in order to lower the factor P (price level) all we have to do is to increase the factor T, (total number of units of goods, wages, etc.) a condition which calls for increased production at home and large import of goods of all kinds from abroad especially during the period immediately following the cessation of hostilities.

Now for the sake of argument let us assume that the national economy will need $3 billion to maintain a price level such as existed in 1937 which is generally considered as a normal year. The excess amount of paper money to be syphoned off will then be $77 billion.

How could this huge amount of surplus money possibly be withdrawn? It has been contended that in order to bring the price level back to 1937 the $77 billion of excess funds still vested in the hands of the public may be funded into long term Government debt bearing a low interest rate, say at 2% per annum. In all fairness to this contention it may be said without fear of doing injustice to those who have sincere intentions to retain the use of the fapi, that this method is rather impracticable. To begin with, it is beyond the financial ability of the Government to increase its public debt by so huge an amount. It is true that the figure of national income is an unknown; it may be large enough, as commonly believed to support a debt of that size. But through closer examination we will readily see that it would be idle to pretend that this is true. If we take a look at the national budget, we are all the more convinced that for China to carry a public debt of $77 billion, not to mention the old debt which amounts to no less than $3 billion, it is simply out of the question for China to do so. Thus in the fiscal year which began from July 1,1937 to June 30, 1938, the total estimated revenue of the National Government amounted only to $1,000,649,496,[8] a sum which is not even sufficient to pay the 2% interest on the $77 billion funded debt.[9] Furthermore, the adoption of this method is time consuming. It may take months or years to convince the people of the desirability or necessity of buying Government bonds. In the United States, where the educational standard of the people is high, when it comes to selling war bonds to the people, everywhere the Government meets only with whole-hearted cooperation and this despite the mounting taxes heaped upon their shoulders. In China the picture is different; the administrative machinery for the distribution of Government bonds is inadequate and it has never had the experience of selling Government securities to the general public and the people are simply too ignorant to appreciate the idea of investing their money in them.

Even if it is possible to fund the excess purchasing power into a more or less permanent debt, it is certain that the very process of absorbing, since it is time consuming, will give rise to a slow and graduated process of deflation, a state of affairs which is absolutely detrimental to business recovery and is bound to throw a wet blanket over the entire program of rehabilitation. For when it is certain that prices will be falling, as a result of the contraction of money in circulation, retailers and wholesalers would let their supplies run down, and manufacturers would also "play safe" in running their plants, purchasing raw materials or hiring additional labor. Under such circumstances, it is only natural to expect that the buying public would tend to delay their purchases as to do so is to buy more cheaply. If everyone is acting under the same motive, the whole economic system will soon be brought to a standstill.

A long and sustained deflation also carries with it the evil of disrupting the relations of debtors and creditors and of doing injustice especially to those debtors whose debts have long maturities and are to be amortized periodically. For while deflation brings down the prices of things sold it certainly will be a folly to claim that the principal of all outstanding debts will be equally reduced thereby. Take a farmer who has a $5,000 debt to discharge for instance. Once the forces of deflation are set in motion, the number of bushels of rice, or potatoes or days of labor required to pay off his debt gradually will be increasing. If the quantity of his produce could be increased proportionally to the changes in prices, then it probably would not make much difference whether the prices are going up or down. But since agricultural organization "lacks the elements of flexibility found in a large part of the manufacturing and other industries,"[10] it is rather doubtful that the debtor will have the ability to adjust his output to price changes, and if relief cannot be brought forth through governmental actions, dire consequences of economic depression usually becomes inevitable.

Another evil that is bound to accompany such a policy of slow and graduated deflation is its unfavorable effect on the country's export trade. In a period of falling prices, the costs of production of home products generally fall more slowly than the exchange rate on foreign countries expressed in local currency (e. g., the number of fapis required to buy, say, one United States dollar or a British pound). Wages which is the largest item in costs of production generally, too, would lag behind prices on the decline. The net result is that during the period of slow deflation the number of local currency which the Chinese exportor obtains from a given amount of foreign exchange would fall more rapidly than would the costs of production of his exportable products which are usually expressed in terms of prices paid for raw materials, plus wages, and taxes. And this depressing influence on the country's export will sustain at least until the task of currency stabilization is achieved. After the war China should grasp every opportunity to develop her export trade in order to enable her to buy from abroad and any financial policy which tends to weaken her foreign trade position should, if avoidable, never be attempted for it would be against the best interest of the country to penalize artificially its export traders when it needs as much foreign exchange as it could possibly get to import all types of capital equipments for industrialization.

III

For these reasons the writer ventures to propose that instead of withdrawing the surplus amount of fapis through funding it into long-term public interest bearing debt, a new currency or new unit of account be created to replace the entire amount of the depreciated currency and then express taxation and Government expenditures in terms of the new and stable unit.

For the sake of illustration let us call this new unit of account the "Sun". In order to bring about a proper alignment of the price level and the quantity of money required to support the desired price level, the exchange values between the Sun and the depreciated fapi be set at a rate which will respond approximately to the latter and will be subject to periodic revisions by the Treasury if and when it is found that the value of the fapi is still fluctuating during the time of its withdrawal. Thus as compared with July 1937 if the price level had gone up 100 times then the rate of exchange between them should be set at 1 to 100.

After the Sun has thus been introduced and circulated, full legal tender power should be conferred on it along side with the old fapi. The tax paying public will be given the choice to pay in either one of the two currencies and as the depreciated fapis are received by the Government through the channels of taxation and borrowing, they should be destroyed and in their place an equal value of Suns should be issued, that is, at the rate fixed by the Treasury. In order to shorten the period of with-drawing the outstanding amount of fapis, the people should be encouraged to exchange them for the Suns at any Government designated banks or money shops.[11]

The adoption of this method would have the immediate advantage of stabilizing the fluctuating price level in terms of the new and stable unit of account, and the significance of such a policy will be fully realized if we but pay attention to the fact that the task of monetary reorganization in the postwar years involves two separate problems—the attainment of budget equilibrium and the stabilization of the currency—and that it is impossible to secure budget equilibrium unless and until the depreciating currency has first been stabilized. The justification for this conclusion is to be found in the difficulties of making adequate fiscal estimates while the purchasing power of the money is still on the down grade. Furthermore, it should not be overlooked that whereas budget deficits in the early stages of inflation may have set in motion, as they actually did in the case of China, forces which brought about the depreciation of the currency, in the later stages of currency depreciation the line of causation often tends to be reversed; namely, the rapid depreciation of the currency may actually be the real cause for the existence of a gap between the receipts and expenditures of the national budget. It is for this reason that the task of stabilizing the currency should be undertaken prior to or at least coevally with the attempt to balance the budget.

IV

So far we have been concerning ourselves more or less with the outline of internal stabilization of the Chinese dollar. We have made no exploration of the problem of external stabilization, which, it is felt, cannot be solved by any single nation alone. It is an international problem and the solution must be sought through international actions and cooperation.

Perhaps the task of adjusting the external value of the Chinese dollar to its internal purchasing power is not as important as it would seem. It is a foregone conclusion that after the war it will be necessary for China, as it will be necessary for many other nations, to retain control over her foreign trade and to that extent her foreign exchange at least for a reasonably long period in which military and economic demobilization is to be effected. It is in this period that China will be faced with the acid test of whether or not she will be able to stand on her own or to put her economic system in good order, now that she is already unshackled from all sorts of unequal treaties. That is to say, the ability of China to inaugurate a program of external stabilization will depend upon whether or not China has "the ability to ensure the supply, at competitive prices, of articles of guaranteed quality, to remove restrictions on the export trade, and to provide efficient and economical transportation," as a foreign observer put it some time ago.[12] For if China is to attain a healthy stabilized economy, she must try every means practical to produce goods both agricultural and manufactured which are sufficent not only for the maintenance of a decent standard of living for her entire population but for export to international markets in exchange for goods which she could not produce more efficiently or simply could not produce at all.

It may be argued, that since China is one of the "Big Four" of the United Nations, she should be able to get foreign financial aid in the post-war years for her stabilization programs both internal and external, and that any disequilibrium that might exist between the internal and external values of her currency may always be adjusted by means of temporary foreign loans. Nevertheless, granting that this is true, we still have to bear in mind that rehabilitation if it is to be on a sound basis must begin from the bottom up rather than from the top down. As pointed out by the Hon. Charles S. Dewey, member of the House Ways and Means Committee:

> ". . . international trade is based on domestic prosperity and the building up of the financial and economic strength of a country would tend to keep its international balance of payments in equilibrium. The loaning of foreign exchange is at times necessary to effect temporary unfavorable periods of international balance of payments which might occur due to a crop failure or other similar cause. But unless the basic ability of a country to produce and export is built up, what may appear at the outset as only a temporary unfavorable condition may become permanent."[13]

Thus, as far as external stabilization is concerned, it may be said that the economic ills of the world cannot be laid entirely at the door of the monetary system. It is true that the stability of foreign exchange among all nations is essential to economic recovery. But it would be folly on our part if we sought the panacea for the deep-seated international economic disequilibrium solely through monetary policies. Indeed, the growing complexity of industrial and financial structure and the revolutionizing effect which has been brought on the production of agricultural products by the war, the wholesale destruction of real wealth, the rapid technical changes in the manufacturing of new and old industrial products, the alterations in fashion and demand, the drastic changes in the fiscal policies of warring nations, and above all the instability of political conditions in many countries, all these are world-wide phenomena whose evil effects must be removed or minimized if a saner world is to be built on the ruins of the present conflict. It is only when this preliminary stage of rehabilitation has been properly set, that the real task of external stabilization can be brought to the fore.

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[1] This estimate is obtained from a high ranking Chinese Government official whose name the writer has obligingly promised not to disclose.

[2] This information is furnished by some of the Chinese military cadets recently sent to the United States for technical training.

[3] Formerly the customs gold unit was an accounting currency with a theoretical gold content of 60.1866 centigrammes. The unit was established in 1930 and used as a substitute for the Haikwan Tael previously used as the customs accounting currency. Cf. *The Chinese Year Book* (1935-36), p. 1270.

[4] To be exact, the note issues for all China at the end of November, 1937, of the principal banks was $1,683,469,000. For all practical purposes, it will be taken for $2 billion when the notes issued by the various provincial governments, notably Kwang-Tung and Szechuan, are included. Cf. *China Year Book* (1938), p. 209.

[5] The New York "Times," July 7, 1943.

[6] It is true that highways can be extensively built today by the use of hand labor. But the real difficulty is China's inability to produce either vehicles or necessary spare parts for adequate maintenance work, not to mention the fact that petroleum deficiency will remain an insurmountable obstacle probably for years to come.

[7] In the case of China, where the use of checking accounts is rather limited as compared with the United States where 90% of all business transactions are conducted through checks, the factor M'V' may well be considered as nonexistent.

[8] Cf. *China Year Book* (1938), p. 472.

[9] The total interest charge on a $77 billion debt at 2% per annum is $1,540,000,000, and it is rather doubtful that once the war is over the national revenue could reach this figure.

[10] Spahr, Walter E., and others, *Economic Principles and Problems*, Vol. II (Fourth Edition), p. 349.

[11] It may be mentioned that this method is nothing new and original. The Polish Government in the early part of 1923 tried it. Unfortunately, Poland's attempt was an utter failure, but the particular failure in this case should be attributed to political factors which brought about the downfall of its government before the scheme had time to be experimented. Cf. Jack, D. T., *The Restoration of European Currencies* (London, P. S. King, 1927), Chapter I.

[12] Great Britain, Department of Overseas Trade, *Trade and Economic Conditions in China, 1933-1935*, Report by A. H. George (London, His Majesty's Stationery Office, 1935), p. 32.

[13] Hon. Charles S. Dewey, "A Bank of International Cooperation: A World RFC," *The Commercial and Financial Chronicle*, Vol. 157, No. 4188, June 24, 1943. It may be said in passing that China basically is a primary products producing country, but the "movements of the terms of trade against primary products can be halted (only) by improving still further productive efficiency in agriculture and raw materials, at the same time that domestic industrial opportunities are realized as fully as possible." Cf. Harris, Seymour E., *Postwar Economic Problems* (New York: McGraw-Hill, 1943), pp. 394-5.

ABA Study On Bank Earnings & Expenses

A detailed, statistical compilation of the earnings and expenses of all insured commercial banks during the year 1942 has been prepared by the bank management commission of the American Bankers Association and will shortly be sent to the Association's membership, it was announced on Dec. 4.

The study, the sixth annual report of its kind compiled by the Association's Bank Management Commission, is designed to enable any commercial bank to compare its earnings ratios for 1942 with those of other banks of comparable type and size in each State and throughout the Nation as a whole. Detailed ratios of earnings from current operations, current operating expenses, recoveries and profits on securities, losses and charge offs, dividends and interest paid, and net profits before and after dividends are presented in the 27 tables of which the study consists.

William A. McDonnell, Executive Vice-President of the Commercial National Bank, Little Rock, Ark., is Chairman of the Bank Management Commission.

Investment Trusts

A Bright Future

We like particularly the sentiments expressed in a recent letter from **The Parker Corporation**, sponsor of **Incorporated Investors**. The letter reads in part as follows:

"We are now starting on our 19th year as general distributor of shares of **Incorporated Investors**—one of the pioneer investment companies of the country.

"We have been a witness to all that has taken place in the investment company field—the wild enthusiasm, the optimistic promises, the over-zealous promotion, the unsound capital structures. Some of these faults were probably faults of the times rather than faults peculiar to investment companies. **In any event, we have seen self-purge and regulation lift the industry to a respected and dignified position in the mind of the dealer and the investor.** For our own part, we are more confident than at any previous time of the growth of the larger established investment companies with good records of performance, adequate management facilities, and strong financial sponsorship.

"The publicity given in **Barron's** to the record of investment companies in comparison with the performance of the Dow-Jones Averages, and the comparison with the Standard-Poors 90-Stock Average given in the quarterly Standard-Poors bulletin have done a great deal to convince investors that investment companies give substantially better-than average results."

* * *

The December-January seasonal stock price trend is the subject of **National Securities & Research Corp.'s** latest issue of **Investment Timing.** The article presents a table showing the record of stock market movements during December and January in each year since 1897. A rather uniform pattern is indicated. The statistical probabilities are summarized as follows:

1. Probable: Rise in early December.
2. Less Probable: Decline in first quarter of new year.
3. More Probable: Decline from early December high to Christmas Eve.
4. Most Probable: Rise thereafter into mid-January.

* * *

Lord, Abbett asks in the current issue of **Abstracts,** "Post-war collapse or post-war boom?" The discussion is built around a recent Brookings Institution study showing business trends following former wars. From that record and from an analysis of the present economic and political situation, Lord, Abbett concludes that a post-war replacement boom similar to the booms which have followed past wars will occur after this one and may be even longer and more pronounced.

Other Lord, Abbett literature this week includes a letter setting forth the income tax status of 1943 dividends on **Affiliated Fund** and **American Business Shares.** In the case of Affiliated Fund, total dividends for the year amounted to $.22 of which $.09½ should be treated as ordinary income and $.12½ as capital gain for tax purposes. The total 1943 dividend of $.20 paid by American Business Shares should be divided as follows: $.12 as ordinary income and $.08 as capital gains.

Revised folders on Affiliated Fund's ("Aces") and **Union Bond Fund "C"** (UBC) have been made available to dealers.

* * *

Keystone Corp.'s monthly house organ, **The Keystone Investor** discusses "What will happen to the stock market when peace comes?" Conclusion: "The history of the market during the last war, the record of the market so far during this war and the facts about our present economy do not seem to justify any fear of peace—the objective which every resource of the civilized world is straining to achieve."

The latest issue of Keystone Corp.'s **Keynotes** is on the subject (Continued on page 2435)

Post-War Foreign Exchange Stabilization Further Considered

(Continued from first page)

eign exchange or as it absorbed blocked balances, and that there would be thus two kinds of Unitas deposits, one with 100% gold reserve and the other with very much less than a 100% gold reserve, and not necessarily payable in gold, and that the latter might easily go to a discount as compared with the former.

The revised plan of July 10 withdraws all suggestions of deposits. One wonders in that case how the Fund would operate. A bank which cannot give credit on its books in making payments, which cannot draw checks on itself in making payments, and which must use only its assets in making payments, is a new kind of bank. Such a bank could well enough operate in foreign exchange trading if it had many accounts with commercial banks throughout the world, but this fund is to deal only with the central banks or exchange stabilization funds of the various countries. It could not, thus, engage in any exchange transactions without using its gold in making payments, or else using checks or drafts or cable transfers on the central bank of the country whose currency it was using in making payments. Buying francs in the foreign exchange market, it could collect the francs only by forcing payment from French commercial banks into the Bank of France, tightening the French money market. Selling dollars, it could deliver only by shipping gold or by drawing checks on the Federal Reserve Banks of the United States, relaxing the American money market. It would thus constantly be creating problems of money market control, which might be embarrassing to the central banks of the different countries, with every foreign exchange transaction it engaged in. I think that the plan has not been well thought out from the standpoint of the mechanics of banking or of foreign exchange operations.

The plan is quite explicit as to what the assets of the Fund shall consist of, but is very indefinite as to what the liabilities of the Fund shall be. One feature of the plan, however, suggests strongly that there must be Unitas deposits. Section II, 3 (a) (iv) provides that "a member country may include in the legal reserve account and in the published statement of the reserves of gold and foreign exchange in its Treasury or Central Bank an amount not to exceed its gold contribution to the Fund, minus its net purchases of foreign exchange from the Fund paid for with local currency." If the legal reserve thus published does not consist of deposits in the international fund subject to payment on demand, then the published statement would be fraudulent and fictitious. A reserve that is not instantly available is no reserve.

Gold in the New Plan

The new plan puts an increased emphasis on gold in form, but introduces the new element of the change in the gold content of the Unitas by an 85% majority vote, which would require the approval of the American member of the governing board, but not the consent of Congress. As the Fund has power to fix the exchange rates of all countries with the Unitas, and power to change the gold content of the Unitas, the Fund could change the gold content of the dollar without the consent of Congress.

Free Exchange and Control of Capital Movements

The revised plan emphasizes (Preamble, Section 4) that the Fund is to deal only with member governments and their fiscal agents and is not to intrude in the customary channels for conducting international commerce and finance. This is designed to relieve the fears of private finance. We have a picture of a free foreign exchange market, with the Fund intervening only "where a weak currency cannot be disposed of in the foreign exchange markets[2] within the range established by the Fund" (V. 1).

On the other hand, we have the provision (VII. 2) that member countries are not to engage in exchange dealings with member or non-member countries that will undermine stability of exchange rates established by the Fund, which can have meaning only if private transactions in foreign exchange are controlled. And we have the provision (VII. 4) that member countries are to cooperate for the purpose of r e g u l a t i n g international movements of capital, taking measures such as not to accept or to permit acquisition of deposits, securities or investments by nationals of any member country imposing restrictions on the export of capital, and to make available to the Fund full information as to deposits, securities and investments of the nationals of member countries imposing restrictions. This again means a drastic control of all private transactions in foreign exchange and other international transactions.

The United States Treasury Plan goes on the assumption that it is possible to separate easily transactions on current account and transactions on capital account, to leave the current account transactions entirely free and to control the capital transactions. No such thing is possible. A man wishing to transfer his capital from one country to another needs only to ship out commodities and leave the proceeds abroad. The Keynes Plan is a great deal more realistic with respect to this point. It recognizes that control of capital movements "if it is to be effective probably requires the machinery of exchange control for *all* transactions."[3]

Let no one be under the illusion that the modest retirement to a limited field, leaving private transactions free, is possible if the real purposes of the Fund are to be carried out.

It is possible for a country which has blocked balances to make composition with its creditors or special arrangements with its creditors on old debts and to let new transactions be free. But it is not possible to have general freedom of exchange transactions, general freedom of movement of goods, and simultaneously to prevent capital movements.

A country which is afraid of "hot money," money which may suddenly jump to another country, has a very simple way of avoiding this danger. It does not need to control capital movements. It protects itself from this danger by having a sound currency, firmly anchored to gold at a fixed rate, by keeping control of its money market so that its demand liabilities do not grow excessive in relation to its gold, by keeping a balanced budget—by making a financial environment in which money cools off and wants to stay.

"Abnormal War Balances" and Blocked Exchange

The revised plan of July 10 makes what appear to be more moderate proposals with reference to handling of blocked balances in debtor countries, meaning, chiefly, England, than the original Treasury plan did. The proposal of the original plan was that the new international institution should take over the blocked balances from the creditor countries, and give them immediate cash, without requiring the debtor countries to pay immediate cash. The Fund was to hold these for 23 years, with amortization beginning at the end of three years, which would reduce the Fund's holdings by 80% at the end of 23 years.

I protested against this as a device for transforming Britain from the position of an embarrassed debtor to the position of a strong creditor at the expense of the United States.

The new proposal is in form more moderate, so far as the operation of the Fund for the first two years is concerned. The Fund may, in the first two years, take over such blocked balances to the extent of 10% of the quotas of all countries. As the quotas are to be five billion dollars, or more, the fund would thus be allowed, during the first two years, to absorb a minimum of one-half billion dollars of these blocked balances. At the end of two years, the Fund would be free to reconsider the matter and presumably to take over all the blocked balances, if it decided to do so.

This r e d u c t i o n in the amount that can be taken in the first two years may be in deference to the proposals of the Canadian experts, and it may be because of a study of the sums involved.

When I wrote my address in May of this year, I was unable to get satisfactory information as to the magnitude of the blocked balances in Britain, though I knew that they were large and growing. *The London Economist* of Aug. 7, 1943, pages 180 and 181, however, provides some exact information. The following table gives particulars for seven countries, all but one being in the British Empire.

	£1.000's	Date
India	500,000	July 16, 1943
Eire	121.458	Mar., 1943
Canada*	157,300	Aug., 1943
Egypt	71,200	Dec., 1942
Malaya	58,000	July, 1943
Australia	64,000	May 31, 1943
New Zealand	34,000	Feb., 1943
Argentina	17,500	Dec., 1942

*Interest-free loan.

The Economist adds that other accounts, not included in the tabulation, will bring the total of such sterling indebtedness easily above the one billion pound mark. This figure would, presumably, include the pre-war balances, mentioned in my address of May 11. *The Economist* further adds that the totals are growing, and that in particular the sterling assets piling up to the credit of the Reserve Bank of India are likely to rise by an annual increment of about three hundred million pounds.

Obviously blocked balances of this magnitude would be a pretty big pill for an exchange stabilization fund of five billion dollars to swallow. The Bancor fund of Lord Keynes' proposal could easily swallow blocked balances of this magnitude because all it would have to do would be to expand, giving new Bancor deposits against the blocked balances absorbed. But if the Fund as contemplated by the United States Teasury is not to have deposits in Unitas, but is only to buy and sell foreign exchange or other assets for cash, it could exhaust its cash, including its gold, without taking care of all the blocked balances, and have nothing left for exchange stabilization operations.

Parenthetically, the *Economist* expresses great concern over the growth of the balances with India which it says "is bestowing on India one of the most pronounced inflations experienced by any belligerent country." The growth of the Indian balances has been held down until recently by Indian use of the balances to reduce long term Indian sterling debt, but only 12 million 250,000 pounds of this debt remains, and this brake on the accumulation of sterling by India has now been virtually removed. A later issue of the *Economist*, that of Oct. 2, returns to the subject of the inflation in India, which is evidently very dangerous, and which seems to be intimately connected with the issue of rupee notes in India against these blocked sterling balances. Indian war finance has clearly been very badly handled by both British and Indian governments.

Britain's problem with respect to these blocked sterling balances is obviously a grave one and a difficult one, and the sleight of hand by which Lord Keynes and our Treasury, in its first proposal, undertook to abolish the problem, by throwing it on the shoulders of an international fund in which the United States would be overwhelmingly the biggest creditor, caught the British imagination and was at first widely acclaimed in England.

The London Economist vs. Keynes

But sleight of hand is not typically English, and as the British have thought about the matter, British opinion with respect to it shows signs of changing. This is strikingly evidenced in the *Economist* article from which I have taken the foregoing figures.[4] Referring to the Keynes plan for having these taken over by the international fund, the *Economist* says: "C o m i n g from the principal debtor, this is perhaps asking rather a lot. The suggestion is certainly in keeping with the professedly e x p a n s i o n i s t trend of the Keynes scheme. But more than any other proposal in that scheme, it seems calculated to frighten and deter the likely surplus countries on which the immediate task of liquefying these debts would fall. The White scheme, however, is hardly less helpful to the debtors owing abnormal wartime balances. It goes into much greater detail * * * but the ultimate effect is the same."

The *Economist* adds: "It may seriously be questioned whether this 'global' approach to the problem of abnormal balances—which in substance is the problem of sterling balances—is the correct one." It proposes instead that, particu-

[2] This means that the Fund is primarily designed to give up good moneys for bad moneys, and that its assets would rapidly deteriorate.

[3] *International Clearing Union*, April 8, 1943. British Information Services, Section 33.

[4] That of Aug. 7, 1943.

larly in view of the diverse character of the balances, the problem "could best be tackled by separate agreements with each country concerned." The *Economist* contends that the solution is to be found in a post-war increase of British exports, with a tightening of the belt, adding that this will require fair access to the markets of the world, especially of the new creditors, for British exports.

This is the old England talking. This is the sound financial thinking of pre-Keynesian England. An England which talks in this way may rest sure that the financial world outside will show her every consideration and will give her every legitimate sound financial assistance.

Post-War British Policy

This sound financial assistance should come in the form of long time investor's money, not in the form of an expansion of reserve bank money, or of operations of our exchange stabilization fund which increase the volume of bank reserves in the United States.[5] We tried that sleight of hand for the purpose of helping England in 1927, when Governor Benjamin Strong and Governor Montagu Norman, following the Conference of Governors in New York in the summer of 1927, prevailed upon the Federal Reserve System to expand credit in order to tide England over the autumn, with devastating results to us and England in the period that followed.[6] But England can have help from American investors in tiding over her difficulties when she takes the attitude of *The Economist* of August 7. I may add that she will get this help at much lower rates of interest if, as part of the loan agreement, she anchors sterling soundly to gold, than would be the case if she leaves sterling floating, or adopts an ambiguous policy of temporary gold stabilization with the way left open for future reductions in the gold content of the pound.

I may add, too, that one of Britain's post-war resources in meeting a radically altered balance of international payments will be to rebuild her great re-export business, her world-wide insurance business, and her financing of world international trade and international security transactions, and that for these, I believe, not merely a free sterling but also a fixed gold sterling will prove essential. I may add, too, that the Keynesian insistentence that there should be no reduction in money rates of wages in England must be abandoned. Britain, to export in adequate volume, must export goods which in price and quality compare fairly with goods produced elsewhere in the world, and she must also have flexible prices so that she can adjust herself quickly to variations in the world's markets. This means that she must have flexible costs at home. She must have prices and costs which rise with the world markets and which decline with the world markets.

It was the rigidity of British wages and prices in the 1920's and in 1930-31 which made Britain lose disproportionately in the world's export markets as world prices and costs receded in the great depression. England was shot through, not merely with powerful labor unions which held to fixed wages, but also with price fixing agreements among the industries. She had lost her flexibility. It was in this pathological British economic situation that the pathological Keynesian doctrine of offsetting internal rigidity by a fluctuating currency and a fluctuating rate of exchange for that currency in the foreign exchange markets was developed. England has tried this method pretty thoroughly. She has seen sterling wrecked by it. She has seen it generate an immense body of "hot money" jumping into and out of England with every prospect of a change in the price of sterling. She has finally seen herself obliged to block sterling so that it is no longer of real use in financing trade with or among outside countries. She has seen it split the British Empire into separate currency areas, with sterling valid only in England itself. She has followed Lord Keynes in the belief that a low rate of interest at home is more important than a dependable sterling in world trade. I think that she will have hard going

(Continued on page 2426)

[5]See my speech of May 11.

[6]See *The Chase Economic Bulletin*, Oct. 29, 1927; June 4 and June 25, 1928; Feb. 11, 1929; Nov 22, 1929.

Post-War Foreign Exchange Stabilization Further Considered

(Continued from page 2425)

in the post-war period unless she reconsiders this policy.

South African Gold

There is one factor in the British picture which may make these sterling blocked balances a less formidable thing that the figures given above would indicate. It may be significant that *The Economist's* table given above does not include South Africa. There is reason to believe that there were some blocked balances owned by South Africa at the end of 1941. South African gold production has, doubtless, continued during the war, but what has happened to the gold is not clear. The annual volume of gold produced in South Africa was $425,649,000 in 1938, and South Africa could increase this substantially by utilizing her high grade ores. Certainly this gold has not been coming to the United States in the last two or three years. To what extent it has been available to England has not been made public to my knowledge, though the Bank for International Settlements in June, 1942, suggests that it has been sold to England. What England may have given South Africa in payment is not clear. This gold was regularly sold in London for sterling in the days when sterling was a free exchange.

If we could look upon the British Empire as a unit, the Empire would have large liquid resources. Obviously we cannot do so, since the gravest problem in England's blocked balances is the blocked balances held by India. But there is evidence that some of this South African gold, at least, is currently being used on British Government account. *The Wall Street Journal* of Saturday, Nov. 13, reports that South African gold is being used both in India and in Persia. In India it is pulling down the price of gold in terms of rupees, and it is also inducing the natives to give up hoarded foodstuffs to relieve the Indian famine.

Austria's Return to a Free Exchange in 1934

Is it possible for a country with blocked exchange to return to a free exchange? We saw Germany, following the standstill of 1931, with the exchange control that accompanied the standstill, move steadily toward a tighter and tighter control of foreign exchange, with an increased blocking of balances owned by foreigners, and with the development of many different kinds of marks, some of which could be used for one purpose and some for another, but with ever tighter controls. We saw Italian exchange increasingly controlled in the period of the 30's. Is it possible to get out of this cycle once you get into it? We have an answer in the experience of Austria. Austria also went into standstill, blocked foreign balances, and strict exchange controls in 1931, and Austria returned to a free exchange in 1934. The difference was not that Austria was financially stronger than Germany. The difference was that Austria preferred freedom of exchange and commerce and worked toward it. Italy's problem was complicated by the Ethiopian War. Austria had no such problem. Germany's problem was complicated by a government which loved control, which deliberately sought Autarchie, and which in the latter years of the 30's was deliberately planning war and seeking self-sufficiency for war. Austria, financially and industrially weaker, but turning toward orthodox financial and monetary policy, achieved a free exchange and maintained it from 1934 until she was absorbed by Germany in 1938.[7]

A Constructive Program of Post-war Currency and Financial Reconstruction

The *Chronicle* has asked me to elaborate some suggestions made in my speech of May 11 as to a constructive program for restoring sound currencies, and consequently fixed exchange rates, for the stricken countries of Europe. I had urged that the effort to stabilize exchange rates along the lines of the Keynes-White Plan would waste billions, as we saw in 1919-20 when we tried a similar thing. I had proposed instead that we make relatively small loans to each country separately, tens of millions, up to two hundred millions,[8] conditioned on drastic financial reforms in the borrowing countries, would really create sound currencies and sound internal finances, generate industrial revival, and as part of it, give foreign exchange stability, as we saw in the case of Austria in 1923, Germany and Hungary in 1924, and Poland in 1927.

The largest of these loans, the Dawes Plan loan of 1924 of two hundred million dollars to Germany, came at a time when Germany was helpless, the mark had sunk to a trillion to one, the working capital of the industries had been largely exhausted, stocks of goods in the country were very low, and there was widespread unemployment. Under these conditions, Germany readily consented to a plan which separated the Reichsbank from government control, which created a balanced budget, and which allowed a measure of foreign supervision of the Reichsbank and a foreign control of certain of her taxes.

The problem was complicated, moreover, by the problem of reparation payments, and the plan was much more drastic than would have been necessary if the reparations factor had not been involved. The loan gave Germany no money to spend at home for domestic purposes. The German Government borrowed two hundred million dollars which it placed in the vaults of the Reichsbank in gold. In exchange, the Reichsbank gave the German Government eight hundred millions of Reichsmarks in bank notes and deposits. But the German Government was obliged to use this eight hundred million Reichsmarks in making purchases in Germany of goods for delivery in kind to its foreign creditors on reparations account, and, indeed, was obliged to provide an additional 200 million Reichsmarks. The loan thus did not help the German Government's budget and the loan did not give the German Government anything to spend at home in relieving distress among the people or in supplying working capital for the industries.

What the loan with the accompanying conditions did do was to give Germany a sound gold currency which the people of Germany and the people of the world outside trusted, and a balanced budget, indeed an over-balanced budget based on a drastic increase in taxation. The Dawes Plan worked. Germany started, almost immediately, a strong upward move in business which speedily reached boom intensity.

Inadequate working capital and a variety of other factors led to a sharp crisis in the winter of 1925-26 from which, however, Germany[9] speedily recovered, returning to strong activity in 1926, which continued into 1929.

If Germany had had no reparations to pay, if the German Government could have used the eight hundred million of Reichsmarks internally in adding to the working capital of German industry (apportioned with the approval of the lenders), and in some measures of relief, the problem would have been far easier. And if Germany had had no reparations to pay, she would not have collapsed in 1931.

The problem of dealing with Germany after the present war is, of course, a special case, but in facilitating the restoration of countries like Denmark, the Netherlands, France, and Norway, where presumably intergovernmental debts will make no complications, small loans of this kind, properly conditioned on sound internal finances, including the gold standard, and including firm discount rates when necessary to protect the gold standard, should easily do the job.[10] The governments can then use the proceeds of the loans (a) in putting adequate gold into their central banks and (b) in using their local currencies, obtained from the central banks in exchange, for domestic purposes.

I said in the speech of May 11th that a great deal of immediate help would have to be given by the United States to the most stricken countries of Europe the moment the war ends, but that we should be under no illusions as to getting this money back. This help should be gifts, not loans. It should be handled on Red Cross lines. It should be limited to what is strictly necessary. In general, it should not extend beyond the next harvest. It should be accompanied, moreover, by demands made upon the governments of the stricken countries that they take steps to put their financial houses in order. The gifts as well as the loans should do the recipients permanent good. The stabilization loans, in moderate amounts, made as far as possible by private investors through investment banking houses rather than by our Government, should follow as speedily as possible.

In the midst of the swirl of many tens of billions of our wartime budget, the figures of tens of millions and even two hundred millions, which I am talking about, look very small and insignificant. It is evident that our Treasury is thinking in very much larger terms. Under date of Oct. 8, 1943 (*New York Times*, Oct. 9, 1943) the Treasury released the "Guiding Principles for a Proposed United Nations Bank for Reconstruction and Development," a world bank, or a world RFC, which should have a capital of ten billion dollars. An AP dispatch of Nov. 23 states that Secretary Morgenthau has given Congress an unofficial amplification of this plan. I have not the text of this statement as I write. The Secretary is quoted as saying that after spending hundreds of billions for war, we should not balk at spending a few billions to help assure peace and prosperity. This world RFC is to be in addition to the International Stabilization Fund which I have been discussing, which is to have a minimum capital of 5 billion dollars.

This second world bank is designed to be an investment bank to provide long credits. It starts out with the suggestion that its role is to be a modest one, that it is to encourage private financial agencies, but when necessary will cooperate with and supplement private capital, and for this modest purpose it needs only ten billion dollars, 20% of which is to be provided at the beginning, with not over 20% to be called for in any one subsequent year.

Now I regard this as highly unrealistic. In the first place, we must speedily pull up, in the interests of our national solvency, from using billions of dollars of money borrowed by the Treasury from the banks. Presumably our Treasury could put 3 1/3 billions of dollars into such a fund in the next few years, but where the other 6 2/3 billions would come from is highly problematical. How much spare cash will England have in the next few years to put into such a fund, internationally valid cash, taking into account her own blocked balances?

But, second, to put the thing in the proper perspective, how can the stricken countries of Europe repay gigantic loans made by private agencies, supplemented and endorsed by the modest ten billions of the world investment bank? If we are to make loans to Europe, they must be good loans. We must not deluge them with funds for a time, then cease to lend them, and then see them default upon what we have lent. They must repay borrowings made by their governments (a) by creating fiscal surpluses, excess of taxation over Government expenditures, which fiscal surpluses will exist in the form of domestic currencies, and (b) by transforming these fiscal surpluses into foreign exchange by giving their foreign creditors more goods and services than they receive from them. They must pay with hams, with cheese, with bottles of wine, with optical instruments, with bolts of cloth, with widely diversified manufactures of all kinds, with fine artistic products, with shipping services, with the entertainment of tourists, and the like, in amounts exceeding their imports of goods and services.

When the matter is put in these terms, it is quite clear that loans of tens of millions, or at most two or three hundred millions, look much more reasonable than loans of many billions. The small loans, moreover, made under proper conditions with necessary foreign supervision, will, as we demonstrated in the cases referred to above, restore their currencies, restore their finances, and put them in a po-

[7] The fullest account of this episode that I know is contained in the *Revista Di Storia Economica* (published in Italy, and edited by the distinguished economist, Luigi Einaudi), December, 1937, in an article by Dr. Oskar Morgenstern. I have been able to get some further details from banks and other sources. Apparently there was a good deal of composition of the old debt, and a gradual repayment of much of it. New transactions became free. Dr. Morgenstern says that in 1937 there remained some "residues of surveillance on the part of the bank of issue, due to the fact that all institutions have a tendency to perpetuate themselves, and that the bank of issue is interested in watching capital movements."

[8] The debasement of our own gold dollar means that these amounts might have to be increased by 69%, if we mean to put an equal number of ounces of gold into the central banks of the countries we are aiding.

[9] See *The Chase Economic Bulletin* of April 2, 1926.

[10] England may need several hundred millions of dollars, but should not need billions, if she works out the problem of blocked balances with her debtors separately, paying cash for a minor part, and getting long credit for the major part.

sition to take care of themselves.

They will, moreover, create an atmosphere under which further private credit will come to them, both bank credit for their commerce, and investment funds for their industries. The Dawes Plan did, in fact, give Germany so much credit in the outside world that she very greatly over-borrowed, primarily because we were over-expanding credit here and had too much money to lend.[11] The total of all credits to the outside world ought not to approach the $1,100,000,000 per year which we averaged in 1924-30.

The question of how much our Government must do in providing financial aid to Europe, and how much private investment banks and investors will and can do, is one that ought to have a great deal of frank discussion. I have sought the opinions of a limited number of good investment bankers with respect to this point. One especially able banker, who had a good deal to do with placing loans in Germany and Italy in the 1920's, as a result of which he acquired a great deal of bitter experience and also a great deal of knowledge, says quite frankly that he cannot convince himself that he would be justified in again offering to clients German or Italian bonds. He would, however, undertake to place dollar bonds of Denmark, Norway, the Netherlands, Britain, and probably of France, with the American public, and he believes the public would take them if they were made in proper amounts and under proper conditions. But he would leave the financial rehabilitation of Germany and Italy to the Government. Another able investment banker expresses the opinion that sentiment can change very rapidly with respect to foreign obligations in the United States if we get a good peace, and that private investors and private investment banks can do a great deal.

The capital of private investment banks in the United States today is a great deal smaller than it was in the 1920's, but it would not be difficult to bring new capital in if profitable business developed. Foreign issues have been almost nonexistent in the United States in recent years and new domestic capital issues have been very small. Our investment banking and our security exchanges are both terribly over-regulated. The chief business of investment banking has been in refunding issues, and the need for investment banking capital has been greatly reduced. Investment bankers will certainly be far more responsible in their attitude toward foreign loans than they were in the latter part of the 1920's.

I am opposed to an international investment institution such as is proposed in the Treasury statement of Oct. 8. For one thing, it is open to the objection that the control of it would be an international control and not an American control, even though America would be the chief lender. I would say with respect to this institution what I said with respect to the International Stabilization Fund, namely, that if we are going to lend, let us do our own lending. Let us not create a bank in which the borrowers dominate the Board of Directors!

This does not mean that our Government may not cooperate with other governments, but it does mean that we should be free to negotiate regarding conditions when we lend our Government's money.

There are many reasons why private capital rather than government funds should do the work as far as possible. One of them is that if a government insists upon financial reforms on the part of another government, a diplomatic issue is created which may be difficult. But if investment bankers are dealing with a foreign government which needs to borrow here, the problem is very different. The investment banker is not lending his own money. He is advising the foreign government as to the conditions under which American investors will take the foreign loan. He does not have to make demands. It is sufficient for him to say with great courtesy that he fears American investors would not be interested in the loan unless such and such things are done. In considering the uses to which the borrowing country should put the proceeds of the loan, moreover, the bankers would have a far more realistic view than would the Government.

The American investment market is at present gravely handicapped with respect to foreign loans by certain legislation, including the Johnson Act and some rather humiliating provisions of the Securities legislation. There must be very important legislative changes before American private capital can act adequately, in either the foreign or the domestic field. There ought to be close cooperation between private investment bankers and the Government in the placing of foreign loans in the United States. The Government should have the definite power to veto such loans—and indeed the investment banking community ought to welcome such a power on the part of the Government for its own protection.

I do not feel justified at the present time in proposing a definite demarcation of the limits between private and Government lending to Europe, when there is so much uncertainty as to what Europe will look like when the war is over. I do believe that we should do it privately as far as possible. I think that Germany, and perhaps Italy, must be dealt with by the Government itself, if they are to get outside financial help in the early post-war period.

I think, too, that American investment in Europe, following the initial stabilization loans, ought, as far as possible, to be on the basis of e q u i t y investments rather than bonds. I think it not impossible that well managed investment companies, buying European shares, diversifying their portfolios among the different industries and the different countries of Europe, and capitalized in this country with common stock only, might be able to accomplish a great deal. They would seek v e n t u r e capital, and they should frankly let their shareholders know from the beginning that the future offers the possibility of losses as well as of profits. In bad years dividends from European shares would be heavily cut. In good years they would rise. Europe would not be faced with default in bad years on such investments, and the investments would themselves be safer over the years by virtue of that fact.

Finally, we can do nothing financially sound to help Europe with credit unless we lower our tariffs, and make it easily possible for Europe to repay with goods.

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

[11]See *The Chase Economic Bulletin*, Aug. 1924, Aug. 1925, Oct. 1927, July 1929, March 1930, Oct. 1931. See, also, the warnings against the cheap money policies of the Federal Reserve System in the editorials of the *Commercial and Financial Chronicle*, during this same period.

Reelected Director Of Cleveland Reserve Bank

Reelection of Harry B. McDowell, President of the McDowell National Bank of Sharon, Pa., and Ross P. Wright, Secretary-Treasurer of the Reed Manufacturing Co. of Erie, Pa., as Directors of the Federal Reserve Bank of Cleveland was announced on Nov. 23 by George C. Brainard, Chairman of the Board. Mr. McDowell, unopposed, has been a Director since Jan. 1, 1938. He continues as a Class A Director, representing small banks in the Fourth Federal Reserve District.

Mr. Wright has been a Class B Director, representing small business on the Federal Reserve Board, since Jan. 1, 1917. William C. Arthur, President of Talon, Meadville, Pa., and a Director of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland since last May, was nominated to run against Mr. Wright. Terms of both Mr. McDowell and Mr. Wright are for the three years ending Dec. 31, 1946.

Canadian Securities

By BRUCE WILLIAMS

The appointment of the Canadian delegate to the chairmanship of the Committee on Supplies of the UNRRA signalizes the importance of the Dominion in the immediate post-war period. It is also a recognition of the valuable constructive work performed by the Canadian delegation at the Hot Springs Food Conference earlier this year.

No other country can so quickly step up the production of food, lumber, and other essential commodities, which will be so urgently needed after the cessation of hostilities. The Dominion has always been geared to the production of huge export surpluses, especially of food, forestry products and base metals; manpower shortage has been the only impediment to still greater efforts, and it is to be hoped that steps will be taken as soon as practicable to tackle the great problem of immigration.

With regard to Canada's ability to provide richly for a greatly increased population, it is interesting to quote the recently expressed views on this subject of Dr. Stephen Leacock, the well known Canadian writer and economist:

"One has no sooner made the statement that Canada can easily carry a population of a hundred million than dissent, I say, arises from all sides—from the Village Idiot, on the back bench, from the College Idiot on the front seat, from Labor on the floor and from Capital on the platform.

"All these objections rest on misinterpretation, an historic error and a failure to appreciate the great changes now bringing about a shift of the population of the globe towards the northern regions.

"The whole scene is sheer illusion—Canada is as empty as ever — almost; still abundant room, abundant opportunity—life and all that makes it sweet, waiting here for uncounted millions of people—serene sky and empty plain, and rivers murmuring in the forest—nature's temple, where we crowd and wrangle round the entrances."

Turning to the market of this past week, although there was no improvement price-wise, nevertheless there was increased activity and a less bearish atmosphere. Direct Dominions were virtually unchanged on a small turnover. Nationals were quite active and were finally quoted fractionally higher. Ontarios and Quebecs were marked down slightly again. The demand which had persisted over a long period produced so little volume that attention has switched to other provincial issues, especially Nova Scotias and New Brunswicks, which have been recently absorbed on a fairly large scale.

British Columbias were dull and the 4½s of 1957 were in supply at a 3.45% basis. Manitobas also were a little lower with the 4½s of 1956 offered at 104¼. Saskatchewans and Albertas were inactive and prices were slightly lower; Saskatchewans 4½s of 1960 were offered at a yield of 5.60%, and Albertas 5s were quoted 77—78.

There was an improved tone in the internal issues and the Canadian dollar in the "free" market improved sharply from 11½% to 10½% discount.

With regard to the market as a whole, the general bearish feeling which, recently pervaded all investment markets, seems to be gradually changing to a more optimistic outlook. No longer do investors see the end of the war just around the corner, but more significantly, a little fundamental thinking on the subject of post-war interest rates has led to a more or less general conclusion that it will still be necessary to maintain interest rates at the existing level for an indefinite period after the war. As soon as the confusing end-year period is ever, it is likely that this improved sentiment will be reflected in all high grade investment markets.

Canada Bans Wage Rises For Duration

An order prohibiting further raises in wages in Canada during the war was issued in Canada on Dec. 9. The only exceptions to the order are in cases of "gross inequality or gross injustice" and then only in cases where the employer is able to pay an increase without raising prices.

The purposes of the order are set forth as follows, in an Ottawa dispatch of Dec. 9 to the New York "Times":

To provide for wages in which will be incorporated the cost of living bonuses granted under the old system, to stabilize the wages and maintain stability in prices and in the general cost of living; to provide machinery for an orderly rectification of any gross inequalities in wages so established "in so far as this is possible consistently with the paramount principle of the maintenance of stability in prices."

Employers are required under the new order to establish basic wage rates for employees by including in existing authorized basic wage rates the amount of the authorized cost of living bonuses. The amount of these bonuses is to be added to the basic wage rate and the new rates are to be established Feb. 15.

Pay On Cuban 5½s

J. P. Morgan & Co. Inc., as fiscal agents, have drawn by lot for redemption on Jan. 15, 1944, at par and accrued interest $950,000 principal amount of Republic of Cuba external loan 30-year sinking fund 5½% bonds issued under loan contract dated Jan. 26, 1923. Payment will be made on and after Jan. 15, 1944, at the office of J. P. Morgan & Co. Inc. in New York City.

Full Text Of Opinion Of U. S. Circuit Court Of Appeals In Case Of Hughes vs. SEC

(Continued from page 2418)

ties and Exchange Commission, entered July 19, 1943, under §15 (b) of that Act, 15 U. S. C. A. §78o (b), in which petitioner's registration as a broker and dealer was revoked. The order developed from a proceeding which was instituted by the Commission to determine whether or not petitioner had willfully violated §17 (a) of the Securities Act of 1933, 15 U. S. C. A. §77q (a), and §15 (c) (1) of the Securities Exchange Act of 1934, 15 U. S. C. A. §78o (c) (1). Two hearings were held on the matter before a trial examiner, who filed an advisory report recommending revocation. Exceptions, briefs, and oral argument were presented to the Commission, which then filed its findings and opinion and entered the order under review.

Petitioner was incorporated on April 9, 1940, under the laws of New York, and maintains its principal office and place of business in New York City. It is engaged in over-the-counter trading in securities as a broker and dealer, being registered as such with the Commission under the 1934 statute cited above. The dealings which resulted in the revocation were continued sales of securities to customers at prices very substantially over those prevailing in the over-the-counter market, without disclosure of the mark-up to the customers. The Commission concluded that such practices constituted fraud and deceit upon the customers in violation of §17 (a) of the Securities Act, §15 (c) (1) of the Securities Exchange Act, and its own Rule X-15C1-2.

Under the 1933 statute it was made unlawful for any person in the sale of securities in interstate commerce or by use of the mails "(1) to employ any device, scheme, or artifice to defraud, or (2) to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or (3) to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser."

The 1934 statute forbade a broker or dealer to make use of the mails or any instrumentality of interstate commerce to effect or induce the purchase or sale of any security, otherwise than on a national securities exchange, "by means of any manipulative, deceptive, or other fraudulent device or contrivance. The Commission shall, for the purposes of this subsection, by rules and regulations define such devices or contrivances as are manipulative, deceptive, or otherwise fraudulent." Acting under this rule-making power the Commission adopted its Rule X-15C1-2, which gave two definitions of the statutory term "manipulative, deceptive, or other fraudulent device or contrivance," viz., (a) "to include any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person," and (b) "to include any untrue statement of a material fact and any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, which statement or omission is made with knowledge or reasonable grounds to believe that it is untrue or misleading," and which provided in (c) that the scope of this rule should not be limited by definitions of the term contained in other rules of the Commission.

Petitioner's dealings which are here in question were carried out by various of its customers' men. The customers were almost entirely single women or widows who knew little or nothing about securities or the devices of Wall Street. An outline of the sales plan used with Mrs. Stella Furbeck gives a representative picture of how petitioner worked. Stillman, a Hughes & Co. agent, having her name as a prospect, called Mrs. Furbeck on the telephone and told her of a "wonderful" stock that she should buy. She replied that she was not interested. The next day he called again, and he persisted in his calls until she finally relented and made a purchase. From that time, on he and a co-employee of his, one Armstrong, worked their way so completely into her confidence that she virtually placed complete control of her securities portfolio in their hands. Every few days one or the other would have another "marvelous" buy—one that was defniitely "beyond the usual"—and she would add it to her collection, selling a more reputable security in order to finance the transaction.

The prices which Mrs. Furbeck and other customers paid for the securities purchased in this manner ranged from 16.1 to 40.9 per cent over market value. In addition, most of the transactions involved little or no risk for petitioner, because an order was usually confirmed before it bought the securities that it was selling. There is conflict in the record as to whether Stillman and Armstrong made any direct representations to Mrs. Furbeck of the relation of the price paid to market value. She claims that every time she made a purchase it was directly induced by the statement that the price would be under that current in the over-the-counter market, while they deny such statements completely. It is unchallenged, however, that at no time did either Stillman or Armstrong reveal the true market price of any security to Mrs. Furbeck or the fact that petitioner's profits averaged around twenty-five per cent. Similar evidence as to other customers all amply furnished the "substantial evidence" required by the statute to make conclusive the Commission's findings of a course of business by petitioner to sell at excessive mark-up prices without disclosure of market values to its customers. Securities Exchange Act of 1934, §25 (a), 15 U. S. C. A. §78y (a); *Wright* v. *Securities and Exchange Commission,* 2 Cir., 112 F. 2d 89, 134 F. 2d 733.

Petitioner challenges the order on three grounds: (1) that §15 (c) (1) of the Securities Exchange Act is unconstitutional because of an unconstitutional delegation of legislative power and that S. E. C Rule X-15C1-2 is invalid for vagueness, indefiniteness, and uncertainty, (2) that no violation of §17 (a) of the Securities Act was proved, and (3) that the Commission did not offer substantial evidence to establish the actual market price of the securities involved. We think none of them are to be sustained.

The objections to §15 (c) (1) of the Securities Exchange Act and to S. E. C. Rule X-15C1-2 are insubstantial. The standard for determining the acts prohibited by §15 (c) (1) is set up in the statute itself, and is more than adequate. The fact that the devices must be "manipulative, deceptive, or otherwise fraudulent" makes certainly for far more definiteness than such a standard as was approved by the Supreme Court in *Buttfield* v. *Stranahan,* 192 U. S. 470, and in numerous other cases. See, also *Smolowe* v. *Delendo Corp.,* 2 Cir., 136 F. 2d 231, 240, certiorari denied 64 S. Ct. 56. As for Rule X-15C1-2, its words are almost identical with those of §17 (a) of the Securities Act, a section which has already been sustained as against the claim of vagueness. *Coplin* v. *United States,* 9 Cir., 88 F. 2d 652, certiorari denied 301 U. S. 703. This similarity makes the first claim of error appear frivolous, indeed, since no allegation is made that §17 (a) of the Securities Act is invalid and since the revocation can be based on the violation of that section alone.

There is evidence in the record to show a threefold violation of §17 (a) of the Securities Act, viz., the obtaining of money "by means of any untrue statement of a material fact"; the "omission to state a material fact" necessary to make statements actually made not misleading; and the engaging in a course of business which operates "as a fraud or deceit upon the purchaser." It is true that the only specific evidence of false statements of a material fact is that of Mrs. Furbeck that the sales price was under the market price, and, as we have noted, these statements were denied by the salesmen. Although the Commission has neglected to make any finding of fact on this point, we need not remand for a specific finding resolving this conflict, for we feel that petitioner's mark-up policy operated as a fraud and deceit upon the purchasers, as well as constituting an omission to state a material fact.

An over-the-counter firm which actively solicits customers and then sells them securities at prices as far above the market as were those which petitioner charged here must be deemed to commit a fraud.[1] It holds itself out as competent to advise in the premises, and it should disclose the market price if sales are to be made substantially above that level. Even considering petitioner as a principal in a simple vendor-purchaser transaction (and there is doubt whether, in several instances at least, petitioner was actually not acting as broker-agent for the purchasers, in which case all undisclosed profits would be forfeited), it was still under a special duty, in view of its expert knowledge and proffered advice, not to take advantage of its customers' ignorance of market conditions. The key to the success of all of petitioner's dealings was the confidence in itself which it managed to instill in the customers. Once that confidence was established, the failure to reveal the mark-up pocketed by the firm was both an omission to state a material fact and a fraudulent device. When nothing was said about market price, the natural implication in the untutored minds of the purchasers was that the price asked was close to the market. The law of fraud knows no difference between express representation on the one hand and implied misrepresentation or concealment on the other. *Strong* v. *Repide,* 213 U. S. 419, 430; *United States* v. *Brown,* 2 Cir., 79 F. 2d 321, certiorari denied 296 U. S. 650. "The best element of business has long since decided that honesty should govern competitive enterprises, and that the rule of *caveat emptor* should not be relied upon to reward fraud and deception." *Federal Trade Commission* v. *Standard Education Society,* 302 U. S. 112, 116.

We need not stop to decide, however, how far common-law fraud was shown. For the business of selling investment securities has been considered one peculiarly in need of regulation for the protection of the investor. "The business of trading in securities is one in which opportunities for dishonesty are of constant recurrence and ever present. It engages acute, active minds, trained to quick apprehension, decison and action." *Archer* v. *Securities and Exchange Commission,* 8 Cir., 133 F. 2d 795, 803, certiorari denied 319 U. S. 767. The well-known "blue sky laws" of 43 states have in fact proved inadequate, so that in 1933 Congress after the most extensive investigations started on a program of regulation, of which this is one of the fruits. In its interpretation of §17 (a) of the Securities Act, the Commission has consistently held that a dealer cannot charge prices not reasonably related to the prevailing market price without disclosing that fact. See, among others, *Duker & Duker,* 6 S. E. C. 386; *Jansen and Co.,* 6 S. E. C. 391; *W. K. Archer & Co.,* SEA Release No. 3253; *Theodore T. Golden,* SEA Release No. 3404; *Guaranty Underwriters, Inc.,* SEA Release No. 3481. Had we been in doubt on the matter we should have given weight to these rulings as a consistent and contemporaneous construction of a statute by an administrative body. *United States* v. *American Trucking Associations, Inc.,* 310 U. S. 534; *Gray* v. *Powell,* 314 U. S. 402. As we have hitherto said of "the peculiar function" of the Commission: "One of the principal reasons for the creation of such a bureau is to secure the benefit of special knowledge acquired through continuous experience in a difficult and complicated field. Its interpretation of the act should control unless plainly erroneous." *Securities and Exchange Commission* v. *Associated Gas & Electric Co.,* 2 Cir., 99 F. 2d 795, 798. But we are not content to rest on so colorless an interpretation of this important legislation.

The essential objective of securities legislation is to protect those who do not know market conditions from the overreachings of those who do. Such protection will mean little if it stops short of the point of ultimate consequence, namely, the price charged for the securities. Indeed, it is the purpose of all legislation for the prevention of fraud in the sale of securities to preclude the sale of "securities which are in fact worthless or worth substantially less than the asking price." *People* v. *Federated Radio Corp.,* 244 N. Y. 33, 40, 154 N. E. 655, 658. If after several years of experience under this highly publicized legislation we should find that the public cannot rely upon a commission-licensed broker not to charge unsuspecting investors 25 per cent more than a market price easily ascertainable by insiders, we should leave such legislation little more than a snare and a delusion. We think the Commission has correctly interpreted its responsibilities to stop such abusive practices in the sale of securities.

Petitioner's final contention is that the actual market price of the securities was never satisfactorily proved. We agree, however, with the Commission that the evidence of the quotations published in the National Daily Quotation Sheets, a recognized service giving "daily market indications," as petitioner stipulated, and the prices paid concurrently by petitoner itself sufficiently indicated prevailing market price in the absence of evidence to the contrary.

Order affirmed.

[1] The Commission points out that the National Association of Securities Dealers, Inc., an organization registered under §15A of the Securities Exchange Act, of which petitioner was a member at the time of the transactions in question, has a rule limiting mark-up prices in over-the-counter securities to those which are fair, and calls attention to a decision of the Association's District Business Conduct Committee reported in the NASD News for October, 1943, imposing a fine of $500 and censure upon a member found to have violated rules of the Association by a practice of charging mark-ups of approximately 10 per cent on transactions in listed and unlisted securities. It also cites a decision of the Circuit Court, Sangamon County, Illinois, *Matthews, Lynch & Co.* v. *Hughes,* No. 76441, June, 1939, sustaining the revocation of registration of a dealer who took "extremely high" profits, "running in one case to 25%," and a similar interpretation of the Ohio Securities Act by the Ohio Securities Commission, 1 C. C. H. Stocks and Bonds Law Serv., p. 3331.

House Group Kills War Bond 'Ad' Bills

Legislation authorizing paid newspaper advertising by the Treasury to promote the sale of war bonds was killed by the House Ways and Means Committee on Dec. 8. By a vote of 11 to 10, the Committee tabled three bills which called for expenditures of up to $30,000,000 for such advertising.

The Treasury had opposed the legislation as a subsidy and asserted that it would interfere with the present program of voluntary advertising.

The Senate had passed a bill on Nov. 16 providing for a yearly expenditure of between $12,500,000 and $15,000,000 for advertisements in daily, weekly, semi-weekly and tri-weekly newspapers published in cities having population of not more than 10,000. This bill, together with two House bills authorizing the expenditure of $30,000,000 to be "equitably distributed" among newspapers having second-class mailing privileges, were shelved by the Committee's action.

On Dec. 2 Secretary of the Treasury Morgenthau assailed the legislation as "a potential waste of Government funds" and said "it will not help sell War Bonds."

In a letter to Senator Byrd (Dem., Va.), Chairman of the Joint Committee on Reduction of Non-Essential Federal Expenditures, Mr. Morgenthau called the plan "a subsidy to certain small newspapers," declared that "we must pay all or none," and added:

"I think this proposal to distribute a sizable amount of the taxpayers' money in such a way that it will not contribute to winning the war, or to any legitimate requirement or our economy, is inexcusable.

"It is likely to prove an almost insurmountable hurdle to the continued promotion of War Bonds.

"As you know, we now depend upon cooperation by advertisers, publications, radio and the advertising industry generally to provide, without cost to the Treasury, the huge amount of advertising space and time required to reach and convince 130,000,000 people.

"By this means we are amply reaching all the important markets that would be available through this subsidy. The added impact, if there is any, would be of doubtful value."

Passage of the Senate bill was noted in these columns Nov. 25, page 2119.

War Bond Redemption Up

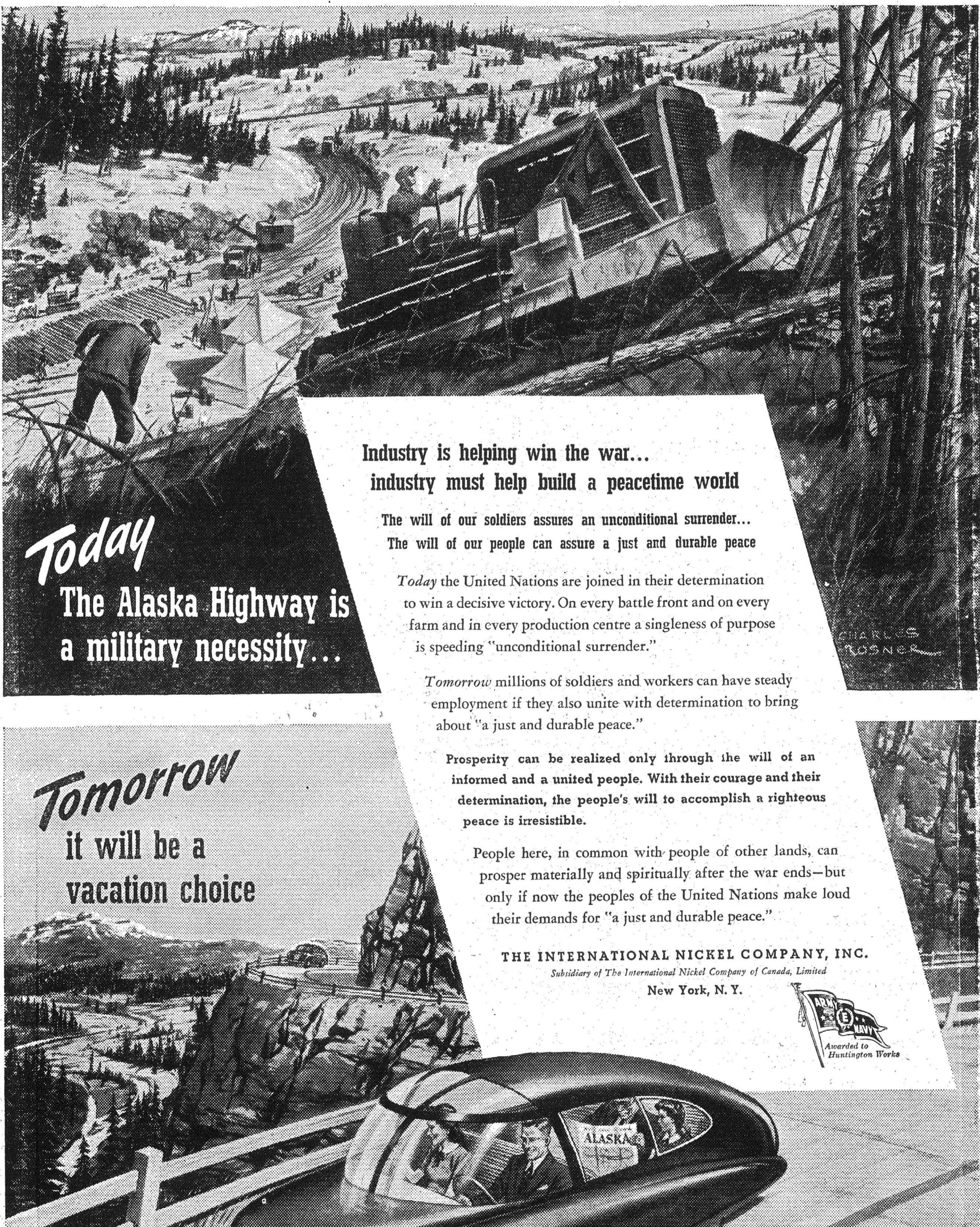
An increase in the rate of redemptions of war bonds was indicated in November. In the first 25 days of November $648,950,914 worth of Series E, F and G war bonds were sold, but $146,740,284 worth was redeemed.

In reporting this United Press Washington advices of Nov. 29 further said:

Redemptions in dollars are not much higher this month than in September and October, but in those two months sales were higher in reflection of the war loan drive.

Since July 1 redemptions have been running at the rate of about 13% of total sales, compared with an average of 3½% for all of the last fiscal year. Redemptions began to go up as soon as the withholding tax went into effect July 1.

In the last fiscal year $207,387,899 in bonds was cashed. But in less than five months of this fiscal year $735,748,138 worth has been redeemed, an average of about $146,000,000 monthly, compared with an average of about $34,000,000 a month in the corresponding period last year.


Today
The Alaska Highway is
a military necessity...
CHARLES ROSNER
Tomorrow
it will be a
vacation choice
Industry is helping win the war...
industry must help build a peacetime world
The will of our soldiers assures an unconditional surrender...
The will of our people can assure a just and durable peace
Today the United Nations are joined in their determination to win a decisive victory. On every battle front and on every farm and in every production centre a singleness of purpose is speeding "unconditional surrender."
Tomorrow millions of soldiers and workers can have steady employment if they also unite with determination to bring about "a just and durable peace."
Prosperity can be realized only through the will of an informed and a united people. With their courage and their determination, the people's will to accomplish a righteous peace is irresistible.
People here, in common with people of other lands, can prosper materially and spiritually after the war ends—but only if now the peoples of the United Nations make loud their demands for "a just and durable peace."
THE INTERNATIONAL NICKEL COMPANY, INC.
Subsidiary of The International Nickel Company of Canada, Limited
New York, N. Y.
ARMY E NAVY
Awarded to Huntington Works
ALASKA

Jobs And Taxes

(Continued from page 2415)

Aside from the war effort itself, the most pressing problems before our nation are today and will be for some time—jobs and taxes. To deal with these subjects in the short period allotted me, I must necessarily be brief and give you only an outline of my thinking.

Can America provide thirty million new jobs when the war is won? Can it assure our boys and girls who are fighting the war that employment will be awaiting them on their return? Can we be reasonable certain that all who are able and willing to work will have the opportunity to do so? Can taxes be drastically reduced? Can a 300-billion dollar war debt be financed and eventually paid off? Can our country stand expenditures of 30-billion dollars a year for Federal, State and local Government?

On the answers to these questions free competitive enterprise hinges. The future of our country, our whole democracy.

There is no escaping the fact that American businessmen must assume a large share of responsibility for solving these problems.

The Answers — Production, Jobs and Taxes

The answers are to be found in the same sources as the answers to the war problems—production, jobs and taxes. Let us make no mistake — production is the only basic source of jobs. Production is the only source of the goods which our people can and will buy. Production and its ensuing flow of income is the main source of taxes to maintain our Government.

Production and more production will insure jobs and more jobs—goods and more goods—at lower and lower prices—for wider and wider distribution. On this basis we must chart the future of American business, and American Government.

Production then is the crux of the problems of jobs and we are fortunate in having a very large pent up demand for consumer goods to stimulate immediate production of peace-time goods.

Joint Responsibilities Necessary

Who is responsible for this vital, all-important production?

Some of our people, unfortunately, think that management is solely responsible for it. Production should be the greater concern of labor and agriculture because they have by far the largest stake in its ultimate results, that is—wages for labor and prices for agriculture. Their stake in production is clear when it is realized that these groups are today receiving 79% of the total national income.

Sound business, full employment and good agricultural prices are inseparably bound together. Our labor partners and our agricultural partners must join with our capital partners, the stockholders, and their representatives—management, in a concerted effort for the greatest possible post-war production with its resulting full employment. These partners must also be equally concerned with taxes, which are sapping the vital strength from industry and will, if continued at present levels, force reduced employment and lowered farm prices.

Existing Taxes Prevent Sound Business

Before we can have dynamic business with its resultant full cultural prices, we must have financially sound business. But this is impossible as long as industry has pressed down upon it a crown of thorns in the form of taxes

—taxes which are not only oppressive but in many cases confiscatory.

—taxes which in 1943 will claim 55 billion dollars for State and Federal Governments.

—Federal taxes alone of 44.5 billions—which is more than the total taxes collected in the ten years from 1931 through 1940.

—taxes five times as great as those now carried by the people of England.

—taxes which are the greatest per capita of any nation in the world by a wide margin.

—taxes that stifle initiative and incentive.

—taxes that discourage the formation of new enterprise.

—taxes that do not allow a reasonable return to the venturesome.

—taxes that do not allow a fair reward for successful achievement.

—taxes that prevent the building of a competence for protection of one's family, home and children.

—taxes that encourage waste and unwillingness to work.

—taxes that no one can understand, including even the experts.

—taxes that destroy savings necessary to expanding enterprise.

—taxes that are disguised so as to bring changes in our social and economic way of life.

—taxes designed to take away from our people their greatest tradition—opportunity.

—taxes that discriminate against our people who are the owners of business corporations by first taxing the corporate earnings and then taxing the same earnings again when they are distributed in dividends.

Solvency of business is impossible so long as it is also subjected to unreasonable restraints, interference and competition of government.

Business solvency and greater production can be realized only if capital is available to build or rebuild plants, install machinery and buy raw materials to create and distribute new goods. It must be remembered that it requires an investment averaging nearly $6,000 for the employment of a single man in industry. There must, therefore, be ample opportunity for venture capital and for reasonable dividends on it.

Dividends are as much a part of the cost of doing business as the costs of labor or materials. And yet, while labor and material costs have been steadily rising, the capital return has been steadily declining. Wages and salaries this year will be 90% above 1929, while dividend payments will be 32% less.

Life-giving, indispensable capital in sufficient quantity will never flow through the veins of industry while it is stifled and restrained as now.

Free, competitive enterprise, built upon the American traits of individual initiative, incentive and thrift, the will and the desire to do an honest day's work for an honest day's pay—that is the only basis upon which the production we are seeking can be attained.

The greatest single deterrent to free competitive enterprise, to sound business economy, to production and therefore to jobs, is taxes. No one, including industry, objects to reasonable taxes. Industry expects to bear its full share of the war expense. It demonstrated this beyond doubt when the National Association of Manufacturers was the first to recommend to Congress last year a 40% combined normal and surtax, and 90% excess profits tax.

There is not the slightest possibility, however, that industry can continue to bear the present tax burden upon the cessation of war and to do the job of production which will insure employment for our men and women in the armed forces and the other millions now engaged in war work.

Three Essential Steps

If business is to accomplish these ends, the following steps are absolutely essential:

1. An over-hauling and simplification of our tax structure, in favor of three or four levies so simple that anyone can understand them and far below current levels.
2. A balanced Federal budget which will entail drastic reductions in governmental agencies and employes.
3. A plan for servicing and paying off the war debt starting immediately the war ends.

Present Tax System Is Vicious and Harmful

I want to point out some of the reasons why our tax structure must be overhauled and to suggest the basis for a new tax structure.

In the first place, present taxes approach the point of confiscation for many business firms and of diminishing returns for thousands of others. As a result, there has been practically no new enterprise in business now for several years. New enterprise has always been the backbone of progress in our country, and has been one of the largest sources of employment.

The facts show that more than half of our corporate business units operated without profit in 1941. Out of a total of over 500,000 corporations, 246,000 had no profits.

A great section of American business has been caught in a net of rising taxes, rising costs and dwindling earnings. This is the "white collar" class of business. From June, 1940, to June, 1942, there were 273,000 firms, mostly small businesses, which went out of business, an average of about 450 each working day.

The stockholder likewise is in a distressing plight. Eleven million of our people are the owners of corporations. Income tax returns show that at least 57% of all dividends go to those with incomes under $10,000. Stockholders have become our forgotten class.

So far as individual taxpayers are concerned, the squeeze has been particularly on that great white collar class, constituting roughly 20 million, or almost 40% of our total working population. Millions of these have had little or no increase in earnings since the war, while living costs and taxes have been constantly increasing. We must rectify their tax situation at the earliest possible moment.

All of this adds up to the fact that the present tax system is shortsighted, vicious and socially harmful. It destroys the fundamentals of our American philosophy and is certain to impair permanently the whole social structure if continued indefinitely. It will eradicate the middle class which has always been the initial victim of European dictators. It will destroy free competitive enterprise and erect in its place a collectivism which will mean the socialization of all business and all industry and complete regimentation for our people.

Our tax system must be revamped and revised so that every loyal American citizen does his share in maintaining and supporting his government by the payment of income taxes even though but one dollar.

We need to remember that everything our government buys—whether services or materials—the people must eventually pay for.

Simplified Income Tax Recommended

The first step in building a sound post-war tax program should be a simplified income tax system. This should be so simple that any individual or corporation could accurately figure its own taxes.

A simple personal income tax should be based on expert study of all the allowances for expenses, contributions and other payments, and all the exemptions for marital status and dependents. All these deductions, in the interest of simplicity, could easily be compiled for the entire nation and an average tax computed which, for all practical purposes, would be just as equitable as today's perplexing method. This tax could be expressed as a dollar amount.

For example, the individual tax, using hypothetical figures, might well be $10 on incomes of $1,000 to $1,200; $20 on incomes of $1,200 to $1,500; $40 on incomes of $1,500 to $2,000; $100 on incomes of $3,000 to $4,000, etc., up to the highest brackets.

Then an individual would only need to know the amount of his gross income to know automatically the amount of his tax.

This simplified system would make it possible for Congress merely to raise or lower the dollar rates to realize the amount necessary for government operation without going through the present unsatisfactory yearly debates and arguments about further sources of income.

It is entirely possible that such a simple tax plan could also be worked out with regard to corporate taxes.

This simplified system of taxation need by no means cause a lower tax yield. Instead it would mean greater opportunity for production, for venture capital, for reasonable dividends, for more wages and good agricultural prices with a resulting higher national income. It would eliminate most of the present confusing technical amendments, rules and regulations.

The only additional taxes to those on corporate and individual incomes which I see necessary are a customs tax, a reasonable inheritance tax, a social security tax and a "special war refunding tax" of which I shall speak later.

We should profit in governmental administration from the experience of business with relation to high production, jobs, prices and consumption and the resulting revenue to government. Business long ago proved that low prices are only possible with high production. Therefore, I suggest that government encourage higher production by enacting now a special tax incentive for those who employ a greater number than they did in the pre-war period to become effective at the termination of hostilities. The incentive should be in relation to the increase and to apply to both business and individuals.

It is obvious that the present excess profits tax must be terminated immediately at the conclusion of the war if business is to carry the load of reemployment and reconversion. The tax should terminate at the end of the calendar year within which hostilities cease.

Preferred stock dividends should be accorded the same tax treatment as interest payments—they both should be considered as final charges. The one encourages the creation of debt, the other would encourage the creation of capital.

Government Budget Must Be Balanced

A balanced Federal budget is absolutely essential to any sound post-war economy.

Unless our Government does operate on something at least approaching a balanced budget during the next few years, inflation is a certainty. The real danger of uncontrolled inflation, in fact, is after the war is over.

Government ventures which in wartime and during the depression were attempted as expedients, must be avoided at all mosts.

For the good of the nation and for the good of our people, I strongly urge that the government payroll and other expenditures be drastically reduced so that the Federal budget may be brought somewhere near the point of balance.

It is sheer nonsense to assume that Government can continue to pile up debt indefinitely any more than an individual or a business.

Right here let me say it is the solemn duty of every business man in the country to know about his government, to know what is going on in its fiscal policies, to be aware of the possible results of such and to make their opinions known. To sit back and not know what is going on or to do nothing about it, is sheer disloyalty to this nation of ours and to the high ideals for which it stands. We have no place in our midst for slackers nor for those non-Americans who are busily at work interfering in our political life and trying to change our way of life and substitute therefore some foreign ideologies unwanted by us—they are fully aware that within the scope of the tax law lays the means of accomplishing their purpose. In fairness to them, and ourselves, let us say desist at once or leave our shores.

Transaction Tax for War Debt Refunding

It is high time we recalled to the minds of some of our leaders an important characteristic of our American way of doing things, namely, the sanctity of contract. A debt, incurred with the consent of the debtor (and I firmly believe most of the present war debt has been and is being incurred with the approval of our people) is a sacred obligation and the people expect that it shall be paid. The idea advanced by certain "experts in Government economy" that the war debt is no debt because "we owe it to ourselves" is nothing more or less than damn nonsense and collectivist propaganda. It is an inspired hoax which is vicious to say the least. Every loyal American has it in his heart and soul to pay his own personal debts and our Government must not be guilty of scotching this principle.

Yes, we must pay the war debt. Every bond purchased by every boy, girl, worker, soldier, widow, business man or firm—must be redeemed in full. And this repayment rests upon maximum production of goods, establishment of new industries and maximum individual efficiency both in management and labor.

But the only way we are going to meet government obligations is to plan now for the servicing and ultimate repayment of it all. We should provide a special source of revenue for this purpose, to be used for this alone and not intermingled with any other funds. It might be known as the war refunding tax. For this purpose, I suggest a 1% transaction tax to be applied to every transaction throughout the land — carefully devised to avoid pyramiding, to be collected by the use of stamps.

A careful examination of the factors involved indicates that such a tax would raise approximately nine billion dollars a year.

It is estimated the debt at the end of the war, plus necessary continuing expenditures for a period after the war, will be around 300 billions of dollars. At 2%, this would mean interest charges of six billion dollars annually. Add to this the payment of three billion a year on principal and we will need nine billions a year for war refunding for the next few years—over the 100 year period there will be required an average semi-annual payment of $3,007,500,000.

My strong conviction is that we cannot begin too soon to draft a simple and practical set of peacetime Federal tax provisions. By doing so now we can do away with the present hodge podge immediately when hostilities cease and replace it with an understandable law which will encourage and reward industry and initiative.

30 Billion All-Government Budget

It is my firm belief that we can have necessary peacetime govern-

(Continued on page 2435)

Forecasting The Management Problems Of 1944

(Continued from page 2414)

stir up any violent reactions," Mr. Cherne stated that "it will be accepted as the inevitable short-run consequence of partial reconversion." "Management," he went on to say, "will not be blamed for the occurrence of unemployment at that time . . . but management will already be on trial just the same. Its failure in the second half of 1944 to lay the groundwork for increased employment opportunities after the defeat of Japan . . . and the surrender of Germany, will certainly cause unrest and perhaps even serious convulsions in our economic and polical body." "Thus," he said, "thorough, comprehensive and effective post-war planning by business, both collectively and individually, becomes the foremost responsibility of management in the coming year."

Touching upon the subject of inflation, Mr. Cherne declared that "the second challenge to management will come from the inflationary spiral." According to Mr Cherne, "present indications point very strongly to the probability that the anti-inflation dam is going to be breached early in 1944. The fissures will be small at first, but they will widen and widen rapidly under the repeated onslaughts that will come from wage-earners, farmers, businessmen and other groups. These pressures," he added, "will grow in intensity as the defeat of Nazi Germany grows more certain."

Stating that "the spiral can be checked only if there is firm determination on the part of the Legislature and the executive to apply drastically and unhesitatingly strong measures," Mr. Cherne said that "unforuntately, I can't be optimistic about such prospects. Knowing the political climate in Washington, I fear that the inflationary spiral will be permitted to run its course."

In his comments, Mr. Cherne observed that "if we are to emerge from the war into an era of sustained high level of production, then jobs are the key." He went on to say, "these jobs will have to be provided by business management to assure itself of a market able to absorb our national output. These jobs will have to be provided by business management if free enterprise is to continue as the driving power in our economy."

"There is no doubt that the American people are still overwhelmingly in favor of private business meeting this responsibility" [absorbing the pressure of disemployment], it was asserted by Mr. Cherne, but, he said "there's no doubt in my mind that a large army of unemployed will turn its back on private business, and insist on action by the National Government if private enterprise doesn't come through."

Full Text of Mr. Cherne's Address

During the past two years American enterprise has performed the almost incredible task of converting our nation from a militarily inferior power to the strongest and best armed force in the theatres of war.

Management and labor have fully justified the expectations and exacting demands of our military leadership. Only an Olympian observer or a future historian can fully appreciate the accomplishments in converting from a civilian economy to a total war economy in the short span of two years. Occasional strikes, frictions, and managerial incompetence are but scattered, isolated flaws on an imposing canvas of overwhelmingly impressiveness.

Anyone who attempts to forecast the economic events in 1944 is, therefore, strongly tempted to take an optimistic view. It would please our ego to assume that our wartime unity of purpose, singlemindedness of action, and unqualified determination will continue undiminished even after victory in Europe is won.

Such a forecast for 1944 would be neither true to facts nor cognizant of the forces operating beneath the surce of our economy.

A sound prognostication of coming events cannot be based either on a mere projection of the past trend nor on wishful thinking. To be acceptable it must envision events that are either certain to happen or which will occur with a high degree of probability. It is against the background of such probable events that we can trace in broad outlines the scope and nature of the problems which will confront business management.

Let me summarize at this point the events which in my opinion will occur next year. They are the events that will form the backdrop against which American business management will be called upon to perform its responsible tasks.

First, the only event that will happen with certainty in 1944 is the election in November.

Second, less certain, but highly probable, is the defeat of Germany.

Third, the inflationary spiral will get into motion again shortly after New Year.

Fourth, manpower and womanpower shortage will grow in intensity during the first half of the year but will lessen perceptibly during the second six months. This trend will be paralleled by an increase in the number of men discharged from the services either because of injuries suffered in battle, physical incapacities, or over-age, and some decrease in the size of the services after the defeat of Germany.

Fifth, growing labor unrest in the wake of reconversion. Its symptoms will be a revival of jurisdictional disputes, a fight for the preservation of wartime gains in rates of pay, and a demand for a reduction in hours of work.

Sixth, the adaptation of the wartime priorities system to the needs of an economy partly released from the requirements of total warfare. This means, in the phraseology of leading government officials, "priorities in reverse."

Seventh, a gradual acceleration in the rate of cutbacks of war orders accompanied by a shift in the weapons of war that will still be manufactured.

And last, but not least, a political climate loaded with dynamite because many decisions on important economic issues will be left hanging in mid-air. They will be left hanging in mid-air for the simple reason that partisan interests and conflicting political ambitions tied in with the November election will prevent real action.

In summary, 1944 promises to be a year in which we shall witness the defeat of Germany, the revival of economic frictions, and a widening gap between the legislative and executive branches of our government.

Thus, management will face, for the first time since Pearl Harbor, a host of new challenges. Some of these challenges will be unprecedented. They will be the long-range product of the war itself and its impact on our economic thinking and vision. Some challenges will be the temporary consequences of an economy converting from total war to a partial war footing. And some challenges will represent re-emergence of pre-war problems that were unsolved on the day of Pearl Harbor and have been suspended during the period of all-out war.

Let me now trace for you the details of the pattern of managerial problems that in my opinion lies ahead.

First, the war has been directly responsible for a world-wide acceptance of the belief that nearly full employment of manpower and maximum utilization of productive capacity are within the realm of the possible. The records of war production are an eloquent testimony to this fact. In every country governments have succeeded, under the terrific pressure of war requirement, in reaching a level of production and a rate of employment unprecedented in the history of each of these countries. The old nineteenth century economic doctrine that the weapons of war can only be forged at the expense of the civilian plowshare has been disproven. We've shown that we can produce guns and butter.

Look at our own current record. In the year 1943 we shall have produced a gross national product of almost $190,000,000,000. After full allowance is made for the increase in the price level since Pearl Harbor, this still represents more than $150,000,000,000 in gross output or an incredible increase of 50% above our total pre-war output. And all that within the short span of two years.

At the same time, our volume of consumers' goods produced in 1943 will be greater than in 1941. We have, in other words, accomplished the herculean task of superimposing the war economy upon a record-level civilian peace economy. While creating the greatest arsenal of military weapons in the history of this or any nation, we have succeeded in providing for our civilian population a greater volume of the necessities of life and semi-durables than we ever produced in our most prosperous peacetime years.

Fifty-three million men and women gainfully employed and 10,000,000 more in the armed services have witnessed the miracle. They have seen how American ingenuity translated into reality a blueprint which a short two years ago was regarded as fantastic not only by our enemies, but also by quite a few in our own midst. Will it surprise you if these 63,000,000 men and women at war's end demand that we do almost as well in peace as we did in war in creating opportunities for employment and a volume of output commensurate with our present accomplishment?

True, this opinion will not become fully crystallized in the second-half of 1944. The spectre of 4,000,000 unemployed at the end of 1944—the estimate of the Research Institute—will not stir up any violent reactions. It will be accepted as the inevitable short-run consequence of partial reconversion. It will be accepted with many mental reservations. Management will not be blamed for the occurrence of unemployment at that time—at least, not yet. But management will already be on trial just the same. Its failure in the second half of 1944 to lay the groundwork for increased employment opportunities after the defeat of Japan—which will probably occur between 12 and 18 months after the surrender of Germany—will certainly cause unrest and perhaps even serious convulsions in our economic and political body.

Thus, thorough, comprehensive and effective post-war planning by business both collectively and individually becomes the foremost responsibility of management in the coming year.

The second challenge to management will come from the inflationary spiral. Present indications point very strongly to the probability that the anti-inflation dam is going to be breached early in 1944. The fissures will be small at first. But they will widen and widen rapidly under the repeated onslaughts that will come from wage-earners, farmers, businessmen and other groups. These pressures will grow in intensity as the defeat of Nazi Germany grows more certain.

At the same time, complaints about economic inequalities that have been more or less dormant during the crucial years 1942 and 1943 will echo louder and louder across the political arena. And they will find a receptive ear because of the approaching election.

Here I come to one of the paradoxical and, at the same time, most serious features of the inflationary spiral. As long as inflation is nothing but a future possibility, fear of its consequences is usually sufficient to keep everyone in line. Neither individuals nor groups are willing to start the avalanche. But, break the line at any one point, set the spiral in motion, even though slowly, and a mad scramble follows. Every group stampedes for the inflationary bandwagon; caution and reason are cast to the wind. Everyone tries to salvage for himself a maximum of what he believes to be anti-inflation protection by pushing for as much of an increase in his price as he can possibly obtain. That he thereby accelerates the rotation of the spiral and its destructive effects escapes him.

The spiral can be checked only if there is firm determination on the part of the legislature and the executive to apply drastically and unhesitatingly strong measures. Unfortunately, I can't be optimistic about such prospects. Knowing the political climate in Washington, I fear that the inflationary spiral will be permitted to run its course.

Inflation and all that it implies poses, therefore, the second set of problems for management. In fairness to its stockholders and investors, management must protect the real value of its equity and assets. In fairness to its workers, it must adjust their wage scale to the declining purchasing power of the dollar. In fairness to the market, it must keep prices from running wild.

The charting of a safe course through the dangerous reefs of inflation will be made more difficult by the fact that Germany's defeat will in all likelihood be followed by a decline in business activities in a number of our economic segments. Areas which have been fully converted to war production and which will suffer a severe cut-back in orders will experience a rising volume of unemployment, shrinking markets, and unused capacity.

Other war areas will be able not only to maintain their present level, but to intensify their production schedules because of the shift in war demands. Expanding prosperity in some parts of the country, maintenance of the present high level in other parts, and depression conditions in still other parts—such is the economic outlook for the second half of 1944.

The third challenge will arise in the labor market. Until Germany is defeated, both manpower and womanpower shortages are apt to increase. Manpower will become an increasingly more serious problem as the Armed Services approach the limits of their scheduled sizes. At the same time, shortages in the available supply of women will become more acute. It is unfortunate but true that women have been quitting jobs in industry at a faster rate than replacements have been coming in.

This tendency set in with the defeat of Italy and has been accelerated by the favorable news from the various theatres of war. The outward movement of women from industry promises to continue at a faster pace after the defeat of Germany.

Manpower help through a national labor draft law is unlikely. It will be up to management to do everything in its power to stop the withdrawal of women. By now it should be obvious that the wheels of municipal governments turn far too slowly to be of any material assistance in this job. Although the hour is late, it will still be possible for management to adopt in the first half of 1944 some measures that will enable housewives, mothers, and single women to do a full job in industry with less inconvenience than at present.

After the defeat of Germany, labor problems will increase rather than diminish. The number of wounded soldiers who will be demobilized will grow rapidly as the second front is opened up. Management has not only the legal but the moral and inescapable duty to provide employment opportunities for these returning warriors who have fought our battle. These men will pose a problem for personnel management that calls for the exercise of tact, understanding, and full co-operation in facilitating and expediting the readjustment of these ex-soldiers to industrial life.

After the defeat of Germany the rate of demobilization will probably be stepped up quickly. These men, too, although not wounded in battle, pose a problem of readjustment. For them, too, an effective solution must be found. There is no precedent in our history for the number of men who will return from Army life to industrial life. Nor is there a precedent for the determination of these men to obtain jobs rather than relief, to sell their skills at the work bench rather than on street corners.

The fourth challenge will come from the dismissal of workers in war industries and the reduction in working hours. These are sure to follow our victory in Europe. They will cause both labor unrest and jurisdictional disputes. While everyone knows that weekly pay envelopes in many industries have increased very substantially during the war, it is no longer a secret that trade unions and other labor organizations will fight hard to retain their wartime gains in basic hourly rates. They will also fight with equal stubbornness for the preservation of their jobs.

If we are to emerge from this war into an era of sustained high level of production, then jobs are the key. These jobs will have to be provided by business management to assure itself of a market able to absorb our national output. These jobs will have to be provided by business management if free enterprise is to continue as the driving power in our economy. It is wishful thinking to assume for one single moment that continued large-scale unemployment will be accepted any longer as the inescapable consequence of an immutable economic law.

You, the managers of American business enterprises, should and must realize, even if many of our economic theorists have not yet done so, that two basic laws that were widely hailed in the nineteenth century have been repealed by the irresistible forces of economic life in the twentieth century. I am referring to Malthus' law of population and the law about the inevitability of the business cycle and its by-product: unemployment.

These two laws have been accepted for more than a century as inexorable. They have been looked upon as natural laws above and beyond the control or power of man.

Malthus advanced the view that while the food supply could be increased in an arithmetic ratio—1, 2, 3, 4, 5, etc.—population had the tendency to grow in a geometric ratio—2, 4, 8, 16, etc. Thus, Malthus concluded that population would grow at a far greater pace than the food supply. The only major checks to this unbalanced ratio were seen by Malthus in the periodic recurrence of wars, misery, disease: in brief, a high mortality rate.

The second law said that in a

dynamic economy dominated by free private enterprise, the periodic ups and downs of the business cycle are the price which we must pay so that the strongest may survive and the weaker elements in the business community be eliminated. Unemployment flows as the consequence of this process of elimination of the inefficient and inferior producers and competitors.

To be sure, those who formulated these laws were not at all sanguine about them. However, they saw no other alternative except the absence of private enterprise. Since they looked upon the presence of private enterprise as infinitely more desirable than any other economic system, they were willing to accept insufficient food supply and its consequences, as well as unemployment and its effects.

Hitler has repealed the law of Malthus, and the law of unemployment.

Hitler will soon have disappeared both from the political and economic stage of the war. But the fact and the record will remain after his exit. The fact is that Hitler was one of the first men in responsible public office to recognize that the Malthusian law of population no longer applied. He realized that it was not the shortage of food supplies which led to wars in the twentieth century, but the presence of unused manpower. He skillfully took advantage of the fact that a large army of unemployed may be easily induced to don uniforms, forge the weapons of war, and seize the productive capacity of other countries, thus creating additional employment opportunities for the conquering nation.

Hitler next realized that the unemployed can be put to work by the State even though their accomplishments were not "profitable" as measured by the yardstick of free enterprise.

Thus, the Fascist State represents a functional disproof of the two nineteenth century laws. We can see clearly now that a third World War will become inevitable and will be far more brutal than World War II unless available manpower is used constructively in creating goods and services for the satisfaction of human desires. Unless we accomplish this task, no economic law, no social philosophy, no man or group of men on earth can stop another holocaust.

The second lesson we must learn is that the national government cannot stand passively by while the business cycle takes its own course and creates ever more violent fluctuations. And it doesn't make any difference what the political composition of that government happens to be. The national government in the twentieth century cannot afford either politically or economically to fall from a record level of prosperity into the depths of depression and unemployment. To the same degree to which private enterprise fails to absorb the pressure of disemployment, exactly to the same degree will the national government be compelled to provide work in one way or another. Neither slogans nor refresher courses in past history will lesson the insistence of the disemployed for jobs.

There is no doubt that the American people are still overwhemingly in favor of private business meeting this responsibility. But there's no doubt in my mind that a large army of unemployed will turn its back on private business and insist on action by the national government if private enterprise doesn't come through.

But if jobs are the key to economic reconstruction after the war, then progressive and sound labor relations are the handle on the door. Labor has gained both in social legislation and economic experience. It is now a force far more organized than ever before. It is rapidly maturing. And in many areas it still has a distance to mature.

One fundamental lesson that must be learned by both management and labor is that nothing which restricts production or prevents consumption would be helpful or desirable to the nation. Flowing from this is the certainty that conflict is stagnation.

None of the potential powder barrels I've mentioned need necessarily lead to an explosion. Consider them time bombs that are now deeply buried in our industrial structure. They can be made harmless through skillful handling and removal of the fuses. They certainly cannot be made safe either by being ignored or kicked around.

The fifth challenge will flow from the partial reconversion to civilian output. Present indications are that the peak in war production will be reached around March 1944, with output at a monthly rate of about $8.5 billions. Following this peak, the rate will be cut down until at the end of 1944 our monthly volume of war production will be in the neighborhood of $6.5 billions or even less. At the same time there will be a notable shift in the type of war goods produced. We already have sufficient supplies of light equipment, ammunition, tanks, trucks, and similar materiel to maintain our forces at battle strength. From now on the emphasis is going to be upon replacement and repair parts for this type of equipment.

However, we shall probably continue our ship-building program and even expand it with a view to the requirements of the Pacific war. For the same reasons, we shall make some shifts in our plane program in the direction of heavier long-range bombers and fighter planes.

It is very probable that war industries on the Pacific Coast will obtain not only a larger percentage share in the volume of war production than they now have but also a larger absolute amount of dollar orders.

However, it would be fallacious to conclude that the reduction in our war output will immediately and automatically release a corresponding quantity of critical materials for civilian production. Such a development appears extremely unlikely.

Instead, there will be a more than proportionate release of raw materials that go into the manufacturing of military soft goods. But even these raw materials will not be released indiscriminately. Plans are rapidly maturing in Washington's official circles to initiate a system of "priorities in reverse" immediately after war production declines from its peak.

Under such a system, raw materials will be released for civilian production on the basis of two considerations. First, is the end product highly essential for civilian consumption? Second, and this is likely to be the more important criterion, how many man hours of work will be created by a given unit of the raw material to be released?

The sixth challenge to business management will arise in the field of foreign economic relations. Until Pearl Harbor our international economic pholosophy was one of isolationism. The barricades of a protective tariff had been accepted for more than a century as the foundation of a sound American economy. At least they have been accepted in this light by our legislature and the average man in the street.

It is ironic and paradoxical, however, that Big Business, although doing extensive lip service to the doctrine of political and economic isolationism, has long been internationally minded. Big Business discovered the "One World" long before Wendell Willkie took his trip.

Pearl Harbor has taught us that political isolationism will not stem the tide at our doors. The war itself should teach us that we shall not be able to enjoy economic prosperity in this country if the rest of the world remains in ruins. The billions of dollars worth of securities which the American public purchased so eagerly in the 1920's, and which are now almost worthless, must serve as a reminder that foreign trade is a two-way affair. To export we must import. If we want our customers abroad to buy from us we must enable them to sell to us.

If you accept these premises then the conclusion is inescapable We shall have to make those adjustments in our economy that will enable foreign nations to find an outlet in our market for goods they are able to sell to us and with which they can pay for the purchases made from us. To accept such a program does not imply that we are willing to become a global philanthropist. It does not involve a philosophy of charity. Basically, it is nothing but a philosophy and a program of hard-boiled, realistic economic thinking. It is far more expensive for us to become a relief agency of unlimited duration than to turn quickly into a two-way trader. It is far less expensive to develop a two-way traffic in goods and services than to prepare for a one-way traffic of soldiers and ammunitions and a return trip of dead heroes.

1944, therefore, will be a crucial year. Few, if any, of the problems that I have outlined will or can be solved in a short span of twelve months. But we can either provide a sound foundation for a gradual and healthy solution; or we may plant the seeds for renewed international disputes and another world war. We shall either create a climate in which frictions can be dissolved and basic issues sensibly and reasonably examined; or we shall charge the political and economic atmosphere with so much additional electricity that another storm may break over our heads far more devastating than anything we have ever experienced.

Prompt Mailing For Christmas Delivery Urged

Postmaster Albert Goldman of New York made the following announcement on Dec. 6:

"Mailing of Christmas gifts in November were insufficient to assure that deliveries of all gifts can be made on time, although the public is cooperating better than last year, reports to the Post Office Department indicate.

"Those who mailed in November and the first few days of December can feel certain that their gifts will be delivered by Christmas. If mailings are completed within the next few days, the parcels will arrive on time; but every day's delay by mailers now means much less likelihood that delivery can be made by Christmas.

"Transportation facilities, burdened as never before by wartime demands, cannot handle on time a late flood of gifts and greeting cards. Even a year ago, when the burden was not so heavy, many gifts arrived after the holidays because of a late rush of mailings. This year the situation is much more serious and mailings must be completed at once or many will be disappointed on Christmas.

"Reports from post offices show that a large number of gifts are now being mailed, and marked "Do not open until Christmas". However, these constitute a rather small percentage of the total number sent each Christmas season. Unless mailings are practically completed in the next few days, the great burden on transportation facilities makes it very likely that deliveries cannot be completed by Dec. 25."

Hughes Decision Stuns Dealers

(Continued from page 2421)

I dare say there are more than enough laws on the statute books of every state in the Union to fully and properly prosecute any and all sharp-shooting. Again I ask, why must the industry be persecuted in order to get at a small handful of unscrupulous dealers?

Incidentally, this letter of protest has not been written because we will be affected by this 5% rule because such is far from the case. The fact is that we do very little unlisted business, and practically none as principals. Our service charge on stocks, with minor exceptions, parallels NYSE commission rates. Our service charge on bonds is graduated from 1/8 to 1½ points maximum. Admittedly, we are not getting rich, but due to our low overhead it is possible for us to operate at a profit on our scale of service charges. However, I doubt that a great segment of the industry could break even operating on our basis.

It is my guess that unless the NASD turns about, its membership will continue to dwindle and a new organization, which will truly represent the industry, will come into being. We would gladly support such an organization. The public, and a vast majority of the securities dealers are tired of being kicked around.

I regret that we must ask you not to print our name, city or state. Keep up the good work.

DEALER NO. 97

While the matter is still current I want to write and tell you that I think you are doing a grand job in the matter of the 5% profit limitation.

Apart from bringing the matter down to its fundamentals so that even the most superficial reader can understand it, I think you show a high degree of courage in tackling a matter of this kind.

Because of the "interests" at which some of your shafts are directed, I would guess that you might suffer in advertising revenue from some of the so-called big houses.

Your position is in direct contrast with that of the other trade papers which seem to be leaving this "hot potato" strictly alone for reasons that I can only surmise. I only hope that the small fellow in the industry will understand this angle and when your solicitor drops around in the future, he recognizes this in making up his advertising budget.

Like most of the dealers who have written you on this subject, I too am fearful of reprisals, so regretfully I must ask you not to use my name.

DEALER NO. 98

What do they mean, asks a large Stock Exchange firm, by riskless transactions? Every day we open our doors we are risking $7,000, the amount of our overhead.

The Critical Period Of Transition After V-Day

(Continued from first page)

problem discussed in his speech can only be solved by the rapid attainment of higher levels of production than we have ever known in times of peace." "If," he said, "we can achieve such production levels the employment problem will largely take care of itself, the great threat of post-war inflation will be eliminated or greatly lessened, and the problem of balancing our Federal budget and of carrying the tremendous load of governmental debt can be solved."

Mr. Fennelly cited as "the first problem we shall face after the defeat of Hitler will be a wholesale termination of outstanding war contracts" and the settlement of claims in connection therewith, and he emphasized that "speedy settlement of terminated contracts will be necessary to free working capital and to clear plants of wartime inventories and equipment." "We are," he said, "tending toward the conclusion that perhaps the most satisfactory immediate policy for the disposition" of government-owned plants and equipment "may be that of a simple leasing arrangement with possibly the right to apply the rental paid against eventual purchase price." He further said that "we must not forget that our basic objective must be to get these plants into operation under private management at the earliest possible date."

Mr. Fennelly pointed out that "business must be prepared to assume its fair share of the post-war liquidation, particularly if it wishes to ask for a similar liquidation of wartime wages." "Any other policy," he noted, "will slow down production and increase the threat of inflation."

With regard to post-war taxes it was stated by Mr. Fennelly that "I am sure we will all agree that if business is to do its full share in the attainment of high levels of employment and production there is a prime need for tax reform which will remove the present impossible burden which has been placed on business enterprise," and he expressed himself as "very hopeful that we will be able to publish in the near future a series of tax recommendations which will appeal to you all as eminently sound and constructive."

Mr. Fennelly foresees an annual Federal budget requirement of around $20,000,000,000 for the post-war decade but believes that "with a high level of production we can carry the tremendous load of governmental debt and balance the budget, while achieving a substantial measure of tax reduction."

The address of Mr. Fennelly follows in full:

The title of my address may suggest to some of you that I am looking forward to a sudden termination of all hostilities at one given moment, similar to the "cease firing" order which occurred at 11 a.m. on Nov. 11, 1918. Such is not the case. At present all the indications point to a termination of the war in Europe at a date considerably earlier than the war in Asia.

As a result, many of our statesmen and business leaders have become fairly complacent on the assumption that we shall have a fairly easy period of transition between the defeat of Hitler and the final crushing of Japan. Gentlemen, I can assure you that is a highly dangerous fallacy. Army experts now estimate that, after the end of the European war, we may be forced to cut-back our munitions production by approximately 80% and still have enough to fight a full-scale war against Japan. Our stock of finished munitions will be so vast that some experts even speak of our ability to fight a long war against Japan out of accumulated inventories. This picture may prove to be somewhat exaggerated but it serves to emphasize the fact that the major shock to our economy will come immediately after the end of the fighting in Europe, and not at some later date after Japan has been crushed. In other words, we shall face a critical period of transition as soon as Hitler throws in the sponge, and we must make our plans accordingly.

To Lift Production to Record Peace-time Level

Col. Chevalier has just told you how we are studying the problems of transition in the Research Division of C. E. D. He has also told you that the one basic objective of all of these studies is to get our peace-time industrial machine into high gear at the earliest possible date. The importance of this objective cannot be too strongly emphasized. Practically every specific post-war problem which I shall discuss today can only be solved by the rapid attainment of higher levels of production than we have ever known in times of peace. If we can achieve such production levels the employment problem will largely take care of itself, the great threat of post-war inflation will be eliminated or greatly lessened, and the problem of balancing our Federal budget and of carrying the tremendous load of governmental debt can be solved.

I wish to emphasize again how vital will be the time factor in the solution of these problems. Since Pearl Harbor we have recognized that every day saved in the expansion of war production is of the utmost importance for the achievement of victory. We have gladly expended many billions of dollars for the sake of the utmost speed in our war effort which could undoubtedly have been saved if we had been able to do the job in a slower and more orderly fashion.

The stakes for which we shall be playing in our efforts to win the peace will be no less than those of the war, and speed will be every whit as essential. Neither business nor government can afford to be guided by cautious, penny-pinching tactics if the job is to be done.

Terminating War Contracts

The first problem we shall face after the defeat of Hitler will be a wholesale termination of outstanding war contracts and the settlement of claims in connection with such terminated contracts. As a matter of fact, this problem is already at hand. I am sure it will interest you to know that the total dollar value of contracts already terminated is considerably in excess of the dollar value of all contracts terminated after the end of the first World War.

In furtherance of our basic objective of attaining high levels of peace-time production at the earliest date we naturally believe in a prompt cancellation of all contracts which are no longer needed for the war effort. Thus, we believe that any policy of continuing to produce unneeded war goods merely for the sake of maintaining employment will slow down the reconversion of industry. Instead, we are convinced it will be far less costly from the standpoint of the national economy to cancel these contracts promptly and to provide adequate unemployment compensation for workers thrown out of employment.

Speedy settlement of terminated contracts will be necessary to free working capital and to clear the plants of wartime inventories and equipment. A rapid unfreezing of working capital will be of particular importance for many thousands of small businesses which will have their limited financial resources so tied up in war work that they will be unable to convert to civilian production until their working capital is released.

Over Million Contracts and Sub-Contracts

Effecting speedy settlement of more than 100,000 prime contracts and more than 1,000,000 sub-contracts will be a task of immense proportions. The C. E. D. has been studying this problem for several months and has recently issued a little pamphlet containing recommendations for new legislation designed to expedite the release of business funds now tied up in war production. I shall not take your time now to discuss these proposals but shall be glad to furnish copies of our report to any of you who are particularly interested in the problem. We are convinced that unless drastic action is taken by the Congress in this connection the reconversion of industry may be disastrously delayed.

Government Plants and Surpluses

Another important problem we shall face at an early date is that of disposing of government-owned plants and wartime surpluses of commodities and equipment. The C. E. D. is now engaged in a study of this subject and as yet has established no official policies in this connection. With regard to the disposal of government plants I can assure you, however, that our policy will be based on the assumption that the only proper objective will be to get these plants into operation under private management as rapidly as possible. In this connection I can also point out to you that the problem of disposing of these plants quickly by sale may be exceedingly difficult to work out because if they are sold at a price low enough to justify their purchase on a business basis the political outcry is likely to be terrific and in the long run might be very harmful to business. We are, therefore, tending toward the conclusion that perhaps the most satisfactory immediate policy for the disposition of the plants and equipment may be that of a simple leasing arrangement with possibly the right to apply the rental paid against eventual purchase price.

For Private Management By Earliest Date Possible

Above all, we must not forget that our basic objective must be to get these plants into operation under private management at the earliest possible date and not permit ourselves to become involved in long controversies over detailed methods. I realize that many businessmen are concerned over the possibility that the Federal Government may wish to operate many of these plants in competition with private business. At present, however, I am sure there is very little cause for concern in this direction. In many discussions of this subject in Washington, I have found no real sentiment in favor of such a plan. The only danger that I see in this connection might arise in the event of a prolonged failure to get these facilities into operation coupled with a long period of mass unemployment throughout the country. Under such circumstances, there could well develop a strong demand on the part of unemployed labor for government operation.

Surplus Machinery and Materials

The problem of disposal of surplus machinery and materials also presents serious difficulties. We all remember the disastrous effects on business of the dumping of war inventories at the end of the last war, and very few of us, I believe, wish to repeat that experience. Nevertheless, I think it is very important to bear one fact in mind. Businessmen cannot afford to insist on liquidation of wages and other factors of production and at the same time refuse to accept any liquidation in the prices of their own particular products. Again the objective must be to reach high levels of production as rapidly as possible and this will be impeded if business insists on a policy of holding off the market wartime inventories and machinery which might otherwise be used. I think you will agree that the only sound policy for a business firm which has some goods which cannot be sold at the original sale price is to mark them down to a price where they can be sold and move them out. These goods must be moved into circulation as rapidly as can be achieved without adopting a chaotic policy of wholesale dumping. In other words, business must be prepared to assume its fair share of the cost of post-war liquidation, particularly if it wishes to ask for a similar liquidation of wartime wages. Any other policy will slow down production and increase the threat of inflation.

Demobilization and Civilian Occupations

Perhaps the most basic problem of all in the transition period will be that of effecting an orderly demobilization of our fighting forces and of the transfer of civilian workers from wartime production to civilian occupations. I have seen a great many varied figures as to what this transfer will mean in terms of human beings and I am not sure that anyone has figures that can be relied upon. It seems likely, however, that somewhere between 20 and 30 million individuals or 40% to 50% of our total working-fighting forces will be involved in occupational changes when the war ends. One of the most difficult problems we shall have to face in this connection will be that of coping with particular geographical areas where the distress is likely to be especially acute. As you doubtless realize, there are many communities which have had mushgroom growth during the war because of the enormous expansion of the aircraft and shipbuilding industries. The readjustment problems of such communities are certain to be terrific and some very difficult shifts in population are clearly indicated.

The C. E. D. is now engaged in a study of manpower demobilization problems but I am sure we shall find no easy answers. These problems will have to be tackled from many different angles at the same time. The armed services are already hard at work on plans looking toward an orderly demobilization of their forces. The real problem in this connection, however, is whether or not the American public will tolerate any plans for an orderly demobilization. When the war ends the pressure of our fighting men to get home and of their families to have them home at the earliest possible date will be terrific and very difficult to resist.

Post-War Threat of Inflation

I mentioned earlier the post-war threat of inflation. Frankly, I am as much concerned about this danger as any other single thing in the post-war picture. At the end of the war the unused purchasing power in the hands of our citizens will be fantastically great. Present estimates indicate that individual savings by the end of 1944 may approximate $100,000,000,000. These funds provide our greatest assurance that a market will be ready to absorb a greatly increased output of goods and services. They also constitute a very serious inflationary danger unless the goods and services are speedily forthcoming.

Because of this danger most thoughtful students now recognize the necessity of maintaining many of our present wartime controls on prices, wages, rents, etc., for some time after the close of hostilities. What worries me, however, is not what the Government may decide to do in this connection but what the American people will stand for. When the end of the war removes the strong patriotic motive for compliance with unpopular OPA controls, I am afraid the pressure to rush into the market and buy everything in sight, regardless of regulations, may be very strong.

The only cure for this situation will be the attainment of new high levels of production at the earliest possible date. In the meanwhile, there will be the need for a degree of self-discipline and self-restraint on the part of the American people which may be very difficult to achieve.

Post-War Taxes

Although it is not strictly a transitional problem, I feel that I must say a few words with regard to post-war taxes. I am sure we will all agree that if business is to do its full share in the attainment of high levels of employment and production there is a prime need for tax reform which will remove the present impossible burden which has been placed on business enterprise. I am very hopeful that we will be able to publish in the near future a series of tax recommendations which will appeal to you all as eminently sound and constructive. I cannot as yet comment on these in detail because they are still in the formative stage.

I must point out to you, however, that no tax reform is possible except one that is related both to the expected level of the post-war Federal budget and in turn to the level of our national income. I have recently studied some very thoughtful estimates that have been put together on the post-war Federal budget and I am convinced we must look forward to annual Federal expenditures for the first post-war decade which will average around $20,000,000,000. On the most hopeful assumption that the war in Europe will be over before the end of 1944, and that with Japan before the end of 1945, we shall be faced with a total Federal debt of at least $250,000,000,000 when the war is finished and liquidated. This debt will require annual interest charges of at least $6,000,000,000 and perhaps $7,000,000,000 annually for the first post-war decade.

Foresees $20,000,000,000 Budget After War

Time does not permit detailed discussion of the other items, but I can assure you it is very difficult to reach a conclusion that our post-war Federal budget will average less than $20,000,000,000.

Now a few words as to the relationship between the Federal budget and the national output of goods and services. The latest estimates place the gross national product for 1943 at about $188,000,000,000. At this level, it is now believed that Federal tax revenue for the fiscal year ending June 30, 1944, will be over $40,000,000,000, without any further increase in taxes.

If we achieve the post-war employment goal of 55,000,000 civilian workers, the national output of goods and services may be as high as $140,000,000,000 in terms of 1940 prices. Post-war prices, however, are certain to be a good deal higher than those of 1940. If the post-war price level should average 50% higher than that of 1940, it would mean that a gross national product of $140,000,000,000 in 1940 prices would actually be $210,000,000,000 in terms of post-war prices.

The conclusion from these figures is that the existing tax structure, if maintained after the war, might yield over $40,000,000,000 as compared with an estimated budget requirement of $20,000,000,000. This means that a satisfactory post-war level of production may make possible a very substantial cutting of tax rates and still permit a balancing of the budget. The higher we can raise our national production the less will be our burden of taxes.

"Encouraging Outlook"

Now I don't want to give you the impression I think we are going to reach the millennium after the war. Twenty billion dollars is a lot of money at any level of production and prices, and taxes will be plenty high. Nevertheless, there are definitely encouraging aspects to the outlook which I should list as follows:

1. With a high level of production we can carry the tremendous load of governmental debt and balance the budget, while achieving a substantial measure of tax reduction.

2. We shall emerge from the war with the broadest income tax base in our history. This means that practically every wage-earner in the country will for the first time have a direct and personal interest in governmental economy.

3. There are good reasons to hope that tax reforms will be directed primarily to the removal of the present intolerable burdens on business enterprise. For the past generation tax economists as a classs have directed their attention almost exclusively to an equitable **distribution** of income and wealth. Now most of these gentlemen—and I can assure you their influence is very great—have suddenly discovered that what really matters is the **creation** of wealth and the provision of employment. As a result, they are being driven to conclusions on tax policies which they would have regarded as highly reactionary a few years ago. From this changed psychology will come a strong pressure for reduction, and possibly eventual elimination of corporate income taxes, and a shift in the tax burden from corporations to individuals.

It is obviously impossible in a talk of this length to do more than touch the high points of a few of the more important problems which we shall have to face in transforming our national economy from total war to peace. I have not attempted to give you a set of easy answers to these problems. I could not do so even if I desired. About all I have hoped to accomplish here today is to give you a point of view, and perhaps a fresh perspective on the period that lies ahead.

One Central Problem

Above all, I hope I have succeeded in convincing you that all of the separate problems I have been discussing are merely segments of the one central problem which will be the attainment of new high levels of production within the shortest possible period of time. If we can rally all sectors of our economy around this one basic concept and coordinate all national policies of government, business, labor and agriculture in relation to it we shall have a good fighting chance of winning the peace.

I wish I could tell you that the only thing needed is for the Government to remove the present shackles on business and that unfettered private enterprise will then solve all our problems. I am afraid, however, that this is a very dangerous fallacy. Business cannot possibly do this job alone and it does not help the cause of free enterprise to assert that it can.

Cooperation the Key

What is called for will be a vast cooperative undertaking in which business, labor, agriculture, Government and the general public will each be required to do its full share. It will not be enough to ask government to get out of the way of business. In addition, decisive and constructive action by government will be needed in many areas.

In time of war we attain a high degree of national unity through the strong pull of patriotism. This is relatively easy to achieve, because the issue of national survival is readily understood by all. What we shall need is a new kind of peace-time patriotism which will give us national unity, with a common purpose and direction, during the crisis of the post-war transition. Although this will clearly be much more difficult to achieve I believe we have an excellent chance to do so by means of the rallying cry of production and employment.

We must realize of course that the attainment of high levels of production and employment is only half the job. Even if we succeed in our primary objective, we shall still face the complex and even more difficult task of stabilizing production and employment at the high levels we have attained. Involved in this longer-run problem are such questions as that of ironing out the peaks and valleys of the trade cycle, the control of monopoly and the self-regulation of business, and of maintaining the health of small business in our national economy. I have no intention of discussing these problems today, but I merely wish to indicate my awareness of them, and to point out that the C.E.D. research program already contemplates broad studies in these fields.

Important Role of Engineers

No group in the country will have a more important role in the task that lies ahead than the engineers. The nation will have need of all the talent and energy which you can bring to bear on these problems. In addition, all of us will have need of faith and courage worthy of our fighting men who are winning the war for us all over the world. Only thus can we hope to win the peace and preserve for them an America to which they will be glad to return.

Investment Trusts

(Continued from page 2423)

of the $3,000 gift tax exemption for 1943. The bulletin contains an ingenious plan for taking advantage of this exemption and investing the "Gift" in the following Keystone Funds: B-1, B-2, B-3, B-4, K-1 and S-2. Such distribution of funds provides diversification among approximately 185 bonds, 50 preferred stocks and 40 common stocks and affords a monthly income of approximately $15 per month.

* * *

Hugh W. Long and Company has published investment holding lists on the **New York Stocks** and **Manhattan Bond Fund.** The folder on Manhattan shows the dividend record of the Fund since its inception in 1938. During the past five years dividends paid to shareholders by Manhattan Bond Fund have totalled $2,934,474.15.

During November the following portfolio changes were made in New York Stocks: Metals Series—Howe Sound was eliminated; Building Series—American Radiator was eliminated and Flintkote was added; Bank Series—Irving Trust was eliminated and Bank of America NTSA and Continental Illinois National Bank & Trust Co. were added.

* * *

The regular monthly investment report on **Group Securities** and the portfolio folders on **Railroad Shares** and **General Bond Shares** have been released by the Investment Research Department of **Distributors Group.** Besides listing current holdings of all classes of Group Securities, these folders reveal that the bonds owned by Railroad Shares would show an average market appreciation of 68% on a return to their 1936-37 highs. The current return on Railroad Shares based on dividend payments over the last 12 months is 8.2%. On a similar basis, appreciation possibilities for the bonds held in General Bond Shares amounts to 53% and the current return on that class is 6.6%.

Distributors Group has also issued a **Railroad News** quoting the **Wall Street Journal** and **Moody's** on the favorable post-war outlook for discount railroad bonds.

* * *

The December **Portfolio Review** of the **George Putnam Fund** shows current holdings and lists the changes made during November. These changes include elimination of New England Power Association Deb. 5s of 1948 and Commonwealth & Southern $6 Cum. Pfd. Other changes were limited to revisions in the percentage weightings among the various issues.

* * *

Hare's, Ltd., has published special pamphlets on **Aviation Group Shares, Bank Group Shares** and **Insurance Group Shares.** In the words of the sponsor: "These contain in brief, and we trust easily understandable language, all information of importance to investors that is contained in the Offering Prospectus, which, while always required, is nevertheless confusing."

Dividends

General Investors Trust—A dividend of $.12 per share payable Dec. 27, 1943, to shareholders of record at the close of business Dec. 13.

Massachusetts Investors Trust—A special year-end dividend of $.30 a share payable Dec. 24, 1943, to shareholders of record Dec. 7.

Jobs And Taxes

(Continued from page 2430)

ment at the cost of about 30 billion dollars a year. Beyond this amount we cannot go without grave danger to our country. This takes in all government-Federal, State and local.

A rough breakdown of this suggested post-war all-government budget of 30 billion dollars would be:

State and local expenditures		$9 billions
Federal:		
Civil expenditures	$4 billions	
Military and naval	6 billions	
Social security	2 billions	
Debt, int. & repaym't	9 billions	
Total Federal		21 billions
Total Federal, State & local		$30 billions

This $30 billions all-government budget obviously will require a tight hold on the purse strings. It contemplates no waste or extravagance. For those who will challenge its adequacy I say we had pretty good American government in the past which did not take fabulous billions of taxpayers money away from them, and this suggested peacetime budget is three times the level of the 1920s; nine times the level of peacetime government priod to World War I.

I suggest securing the funds for this budget as follows:

State and local taxes	$9 billions
Federal:	
Reduce present Fed. income taxes to 1/3 of present rates, to raise	5 billions
Establish a single flat rate of 25% on corporation income, with concessions for new & small companies, to raise	5 billions
Customs levies and reasonable inheritance taxes to raise	1 billion
Social security taxes to raise	2 billions
A special war debt tax; levied on all transactions at a very low rate, to raise for the payment of interest and the reduction of our Fed. debt	9 billions
Total Federal taxes	$22 billions
Total Fed., State & local	$31 billions

Thus there would be a billion dollar margin of safety by which Federal taxes would exceed expenditures.

This budget is predicated on a $125 billion level of national income, which of course is a somewhat optimistic evaluation of future events, especially in the light of the $66 billion average which prevailed for 10 years prior to the war. But there appears to be every reason for this or a better level if we approach the peace with the same courage and ingenuity we put into the war, and if our initiative is not stifled by unsound fiscal policies.

The $31 billion Federal, State and local tax load I propose would take 25% of our national income. That is the top limit which we can undertake without throttling national production and individual welfare. Should the national income fall below $125 billions we should at once further reduce our expenditures so as to keep them at all times within 25% of the national income. A study of the ratio of tax collections to national income in the United States and foreign countries shows that in peace-time only about one-fourth of national income may be diverted to government with safety.

We are fortunate at this time in having such sound committees in the Congress dealing with these fiscal problems under the able and distinguished leadership of Senator George and Mr. Doughton.

Five Partners to Program

In shaping and working for sound government, sound business and full employment, we need to take stock as to the obligations which such a program lays upon its partners—labor, management, capital, agriculture and government.

Our working people must realize that their part in this program is no small one. They are charged with efficiency and thrift in their jobs as well as in their homes. They will need sound and far-sighted leadership.

Labor has by far the greatest stake in the prosperity of business because it receives the largest share of the returns.

Labor should remember that corporate enterprise employs about 90% of all workers today outside of government and agriculture.

The farmer should realize his direct interest in full employment. Without such, he cannot count upon even reasonably good prices for his products.

The women of America will occupy a more and more important place in our economy, with more jobs and a larger responsibility in business. We will need to give them the full opportunity to know about their government, about government expenditures and about taxes because of the consequent effect upon their households, their children, their future and the family's jobs.

I have already pointed out some of the duties of management in this new day into which we are going. Here are others:

Every businessman must not only keep informed about his government but he must actively participate in that government.

Business must immediately and persistently keep its 11,000,000 stockholders informed. These owners of business must be aroused—educated and organized—they are a potential force as large and as great as organized labor. They are entitled to full consideration by government.

Businessmen must now realize the strength of united action and the value of full participation in such action. I have had an opportunity to see something of the way industry can cooperate in these past few months. But I must admit that one of the most discouraging factors has been the lack of a sense of responsibility to supply its representatives with essential information on the part of some companies for their own protection. The value of cooperation has been proven beyond a doubt. We must set up the facilities for its permanency in the immediate future.

Committees for Jobs Needed

This program which I am outlining will require the cooperation of every interest and every group in every community of our land. As the final plank in the program in connection with the incentive employment tax, I recommend the establishment of committees for jobs in every city, town and hamlet in the country and to be initiated by business. These committees should be composed of representatives of labor, industry, civic bodies, retailers, the American Legion, bankers, lawyers, women's clubs, housewives, churches and other leading elements. They might be called "the committees for jobs for Americans."

Their job would be to see that every community, city and town absorbs its full quota of those desiring to work by the use of whatever means may be necessary in that particular locale.

To coordinate, encourage and assist these local groups, a national committee for jobs should be set up, financed by industry. At all costs we must avoid a repetition of the disgraceful situation of the early 30s when we had ten million unemployed.

Rugged Americanism Is Required

The task which I have been outlining to you is one of high adventure. It is one of the greatest adventures ever undertaken by the American people, for wrapped up in it is the future of our American way of life.

Through complete, enthusiastic and energetic cooperation of labor, agriculture and industry, through a complete harmony of voices which will silence the soap-box orators who seek to destroy America, we can attain a higher standard of living than the world has ever known.

Let me warn you that if we, the businessmen of America, fail to take the leadership in this post-war program, then don't be surprised if we have greater regimentation, a larger dole system, nationalization of industry and a more serious depression than we have dreamed of in the past. If that does happen, business will get the blame for it.

In short, we must simplify our tax structure—enact provisions immediately to wipe out all emergency and special war taxes upon the cessaton of hostilities.

Replace present tax laws with a personal income tax which spells out the exact amount of money owned by all income levels — establish a flat 25% corporate income tax — retain the existing social security rates—impose reasonable customs and inheritance levies—enact a transaction tax for the specific purpose of servicing and paying off our debt of 300 billion dollars over the next 100 years—enact incentive employment taxation — organize the owners of business into an effective political entity — set up a business agency for the collection of adequate facts on economy and business for the primary use of Congress—prepare for peacetime government costing approximately 30 billions a year. Balance the Federal Budget. Organize job committees in every nook and corner in the country to secure jobs for all citizens who want to work —bring about full recognition of the joint responsibility of the partners—labor and agriculture, capital and government—as to both jobs and taxes.

It will take rugged Americanism, ingenuity and guts, but we can do it. And the time to begin is now.

Heads Bank of England

Directors of the Bank of England recently renamed Montagu C. Norman as Governor of that institution for his 25th. term.

Railroads Have A Great Future

(Continued from page 2417)

senger, will increase after the war and the power used to haul such equipment should be fast, powerful, and flexible, but may be lighter in weight than engines used to haul heavier equipment. The use of lighter weight, stronger metals, fusion welding instead of riveting in the boiler, and other refinements in accessories will permit stepped-up power to handle such traffic at any desired speed.

Fuel Supply Is Grave Question

"Much has been accomplished in the way of fuel economy, but the situation with respect to coal and fuel oil after the war may be influenced by factors over which the consumers have no control. The enormous drain on our natural reserves of these materials is a matter of grave concern, and the longer the war lasts the more will our natural resources be depleted. This should be considered now to a point where an intensive study should be made to improve the drafting of locomotives, looking toward the utmost economy of fuel for both new and existing locomotives. The modern locomotive tender requires such a large capacity for fuel and water in order to avoid stops, that it nearly approaches the actual weight of the locomotive itself. Undoubtedly this weight could be reduced by the use of improved materials.

Diesel and Electric Engines

"For a number of years the railroads have been replacing steam switching and yard locomotives with Diesel electric units because of the flexibility and high percentage of availability of this latter type of power. Their use has also been extended to the hauling of lightweight, streamlined, name-trains, and a few heavy duty units are now in service for the road hauling of heavy freight trains. The builders of this type of equipment have been steadily improving their product and will undoubtedly continue with refinements that will improve their service, but the ultimate progress of any equipment dependent upon high grade fuel oil will depend upon the world supply of crude oil when this exhaustive war is ended.

"The electric locomotive, deriving its power from overhead or third rail systems, has been the source of much discussion and speculation over a number of years. In many respects it seems to be an ideal system of transportation, but the important question of economy is a large factor in considering its adoption. This type of engine seems best adapted to highly congested areas where power is available at rates that will permit operation within an economical range, such as the electrified portion of the Pennsylvania Railroad between New York and Washington.

Turbine Engines

"Many people have felt that a turbine engine would be the ultimate as a prime mover for the railroads and experiments along this line have continued over the years. Mostly they have developed along the lines of turbo-electric engines and in fact a locomotive of this type was built a few years ago. There is now under way a comprehensive study of the potentialities of the gas-powered turbine for use in locomotives and while it is too early to make any positive predictions, I am inclined to the belief that this type of power offers tremendous possibilities for an economical, simple, and effective prime mover.

Replacing Worn Out Equipment

"The vital question of rehabilitation of our railroads in the post-war period should be taken up at this time and plans made accordingly. Our railroads are quickly and surely wearing out the available equipment handling a tremendous volume of freight. The present situation is parallel to 1928 and 1929 which was followed by the period of railroad inactivity. The number of freight cars available in 1929 was 2,277,500. The number of cars now available is approximately 1,710,000, which indicates a decrease of 567,500 cars. The number of freight cars which will be permanently retired upon cessation of hostilities will depend upon the immediate post-war requirements. A large number of cars, estimated at a million, should be permanently retired in the next 10 years, which is comparable to the 789,600 cars retired during period from 1932 to 1940 inclusive.

We hear much about light weight freight equipment as a post-war development. Before becoming too enthusiastic about the possibilities of light weight freight equipment let us examine the problems confronting the designers of such equipment. The major problem confronting the designer of freight equipment is that of control of long trains at high speeds. The average freight train tonnage and length in 1940 were 349 tons and 49.7 cars, respectively. The speed at which a train can be operated with safety depends on the control maintained over the dynamic forces present in such a train. The throttle and brakes constitute the only means of control of a moving train.

The weight and the braking power available in a long train govern the distances over which a train can be brought to a stop from various speeds. The braking power provided in freight cars being based upon the light weight of the cars, introduces a problem in the design of lightweight cars, especially if such cars are intended for efficient high speed service. The difference between the empty and load limit weight of a freight car is particularly undesirable for high speed service, as the braking force provided in the cars ranges from 60 to 75% of the light weight of the car based on 50 lbs. cylinder pressure.

"Considerable research work will be necessary before an ideal light weight car, capable of meeting all of the requirements of high speed train operation is placed in service. To facilitate work of the designer it would be well to consider classifying light weight freight equipment into two groups.

"Group 1—Cars to be used at moderate train speeds to increase the ton-mile revenue and designed to carry bulk commodities.

"Group 2—Cars to be used at high speed in long trains to carry express freight.

"The first group of light weight cars should be designed to take advantage of the newer material and recently developed methods of construction. The nominal load limit of these cars should not exceed three times the light weight of the car unless some kind of special braking arrangement is developed to overcome the stopping difficulties. The second group of light weight cars should be designed to meet the high speed service requirement forced upon the railroads by competition. These cars should be capable of being controlled in long trains with the same dispatch as are passenger trains.

125,000 New Freight Cars Needed

"A long range building program of new freight equipment calling for the construction of 125,000 new cars and the retirement of a similar number of old cars yearly, for eight years, should be contemplated. Work on the designs of these cars should be begun now. The designs should incorporate the use of welded construction and suitable high strength steel with corrosion resisting properties where found economical to do so. The use of light weight materials, such as plywood, aluminum as such, or in combination with other materials, should be encouraged where comparable strength with lighter weight can be obtained.

Air and Rail Travel

"The development of post-war rail passenger transportation will be governed largely by the demand. The American public is becoming air minded and the loss of passenger traffic and revenue by the railroads must be studied with concern. Air lines are expecting to carry up to 70% of the pre-war railroad transcontinental revenue passengers. The aircraft industries are now geared up to a high production of military planes. The larger type of military plane can easily be modified into luxurious air liners. However, air travel as an everyday, time-saving way of traveling must be considered in the light of the ratio of time of flight to time required to travel between business centers and the airports. The total cost of travel versus the comforts enjoyed will, to many travelers, become the influencing factors when choosing between air and rail transportation. A major portion of the traveling public will demand low cost transportation at a reasonable speed, but a number of first class travelers may resort to air transportation.

"The possibilities and future of air and rail passenger transportation are beyond prediction. The success of each mode of travel will depend upon the schedules and comfort offered. The comforts which rail passengers may enjoy are closely related to car design. The post-war passenger car will necessarily embody all elements of comfort consistent with operational requirements. Those cars, of whatever design they may be, must meet the present requirement for strength to provide safety to all occupants of the car and must be economical to operate. The use of light weight equipment which to date has only been partially developed, can be furthered.

"The outlook on the passenger service should be that air transportation will become a definite factor in long distance travel. Much of the overnight rail sleeper traffic will not change. Travel between distances up to 400 miles in de luxe coaches, if as comfortable as it is safe, should appeal to the general public. Therefore, it behooves the railroads to revise their schedules for the benefit of the public and develop and plan the construction of post-war light weight coaches which will enable them to meet competition.

Central Research Advocated

"There is a great future in store for a central research and testing laboratory, owned, operated, and controlled by the railroads. Up to this time all our investigations have taken place in the laboratories of railroads, universities, or private industry, from all of whom we have received complete co-operation and satisfactory results. It should be recorded that in our associations with private research laboratories the companies involved have been completely above reproach in their relationship, enabling us to maintain the integrity so necessary in any unbiased investigation. However, there are those who will always harbor some suspicion that influence might have been exerted. For this reason, if for no other, a railroad-owned testing plant would have a beneficial effect on all associated industries. Furthermore, it would tend to avoid duplication of effort where several organizations may be working on the same problem, each without knowledge of the other's activity."

Feed Import Bill Approved

By a roll-call vote of 255 to 55, the House passed on Dec. 8 a measure to permit duty-free importation of feed for livestock and poultry for a period of 90 days.

The list of feed which would be permitted to be brought in temporarily without a tariff includes wheat, oats, rye, flax, cottonseed, corn and hay, to be used only for livestock and poultry feed. An attempt to eliminate corn from the list was defeated over vigorous protests from a group of mid-west Representatives.

The Securities Salesman's Corner

The Importance Of Teamwork In a Sales Organization

There is something contagious about success or mediocrity. The same holds true for most of the emotional reactions such as confidence, dissension, mistrust, loyalty and so on down the line. When a group reacts in any of these ways we call it "atmosphere." Ten minds exert a stronger mental influence on the eleventh than will two. A room full of depressed people can create gloom so thick you can almost feel it—surely it can be seen. We all have noticed the effect of an inspiring speaker on a large audience—there is something herd-like in the way groups react to different stimuli.

Knute Rockne saw a musical comedy, and noticed the precision with which the dancers followed the swing of the music. He came back home and laid the foundation for a system of football that became a rhythm of success. Team spirit, coordination, and something they now call "know how," are as old as history. It is the basis for every successful sales-organization as well.

A sales-organization is like a team, or a regiment. The sales manager is the coach or the general. He has the same problems. He must train his men, he must lay out their plans of campaign, he must settle their differences between each other and between the men and the firm, he must establish his reputation for fairness and justice so that his integrity cannot be questioned, he must inspire the men around him to get more out of their day's work than the usual satisfactions that most jobs provide; in short, a good sales-manager must provide LEADERSHIP.

Good salesmen when placed alongside of other men who are doing a good job, in a cheerful atmosphere, where plans are always being made and new stimulating ideas for the promotion of business are constantly undertaken, WILL DO AN EVEN BETTER JOB THAN THEY USUALLY COULD DO ALONE. Competition, atmosphere, rhythm, stimulating ideas, progressive thinking and doing, these things make successful organizations and develop successful men.

Put the same men into an organization where complainers are in abundance, where whispered conferences early in the morning take place behind the sales-manager's back, where mistrust and gloom prevail, and these good men will nearly always deteriorate into the same class as those around them. They say, "one bad apple can spoil a barrel," sometimes this is even true of sales organizations.

We know of one successful sales-manager who has done a good job of constant building and increasing his success right through the past ten years, who has made it a cardinal rule to tell his men that IF THEY HAVE ANY COMPLAINTS, TO COME OUT WITH THEM. IN THIS WAY THINGS ARE BROUGHT RIGHT OUT IN THE OPEN AND THEY ARE IRONED OUT, AS THEY SHOULD BE, IN A STRAIGHTFORWARD, FORTHRIGHT MANNER. There is no growing cancer of disintegration in his organization. He treats his men as men and he is one himself.

The coming generation have a word for it—they call it "in the groove." When an organization get's that way it's on its way to success. The fundamentals are the same for a two or three man shop, or for fifty. Leadership that brings success is nothing more than good health backed up by character, some sound experience in the field of endeavor where you happen to be striving, plus enthusiastic enterprise.

Bankers Keep Your Money At Home Warns Harvard Prof.

In addressing the American Institute of Banking in Boston on Dec. 9, as reported by United Press dispatches, J. Anton de Haass, Professor of International Relationships, gave a warning to bankers to keep their money at home and not put it in foreign investments. He further warned that post-war investments should be made with caution and only when economic and financial structures have been re-established and the countries can prove their ability to pay.

The United Press accounts from Boston, as given in the New York "World-Telegram" further quoted Prof. de Haass as follows:

"I am quite sure we can kiss goodbye to our lend-lease advances," he said. "We can also kiss goodbye to our investments in Latin America."

Prof. De Haass believes nations already show indications of reverting to the type of policy which prevailed in the 10-year period following World War I—"a policy to kill off the other fellow which led to monetary disintegration, stagnation of trade and depression."

"England already has formed a corporation to corner the world cotton market, and Australia has developed the largest steel plants in the world, planning a high tariff protection after the war," he declared.

CGO, Milw. & St. Paul Situation Interesting

The decision rendered by the ICC on the Chicago, Milwaukee & St. Paul reorganization plan marks a landmark in railroad reorganization, according to an interesting circular on the situation issued by Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange and other leading national exchanges. Copies of this circular, which contains interesting statistical comparisons, may be had upon request from Ira Haupt & Co.

Michigan Brevities

(Continued from page 2420)

Richard D. Young, manager of the Detroit office of Baker, Weeks & Harden, announced the opening of new and larger offices at 1556 Penobscot Bldg., effective Dec. 6.

The company is a member of the New York Stock Exchange.

* * *

At the annual meeting of the Bankers Club of Detroit, Ernest C. Harris, Vice-President of the Federal Reserve Bank of Chicago, in charge of the Detroit branch, was named President for the ensuing year.

Otto Wisner, President of the Bankers Trust Co. of Detroit, was elected Vice-President, and William Thomas, Treasurer of the Detroit Trust Co., was re-elected Secretary and Treasurer.

President George B. Judson of the Wabeek State Bank, was named to the executive committee and President Charles T. Fisher Jr., of the National Bank of Detroit, was re-elected to that body.

* * *

Despite remodeling difficulties due to the war, executives of the Manufacturers National Bank of Detroit predict that they will move into the bank's new main offices on the corner of Fort and Congress shortly after the first of the year.

J. H. Brooks To Admit

J. H. Brooks & Co., members of the New York Stock Exchange, will admit Harold B. Robinson to partnership in their firm on January 1st. Mr. Robinson will make his headquarters at the firms office in Scranton, Pa., located in the Brooks Building.

Folger On Investment Banking Business

(Continued from page 2414)

"That accumulation spells investing power."

He drew a parallel between the investment bankers and the water tender at the gates of an irrigation dam. "He sees that the right amount of water gets into each field, a highly important job and one which I take it we will be called upon to do," Mr. Folger said. "A reasonable amount will flow to foreign fields," he said, "but we must see to it that our own valleys and farms receive the needed and precious irrigation. If we send part of our supply of capital for foreign use, let's try to be a prudent water tender and not flood the desert."

Speaking on the same program with Henry G. Riter, Chairman of the National Association of Securities Dealers, the self-regulatory organization of investment banking, Mr. Folger urged those in the business to support both organizations. Commending the regulatory activities of the NASD, the IBA President said that its very existence indicated that there was a "strong and vigorous impulse in the business to standardize good practice."

A. J. Lord On Bd. Of Managers Of N. J. Bank

Andrew J. Lord was elected a member of the Board of Managers of the Morris County Savings Bank, Morristown, N. J. Mr. Lord is President of Lord, Abbett & Co., Inc., New York; Chairman of the Board Research and Management Council, Inc., and President and director of Allied Fund, American Business Shares, and Union Trustee Funds.

OUR REPORTER'S REPORT

An unexpectedly quick cleaning up of the Utah Power & Light Co. financing, brought to market last Friday, was viewed as opening the way for consideration of other large utility issues which are in the works and practically ready for bids.

The Utah Power deal, embracing $42,000,000 of 25-year first mortgage 3¾% bonds, had been expected to prove a "worker" since it was indicated that the big insurance companies were reticent to participate in the business on a yield basis of less than 3.75%.

Priced by the offering group at 100⅝, to yield approximately 3.72%, the bonds were reported moving slowly following formal offering. But late on Tuesday it was disclosed that the syndicate managers and a group of large insurance companies had reached an agreement under which the latter absorbed the remaining unsold bonds.

That there was a concession in pricing on the part of the bankers goes without saying, since the bonds were quoted over-the-counter soon after at 100¼ bid and 100½ asked.

In consequence, the issue, which had been watched carefully as a cue to the immediate outlook for further corporate financing between now and the close of the year, was successfully placed. And the price at which it was finally put away should prove a guide to underwriters in seeking after new issues of similar type.

Central Vermont P. S. Stock

Monday's offering of 195,000 shares of common stock of the Central Vermont Public Service Corp., marking the first strict application of the Securities and Exchange Commission's U-50 Rule to a utility stock sale, struck a snag.

The company received but a single bid submitted by a banking syndicate embracing 32 of the largest New York and New England underwriting houses. The bid was rejected as unsatisfactory and the investment world is waiting for the next step on the part of the issuer.

The latter, according to reports, had been in negotiation with Boston bankers for direct sale of the stock before it sought competing bids. It will be interesting to see whether the SEC, in this instance, will forego the rule and permit a negotiated sale.

Little Nourishment

September, according to a compilation just released by the Securities and Exchange Commission, set a new record for new issues placed on the market.

But those who specialize in the marketing of corporate securities will find little to gloat over in the figures since it develops that non-corporate financing contributed all but a very minor part of the aggregate of $11,052,930,000 shown.

The Treasury's war financing reaching the staggering total of $10,963,566,000 made up the bulk of the month's business, while State and municipals contributed $20,530,000.

Corporate underwritings at $68,834,000 for the period were shown to have run some $6,000,000 under the monthly average for the year up to September.

S. O. Ohio Preferred

The only substantial new issue placed in registration with the Securities and Exchange Commission recently covers projected issuance of 101,389 shares of $100 par cumulative convertible preferred stock for the Standard Oil Co. of Ohio.

The registration covers likewise common stock which may be required for conversion of the new preferred during its life.

The new preferred will be offered on "rights" to common shareholders with underwriters having agreed to take down any unsubscribed portion for public sale.

Illinois Power Co.

The huge $65,000,000 refinancing program of Illinois Power Co. is being held up pending agreement on questions relative to reserves, Allan Van Wyck, President, disclosed late last week.

He plans to confer with bankers who are expected to bid for the bonds to seek their opinion on timing of the issue. Such conferences will settle the question of whether the financing will be undertaken before the end of the year, it was indicated.

Senate Group Acting On New Tax Bill

The Senate Finance Committee has not as yet completed action on its version of the 1943 tax bill and it is doubtful whether the measure can be enacted before the planned Christmas recess.

The Committee has been at work a week on writing the $2,000,000,000 revenue measure but its formal report is not expected to reach the Senate floor before Christmas week.

At its session on Dec. 14, the Senate group approved the main corporation provisions of the House-approved tax bill and also voted in an amendment freezing the social security payroll tax at its present 1% rate. The increase to 95% from 90% in the corporate excess profits tax rate was agreed to, while the 80% overall ceiling was left unchanged. The Senate group did, however, amend the House provision relating to the invested capital excess profits tax credit.

With respect to this action, a Washington dispatch of Dec. 14 to the New York "Herald Tribune," by Samuel W. Bell, said:

"Instead of reducing the credit allowance on invested capital in excess of $200,000,000 from 5 to 4%, the committee retained the existing 5%. The other credit reductions approved by the House were as follows: 8% for the first $5,000,000, 6% on $5,000,000 to $10,000,000, 5% on $10,000,000 to $200,000,000."

The social security tax action was sponsored by Senator Vandenberg (Rep., Mich.,) who twice before (in 1941 and 1942) led the movement to keep these taxes from automatically increasing to 2% on both employers and employees.

Another important action taken by the Senate Committee on Dec. 14 was its approval of the provision in the House bill requiring certain tax-exempt organizations, such as labor unions, farm cooperatives and others, to file annual financial returns with the Treasury.

It was estimated on Dec. 9 that, as a result of changes made in the House bill by the Senate Committee, the bill's revenue yield was reduced from $2,140,000,000 to $1,923,000,000. The proposed House tax on pari-mutuel betting was rejected as were increases in third-class postal rates and rates on several other excise levies.

The Senate Committee had concluded its public hearings on the tax bill on Dec. 6.

Passage of the House bill was noted in our issue of Dec. 2, page 2206.

Moxie Outlook Interesting

The outlook for securities of the Moxie Company offers attractive speculative possibilities according to an interesting memorandum prepared by Lawrence H. Klybert of the Brooklyn, N. Y. office of Josephthal & Co., 189 Montague Street. Copies of this memorandum may be obtained from Josephthal & Co. upon request.

Outlook For Bank Stocks

Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange and other leading exchanges, have prepared an interesting circular entitled "Bank Stocks and Their Outlook." Copies of this circular may be had from the firm upon request.

Restoration Of American Freedom Pattern For World Liberty: Bricker

(Continued from first page)

full cooperation with the nations of the world in the days of peace," Governor Bricker said that "only in that hope and confidence can we plan or establish a just order of international relationships. A confidence in the people and their leaders in the years ahead, as well as in ourselves, requires that we do not attempt to place this or any other nation in an international strait-jacket."

That "our desires for peace must be implemented by a practical and definite program," was pointed out by Governor Bricker, who added that "our peace must ultimately rest upon the understanding and approval of the people of the United States." "We want," he continued, "no super government, no dictatorial State to which we are subservient. We want no central world authority over us. Nor, do I believe, does any other sovereign nation want a central world authority over it."

Expressing the view that "an international cooperative organization, whatever precise form it may take, can wield a tremendous influence toward peaceful solution of the international problems which have led to war," the Governor stated that "these problems include trade barriers of all kinds, access to raw materials, exploitation of undeveloped resources, commercial rivalries, air and water rights, especially monetary stability. Such an international organization must be founded on continuous close-working collaboration." "This," he observed, "would be a long step and it is realistic."

The speaker reminded the gathering that "if America is to remain a dominant force for good in the world, if our people are to continue to enjoy self-government, policy-making power must be taken from the hands of bureaucrats and returned to the elected representatives of the people."

"During the past 10 years," he said, "our Federal Government has launched upon a course leading to the destruction of our form of government and to the loss of our freedom. . . . It is high time that we awaken to the fact that the war is being used as an excuse to further many dangerous pre-war policies. We have been living for a decade under a growing absolutism. Unless these policies are reversed by the American people, they will unmistakably lead this nation to National Socialism." From Gov. Bricker's remarks we also quote:

"In an awakened new faith the people everywhere should demand that initiative be encouraged; that business, including small business, be strengthened, and that State and local governments be restored to their proper place of power. Open our courts to all who have been deprived of their rights by orders and directives and where redress is now denied or discouraged. We want the shackles of bureaucracy removed and the creative genius of our people set free." "That genius," he declared, "will not be released and investment will not be encouraged unless Government refrains from regimentation and from taking too much of the income of the people for the ordinary functions of Government."

(As indicated in our issue of Nov. 18, page 2022, Governor Bricker formally announced on Nov. 15 that he would be a candidate for the Republican Presidential nomination in 1944.)

Text of Dec. 11 Address

We meet tonight assured of ultimate victory. The cost will be stupendous and the toll of life and property heart-breaking. As the forces of freedom move inexorably forward, our purpose becomes clearer.

Millions of people around the world, some who have lost freedom and others who have always lived under the heel of tyranny, are rising up to claim the soul's highest right—to live by some inner sovereignty, rather than by outside regimentation. Never in the history of the world has this longing of people to govern themselves welded together such a mighty army as now fights under the banner of freedom. The winning of complete military victory transcends all other purposes.

Every meeting of Americans today should express deep gratitude and lasting obligation to the men and women in our armed forces. Their steadfastness, their courage and their heroism must be matched by our determination to make the nation worthy of their sacrifices. We also pay high tribute to the millions of men and women in shops and factories, on farms, in laboratories, in hospitals and in management who tirelessly labor to meet the demands of total war. Never has American manhood and womanhood so demonstarted and so ennobled the character of our nation.

The strength and honor of our nation have stemmed from a mighty faith. We have had faith in ourselves, faith in our Government and faith in Divine Providence. Today America needs a strengthened faith. To achieve that faith we must meet a threefold challenge beyond winning the war.

First, we must devote all our ability and energy to establish a just and lasting peace in the world.

Second, we must set America free from economic and political totalitarianism.

Third, we must lift ever higher the moral and spiritual standards of our people.

This is an American creed both for today and after victory. It embraces a basic philosophy of government at home and abroad.

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Turning first to our position in the post-war world, we are encouraged by the conferences that have been held with our allies. They strengthen the war effort and assure unity of action. They set a pattern for developing mutual understanding among nations and for building an orderly peace.

America needs a forthright foreign policy. There is nothing mysterious about foreign policy. There is no secret formula by which it can be determined. Our foreign policy should be an adaptation of farsighted domestic policy to world relationships. Honesty, fair dealings, promises wisely made and faithfully kept know no geographical lines and are not spoken in any one language. A sound American policy in international affairs means that we shall deal as a strong independent nation and that other nations of the world shall deal with us on the same basis.

Such a postive policy must be followed in the years ahead—that America's voice might be heard, our position respected, our nation defended and our people kept proud of our position among the nations of the world. Such policy will recognize that a prosperous America requires a prosperous world. It will recognize that in rehabilitating America the rest of the world must also be rehabilitated. Peace throughout the world must be built upon the right of other people to live their lives, build their cities, replant their fields, restore their homes. All the people of the world must get down to hard work and work constructively and hopefully.

(Continued on page 2442)

Bank and Insurance Stocks

This Week — Bank Stocks

By E. A. VAN DEUSEN

The usual series of bank stockholder's annual meetings is touched off each year in December by The Bank of The Manhattan Company, a full month ahead of the others. This meeting and report to stockholders is always studied with especial interest, since it provides a preview of the banking situation and indicates what may reasonably be expected of other leading banking institutions.

This year the meeting was held on Dec. 7, and represented the 145th consecutive annual meeting of the stockholders. Mr. J. Stewart Baker, Chairman of the Board of Directors, presided and read the annual report on the company's activities during the preceding 12 months, including an estimate of the results of the year's operations. During the year a milestone was reached in the history of the company when its total resources exceeded one billion dollars, being reported at $1,016,274,304 on the Sept. 30 statement of condition.

Based on actual figures for the first nine months and estimated figures for the last three months, net operating earnings will amount to approximately $4,000,000, equivalent to $2 per share, compared with $3,623,900 for 1942, equivalent to $1.81 per share, and $1.37 in 1941. These figures do not include net profits realized on the sale of securities, which amounted to $2,652,000 for 11 months, after taxes, equivalent to $1.33 per share. This compares with security losses in 1942 amounting to $1,289,169, or $0.65 per share.

The estimated operating earnings of $4,000,000 are higher than those of 1942 by $376,043, equivalent to an increase of 10.3%, in spite of the fact that taxes charged against operating earnings will exceed 1942 taxes by more than $1,000,000, or $0.50 per share.

If we assume that the 1943 experience of Bank of Manhattan is fairly typical, we can develop an interesting tabulation of estimated 1943 net operating earnings for leading banks by merely increasing their 1942 figures by 10% as follows:

	Net Operating Earnings per Share		
	1942	Est. 1943	Current Dividend
Bank of Manhattan	$1.81	$2.00	$0.90
Bank of New York	*20.70	22.77	14.00
Bankers Trust	3.39	3.73	1.40
Central Hanover	5.76	6.34	4.00
Chase National	1.81	1.99	1.40
Chemical Bank & Trust	2.68	2.95	1.80
Commercial National	12.91	14.20	8.00
Continental Bank & Trust	1.14	1.25	0.80
Corn Exchange	3.30	3.63	2.40
First National	106.42	117.06	80.00
Guaranty Trust	16.28	17.91	12.00
Irving Trust	0.84	0.92	0.60
Manufacturers Trust (common)	4.03	4.43	2.00
**National City	2.18	2.40	1.00
New York Trust	6.06	6.67	3.50
Public National	*2.85	3.14	1.50
United States Trust	78.83	86.76	70.00

*As indicated by balance sheet. **Includes City Bank Farmers Trust.

It will be noted that estimated net operating earnings alone, without security profits which presumably will be quite substantial, cover current dividends requirements by a generous margin. The widest coverage indicated by the above estimates is by Bankers Trust with a ratio of 2.66, while the narrowest coverage is by United States Trust with a ratio of 1.24. The average ratio for the 17 banks is 1.78. It is of interest to note, in the case of The Bank of Manhattan, that estimated net operating earnings plus security profits cover dividend requirements approximately 3.7 times, which would indicate that the bank's capital funds and reserves are being built up at a rather satisfactory rate. Although such conservatism in the matter of dividends may seem somewhat extreme, on the other hand it would appear to be a sound and constructive policy in view of the great expansion in the business of this and other leading banking institutions that has already transpired and of the further great demands that may be put upon the banking system in the post-war years.

Meanwhile, the steady upward trend in deposits persists, as shown in the following figures reported by the New York Clearing House Association:

Date—	Amount $(000,000)
Dec. 31, 1941	16,389
July 2, 1942	16,551
Oct. 1, 1942	16.935
Nov. 5, 1942	17,935
Dec. 3, 1942	18,308
Dec. 30, 1942	19,857
Jan. 7, 1943	20,043
May 6, 1943	20,603

Date—	Amount $(000,000)
June 3, 1943	20,883
July 1, 1943	19,962
Aug. 5, 1943	20,153
Sept. 2, 1943	20,223
Oct. 7, 1943	21,937
Nov. 4, 1943	22,983
Dec. 2, 1943	22,381
Dec. 9, 1943	22,073

It is of interest to remark that the figure of $22,983,266,000 reported for Nov. 4, 1943, is the highest in the history of American banking.

Municipal News & Notes

The tax which New York State collects from employers for the special purpose of unemployment insurance is greater in amount annually than any other tax collected by the State, the Citizens Public Expenditure Survey reported Dec. 1. Collection from this tax for the calendar year 1942 amounted to $176,336,504. This compares with $134,257,803 from all taxes in the corporation tax group and $93,825,329 from the personal income tax.

"Although New York State is among the most liberal of States from the point of view of benefit payments, it is the only large industrial State which has failed to adopt some form of merit rating," according to James H. Moseley, President of the Survey. "Merit rating simply means a sliding scale of tax rates under which employers who provide stable employment pay tax at a lower rate than employers whose heavier labor turnover leads to more claims against the unemployment insurance benefit fund."

A heavy preponderance of employers favor adoption of merit rating in New York State according to preliminary results of a canvass which the Survey has made among employers. The complete results of this poll are being tabulated and will be announced soon.

With tax collections for November and December yet to be reported, the unemployment insurance reserve credited to New York State's account by the U. S. Treasury, to which the State collections are paid, amounts to $563,000,000. The reserve is expected to exceed $600,000,000 by the end of the year. This will be a gain of approximately $200,000,000 in the reserve fund since Jan. 1.

Benefit payments to New York State's unemployed have amounted to $416,916,789 since 1938. These payments reached a peak of $98,979,152 in 1940 and have dropped to $17,080,545 for the first 10 months of 1943.

The rate of payroll tax in New York State is 2.7% on the payrolls of employers of four or more. The U. S. Government collects an additional 0.3% payroll tax for administration of Unemployment Insurance. In New York State employees pay no unemployment insurance tax.

The unemployment insurance tax is separate from several other taxes and funds sometimes confused with it. It should be distinguished from the Old Age and Survivors Insurance (Social Security) tax which is collected by the U. S. Government from a payroll tax. Neither has unemployment insurance any connection with work relief or home relief or with workmen's compensation insurance.

(Editor's Note—With reference to the foregoing report, it should be borne in mind that the huge unemployment reserve fund credited to New York State has been created for and is available for only the specific purpose of paying unemployment compensation benefits to its unemployed. It is in fact a trust fund and in no sense should be used in determining, for example, the amount of surplus in the State Treasury as a result of an excess of income from "regular" State taxes and other sources over the costs of operating the State's activities. This applies, of course, with equal force to the other States, at least one of which was reported recently to have treated its unemployment compensation fund as credited by the U. S. Treasury in determining the amount of surplus available for payment of outstanding indebtedness. The fact of the matter is that in event of another era of unemployment, the reserve fund of New York and the other States would rapidly decrease as a result of large demands on these funds.)

Halsey, Stuart Group Offers Arkansas Water Issue

Halsey, Stuart & Co., Inc., are heading a group which is offering at prices to yield 0.75% to 2.75%, according to maturity, $2,075,000 City of Hot Springs, Arkansas, 3% water revenue bonds due annually from 1945 to 1983.

The bonds, in the opinion of counsel, constitute valid and binding obligations of the City of Hot Springs, payable solely from the gross revenues of the waterworks system to the extent necessary, and are secured by a statutory mortgage lien on the waterworks plant and system.

The City is obligated to fix rates and collect charges for the services furnished by the system so as to provide revenues sufficient to pay interest and principal when due and all operation, maintenance and depreciation charges.

The City of Hot Springs is a commercial and trading center for the surrounding area and is known as an outstanding health resort. The population served by the waterworks system is estimated at approximately 33,000.

Associated with Halsey, Stuart & Co., Inc., in the offering are Blair & Co., Inc.; Stifel, Nicolaus & Co., Inc.; Eldredge & Co., Inc.; Walter, Woody & Heimerdinger; Lewis W. Cherry Co., and E. L. Villareal & Co.

Office Building Service Workers Not Under Wage-Hour Law Is Ruling

A ruling in favor of the Borden Co. in a suit brought by service employees of its main office building, 350 Madison Ave., New York City, was handed down on Dec. 7 by Federal Judge Edward A. Conger in the U. S. District Court in New York.

The following regarding the ruling was reported in the New York "Times" of Dec. 8:

"The plaintiffs had argued that they were entitled to the wage and hour benefits of the Federal Fair Labor Standards Act of 1938, contending that the company's activities in the building constituted 'production of goods' for interstate commerce. Judge Conger rejected this contention, remarking that the nearest thing to production was the emanation from the building of rough plans for labels and advertising, and some photostats. The court held also that the employees' duties as elevator operators and the like did not contribute to interstate commerce.

"His ruling followed precedents set in other cases where office building employees have been found exempt from the act's provisions, while service workers in loft or factory buildings where goods are produced have received the law's benefits."

A previous ruling in this matter appeared in these columns of Jan. 8, 1942, page 113.

Central & South American Dollar Bonds Surveyed

E. F. Hutton & Company, 61 Broadway, New York City, members of the New York Stock Exchange, have prepared an attractive brochure surveying Central and South American Dollar Bonds with reference to profit potentialities. Copies of the booklet discussing the situation in detail may be had from E. F. Hutton & Co. upon request.

Klybert Sees Tax Considerations Justifying Buying Securities on Dips

Tax considerations are, and for some time ahead, will remain, a major factor in all transactions on the security markets. This fact carries more than mere general significance, because present **almost unbearably high income taxes have a tendency to force men of means into the security markets in search of capital gains, on which the tax is limited to 25%.**

Under today's income taxation only $23,408.14 can be retained by a taxpayer, on income of $100,000. On incomes over $100,000 (as Taxation Editor Godfrey Nelson points out in the N. Y. Times), the tax increases, and the income remaining diminishes.

Obviously, when a man in the higher tax bracket observes that, no matter how high his income goes, he must pay out 75% or more in taxes, he will search out opportunities for capital gains (on securities held over six months), on which he pays but 25%.

True, at times this condition will also invite the taking of capital losses, particularly short-term losses, on securities held less than six months, which are deductible in full from capital gains. But the amount of **net capital losses** (i. e., losses in excess of gains, in one taxable year) is limited to a very small amount, as far as the high-bracket taxpayer is concerned. Therefore, the obvious tendency will be to hold securities, especially securities where the degree of undervaluation can be clearly shown, until a long-term capital gain can be taken.

Therefore, again, periods such as the present, during which fears that "peace might break out," or other temporary psychological aberrations cause an apparent disregard of real values, should be, and doubtless will be regarded by discerning investors as periods of unusual opportunity. Whether the war be short or long, for example, I regard RAILROAD REORGANIZATION BONDS, at their present levels, as outstandingly attractive. One may look ahead to substantial prosperity for the railroads for at least several years to come, even though they may earn less than the extraordinarily large revenues of 1942-43. A short war, with its ensuing vast needs for rebuilding, and reconversion of war factories to peace-time products, would also imply lessened taxation, elimination of post-war contingency reserves, plentiful labor supply. The Reorganized Railroads, meeting this condition completely rehabilitated, both physically and financially, should find investors giving full recognition marketwise to their restored credit, and to their proven superiority for low-cost, high-speed, efficient transportation. — *L. H. Klybert, Josephthal & Co.*

Cuban Sugar Outlook

The expanding domestic and world demand for sugar and its derivatives will find Cuba the principal beneficiary, according to a study of the outlook for Cuban sugar production prepared by Lawrence Turnure & Co.-Blyth & Bonner, 50 Broadway, New York City, members of the New York Stock Exchange and other leading exchanges. Copies of this study discussing the outlook, and containing a review of four of the sugar companies which the firm considers are in a favorable position may be had from Lawrence Turnure & Co.-Blyth & Bonner on request.

Halsey, Stuart Group Offer Equipment Trusts

Offering is being made today by a group headed by Halsey, Stuart & Co., Inc., of $3,097,000 Baltimore and Ohio Railroad Equipment Trust, Series M, 3% Equipment Trust Certificates maturing semi-annually from May 1, 1944, through May 1, 1953, at prices ranging from a yield of 0.85% for the May 1, 1944, maturity to a price of 100.25 for the May 1, 1953, maturity. The certificates, offered subject to Interstate Commerce Commission approval, were awarded to the bankers yesterday on their bid of 100.057.

The certificates are being issued under the Philadelphia Plan, and are to be guaranteed unconditionally as to principal and dividends by endorsement by The Baltimore and Ohio Railroad Company.

Crude Oil Price Rise Of 35 Cents Voted By House

The House, overriding protests that it was encouraging inflation, on Dec. 13 voted to order the Office of Price Administration to boost crude oil prices not less than 35 cents a barrel, according to an Associated Press dispatch from Washington, D. C., which adds:

Passed by a standing vote of 171 to 92 after a day-long fight, the legislation directed the OPA to fix crude prices not lower than 80% of parity and not higher than 100% of parity. Based on current prices of about 60% of parity, the increase will range from 35 cents to 74 cents. Prices vary widely but the national average now is about $1.18 a barrel.

Oil parity is a price based on the index price of all commodities included in the Labor Department's wolesale commodity price index.

In a last-minute shift of plans, backers of the bill abandoned a drive to take oil price administration from the OPA and give it to Harold I. Ickes, Secretary of the Interior, as head of the Petroleum Administration for War. An amendment striking the PAW from the measure and restoring OPA was adopted by a 72 to 49 vote.

The bill now goes to the Senate.

N. Y. Stock Exchange Weekly Firm Changes

Transfer of the Exchange membership of David A. Lowry, partner in Carlisle & Jacquelin (which will continue as a member firm), to George A. Whiteside, who will continue as a partner in Francis I. du Pont & Co., will be considered on Dec. 23.

Attractive Situation

Carolina Power & Light Co. common stock, when issued, offers an interesting situation according to a circular being distributed by Bear, Stearns & Co., 1 Wall Street, New York City, members of the New York Stock Exchange. Copies of this detailed circular may be obtained from Bear Stearns & Co. upon request.

Tom Moore Distilling Situation Of Interest

Baker, Simonds & Co., Buhl Bldg., Detroit, Mich., members of the Detroit Stock Exchange, will send late figures on Tom Moore Distilling on request.

Graham Is Ky. Colonel

Thomas Graham of the Bankers Bond Co., Louisville Home Life Bldg., Louisville, Ky., was appointed a colonel with 125 others on the Governor's staff by the retiring State Governor Johnson.

STRIKE THREE!

(Continued from page 2415)

the SEC in which the petitioner's registration as a broker and dealer was revoked.

We quote pertinent parts of the opinion of the Court [opinion in its entirety appears in this issue, starting on page 2418—Editor] consisting of Circuit Judges Hand, Chase and Clark:

"* * * The dealings which resulted in the revocation were continued sales of securities to customers at prices very substantially over those prevailing in the over-the-counter market, without disclosure of the mark-up to the customers. The Commission concluded that such practices constituted fraud and deceit upon the customers in violation of Section 17 (a) of the Securities Act, Section 15 (c) (1) of the Securities Exchange Act, and its own Rule X-15C1-2.

* * *

"The prices which Mrs. Furbeck and other customers paid for the securities purchased in this manner ranged from 16.1 to 40.9% over market value. In addition, most of the transactions involved little or no risk for petitioner, because an order was usually confirmed before it bought the securities that it was selling. There is conflict in the record as to whether Stillman and Armstrong made any direct representations to Mrs. Furbeck of the relation of the price paid to market value. She claims that every time she made a purchase it was directly induced by the statement that the price would be under that current in the over-the-counter market, while they deny such statements completely. It is unchallenged, however, that at no time did either Stillman or Armstrong reveal the true market price of any security to Mrs. Furbeck or the fact that petitioner's profits averaged around 25%. Similar evidence as to other customers all amply furnished the 'substantial evidence' required by the statute to make conclusive the Commission's finding of a course of business by petitioner to sell at excessive mark-up prices without disclosure of market values to its customers. * * * (Stillman and Armstrong were salesmen of the petitioner).

* * *

"* * * It is true that the only specific evidence of false statements of a material fact is that of Mrs. Furbeck that the sales price was under the market price, and, as we have noted, these statements were denied by the salesmen. Although the Commission has neglected to make any finding of fact on this point, we need not remand for a specific finding resolving this conflict, for we feel that petitioner's mark-up policy operated as a fraud and deceit upon the purchasers, as well as constituting an omission to state a material fact.

"An over-the-counter firm which actively solicits customers and then sells them securities at prices as far above the market as were those which petitioner charged here must be deemed to commit a fraud. It holds itself out as competent to advise in the premises, and it should disclose the market price if sales are to be made substantially above that level. Even considering petitioner as a principal in a simple vendor-purchaser transaction (and there is doubt whether, in several instances at least, petitioner was actually not acting as broker-agent for the purchasers, in which case all undisclosed profits would be forfeited), it was still under a special duty, in view of its expert knowledge and proffered advice, not to take advantage of its customers' ignorance of market conditions. The key to the success of all of petitioner's dealings was the confidence in itself which it managed to instill in the customers. Once that confidence was established, the failure to reveal the mark-up pocketed by the firm was both an omission to state a material fact and a fraudulent device. When nothing was said about market price, the natural implication in the untutored minds of the purchasers was that the price asked was close to the market. * * *

* * *

"Petitioner's final contention is that the actual market price of the securities was never satisfactorily proved. We agree, however, with the Commission that the evidence of the quotations published in the National Daily Quotation Sheets, a recognized service giving 'daily market indications' as petitioner stipulated, and the prices paid concurrently by petitioner itself sufficiently indicated prevailing market price in the absence of evidence to the contrary."

The opinion also contains the following most important footnote:

"The Commission points out that the National Association of Securities Dealers, Inc., an organization registered under Section 15 A of the Securities Exchange Act, of which petitioner was a member at the time of the transaction in question, has a rule limiting mark-up prices in over-counter securities to those which are fair, and calls attention to a decision of the Association's District Business Conduct Committee reported in the NASD News for October, 1943, imposing a fine of $500 and censure upon a member found to have violated rules of the Association by a practice of charging mark-ups of approximately 10% on transactions in listed and unlisted securities. * * *"

The Court approves the conclusion of the Securities and Exchange Commission that sale of securities "priced substantially" above the over-the-counter market price, without disclosure of the mark-up to the customers, constitutes fraud and deceit.

Here is a fine kettle of fish. What is the over-the-counter market price on a given security? Is it always definitely ascertainable? Assuming for the sake of argument only that it is, at what level does a security commence to be priced "substantially" above the market? Clearly, in the absence of legislation, whether by Congress, or by rules of the SEC or NASD, which means the same thing, no one can tell.

In the future, therefore, to play absolutely safe, a dealer will have to show his mark-up and profit on all confirmations to customers. In other words, to put into operation a complete price and profit disclosure rule, which the SEC has long been angling for, but which active security dealer opposition had thus far kept out of the books.

In the opinion of the writers, this drastic decision coupled with the existing NASD 5% rule, will put the dealer in the following position: In any sale in which there is a larger spread than 5%, failure to disclose to the customer the extent of the spread may be interpreted as a fraudulent and deceitful practice, subjecting the dealer to the possible loss of his license.

It is generally understood that the 5% "philosophy" of the NASD was based upon the representation that unless such a rule were adopted, the security dealers would be saddled with a disclosure rule. Now the SEC has both. All the effort, energy, and opposition, which till now, has prevented the passage of the rule by the SEC—all these have absolutely come to naught.

The small dealer cannot possibly survive on a 5% spread, particularly where he employs salesmen, because it is indisputable that the cost of doing business exceeds 5%.

Our articles in the "Financial Chronicle," and others, foresaw the doom of the small dealer if the NASD "philosophy" was enforced, and now the Court cites the action of one of the Association's District Business Conduct Committee in support of its opinion.

We wonder whether the revocation of the license of Charles Hughes & Co., Inc., was based upon its answers made to the questionnaire in the NASD survey. That survey was cited by the SEC in its brief to bolster its contentions.

We deem it unfortunate that the Hughes case should have reached the Circuit Court of Appeals. A discussion of the numerous reasons upon which our judgment is based would be too lengthy for one publication, but here are some of them.

During the early hearings before the SEC, the dealer was not represented by counsel. Later one of the attorneys representing the dealer, declared he was unprepared to proceed, but the Commission nevertheless forced him on. We believe it was a serious mistake to permit, without objection, the admission into evidence of the National Quotation sheets as proof of market price. As we demonstrated in the case of Hallgarten & Lee, sales, and not quotations, are the true index of the market. In that case, the Court held that the National Quotation sheets proved neither market price between dealers, nor market price to the investing public.

The Hughes hearing before the Commission was conducted as if the delivery of the securities sold was of paramount importance, when in fact, that question was never at issue.

The entire trial record before the Commission was a very poor one from the dealer's standpoint. The Circuit Court of Appeals based its decision upon that record.

Any Court's opinion can be representative if based upon a record which truly indicates the actual customs and practices in the security sales field; but representative or not, the decision in the Hughes case is now a precedent. Armed with it, and with the NASD "5% spread rule," as two clubs, the Securities and Exchange Commission will make security dealers who have hitherto complained of bureaucracy, realize what firm oppression can really be.

We believe the Hughes case has given the SEC its most sweeping and complete victory, a hammerlock on the security business, which will throw many an average security dealer for a fall from which there will be no rising.

Saying we told you so, is of no help. In this emergent condition, the inaction resulting from a reign of fear which has gripped over-the-counter dealers, may also result in their disintegration.

Is there hope? Yes! Provided the industry is vigilant and sees to it that in all pertinent cases before the Securities and Exchange Commission and Business Conduct Committees of the NASD the proper ground work is laid to establish the true custom and usage in the securities field which would make it clear that each transaction stands or falls on its own merits.

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

Hughes Decision Stuns Dealers

(Continued from page 2415)

have stopped in the past, and must stop now, in marking up securities so as not to be subject to criminal prosecution, revocation of his dealer-broker license and rescision of contracts.

If the NASD's destructive, illegally adopted 5% profit limitation rule is OBSERVED the answer is a 5% mark-up, it seems to us. FORTUNATELY, most dealers are ignoring the 5% decree and the same thing may be said to the credit of some of the Business Conduct Committees of the Association.

As previously stated if this 5% rule is permitted to stand it will mean the ruination of the small dealer in all parts of the country and it is the duty of the Board of Governors to rescind it in view of the autocratic manner in which it was foisted on the Association's membership. We would go further than this and say **there should be no more attempts made to put a ceiling of any kind on the profits of dealers.** It is just impossible to lay down a blanket rule that would apply to mark-up practices generally. Each transaction must stand on its own feet and anyone that argues otherwise in our opinion is rendering a distinct disservice to the investment industry and our whole system of free enterprise. To argue that a direct or indirect ceiling should be placed on profits, on a sliding scale, or otherwise, to stave off the imposition of a worse rule by the SEC is like settling for socialism instead of communism and we should utterly avoid anything of the sort as we would a plague. And, don't be fooled by talk to the effect that entirely too much stress is laid on the "5%" phase of the rule because a dealer can take a position in a security and if it moves up adequately he can make 50 or 100% profit on a resale. Certainly he can. But those are not profits that he makes as a dealer. Those are profits that accrue to him just as would be the case with any other investor for he is in such instances in a category with an investor.

Back in 1940 when the SEC gestapo first became active it began scrutinizing dealer transactions that involved markups of more than 15%. Then in 1941 they began taking exception to mark-ups of more than 10% and now they seem content to see this reduced to 5%. And while we are on the subject we would like to ask how the members of the NASD's Business Conduct Committee that sat in on that 10% markup case arrived at the conclusion that such a mark-up was not consonant with the practices of the trade—that it was exorbitant? Did they put in years of study on the subject or did they just swallow that sort of talk from the guiding genius of the NASD—Wallace H. Fulton—who seems to do everything but sleep with the SEC?

Yes, the obvious need of the whole investment industry is for a national protective association to fight the battles of dealers and brokers, to restore their financial health. Certainly the way to such recuperation is not for the big dealers to indulge in cannibalistic tactics by devouring the little dealer. The thing to do is to see that the rights of all are restored and if this is not done you may be sure the SEC will put one firm after another out of business until none is left.

Organized effort to have the 5% rule upset will shortly be apparent. As previously stated, IT MUST NOT AND WILL NOT stand. Individual dealers and dealer associations all over the country should make their voices heard in a resounding manner toward this end and they will wake up some fine morning in the not distant future to find there is no longer such a rule. If necessary, the Chronicle feels certain, dealers will have no difficulty in enlisting the aid of Congress in their behalf. Congress, as a whole, you may be sure, will not be indifferent to the plight of the smaller dealers throughout the country, even if the SEC is.

Those interested in the subject will want to read "Strike Three!" by Messrs. A. M. Metz and E. A. Kole which starts on page 2415 of this issue.

All letters on this subject which have been received and could be accommodated in this issue are given, starting on page 2415. No letter favorable to the 5% decree has been omitted. And don't forget that in informing the Chronicle of your views on the subject you are helping the cause in a substantial manner. 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.

Supreme Court Refuses To Hear Plea On Fla. Tax On Debit Balance

According to a special Washington dispatch Dec. 13 to the New York "World-Telegram" the U. S. Supreme Court on that day refused to review a Florida Supreme Court decision upholding taxation by the State of so-called debit balances in a Florida branch of the New York brokerage firm of Thomson & McKinnon. The action in effect sustains the State court ruling, said the advices, which added:

"The case arose from a suit brought by Thomson & Mc-Kinnon against the tax assessor and collector for Dade County, Miami, seeking to stop imposition of the Florida intangible property tax. The firm contended that the domiciliary ownership of the Miami office debit balances was in New York.

"But the Florida court held that since customers reside in Florida, the original payments were made to them in Florida and interest and brokers commissions are paid in that State, the balances are subject to the State levy. The U. S. Supreme Court dismissed an appeal for lack of Federal jurisdiction."

Los Angeles Investment Statisticians Elect

LOS ANGELES, CALIF.—Members of the Investment Statisticians' Association of Los Angeles held their annual dinner meeting yesterday at the Los Angeles Athletic Club and elected the following new officers for the coming year:

President, Roger Pile, Wyeth & Co.; Treasurer, Mrs. Mae E Leake, Hill, Richards & Co.; Secretary, Walter Weeks, O'Melveny, Wagenseller & Durst.

Retiring officers who served during 1943 are: K. D. Sanson, of Bateman, Eichler & Co., President; L. W. Taylor, of Mitchum, Tully & Co., Treasurer, and J. R. Laznick, of Crowell, Weedon & Co., Secretary.

By custom, the retiring President serves on the Board of Governors in the coming year, as do the newly elected officers. Other members of the Board of Governors are L. W. Taylor, of Mitchum, Tully & Co.; J. R. Laznick, of Crowell, Weedon & Co., and K. Arnold Liljegren, of Pacific Co.

G. Hermann Kinnicut Dead

G. Hermann Kinnicutt, a senior partner in Kidder, Peabody & Co., New York City, died at his home of a heart ailment at the age of 66.

Mr. Kinnicutt began his career in Wall Street with J. P. Morgan & Co., with which he was associated for six years. In 1904 he organized his own investment banking firm under the name of Kinnicutt & Potter, succeeded in 1906 by Kissell, Kinnicutt & Co. The firm continued under that name until 1931 when it was merged with Kidder, Peabody & Co., of which Mr. Kinnicutt became a partner.

New Brazil Plan

Zippin & Company, Inc., 208 South La Salle Street, Chicago, Ill., have prepared copies of the new Brazil Plan. These may be obtained upon request from Zippin & Company, Inc.

Tomorrow's Markets Walter Whyte Says—

Continued from page 2418)

any advance. But between 136 and 137 I think the market will run into enough offerings to stop the forward surge. From that level a period of dullness can be expected. Once that is seen the next cycle calls for another decline. On this decline I believe stocks should be bought.

* * *

This picture is obviously not one that can be laid down and followed line for line. That would be too much to expect of anything as volatile as the market. But the pattern is there, and from what I can see of current market action, I believe it will hold for the next few weeks.

* * *

Two days after I wrote last week's column advising a list of stocks, they started up and added anywhere from one to three points to the prices I had in mind as buying levels. Obviously, the stocks were not available, with the exception of Western Union "A" which was to be bought between 42½ and 43½; at this writing 43. If in the near future the other stocks get down to last week's buying points the advice to take positions continues in effect.

* * *

The stocks and prices are as follows: American Car & Foundry, buy 28½-29½, stop at 27. American Steel Founders, buy between 21½ and 22½ and stop at 20. Dome Mines, buy at 20½-21½, stop at 19. U. S. Steel, buy at 49¾ to 50¼, stop at 47. The last one in the list is Youngstown Sheet, 34½ to 35½ with a stop at 33.

* * *

So far as I can see now, the above list will hold good for the next few weeks. But I cannot foresee national or international developments which may affect the entire price action. But until advice to the contrary appears here, the stocks and the prices that are recommended hold good.

* * *

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.]

IBA Announces 37 New Members Of Ass'n

The Investment Bankers Association of America announced on Dec. 2 the election of 37 new members. They include:

Bankers Trust Co. of Detroit, Bonner & Gregory, New York, Caldwell Phillips Co., St. Paul, Central Hanover Bank and Trust Co., New York, Central-Penn National Bank of Philadelphia, The Citizens & Southern National Bank, Atlanta, Commonwealth Bank, Detroit, Corn Exchange National Bank and Trust Co., Philadelphia, Dempsey-Tegeler & Co., St. Louis, Detroit Trust Co., Detroit, A. G. Edwards & Sons, St. Louis, Allen C. Ewing & Co., Wilmington, N. C., Fidelity-Philadelphia Trust Co., Philadelphia, The First National Bank of Atlanta, The First National Bank of Philadelphia, Hettleman & Co., New York, Hibernia National Bank in New Orleans, Holsapple & Co., New York, E. R. Jones & Co., Baltimore, Land Title Bank and Trust Co., Philadelphia, Mabon & Co., New York, Mercier, McDowell & Dolphyn, Detroit, Mullaney, Ross & Co., Chicago, National Bank of Detroit.

The Pennsylvania Co. for Insurance on Lives and Granting Annuities, Philadelphia, Quigley & Company, Inc., Cleveland, Irving J. Rice & Co., St. Paul, Wm. C. Roney & Co., Detroit, Saunders, Stiver & Co., Cleveland, Siler, Roose & Co., Toledo, Taylor, Deale & Co., New York, Tradesmen's National Bank and Trust Co., Philadelphia, Union Bank & Trust Co. of Los Angeles, C. E. Unterberg & Co., New York, Varnedoe, Chisholm and Co., Inc., Savannah, J. A. White & Co., Cincinnati, Arthur Wiesenberger & Co., New York.

N. Y. Stock Exchange Weekly Firm Changes

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

The Exchange membership of Albert E. Fagan was transferred to Anton W. Herbeck on Dec. 2.

Transfer of the Exchange membership of George A. Whiteside to A. Rhett du Pont will be considered by the Exchange on Dec. 13th.

Isabelle G. Kaufmann and Abraham Ungerleider, both limited partners, retired from Fagan & Co., New York City, on Nov. 30th.

William H. Guthy, member of the Exchange, withdrew from partnership in Lamm, Guthy & Co., New York City, on Nov. 30th.

Restoration Of American Freedom Pattern For World Liberty: Bricker

(Continued from page 2438)

The United States must help in every possible way to restore order and decent living throughout the world. We must do our full share in maintaining adequate instrumentalities of peace. And for these purposes, the United States will take her place in a cooperative organization among sovereign nations after this war.

Our desires for peace must be implemented by a practical and definite program. The details will be worked out in the light of developing conditions and after full conference and open discussion. Our peace must ultimately rest upon the understanding and approval of the people of the United States. The preservation of peace is a constant and continuing obligation.

We want no super-government—no dictatorial State, to which we are subservient. We want no central world authority over us. Nor, do I believe, does any other sovereign nation want a central world authority over it.

An international cooperative organization, whatever precise form it may take, can wield a tremendous influence toward peaceful solution of the international problems which have led to war. These problems include trade barriers of all kinds, access to raw materials, exploitation of undeveloped resources, commercial rivalries, air and water rights, especially monetary stability. Such an international organization must be founded on continuous close-working collaboration.

This would be a long step and it is realistic. It respects the American point of view. And it has a background of experience that shows its worth. With such a forum established, international disputes can and must be settled by arbitration and judicial decisions. When such habits of peace are formed and supported by the strong nations, we can again hope for relief from the burdens of war.

We must move forward with the confidence that the American people will work in full cooperation with the nations of the world in the days of peace. Only in that hope and confidence can we plan or establish a just order of international relationships. A confidence in the people and their leaders in the years ahead as well as in ourselves requires that we do not attempt to place this or any other nation in an international strait-jacket. A will for peace must be transmitted by us to those who follow.

II

But we know that it is the domestic policy we live by here at home which in the long run will largely determine the part this nation will play in world affairs. We cannot carry out our promises or fulfill our ideals unless America is strong. We can give only when we have something to give. We can inspire others to achieve liberty only when we keep it here. We cannot lift the standards of living of other peoples of the world unless we keep our own standards high.

During the past ten years, our Federal Government has been launched upon a course leading to the destruction of our form of government and to the loss of our freedom. I realize that total war necessitates mushroom growth of wasteful bureaucracy and temporary regimentation of the people. It is one of the cynical consequences of war that our democracy is compelled to adopt some of the despotic measures of our enemies in order to defeat them. But it is high time that we awaken to the fact that the war is being used as an excuse to further many dangerous pre-war policies. We have been living for a decade under a growing absolutism. Unless these policies are reversed by the American people, they will unmistakably lead this nation to national socialism.

The Declaration of Independence proclaimed that government must derive its powers from the consent of the governed. Consider what this means. It means that government exists for the protection and benefit of the individual—not that the individual is one of the herd which exists for the benefit of the government. Ours has been a government supported by the people. As long as it remains such, the people will be supreme. Should it become a government which supports the people, then the government and not the people will be supreme and we shall no longer have a government which derives its powers from the consent of the governed.

You will remember that one of the indictments in the Declaration of Independence charged the King in these words: "He has erected a multitude of New Officers and sent hither swarms of Officers to harass our People, and eat out their substance." The men who built the framework of our government, did not propose to set up a representative system framed upon the old patterns. And so they set up a government with powers both divided and balanced. They deliberately framed a system in which government could respond to the forces of public opinion. They separated the legislative, executive and judicial functions of government. And what is even more important, they provided that all powers not specifically granted to the Federal Government should be reserved to the States or to the people. Through their wisdom, they brought into being a larger measure of freedom than any people had ever experienced.

Never until this decade has there been a lowering horizon here. Our eyes have been on ever higher goals. The pattern of absolutism has been foreign to our political philosophy. But during these past ten years, the executive has sought to relegate Congress to a subservient place. An attack was made on the Supreme Court. Then followed a deliberate program of tearing down State and local government. A planned economy by which the people of the country were to be made dependent on Washington was put into operation. We are thankful today that Congress is again taking its proper place in government, supported by an aroused public opinion.

For over ten years we have been governed largely by independent bureaucrats. They are not accountable to the people. They are not directly accountable to Congress. They exercise their power through decrees, orders and directives that are issued in the name of the executive branch of government. They make governmental policy. They administer that policy They exercise the judicial function of interpreting that policy. They are legislature, administrator, prosecutor, judge, jury and sheriff all rolled up in one. They are the personnel of the expanding power of government. This means the rule of men even by whim or caprice rather than by law. All this is not necessary to win the war, it is a method for limiting the liberties of free men. These bureaucrats, in the words of the Declaration of Independence, are "Taking away our Charters, abolishing our most valuable Laws, and altering fundamentally the Forms of our Government."

According to recent figures issued by the United States Civil Service Commission, the number of civil employees of the Federal Government multiplied more than five times between 1933 and the first of this year. In June of 1933 there were 572,000 employees. By the end of November, 1941, one week before Pearl Harbor, there were 1,500,000 of them. By January of this year, this number had increased to almost 3,000,000. At the present time, according to latest estimates, the figure is 3,500,000.

All of these figures are exclusive of persons in the military service and relate to civilian employees only. In Ohio alone, we have today 100,000 Federal civilian employees as against 22,000 State employees. I venture the observation that our forefathers would have considered their phrase "swarms of Officers to harass our people, and eat out their substance" a gross understatement in the light of these facts.

But this does not tell the whole story. Shortly before it expired, a few months ago, the National Resources Planning Board predicted: "Congress will surrender to the Executive the power to tax, and while appropriating huge sums of money, will surrender its power of directing how it shall be spent."

Thank God that a Senatorial committee recognized the potential tyranny in such a sweeping grant of power. It replied that this proposal "would require a virtual abandonment of our present constitutional form of government."

So much for Executive usurpation of the legislative process. Consider for a moment the concentration of power in the Federal Government and the relegation of the States to a minor role. If there has been a dangerous accumulation of authority in the hands of the President to the prejudice of Congress, it is precisely because of the shifting of power from the States to the Federal Government.

A pertinent statement of the evil of centralization of power in the Federal Government is contained in this quotation:

> There is "a present dangerous tendency to forget a fundamental of American democracy, which rests on the right of a locality to manage its own local affairs, the tendency to encourage concentration of power at the top of a governmental structure, alien to our system and more closely akin to a dictatorship. . . . Let us not at this time pursue the easy road of centralization of authority, lest some day we discover too late that our liberties have disappeared."

Those words were not uttered by one of the founding fathers. They were uttered by the present Chief Executive of the United States when he was Governor of the State of New York.

You know what has happened. Step by step, and with relentless determination, the New Deal has sought to arrogate unto itself all power. Sometimes the method has been arrogant and brazen. More often it has been cunning and subtle.

All of this has resulted in a loss of confidence by the people in the executive branch of government which has so long dominated them. And now with many in authority talking about rationing far beyond the war, about permanent controls and restrictions, there is a growing loss of confidence in the ability of this leadership to solve the problems of reconstruction and bring about the full return of American liberty.

A loss of confidence inevitably comes from promises made and not kept. The American people have a right to look upon campaign promises and platforms as solemn covenants to be faithfully performed. We are awakened when the tentacles of bureaucracy tighten around our daily lives. That awakening is here today.

If America is to remain a dominant force for good in the world, if our people are to continue to enjoy self-government, policy-making power must be taken from the hands of bureaucrats and returned to the elected representatives of the people.

The war power of our Government must be adequate. But the growth of Federal power should be restricted to necessity. It must be honestly and efficiently administered. It must never be used to engraft an un-American philosophy of socialism or absolutism on our people. These powers are only loaned for the war period and must be dissolved as soon as the war is won and liberty restored.

Great impetus would be given to the war effort by ending now the administrative chaos, confusion, extravagance, incompetence and bureaucratic oppression at home. It is irony enough that those who are now fighting for us will come home to a national debt under which they will labor throughout their lives. We should not add to it by wanton waste. In an awakened new faith the people everywhere should demand that initiative be encouraged; that business, including small business, be strengthened; and that State and local governments be restored to their proper place of power. Open our courts to all who have been deprived of their rights by orders and directives and where redress is now denied or discouraged. We want the shackles of bureaucracy removed and the creative genius of our people set free.

And creative genius must be set free! Our depleted resources must be replaced. We can make the products and materials that other people want. We have proved our power to build machines—to expand beyond the comprehension of defeatists—and to build as no people on earth the things that will raise the standards of living here and in the other nations. This does not mean the loss of any social gain but it would prevent perpetuating the causes of poverty and distress.

Tomorrow can mean greater international trade than ever before. That trade will be in new fields and in new things. It will enlarge the commerce of other nations. It will lift the standards of others without tearing ours down. But these new horizons cannot be reached unless the creative genius of our people is released and encouraged. That genius will not be released and investment will not be encouraged unless government refrains from regimentation and from taking too much of the income of the people for the ordinary functions of government. We can now only estimate what our national income should be in the years ahead. But it must be at a higher level than prevailed in 1940; and it must be based upon an expanded agricultural and industrial economy in our country which has already gone beyond the dreams of those who have planned for America.

The American wants to work. He doesn't mind hard work. He never has courted ease and he doesn't today. Tomorrow cannot be built upon a life of ease and scarcity. It must be built upon work and abundance. The returning soldier wants security through opportunity. The thrill of his life will come from working—from accomplishment. He wants life to be worth living. He wants a hand in building the great industrial machines of tomorrow—in creating a better community and nation—and he wants a life of peace for himself and his children.

III

And this leads me to my final thought. Our moral and spiritual standards must be strengthened. Corruption in public office, greed for money and power in time of danger, disregard of life and human welfare, breach of public and private trust are evidences of moral and spiritual degeneration.

The strength of America rests upon reverence and consecration in every day human relationships and the practice of the human virtues of truth, love, kindness and abiding faith.

America will in the years ahead reflect the personal lives of our people, the strength of our homes, the spirit of our churches, the patriotism and work of our schools. In recent years terrifying rifts have been created among the various groups and classes within our nation. The rift between management and labor, between various groups in our economic and social life, between races and religious faiths, has weakened America. Tomorrow these grievances must be healed and a roadway of Good Will built among all our people. Then truly will the dream of America come to pass and the hope of the founding fathers be realized. More boys and girls and men and women than ever before in our history are offering their lives that this dream may become real. When millions have faith enough in an ideal to die for it, the rest of us must have faith enough to consecrate our lives and our services for it.

"Today's Investment Problems—A Solution"

Arthur Wiesenberger & Co., 61 Broadway, New York City, members of the New York Stock Exchange, specialists in investment company securities, have issued a pamphlet, "Today's Investment Problems—A Solution," based on a study of 40 leading organizations with current assets of more than $600,000,000. As a hedge against inflation, the pamphlet points out, a $10,000 investment in some of these stocks can offer as great an opportunity for appreciation as would $100,000 placed in standard high-grade common stocks.

Six special reasons are advanced for the purchase of investment company stocks, these being in addition to the factor of a hedge against inflation, the element of protection based on expert selection of investments; yields of as much as 5½ to 6½% on preferred stocks; discounts of 20 to 35% from current liquidating values; dividends on some stocks not taxable as current income, and their availability as tax sale replacements for doubtful securities.

"Records are available," the pamphlet states, "showing that most investment companies do as well as the market averages and many do better."

Copies of this interesting pamphlet may be obtained from Arthur Wiesenberger & Co.

"Let The Dealer Beware!"

In the book "Let the Dealer Beware!" reference is made to the various court decisions and Commission rulings that would have a bearing on the conduct of those in the securities business. Keane's Publications, 32 Broadway, New York 4, N. Y., are offering this book, together with a practical interpretation of a decision just handed down by the Circuit Court of Appeals in the case of a dealer who was attempting to have the SEC's revocation of his dealer-broker license set aside, may be had in combination for the special price of three dollars. Each publication separately is two dollars per copy. Copies may be obtained from the publisher.

E. Perkins To Admit

ROCHESTER, N. Y.—Erickson Perkins & Co., Powers Building, members of the New York Stock Exchange, will admit Milton W. Holm to partnership in their firm on Jan. 1, 1944.

Calendar Of New Security Flotations

OFFERINGS

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.)

Clearing Machine Corp. filed an amendment on Dec. 6 restating the number of shares of common stock to be sold at 19,000. Initial offering price is given at $11.25 per share. Underwriters are Bacon, Whipple & Co., Chicago, 11,000 shares; Farwell, Chapman & Co., Chicago, 5,000, and Newhard, Cook & Co., St. Louis, 3,000. The shares registered are issued and outstanding and are being sold by certain stockholders. In the amendment the number of shares being sold by John I. Shaw, nominee, for Clark Street Association, is given as 597 in place of the 1,597 shares named in original statement.

Offering—19,000 shares (par $1) offered Dec. 14, 1943 at $11.25 per share by Bacon, Whipple & Co., Farwell, Chapman & Co. and Newhard Cook & Co.

P. R. MALLORY & CO., INC.

P. R. Mallory & Co., Inc., has filed a registration statement for 60,000 shares of 4¼% cumulative convertible stock, par $25 per share, and 60,000 shares of common, without par value, latter reserved for the conversion of the preferred stock.

Address—3029 East Washington Street, Indianapolis, and 6 East 45th Street, New York City.

Business—Business consists of the manufacture and sale of specialized metallurgical, electrical and electronic products, for a wide range of applications in the aeronautical, automotive, electrical, radio, communication, transportation and general industrial fields.

Underwriting—Lee Higginson Corporation.

Offering—Price to public plus accrued dividends from Oct. 1, 1943, will be filed by amendment.

Proceeds—Will be added to the general funds of the company. Company is obtaining these additional funds with a view to using them in connection with conversion from wartime to peacetime operations and the re-establishment and expansion of its peacetime business.

Registration Statement No. 2-5261. Form A-2. (11-29-43.)

P. R. Mallory & Co., Inc., has filed an amendment to its registration statement with the Securities and Exchange Commission in which it gives the public offering price on the 60,000 shares of 4¼% cumulative convertible preferred stock at par ($25 per share), less underwriting discount or commissions of $1.25, netting company $23.75 a share or a total of $1,425,000. Offering price to public is plus accrued dividends from Oct. 1, 1943. Lee Higginson Corp. is principal underwriter. Net proceeds will be added to the general funds of the company. Company also registered 60,000 shares of common stock, without par value, to be reserved for issuance solely upon conversion of the preferred shares.

Offered Dec. 15, 1943, at $25 per share and div. by Lee Higginson Corp.

UTAH POWER & LIGHT CO.

Utah Power & Light Co. has filed a registration statement for $37,000,000 first mortgage bonds, Series due 1973. Interest rate will be supplied by amendment.

Address — Kearns Building, Salt Lake City, Utah.

Business—Is a public utility operating in southeastern Idaho, northern and central Utah and southwestern Wyoming.

Underwriting—The bonds will be offered for sale by the company pursuant to the competitive bidding rule of the Commission. Names of underwriters will be supplied by amendment.

Offering—Offering price to the public will be supplied by amendment.

Proceeds—Net proceeds, together with $3,500,000 to be received from Northwestern Mutual Life Insurance Co. from issue and sale of $3,500,000 face amount of general mortgage serial bonds of Utah, due serially 1949-1953; $3,500,000 to be received from issue and sale to certain banks of $3,500,000 face amount of serial notes, and such amount, if any, of general funds of the company, will be used for the following purposes:

To pay principal and interest to maturity, as the case may be, on Utah company's 30-year first mortgage 5% gold bonds due 1944, of which $28,119,000 face amount were outstanding at March 31, 1943.

To pay Utah Company's first lien and general mortgage gold bonds, Series of "4½s of 1944", of which $4,068,000 face amount were outstanding at March 31, 1943.

To pay Utah Light & Traction Co.'s 30-year first and refunding mortgage gold bonds, Series A, 5%, of which $11,813,000 face amount were outstanding at March 31, 1943, these bonds having been guaranteed as to principal and interest by the Utah Company.

Registration Statement No. 2-5173. Form A-2. (6-30-43).

Issue Approved—The SEC on July 27, 1943 granted company permission to offer for sale by competitive bidding $45,000,000 1st mtge. bonds, series C. Interest is not to exceed 3¼%.

On Nov. 10, company filed an amendment to its registration statement in which it changed the proposed issue and sale of securities to cover $42,000,000 first mortgage 25-year bonds to be dated Dec. 1, 1943. The bonds are to be sold at competitive bidding under Rule U-50 of the Commission to yield the company at least $41,500,000. The interest rate will be named by the successful bidder. The proceeds will be used for refunding, with any balance necessary being supplied from current treasury funds.

Registration statement effective 5.30 p.m., EWT, on Nov. 29, 1943.

Bonds Awarded—The issue was awarded on Dec. 8 on a bid of 99.17.

Offered—The First Boston Corp. and associates offered the bonds Dec. 10 at 100.625 and int.

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.

SATURDAY, DEC. 18

STOKELY BROTHERS & CO., INC.

Stokely Brothers & Co., Inc., has filed a registration statement for $4,000,000 15-year 3½% sinking fund debentures, due Dec. 1, 1958.

Address—941 North Meridian Street, Indianapolis, Ind.

Business—Engaged principally in the purchase, processing, packing and dehydrating and sale of an extensive line of vegetables and fruits.

Underwriting—Blyth & Co., Inc., and Reynolds & Co. are named principal underwriters. Others will be named by amendment.

Offering Price to the public will be supplied by amendment.

Proceeds—Will be used to retire, at 100½% of the face amount, all of the 2¾% promissory notes of the company in the principal amount of $2,000,000; retire 3% promissory notes aggregating $800,000 and to provide additional working capital.

Registration Statement No. 2-5262. Form S-1. (11-29-43.)

MONDAY, DEC. 20

20 CEDAR STREET, INC.

Lucius Teter, John R. Fugard and Frank M. Mackey, trustees, have filed a registration statement for voting trust certificates for 14,519 common shares, par $1, of 20 Cedar Street, Inc.

Address—Of issuer, 135 South La Salle Street, Chicago.

Business—Apartment house.

Underwriting—None named.

Offering—As soon as practicable after registration statement becomes effective.

Purpose—To extend present trust agreement which expires July 19, 1944, for a period of 10 years to July 19, 1954.

Registration Statement No. 2-5263. Form F-1. (12-1-43.)

MAJESTIC RADIO & TELEVISION CORPORATION

Majestic Radio & Television Corporation has filed a registration statement for 70,925 shares of common stock, one cent par value. The shares of stock to be offered are already issued and outstanding.

Address—2600 West 50th Street, Chicago.

Business—Production and sale of radio receiving sets. Present production consists of radio and electronic equipment, manufactured for the Army and Navy.

Underwriting—Jenks, Kirkland & Co., Phila., is named underwriter.

Offering—Price to the public is $3.75 a share, and net proceeds to the selling stockholders $3.125 per share. Names of selling stockholders and amounts to be sold by them are: Edward F. Barile, 500; Mrs. Cora Casagrande, 5,000; Dudley E. Foster, 1,000; Mrs. Margaret Foster, 980; Mrs. Florence Freese, 1,000; Joseph J. Neri, 500; Mrs. Marie L. Tracey, 56,945, and Mrs. Janet M. Van Meter, 5,000.

Proceeds—All will be received by the selling stockholders.

Registration Statement No. 2-5264. Form S-1. (12-1-43.)

TUESDAY, DEC. 21

GRAHAM-NEWMAN CORPORATION

Graham-Newman Corporation has filed a registration statement for 8,040 shares of capital stock, minimum stated value of $50 per share.

Address—52 Wall Street, New York.

Business—Investment company.

Underwriting—Graham-Newman Corporation is named sponsor.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5265. Form S-5. (12-2-43.)

SUNDAY, DEC. 26

TIMES-PICAYUNE PUBLISHING CO.

Eleven trustees have filed a registration statement with the Commission for voting trust certificates for 28,000 shares of the capital stock of the Times-Picayune Publishing Co., par value $100 per share.

Address—Of corporation, 615 North Street, New Orleans, La.

Business—Newspaper publisher.

Underwriting—None named.

Offering—Date of proposed offering of voting trust certificates is Dec. 27, 1943.

Purpose—To establish a voting trust agreement to be dated Dec. 27, 1943, and run to Dec. 26, 1953, with the right to extend agreement for an additional 10 years by a majority vote of the total number of shares deposited under the voting trust agreement.

Registration Statement No. 2-5266. Form F-1. (12-7-43.)

MONDAY, DEC. 27

STANDARD OIL CO. OF OHIO

Standard Oil Co. of Ohio has filed a registration statement for 101,389 shares of cumulative convertible preferred stock, $100 par value, and an indeterminate number of shares of common stock, par $25 per share. The dividend rate on the preferred stock will be supplied by amendment. The shares of common stock are to meet the conversion privilege of the preferred stock and will not be offered separately. The conversion rates will be filed by amendment.

Address—Midland Building, Cleveland, Ohio.

Business—Direct activities are principally the refining and marketing of crude petroleum and products derived therefrom.

Underwriting—F. S. Moseley & Co., Boston, is named principal underwriter. Others will be named by amendment.

Offering—Rights to purchase the new preferred stock will be issued to common stockholders of a record date to be named later at the rate of one share of preferred for each 8 shares of common stock, at a price to be fixed by amendment. The unsubscribed stock will be purchased by the underwriters and offered to the public at a price to be filed by amendment. Stockholders of the company are to meet on Dec. 22, 1943, to approve the new issue of $10,138,900 of cumulative convertible preferred stock and 488,888 additional shares of common stock, a portion of which are to be reserved for conversion of the preferred. Any shares not so reserved would be available for issuance for oil producing properties and for other corporate purposes.

Proceeds—Net proceeds from sale of the cumulative convertible preferred stock will be added to the general funds of the company to be available for working capital, capital expenditures and general corporate purposes.

Registration Statement No. 2-5267. Form A-2. (12-8-43.)

TUESDAY, DEC. 28

UNITED AIR LINES, INC.

United Air Lines, Inc., filed a registration statement for 105,032 shares of 4½% cumulative preferred stock, $100 par value —convertible prior to 1954.

Address—5959 South Cicero Avenue, Chicago.

Business—Air transport system.

Underwriting—Harriman Ripley & Co., Inc. is named principal underwriter. Others will be named by amendment.

Offering—The 105,032 shares of 4½% preferred are to be offered by the corporation to the holders of its common stock, for subscription at $100 a share, pro rata, at the rate of seven shares of preferred for each 100 shares of common held of record at the close of business Dec. 29, 1943. The subscription warrants will expire at 3 p.m. on Jan. 10, 1944. Underwriters will purchase unsubscribed shares and offer them to public at price to be named by amendment. Stockholders on Dec. 22, 1943, are to vote on amendments to authorize 200,000 shares of cumulative preferred stock, $100 par, issuable in series, and 100,000 shares of management stock, $10 par value. Also to authorize shares of capital stock of the corporation to be changed into shares of common stock, $10 par value, and that authorized number thereof be increased to 2,500,000 shares—against present authorized issue of 2,000,000 shares of capital stock, $5 par—and 2,817 shares of authorized but unissued common continue to be reserved for sale to officers and employes.

Proceeds—To be used for general corporate purposes.

Registration Statement No. 2-5269. Form S-1. (12-9-43).

WEDNESDAY, DEC. 29

ASSOCIATED FUND, INC.

Associated Fund, Inc., has filed a registration statement for 5,000 full paid certificate units of $100 each; 1,000 installment payment certificates of $100 each, with insurance, and 4,000 installment payment certificate units of $100, without insurance.

Address—506 Olive Street, St. Louis, Mo.

Business—Investment trust.

Underwriting—Associated Fund, Inc., is named sponsor.

Offering—Date of proposed offering Dec. 7, 1943. Offering price 100.

Proceeds—For investment.

Registration Statement No. 2-5270. Form C-1. (12-10-43).

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.

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.

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).

Amendment to defer effective date filed Nov. 29, 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 serior 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 serior 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).

Registration statement effective 4.30 p.m., EWT, on Dec. 6, 1943.

Bids Rejected—Proposals for the purchase of 195,000 shares of common stock (no par) were received by the company at Room No. 168 Parker House, Boston, Mass., up to 11 a.m., EWT, Dec. 13. There was only one bid received from a banking group headed by Harriman, Ripley & Co. and The First Boston Corp., which was rejected.

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.)

Amendment filed Dec. 9, 1943, to defer effective date.

EQUIPMENT FINANCE CORPORATION

Equipment Finance Corporation has registered 4,400 shares, 4% non-cumulative Series 1 preferred, par value $100 per share, and 46,000 shares of common stock, par value $10 per share.

[The company's assets and liabilities were acquired by Equipment Finance Corp. of Del. and name changed on Aug. 15, 1943, to Equipment Leases, Inc.]

Address—Chicago, Ill.

Business—Principal business of the company in its relation with the Curtiss Candy Co., parent company, consists in the leasing of trucks to Curtiss Candy Co. The company also leases its horses and wagons to Curtiss used in connection with the distribution and sale of Curtiss Candy Company's products.

Underwriting—No underwriters named.

Offering—The offering price of the preferred stock is $100 per share and of the common stock $10 per share. The company anticipates that all of the preferred stock and common stock offered in the prospectus will be sold to employes and officers of the company, and employes and officers of the Curtiss Candy Co. and its subsidiaries.

Proceeds—The company proposes to use the net proceeds from the sales of stock for the purpose of financing the acquisition of factory and warehouse buildings which may be acquired by the Curtiss Candy Co. and its subsidiaries to the extent of $200,000, and the balance will be used to acquire, when available, of approximately 500 trucks to be used in the operation of the Curtiss Candy Company's franchise method of distribution.

Registration Statement No. 2-5233. Form S-1. (10-15-43).

Registration statement effective 3.30 p.m., EWT, on Nov. 29, 1943, as of 5.30 p.m., EWT, on Nov. 25, 1943.

(This list is incomplete this week)

"Our Reporter On Governments"

By S. F. PORTER

The 2s of 1953/51 have been gaining strength steadily in the last few weeks. . . . At this writing, the bid is 100 6/32 against an offer of 100 8/32. . . . Indicating a close trading situation and generally a more healthy situation. . . . Interest in the market is concentrated in this bond, however. . . . Other loans on the list have been doing little, sliding a bit, rising a bit from day to day. . . . And as predicted here in the last month, chances are the market will continue comparatively lifeless until the January reinvestment demand and the official support preparatory to the fourth war loan enter the picture. . . .

What's significant, though, is that the 2s are "coming into their own." . . . The weak holders have been well cleaned out. . . . The dealers still own plenty of the 2s and will remain large holders until well into the fourth loan, but traders outside the inner circle have been liquidating on a large scale for months. . . . And now the market is in a healthier position than in a long time. . . .

According to one dealer, the 2s are anywhere from 1/8 to 1/4 underpriced. . . . Behind the market to such an extent, believes this source, that the loan could sell at 100⅜ with other issues at exactly today's prices. . . .

This house also insists that the only worthwhile major switch in the market today is out of issues selling nearby the 2s and into this one underpriced issue. . . . For an intermediate turn. . . .

Incidentally, on the 28th day after the opening of the books on the 2s of 1955/51, that bond was selling at a premium of 22/32. . . .

Today, three months after the third war loan, the 2s of 1953/51 are selling at a premium of 6/32. . . .

There's a whole story of the market and the sluggish period through which it has been going in those two comparative quotations. . . .

DISINTEREST

It's an odd thing about the Government market—and about all securities markets, for that matter. . . . The important participants usually move "as a body." . . . When prices are cheap and action is obviously called for, investors may hold back and refuse to follow advice, regardless of coaxing. . . . When prices are high and conservative liquidation is called for, the same disinterest in action may continue until a certain, psychological moment. . . .

All this is a prelude to the statement that the market has been offering institutions and inviduals with some idle cash excellent opportunities for safe investment and good "carry" since November. . . . And to the statement that investors have been holding back despite the clear profits to be obtained by purchase of securities close to par, returning 2 or 2½% interest and supported by authorities at a "par bottom." . . .

Had an investor bought the 2s a few weeks ago, when the purchase first was suggested for the "carry" advantages in this space, he now would have a comfortable interest return behind him, a profit of a 32nd or two and a good chance for additional appreciation between now and January 15. . . .

The same reasoning applies to the 2½s. . . .

But disinterest has been the keynote of the market for some weeks and best opinion in Wall Street is that this psychology will continue until early January. . . . So there's not much hope for a strong rally. . . . Nor for any big move in either direction until the period just preceding the fourth loan. . . .

If you have some extra cash, consider purchase of the 2s for a short turn. . . . Or if you need tax-exemption, the 2¾s at the admittedly high premium of 11 points will give you your answer on a longer-term basis. . . .

Despite the poor action of the tax-exempts in the market in recent months, this observer still believes the exempts are attractive because of their ever-increasing scarcity value. . . . Their plain use in a period of record-high taxes. . . . The fact that the sellers of exempts are gradually coming to the end of their portfolios. . . . And buyers of exempts may hold the securities indefinitely. . . .

The 2¾s of 1965/60, selling at 111.15 at this writing, have been neglected in recent weeks. . . . They're down 1½ points from their 1943 high. . . .

A POSSIBLE SWITCH

Sell the 2½% bonds of 3/15/58/56, quoted at 103.9 to yield 1.31% after taxes. . . .

Buy the 2¾% bonds of 9/15/59/56, quoted at 111.8 to yield 1.47% after taxes. . . .

There's no question here on the most attractive bond. . . . By lengthening your maturity one year, you gain 11 basis points in yield, add ¼% to coupon. . . . Your cost goes up slightly, it's admitted, but the offset of higher yield and current coupon may be considered sufficient to overcome that one disadvantage. . . .

Again, speaking of switches, the big one is out of intermediate bonds and into the 2s of 1953/51 or the 2s of 1955/51. . . .

Don't forget, there'll be no more 2s in January or February. . . .

The speculators have been cleaned out considerably. . . .

The banks may not be able to buy enough 2¼s to satisfy their needs in the early months of 1944 and they'll be compelled to turn back to the open market for securities to fill out their portfolios. . . .

The obvious bond for them then, will be the 2s. . . .

INSIDE THE MARKET

One dealer with excellent connections reports the plans of the Treasury for permitting the banks to buy the 2¼s in the fourth war loan drive will give smaller institutions just a few bonds. . . . Not enough to bother about or to stimulate market activity. . . .

He forecasts many small banks will get only 25 or 50 of the 2¼s and "when they get so little on an issue, the tendency is to put the bonds away and forget them." . . .

This, he believes, will interfere with the trading possibilities of the new 2¼s and will keep the issue from enjoying the wide popularity it undoubtedly will have later. . . .

Another report around is that insurance companies will buy a large percentage of the 2¼s and will stay away from the 2½s as much as possible. . . . Angle here is that these institutions have too many 2½s, want to vary their portfolios a bit. . . . Will, therefore, sacrifice the difference in coupon in order to get a shorter maturity and a different type of bond. . . .

Feeling generally is that Secretary Morgenthau made a mistake in offering another 2½% bond. . . . Market has had plenty of these, doesn't need any additional loans with this maturity and rate. . . . This should be the last 2½% bond for some time, if Morgenthau follows the advice of experts. . . .

Much gossip in Wall Street concerning the speech that Undersecretary of the Treasury Daniel W. Bell is scheduled to make in Worcester, Massachusetts, tonight. . . . Bell rarely talks unless he has something specific to contribute to Government financing circles and to knowledge about the Treasury's program. . . . Report is Bell will emphasize long-term trend of easy money rates and will give some hint on market policy in post-war era. . . .

Peace talk still affecting all markets but is less of a factor than a fortnight ago. . . . Dealers believe worry about changing money rate structure upon peace has been overdone, insist market control will continue as strong in years following war as now. . . .

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Sees Runaway Stock Market Next Year

Ambrose R. Clark of Ambrose R. Clark Co., 71 Broadway, New York, makes the following comments regarding the future trend of the stock market:

"I estimate volume and velocity to money inflation will become evident between March 30 and Sept. 1, next year, with currency in circulation June 30, next, about $45,000,000,000. That will represent about a 60 cent dollar in terms of purchasing power. When these idle and hoarded dollars run to cover we shall see some fireworks on the upside of the markets. The SEC will be powerless for there will be no near offerings of hundreds of security items. The picture is not so good when you stop to examine it carefully. I am afraid the average person will be AN ALSO RAN if he or she does not watch out closely. With bond redemptions increasing, $300 mustering out pay, social security payments, we face so much money in circulation, its value will be in question except at a discount."

Somers & Schafer To Admit

Somers & Schafer, 50 Broadway, New York City, members of the New York Stock Exchange, will admit Helen D. Schafer and Katharine M. Schafer to limited partnership in the firm on Jan. 1, 1944.

Gamewell & Co. To Admit

Gamewell & Co., 40 Wall St., New York City, members of the New York Stock Exchange, will admit Ruth Hoffman to partnership in the firm on January 1st.

New Officers Of Nat'l Ass'n Of Mfrs.

At the second war congress of American industry, held under the auspices of the National Association of Manufacturers in New York at the Hotel Waldorf-Astoria, Dec. 8, 9 and 10, Robert M. Gaylord, President of the Ingersoll Milling Machine Co., Rockford, Ill., was elected President of the National Association of Manufacturers to succeed Frederick C. Crawford, President of Thompson Products, Inc., of Cleveland, O. Mr. Gaylord will take office on Jan. 1, 1944. Mr. Crawford, at that time, will become Chairman of the NAM Board of Directors, succeeding William P. Witherow, President of Blaw Knox Company, Pittsburgh, Pa., who becomes Chairman of the Executive Committee.

Good Post-War Outlook

Common stock of Buckeye Incubator Company is an interesting stock with good post-war outlook, according to a study of the situation issued by Taussig, Day & Company, Inc., 506 Olive St., St. Louis, Mo., members of the St. Louis Stock Exchange. Copies of this interesting circular may be had from the firm upon request.