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Congressman Buffett Says Security Business Must Act Now

The investment fraternity should act now in formulating plans and making suggestions to Congress for any needed revision of the Securities Act, in the opinion of Hon. Howard Buffett, Representative in Congress from Nebraska, whose views were contained in a letter addressed to the Editor of the "Chronicle," under date of Feb. 11. Mr. Buffett declared that he was in agreement with the article "NASD Profit Limitation Rule Would Close Capital Markets To Small Business," which appeared in these columns on Feb. 3, and expressed his willingness to aid in bringing to the attention of Congress any proposals which would facilitate the financing of small enterprise after the war. The initiative with respect to developing a program for Congressional consideration, he said, must come from those active in the securities industry, adding that "having been in the securities business for some 16 or 17 years myself, I have an intimate knowledge of its operating problems." The financing of small business, Representative Buffett said, represents one of the most important post-war problems confronting the nation.

Howard Buffett

Willkie Contends Inadequate Tax Bill Largely Administration's Fault

Regards Government's Extravagances As Viewed By Many As Affording Additional Funds For Further Profligate Spending

In a statement issued on Feb. 27, Wendell L. Willkie, commenting on President Roosevelt's veto of the tax bill, and the overriding of the veto by Congress on Feb. 25, stated that "the fact that today we have an inadequate tax bill is not primarily the fault of Congress. It is largely the fault of the present national Administration, which over the last years has so extravagantly and wantonly wasted the people's money that many Americans see the payment of additional taxes as merely providing additional funds for more profligate Government spending." Mr. Willkie went on to say:

"If it had not been for this record of extravagance, the need for additional taxes now would be both obvious and accepted by all Americans. The American people recognize that a hard war must be fought the hard way—that it must be an all-out war. They are eager to match at home, as best they can, the sacrifices being made by our fighting men who are risking and giving their lives.

"The additional income that the war has created should be taxed, and taxed heavily. For we need this additional revenue to pay for the war—to pay for as much of the war as possible while we fight. We must not mortgage

Wendell Willkie

(Continued on page 898)

Symposium On Question Of Post-War Price Fixing, Rationing

Whether the existing price control and rationing measures should be continued after the close of the war constitutes one of the more important questions uppermost in current discussions of post-war planning. In an effort to sound out a representative cross-section of public opinion in this matter the "Chronicle" recently requested various personalities in Government, business and financial circles to express their views regarding the subject. A considerable number of the opinions adduced by the symposium appeared in our issues of Feb. 17 and Feb. 24, starting on the cover page in each instance. We give now another group of comments and others will be published in subsequent issues.—Editor.

HON. FIORELLO H. LaGUARDIA
Mayor of the City of New York

I would say that from information we have at this moment, I believe it would be necessary to continue price fixing for food surely and perhaps for clothes for a period immediately following the cessation of hostilities. The demand for food, clothes and medical supplies will be greater for a period of from six to nine months following the war than it is at this moment, and

F. H. LaGuardia

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A Post-War Program For Taxation Of Corporations And Stockholders

By EUSTACE SELIGMAN*

Mr. Seligman Proposes A Four-Point Program Of Tax Revision, Comprising The Elimination Of Corporation Taxes In Excess Of 5%; The Adoption Of A New Method Of Taxing Capital Gains; The Reduction Of Individual Taxes On Large Incomes; And Special Reduction Of The Tax Rate On Income From Risky Enterprises

While the war has not yet been won, and while there is a very real danger of a weakening of the war effort through diverting too much of our attention to post-war problems, nevertheless in the domestic as well as the international field it is essential that when the war does end, we have programs ready for adoption.

The program for a post-war policy of taxation of corporations and their stockholders which will be advocated in this paper

Eustace Seligman

*A paper read before the American Philosophical Society, Independence Hall, Philadelphia, Pa., Feb. 19, 1944. All of the papers read at the Midwinter Meeting will appear in an early issue of PROCEEDINGS published by the Society. Mr. Seligman is a partner in the New York law firm of Sullivan and Cromwell.

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Hansen Says Huge Govt. Borrowing Not Necessarily Inflationary

Prof. Alvin H. Hansen, Professor of Economics at Harvard University, in an address before the Tax Institute Symposium in New York City on Feb. 7, discussed the inflationary potentialities of the public debt. After pointing out that the process of Government borrowing increases the quantity of money (currency and demand deposits) only when individuals effect their purchases of the bonds by borrowing from the banks or when the banks buy the bonds directly he notes "a rise in the volume of deposits need not, however, affect the cost of living or the general level of prices. The newly created deposits will be used by the Government to finance its expenditures and will be transferred to private corporations and individuals. These in turn may hold the deposits idle or, in other words, as a liquid asset available for future tax payment or for post-war reconversion. Clearly, we are interested not in the quantity of currency and demand deposits, but rather in the flow of expenditures, public and private."

Alvin H. Hansen

Professor Hansen next took up the question of the inflationary effect of heavy Government expenditures and concludes that "an increase of total expenditures, public and private, may or may not produce a price inflation. An increase in total expenditures will, of course, result in a general increase in the effective demand for goods and services. But, if one starts with a condition of unused resources, an increase in effective demand all around will, for the most part, result in an increase in employment and output without an increase in prices. With respect to commodities for which the output cannot easily increase, prices will tend to rise long before full employment is reached. This applies particularly to agricultural commodities. It is for this reason that in general any increase in employment in the urban communities will quickly reflect itself in an increase in agricultural prices."

In his remarks, Professor Han-

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Inflation Antidote—
High Production and Low Taxes

This country has had experience with major inflation on four occasions—the Revolutionary War, the War of 1812, the Civil War and World War I. With the end of World War II, will history repeat itself? Shall we have the inflation that many economists predict as inevitable with the passing of war-imposed controls, or shall we have the deflation that others anticipate?

The Last Post-War Period

Too recent to be forgotten was the sequence of inflation and deflation that accompanied and followed the last war. From 1914 to 1920 the level of commodity prices was practically doubled and the value of the dollar almost cut in half. In 1920 the boom collapsed, and within a year prices fell by 45%, bringing a measure of bankruptcy to business, unemployment to labor, and foreclosures and depression to agriculture.

The end of the first World War saw exhaustion throughout Europe, with uncontrolled inflation of the most violent type in Germany. Remote indeed is the prospect of the American housewife buying an egg or a loaf of bread with a basketful of paper money.

The Danger of Inflation

Not that there is no danger of inflation here; in fact, the danger, theoretically, is greater than during the last war and post-war period. War, the last time, took a quarter of our national income; this time it is taking more than half of it. During the last war we spent about $30,000,000,000; during this one we have already spent more than $150,000,000,000, and how much more we shall spend before the war is over no one can predict with accuracy.

The root of inflation is in this

(Continued on page 904)

T. S. Shore Partner In Goldman, Sachs

T. Spencer Shore has become a general partner in Goldman, Sachs & Company, 30 Pine Street, New York City, members of the New York Stock Exchange and other national exchanges, rejoining the investment banking firm with which he began his business career in 1926. Mr. Shore has resigned as vice president and treasurer of The General Tire & Rubber Company, of Akron, Ohio.

T. Spencer Shore

After graduating from the University of Missouri in 1924, Mr. Shore received his degree from the Harvard Business School in 1926, and entered the employ of Goldman, Sachs the same year. In 1931, he joined General Tire and was elected assistant treasurer. Five years later he became treasurer, and in 1941, he was elected a vice president and director.

In August, 1941, Mr. Shore obtained a leave of absence to serve with the War Production Board, where he was director of the division of Industry Advisory Committees. He returned to his duties at General Tire in December, 1942.

Mr. Shore is a member of the board of directors of the Eagle-Picher Lead Company of Cincinnati, and of the Standard Steel Spring Company of Coraopolis, Pennsylvania.

Mr. Shore's admission to partnership in Goldman, Sachs & Co. was previously reported in the "Chronicle" of February 17th.

Rothfeld With Reynolds

Reynolds & Co., Members New York Stock Exchange, announce that Mr. Robert B. Rothfeld is now associated with them in their office at the Sherry-Netherland, Fifth Avenue at 59th Street. Mr. Rothfeld was formerly manager of an uptown branch for Fahnestock & Co.

In This Issue

PENNSYLVANIA SECURITIES section containing information and comment pertinent to dealer activities in that State starts on page 898.

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NASD Headache Continues

Ever since the Board of Governors of the National Association of Securities Dealers promulgated its "5% spread philosophy," that organization has been in a seething turmoil because of the storm of protests which resulted and which is continuously gathering momentum.

At first, for fear of reprisals, the anger of dealers in securities was self-suppressed. The "power of visitation" possessed by the Securities and Exchange Commission and the NASD was regarded as a sword of Damocles. There was also the danger of exclusion from underwritings and participation in secondary offerings and the like.

In years gone by, when anyone was made a member of the Board of Governors of the Stock Exchange, the appointee was usually showered with new business. That was a way of making a bid for the goodwill of one powerfully placed on a body that then ruled with an iron hand.

Take the converse of this. Some fanatics committed to the "5% spread philosophy" have been withdrawing business, or it is feared, they will diminish the number of their trades with those in their circle who are fearless in espousing the American doctrine of free enterprise. As an indication, too, that such fears are not unfounded we have only to mention the fact that some of those in this category have seen to it that the "Chronicle" was discriminated against with respect to advertising because of its opposition to the "5% spread philosophy."

Despite all these potential threats to their commercial well-being, dealers have become, and are increasingly becoming, more articulate in their firm opposition to the doctrine of placing a ceiling on "spreads" between the purchase and sales price of securities.

At first, opposition preferred to hide its identity. Many of our readers wrote to us asking that if we published their letters, the names be withheld. In one way or another, either directly or by inescapable inference, fear was expressed, fear of quick reprisals. Correspondents said that they "didn't want to stick their necks out," or "act as the goat," etc., etc.

Gradually, however, some degree of courage came to the forefront. Dealers began writing in and authorizing the publication of their signed letters. The issue was regarded, and is regarded, as of first importance, as affecting the very life's blood of business generally. The storm of opposition is daily becoming more ominous, promising to reach proportions where the whole structure, if not the very existence, of the National Association of Securities Dealers may be at stake. There is talk of legislative relief by curtailment of NASD powers.

The feeling is prevalent that the passage by the Board of Governors of a rule which under the by-laws of the NASD should have been submitted to the franchise of the membership, constituted a betrayal of that membership.

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Promoting Labor Harmony In The War Effort

By GUSTAVE SIMONS*

Anyone active in the battle of production, so essential to our war effort, is faced with these problems:

1. How may greater harmony between labor and management be produced?

2. How may the conflict between pressure for higher wages and the desire to avoid inflation be resolved?

Gustave Simons

3. What can be done to ease the physical and mental toll resulting from the pressure of production which has caused more deaths than have occurred on the front line itself? The battle for production is a mental one, and the solution to the foregoing problems is found in morale rather than in any tangible facts.

Labor which hears of so-called fabulous profits on every hand, while its own wages are frozen, voices increasing discontent. This discontent is enhanced as the toll of illness, death and disability is observed.

Wide experience in the field of labor relations in the field of war production has demonstrated that the best single solution for this battle in the vital job of production is to be found in the Employees Benefit Plan.

In such a plan, a group of eligible employees is designated. Various formulae are permitted. All with a certain period of serv-

*Mr. Simons is a Labor Relations Representative, active in War Production.

(Continued on page 905)

Why NASD 5% Rule Will Close Capital Markets To Small Business

Editor, "Commercial & Financial Chronicle":

In your Feb. 24 issue of the "Commercial and Financial Chronicle" there is a very splendid article titled, "NASD 5% Rule Threat to Post-War Employment and Small Business," by Philipp H. Lohman, Ph.D. This article is one of the best and most timely ever published by you. In part, it dealt with a phase of the security business in which our firm is much concerned.

We have underwritten issues from $250,000 to $500,000 and originated larger issues up to $4,000,000 in which other investment firms have joined.

When the Government gave many smaller companies all the capital required, which was formerly supplied through the investment channels, the services of underwriting firms like ours became unnecessary. This is the principal reason why the number of applications for qualifying of corporate financings before the Securities and Exchange Commission dwindled to almost zero for the past two years, which condition continues to prevail today.

Our firm has kept the door open by working on other matters, awaiting the day when the war is over and the Government is no longer supplying working capital, but, on the contrary, desirous to liquidate its many investments in equipment and defense plants to those companies now using such facilities for war purposes. We thought we could foresee a revised and prosperous underwriting business bailing out Government investments and supplying new capital for many smaller companies for expansion of their postwar business. We felt there was great possibility of rendering important service to help provide jobs for returning soldiers and sailors in the period of post-war readjustment.

But, now, this 5% Profit Rule of the NASD has thrown a bombshell into our plans and aspirations and today we doubt the possibility of doing any more under-

(Continued on page 905)

Bank Investment Policy And National Fiscal Requirements

By HERBERT SPERO, Ph.D.

Dept. of Economics, The City College of New York, School of Business and Civic Administration

Formerly Member of Staff of Research Council of the American Bankers Association (1939-1941). Author of "Reconstruction Finance Corporation Loans to the Railroads" (1932-1937).

Although Government bond holdings of our commercial banks now stand at $62 billion, the highest level in history, it is not likely that they will decline after the war. In fact, it appears probable that the post-war period will witness further expansion.

One important factor which may account for an early post-war growth in bank bond holdings is the probability of public liquidation of savings bonds. Another is that industrial corporations may also wish to realize on their Government bond investments — holdings which are presently kept intact for subsequent use as post-war reserves. And further additional expansion may occur if production and employment slump as the result of lack of stimulus from private investment. In that event, a program of "government investment" would offer the path of least resistance to any administration. Large-scale deficit financing would quiet public clamor for more direct and aggressive measures to deal with unemployment. In such a setting, the national debt would continue to swell and the burden of financing would fall upon the commercial banking system. Post-war bank investment policy will be determined, therefore, in large measure, by influences outside the banking system.

Dr. Herbert Spero

Consider the large volume of savings bonds outstanding in the hands of the public. As of the last year end, some $27,500,000,000 were in the hands of the non-banking investors. And with continued emphasis by the Treasury on placing the national debt in the hands of its citizens, total savings bonds may increase this year in an amount equal to the $12,500,000,000 expansion reported for 1943. Thus, by the end of 1944, total savings bonds easily may reach a total of $35 billion or more.

Currently, investors are cashing in their savings bonds at the rate of $132 million per month. During 1943, $1,585,000,000 of these bonds were redeemed. After the war ends and the patriotic stimulus is dissipated, it is not unlikely that redemptions will increase rather than diminish.

During the post-war period many people will want to cash in part of their bond holdings to avail themselves of some of the luxuries which they have temporarily surrendered. Furthermore, if the period of post-war dislocation is protracted and sharp unemployment results, redemptions will certainly expand in response to pressing necessity.

Liquidation of Government bond holdings may also be expected from industrial corporations. Corporate holdings of Treasury issues are estimated at roughly $17 billion, and much of this amount has been earmarked as post-war reserves. In the ordinary course of events, financial requirements for plant rehabilitation, reconversion and expansion will necessitate the sale of a large volume of these Treasuries.

But, most important of all, we must not overlook the possibility of a program of deficit-financing in the post-war period. Such a program would increase the burden on the banking system, as bank credit would furnish the only practicable means of financing. And deficit-financing seems assured if the boom, which so many economists predict, fails to materialize promptly.

On the credit side, our post-war economy will be favorably affected by the large savings accumulated during the war years, and the tremendous deferred demand for peace-time goods. But, on the other hand, governmental policies may be such as to discourage private investment and enterprise. International currency stabilization, despite present discussion, may yet be unsettled.

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James A. Jackson Pres. Of Continental Bank & Trust Co.

Lazard Freres Partner Last Eight Years

James A. Jackson, for the last 8 years partner of the investment banking firm of Lazard Freres & Co., returned on March 1 to the field of commercial banking by becoming President of The Continental Bank & Trust Co. of New York. He was formerly a Vice-President of the National City Bank of New York.

As President of the Continental Bank & Trust Co., which was founded in 1870 and greatly expanded its activities in the field of commercial banking in the last few years, he will have opportunity to give full scope to the ability which won his recognition as a commercial banker before he entered the investment banking business.

James A. Jackson

Mr. Jackson's election to the Presidency leaves Frederick E. Hasler, who assumed the additional duties of President upon the death of Frederick H. Hornby in 1942, free to devote his services to the duties of Chairman of the Board.

Mr. Jackson, the new President of the Continental Bank, was born in Missouri, where his father was President of the People's Bank of Troy, and he was graduated from the University of Missouri in 1910. His first job was with the Gate City National Bank at Kansas City. In 1915 he went into the farm mortgage business at Fort Worth, Texas, and two years later entered the employ of the National City Bank of New York.

In 1922 he was elected a Vice-President of the bank in charge of the Chicago, St. Louis, Kansas City, Minneapolis, Dallas and San Francisco Federal Reserve districts. After serving in that capacity for 14 years, he left the National City Bank to become a partner in Lazard Freres & Co. where his long banking experience and many business contacts proved a valuable asset to the firm; he continues as a substantial stockholder of the bank.

Urges Preference In Govt. Jobs For Veterans—Proposes Employers Use Govt. Record As Guide

Legislation Favored By President

The principle that ex-service men shall be accorded preference in Federal employment was laid down as a Government policy by President Roosevelt on Feb. 28. He was also indicated as stating that the record of the Government as to veterans "must be one which will constitute an example for all employers."

The request for legislation which would empower the President for the rest of the war and five years afterward, to designate Federal jobs which would be available exclusively to veterans, was made to Congress on Feb. 28 by the President, according to the Associated Press, from which we also quote:

Where non-veterans are not excluded from competition for employment, veterans under this proposed legislation would get special consideration through a system of adding war service points to their other qualifications.

The policy was set forth in letters to Harry B. Mitchell, of the Civil Service Commission, to the heads of all Executive Departments and agencies and to Robert Ramspeck, Democrat, of Georgia, Chairman of the House Civil Service Commission.

In his letter to Representative Ramspeck the President said that he believed legislation relating to preference for veterans in Federal jobs should include this provision:

"Authority should be granted during the war and for a period of five years following the war, to restrict to veterans examinations for such positions as may, from time to time, be designated by the President."

"Those who are fighting for the life of the nation today," Mr. Roosevelt declared, "will, upon their return to civilian life, be in a position to make a unique contribution to the administration of government. We should be in position to take full advantage of this fact."

The main points on which the President asked legislation in addition to that giving him authority to designate jobs exclusively for ex-service men are:

(1) Provision for the point system which would give veterans a head start on other competitors for non-exclusive Federal jobs.

(2) Authority for the Civil Service Commission to determine the validity of reasons given by Government officials for passing over a veteran to employ a non-veteran. "This will center in one agency the responsibility for determining whether or not a veteran is entitled to consideration for a particular job," the President wrote Ramspeck.

(3) Provision for special consideration for veterans whenever Government agencies have to cut down their personnel.

These principles are covered substantially in legislation already introduced by Representative Joe Starnes, Democrat, of Alabama, Mr. Roosevelt said, and "I sincerely hope, therefore, that this bill may receive the early and sympathetic consideration of the Congress."

F. L. Free & Co. Formed

Announcement is made of the formation of Frederick L. Free & Co. to deal in over the counter securities from offices at 19 Rector St., New York City.

John McCarthy Joins Alfred L. Baker Co.

CHICAGO, ILL.—John McCarthy, widely known in midwest banking circles, has become associated with Alfred L. Baker & Co., 111 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. McCarthy originally came from New York to join the staff of the old Continental National Bank, following which he engaged actively for many years in the commercial paper business as a partner of Hathaway & Co. For a short time recently he has been connected with the Federal Reserve Bank.

NASD Hearing Put Off By SEC Until March 29

The Securities and Exchange Commission announced on Feb. 26 a further postponement until Wednesday, March 29, of oral arguments in proceedings to review disciplinary action taken by the National Association of Securities Dealers, Inc., against certain members for violation of a price-maintenance agreement. A previous extension until March 1 had been granted to enable the Association to file a reply to briefs of the Department of Justice. This was reported in Associated Press dispatches from Philadelphia on Feb. 26.

Sellger, McGinnis To Be Partners In Pflugfelder, Bampton

Patrick B. McGinnis and Hugo E. Sellger will become partners in Pflugfelder, Bampton & Rust, 61 Broadway, New York City, members of the New York Stock Exchange, on March 9th. Mr. Sellger and Mr. McGinnis, who is well-known as a rail analyst, have been associated with the firm for many years.

Chairman Of British Chemical Industries Cites Value Of Private Enterprise In War Effort

Speaking before the Glasgow Chamber of Commerce on Feb. 1 Lord McGowan, the head of the Imperial Chemical Industries, one of Great Britain's largest industrial corporations, for the first time since the outbreak of the War, gave an account of the high accomplishments of his firm in promoting the war effort. This work was started as early as 1935, when the Imperial Chemical Industries began the extraction of oil from coal. Since that time the output of oil from British coal has enormously increased, largely through the experimentation and research work undertaken by the company.

"Nowhere else in the Empire were there men with experience of the hydrogenation process," remarked Lord McGowan. "What State department, what body of civil servants, what Minister in Parliament would have dared to take the commercial risk involved in the decision which private enterprise took in 1935? Or, in the unlikely event of their daring to do so, what chance would there have been of getting it through Parliament, which would criticize the venture on every ground, and not least, that it was an unjustifiable risk of public money."

Lord McGowan expressed with pride the fact that his organization has had no major labor dispute in five years of war. "Surely this afforded some indication of the loyalty of the company's work people and indirectly, therefore, of their satisfaction with the treatment they were accorded under the much maligned system under which they work."

The accomplishment of the Imperial Chemical Industries in promoting the war effort was not peculiar to it. "I have merely used our company as an example," Lord McGowan stated. "What we have been able to do, most other enterprises have done according to their size and character".

B. W. Pizzini & Co. Now A Corporation

The partners of B. W. Pizzini & Co. announce the dissolution of the firm, and the establishment of a new firm under the name of B. W. Pizzini & Co., Inc., with offices at 55 Broadway, New York City. B. Winthrop Pizzini is president of the new firm, and W. Gurden Halsey and Gale B. Crutchfield are vice-presidents. Harold J. Stamler is secretary and treasurer.

B. Winthrop Pizzini

B. W. Pizzini & Co., Inc. are specialists in guaranteed and leased line railroad stocks; minority railroad stocks; dealers in leased line, terminal and underlying railroad bonds, and participating distributors.

Mr. Pizzini is first vice-president of the National Security Traders Association.

Kidder, Peabody Leads In War Bond Drive

In the Fourth War Loan drive just ended, Kidder, Peabody & Co., 17 Wall Street, New York City, investment bankers and members of the New York Stock Exchange, led 448 other firms in the Banking and Investment division of the War Finance Committee in the drive to get 1,000,000 subscriptions in the area south of Fulton Street. More than 6,000 workers participated in carrying the financial district over that goal. The Kidder, Peabody organization alone accounted for 2,117 subscriptions totaling $5,377,600. Two of the firm's salesmen sold more than 400 subscriptions each.

Pittsburgh Rys. Look Good

The current situation in Pittsburgh Railways System, particularly certain of the underlying bonds, offers attractive possibilities for appreciation, according to a study prepared by T. J. Feibleman & Co., 41 Broad St., New York City. Copies of this interesting study, which is available to dealers only, may be had upon request from T. J. Feibleman & Co.

Real Estate Securities

Bond Price Comparison Of Hotels

Brief Resume Of The Windemere Hotel

1937 was a banner year for prices of New York City hotels, while 1940 was in most cases the poorest-price year.

It is, therefore, interesting to compare the current prices of the various issues together with their prices of 1937 and 1940.

	Price this week	1937	1940
Hotel St. George	59	60	24
Governor Clinton	54	35½	14
Hotel Drake	48¼	47	21
Park Central Hotel	51½	64	24
Savoy Plaza	48½	62½	24
Sherry Netherland	37	44½	7½
Lombardy	33½	66½	18
Waldorf Astoria	29	42½	4
Windemere	35	47	22

The comparison indicates that only two issues are now above the 1937 highs. In view of the fact that current earnings are considerably higher now than during 1937, it is surprising that the entire list of prices is not similarly higher at the present time.

For instance, gross income of the Sherry Netherland Hotel for the six months ending June 30, 1937, was $406,000, while for the same period in 1943 the gross income was $602,000, yet the bonds are selling for less now than they were in 1937.

The last hotel on the list, the Windemere Hotel, seems worthy of some attention from an income standpoint. Interest on the bonds is fixed at 3% with a provision for additional interest up to 4½%, earnings permitting. Sinking fund provision provides for the use of all excess earnings above the 4½% to be used for retirement of bonds until the issue is reduced from present $2,565,500 to $1,300,000.

A noval situation is that the entire capital stock of the owning and operating corporation, together with the deed to the property, has been placed in escrow with the trustee, subject to forfeiture in the event of default before the issue is reduced to $1,300,000.

In addition to this unusual protection for the bondholders, they also have the additional protection of a requirement that the owners must pay the trustee **monthly** all surplus income from the property after deduction of regular operating expenses other than taxes, which must be applied as follows: First to payment of taxes, then interest up to 4½% per annum, and then for sinking fund for the retirement of bonds. Any deficiency in the surplus income held by the trustee for payment of fixed charges must be paid by the company free and clear of any charge against future earnings.

The bonds are secured by a first mortgage on land owned in fee situated at the northeast corner of West End Avenue and 92nd Street, New York City, together with the 22-story apartment hotel building standing thereon. The plot fronts 100 feet on West End Avenue and 160 feet on West 92nd Street and comprises an area of approximately 16,000 square feet. The building is of steel frame, brick and reinforced concrete, fireproof construction and contains 623 rooms divided into 398 apartments, principally consisting of one and two rooms. There is also a dining room on the ground floor of the building. One hundred fifty-six of the apartments, comprising 205 rooms, are furnished and the furniture and furnishings therein contained are also subject to the lien of the mortgage.

Wall Street Riders Elect New Officers

At a recent meeting of the Wall Street Riding Club the following officers were reelected for the season: Frances M. Weller of Harry Downs & Co., President; Regina Hankinson of Adolph Lewisohn, Vice President & Treasurer; Mildred V. Marsh of McLaughlin, Baird & Reuss, Secreary. Directors elected to serve for a term of two years were: Emily Richards, Gordon Goff, Anne Compton, Marie R. Cambridge, Mildred Marsh, Regina Hankinson. At this meeting, Jesse Gordon, founder of the Club and who is now serving overseas with the Army, was elected an Honorary Member, George I. McKelvey, Jr. of Darby & Co. has consented to serve on the Board of Advisors with Messrs. Harvey D. Gibson, E. Roland Harriman, Jansen Noyes and John M. Schiff. While many members of the Club are now serving with the armed forces, both here and abroad, the Club still looks forward to an active season.

Attractive Situations

Ward & Co., 120 Broadway, New York City, have prepared circulars on several situations which currently offer attractive possibilities, the firm believes. Copies of these circulars, on the following issues, may be had from Ward & Co. upon request:

Du Mont Laboratories "A"; Merchants Distilling; Crowell-Collier Publishing; P. R. Mallory; General Instrument; Hartford Empire Co.; Long Bell Lumber Co.; Southwest Lumber Mills; Great American Industries; Kellett Aircraft; Mid-Continent Airlines; Richards, Haskelite; Doyle Machine Tool; Metal & Thermit; A. E. Staley; Central Electric & Tel.; Massachusetts Power & Light $2 preferred.

Bank Stocks And Their Investment Value

White & Company, Mississippi Valley Trust Building, St. Louis, Mo., have prepared an attractive booklet entitled "Facts, Figures and Opinions on the Nation's Leading Bank Stocks." Contained in the booklet is a survey of six bank stocks which represent investment opportunity, the firm believes, and warrant the time and attention of the investor interested in safety of principal, adequate return, and price appreciation possibilities. Copies of the booklet, which is envelope size, are available to dealers in reasonable quantity.

Treasury Refunding

Announcement was made by the Treasury Department on Feb. 28 of plans to refund $4,730,000,000 worth of securities in an exchange offering to be made formally today (March 2). Three Treasury and four corporate issues are involved in the refunding operation, said Associated Press accounts from Washington, which added:

"The type of securities to be offered in exchange will not be announced until Thursday.

"The securities, maturity or call dates and amounts outstanding: 1% Treasury notes of series B-1944, March 15, $515,000,000; 3¼% Treasury bonds of 1944-46, April 15, $1,519,000; ¾% Treasury notes of series A-1944, June 15, $416,000,000; 3¼% Federal Farm Mortgage Corporation bonds of 1944-64, $95,000,000; 3% Federal Farm Mortgage Corp. bonds of 1944-49, $835,000,000; 1% Reconstruction Finance notes of series W, April 15, $571,000,000; 3% Home Owners' Loan Corp. bonds, series A, 1944-52, May 1, $779,000,000.

"The redemption call for the 1944-46 Treasury bonds was issued last December."

J. A. Francoeur Now With David A. Noyes

CHICAGO, ILL. — J. A. Francoeur, well known specialist in Chicago traction securities, has become associated with David A. Noyes & Company, 208 South La Salle Street, members of the New York and Chicago Stock Exchanges. He will head a department to specialize in this class of securities.

Mr. Francoeur was recently with Brailsford & Co. Prior thereto he was an officer of Traction Securities, Inc. and was manager of the traction securities department of Paul H. Davis & Co. In the past he conducted his own investment business in Chicago.

Interesting Situation

The current situation in Hartford-Empire Company appears interesting according to a memorandum on the company issued by Ward & Co., 120 Broadway, New York City. Hartford-Empire occupies the unusual position of being possessed of more than $10,000,000 in cash and United States Government bonds, but being operated under conditions of receivership because of extensive anti-trust litigation. Copies of the memorandum discussing the situation in some detail may be had from Ward & Co. upon request.

N. Y. Analysts To Hear

On Monday, March 6th, the New York Society of Security Analysts, Inc. will hear John E. Slater, executive vice-president of American Export Lines, Inc., on "America's Merchant Marine, Now and After the War."

On March 8th, Allan B. Du Mont, president of the Allan B. Du Mont Laboratories, Inc., will speak on "A Preview of Television."

All meetings are held at 56 Broad Street, at 12:30 p. m.

Tomorrow's Markets Walter Whyte Says—

Offerings still equalize bids—So market presents stand-off position—Chasing stocks at present prices a poor policy—wait for minor setbacks

By WALTER WHYTE

The rail action has been advertised so widely there is little one can add to it. Coincidental with the new highs in the group two versions of its future action have followed in its wake. One theory has it that the rails, having registered new highs, show clearly they are headed for higher levels. Another, equally vociferous, sees nothing but headaches ahead and warns that instead of buying all rails now, the proper action is to sell.

* * *

If the truth were known, both sides have got something. Unfortunately, you can't make money by following both sides unless you are agile enough to follow individual wriggles; that, in turn, presupposes daily tape watching. So, instead of discussing the rails and adding to the prevalent confusion, this column will limit itself to the industrials. More specifically, to those issues in which it is committed.

* * *

American Steel Founders, bought at 25 is now about 27. Between the latter figure and 28 stock will meet offerings which may be big enough to stop it. If they check the upward rise, a reversal in trend—even if only temporary—is quite likely. If the rest of the market showed enough guts, my advice would be to disregard offerings on the assumption that the general trend would be enough to get individual stocks through obstacles. But, with the market in a I-don't-know-what-I'm-going-to-do next position, no such assistance is likely. I therefore suggest taking your two points or so profit at 27 or better and sit

(Continued on page 909)

Would Fire Bureaucrats To Celebrate Victories

An American adaptation of the Russian practice of firing "a couple of hundred guns" to celebrate a victory was recommended in the House by Representative Hugh D. Scott, Jr. (Republican, Pennsylvania), who suggested that "The United States should celebrate its victory by firing a couple of hundred bureaucrats."

Railroad Securities

Many rail men have been pointing to the Chicago Milwaukee St. Paul & Pacific gold 5s, 1975, as one of the most attractively valued of the reorganization bonds at recent levels. This opinion is based not only on the indicated present value of the securities allocated in the ICC reorganization plan, but, also, on the anticipated improvement in the status of these new securities by application of additional excess cash accruing in the period between now and consummation of the plan.

In hearings before the ICC last summer it was estimated that cash by the end of 1943 would amount to $120,633,378, of which $52,038,000 is earmarked for distribution to creditors under the plan. Another $63,152,000 was earmarked for such items as taxes, deferred maintenance, retroactive wage increases, working funds, etc., leaving an estimated $5,443,000 of unassigned excess cash. The year-end balance sheet filed with the ICC shows a total of cash and temporary cash investments just about in line with the mid-summer estimates.

Actually, however, the financial condition is better than indicated by these figures, as these cash items did not include $5,800,000 in Government bonds already set aside for deferred maintenance. With this fund already set aside there is obviously no need to provide for it again out of the cash and temporary cash investments the company shows on its balance sheet. Unassigned excess cash as of the end of last year, then, may be placed at $10,631,000, rather than the $5,443,000 indicated in the company's initial estimates. To this will be added cash released from 1944 earnings, as the reorganization obviously can not be completed until some time in 1945.

It seems safe to assume that St. Paul's traffic and revenues this year will be above the 1943 level. In fact, in petitioning for authority to finance new equipment purchases recently the trustees stated: "* * * High ranking officers in the transportation divisions of the Army and Navy have advised that war traffic to Pacific Coast ports is expected to increase from 50% to as much as 100%. In addition, coal requirements in the Pacific Northwest have been considerably expanded, and the expected movement is estimated to amount to several million more tons than have been handled in the past * * *." Wages will be higher this year than last and the income tax burden will be considerably heavier. Nevertheless, the company should be able to report at least $35,000,000 available for charges after depreciation and all taxes.

In 1944 fixed and contingent charges under the reorganization plan will absorb about $9,000,000 and the year's preferred dividend requirement another $5,608,700. Also, the maximum additions and betterment fund will be some $1,200,000 in excess of estimated depreciation of way and structures. Deducting all of these requirements, there would remain from estimated 1944 earnings a balance of $19,191,300. Together with the unassigned excess cash as of the end of 1943, this would allow the company to enter 1945 with $29,792,300 that could be utilized for additional debt retirement. Unless part of this cash is used to pay off the RFC loan (around $10,500,000) prior to reorganization—and considerable bondholder objection is expected if steps are taken to pay off the RFC—it could all be used to purchase the various new bonds in the open market after consummation of the plan.

The new St. Paul capitalization will be particularly simple, with direct debt confined to equipments, the new 1st Mortgage 4s and two series of Income bonds. There will be no divisional liens nor any secured notes of near or intermediate term maturity. There will be only $59,515,171 of the new 1st Mortgage bonds outstanding. Considering the markets for other reorganization 1st Mortgage bonds, there is little question but that they will be selling at a premium. In view of this factor, as well as the inherent soundness of the new fixed capitalization, it is expected that any post-reorganization debt retirement would be concentrated on the Income bonds.

There will be outstanding initially $57,257,000 of the Series "A" Income 4½s and $51,422,000 of Series "B" Income 4½s. It might be possible for the new company to buy these bonds in at average prices of 80 and 60, respectively. If the sum estimated as available for debt retirement ($29,792,300 by the end of this year) were divided equally between the two issues at the average prices mentioned above it would be possible to reduce the total outstanding Income bonds from $108,679,000 to $65,432,000 with an annual saving in contingent interest of $1,946,115. This would reduce total fixed and contingent interest to $6,904,000 compared with $10,200,000 originally contemplated for St. Paul by the ICC. After allowing for the regular 40% tax rate, the potential reduction in Income bonds through utilization of cash would add slightly more than $1.00 a share to the earning power of the new preferred stock.

Allowing for the potential reduction in charges, earnings on the preferred on the basis of estimated possible 1944 operations would come close to $25 a share.

(Continued on page 902)

Public Utility Securities

Dangers Of The New Depreciation Policy

The new theories of depreciation reserves put forward by NARUC (National Association of Railway and Utility Commissioners) were commented on in this column in the Nov. 25 issue. Since that time the Public Service Commission of New York has applied the theory of straight-line depreciation reserves to the Niagara Hudson Power system, calling for an increase of $65,000,000 in the combined reserve. While it is doubtful that any large number of State Commissions will adopt the theory immediately, as the New York Commission appears to have done, nevertheless the situation is dangerous in its possibilities. Consolidated Edison, for example, has a ratio of reserve to plant of less than 10%, whereas the NARUC theory might require 25% or more. While Edison is well protected by earned surplus to take care of any future adjustment, the increase in the reserve might substantially reduce the rate base and pave the way for rate reductions.

Samuel Ferguson, President of Hartford Electric Light Co., and a conservative leader in the utility industry, recently delivered an address on "The Effect of Arbitrary Property Write-Downs" and has also published a 92-page brochure on "Depreciation Accounting As Applied to Public Utilities."

The Federal Power Commission in its report, "The Financial Record of the Electric Utility Industry, 1937-1942," summarized the five-year progress of the industry as follows:

	5-Year Increase
Service rendered (kwh. delivered)	52%
Ability for service (kw. capacity)	17
Customers served (number)	15
Maximum permissible reward (rate base)	1½

In 1942, as compared with 1941, service increased 10% while the rate base (net plant) declined 0.7%. Mr. Ferguson states:

"The report correctly attributes this greatly disproportionate reward, with respect to the increased services rendered, to its system of depreciation accounting which has become increasingly effective during the five-year period, culminating in the last year in an actual decrease in permissible earnings in spite of 10% increase in service rendered.

"It is time for the American public to realize how far we have already traveled on the road leading to a collectivist state without their knowledge; and at the very time when they are waging total war with the chief exponent of National Socialism. . . .

"The author wholly acquits the Federal Power Commission of having had such an objective in mind years ago at the time of the adoption of its present system of accounts. He has, however, good reason to believe that other influential men working behind the scenes did visualize such an eventual result and over the years have succeeded in selling this method of depreciation accounting. . . ."

Applying the Commission's theory to his own company, Mr. Ferguson points out that with an assumed maximum service life of 30 years (as used for steam turbo-generator units for income tax purposes) the 20-year-old turbines in the Hartford plant would now have lost two-thirds of their value, so that only one-third may be included in the rate base. However, they have actually deteriorated only slightly, are just as good as ever for lower-stage pressures. From a practical standpoint they have been given a new and indefinitely prolonged lease on life (in connection with the superimposed high-pressure unit for the higher-pressure stages). In fact, he thinks that they may well be good for 100 years more, although under the theory they are only good for 10 years. At the end of those 10 years the title will in effect have passed to the consumer.

Mr. Ferguson concludes that "under the influence of this 'service life' theory and the pressure for larger and larger reserves there will come a time when the companies will earn so little that that little will be an insufficient coverage for commercial loans and the necessary backing of equity money. The companies will thus be unable to finance the plant expansions needed by the public and the Government will be the only available source of money. When the Government takes over the furnishing of funds the conversion from preliminary collectivism to nationalization will have taken place."

Goodwin Beach Now Is With Paine, Webber

(Special to The Financial Chronicle)

HARTFORD, CONN.—Goodwin B. Beach has become associated with Paine, Webber, Jackson & Curtis, 43 Pearl St. Mr. Beach was formerly with Brainard, Judd & Co. Prior thereto he conducted his own investment business in Hartford for many years.

Thos. M. Hess Joins Staff Of Wm. R. Staats

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—Thomas M. Hess has become associated with William R. Staats Co., 155 Montgomery St. Mr. Hess was previously with E. F. Hutton & Co. Prior thereto he was a partner in Gibbons, Newlands & Hess and was an officer of Shaw, Hooker & Co.

Situations Attractive

Lukens Steel common, Muskogee Company common and preferred, and Central Illinois Electric & Gas common offer attractive possibilities, according to memoranda prepared by Buckley Brothers, 1529 Walnut Street, Philadelphia, Pa., members of the New York and Philadelphia Stock Exchanges. Copies of these memoranda may be obtained from the firm upon request.

State Draft Boards Get Instructions On Deferred Registrants

National Headquarters of Selective Service, immediately upon receipt on Feb. 26 of a memorandum from President Roosevelt to Maj. Gen. Lewis B. Hershey, Director of Selective Service, and Paul V. McNutt, Chairman of the War Manpower Commission, sent the full text of the memorandum to all State Selective Service Directors with the following instructions, according to an announcement of the Selective Service Headquarters:

"Forward text of the President's memorandum to all local boards and Boards of Appeal in your State. Direct local boards to review the cases of all registrants' ages 18 through 37 deferred in classes 2-A, 2-B, 2-C and 3-C. In considering the reclassifications of such registrants existing regulations, instructions and information will be applied in the light of the President's memorandum, giving particular attention to registrants under 26 years of age in view of the President's statement that agriculture and industry should release the younger men for military service. Replacement schedules should be considered for such revision as may be required to comply with the President's memorandum. Signed: Maj. Gen. Lewis B. Hershey."

"Local boards are expected to review all cases with strict application of the existing memoranda and regulations to all deferments, particularly those under 26 years of age, Selective Service Headquarters reported."

Alfred D. Smith With Fitch Inv. Service

CHICAGO, ILL. — Announcement is made that Alfred D. Smith is now associated with the Chicago office of Fitch Investors Service, 105 West Adams Street, as sales manager of their mid-western territory. Mr. Smith, who is well known in investment and banking circles throughout the country, was previously with the National Quotation Bureau serving for 18 years as Vice President and General Manager of the Chicago office.

Raymond Miller To Be Cohu & Torrey Partner

Raymond Van Vranken Miller will be admitted to limited partnership in Cohu & Torrey, 1 Wall Street, New York City, members of the New York Stock Exchange, on March 9th. Mr. Miller was formerly chairman of the Board of Robinson, Miller & Co., Inc.

Guaranty Trust of N. Y. Situation Attractive

Guaranty Trust Co. of New York offers an attractive situation according to a bulletin prepared by Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange. Copies of this interesting bulletin may be had upon request from Laird, Bissell & Meeds.

Interesting Utility

The expected filing of a recapitalization by United Gas Corporation with the SEC should have a beneficial effect upon Electric Power and Light first preferred stocks, and possibly on the second preferred according to a study of the situation prepared by Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange, and other national exchanges. Copies of this study may be had upon request from Ira Haupt & Co.

Symposium On Question Of Post-War Price Fixing, Rationing

(Continued from first page)

there will be great danger of callous profiteering with the letdown.

HATTON W. SUMNERS

Representative in Congress from Texas

It is well, of course, to give incidental consideration, in fact serious consideration, to what we will probably have to deal with when this war shall have ended. But what we shall have to do, as a matter of fact, will depend upon the condition which will then obtain and the resources which we will have at our command. The resources which we shall most need will be individual initiative, responsibility, and self-respect as distinguished from the notion that there will be at that time some supermen wise enough to do the thinking, planning, and managing, for a nation of free people. What these people mean by "planned economy" is that somebody will formulate a plan and the rest of the people either will be bribed or forced to fit their activities and efforts into this plan. That sort of an arrangement works best where there is one master and the rest are slaves.

Hatton W. Sumners

LOUIS WARE

President, International Minerals & Chemical Corp., Chicago, Ill.

I am of the opinion that price fixing and rationing should be dropped as soon as possible. I do not believe, even with demand as it is today, that many items would get out of line and that the natural forces as regards prices would be better. Higher prices are a deterrent against buying. There is a certain natural level at which prices belong, and when they are kept low by artificial controls the adjustment period afterward will also be difficult. In other words, where the selling price for some of our goods has been kept abnormally low, when there is a surplus there may be that sudden trend downward, starting from the artificial low level, and prices soon get into the area where business perishes.

Louis Ware

I hope rationing and price fixing can be dropped promptly.

URBANE A. NOBLE

President, The First National Bank, Scranton, Pa.

While it may be necessary to extend both price fixing and rationing for a very short period of time following the end of the European phase of the war, yet in my opinion that period should be made as short as possible, for I consider that there is no place for either price fixing or rationing in this country excepting in time of extreme stress, and then only to the extent that it affects the national economy in a very pointed way.

FULTON LEWIS, JR.

News Commentator, Washington, D. C.

If the war both with Germany and with Japan were to end at about the same time, and that time were between harvest seasons, it is barely possible that there might be a shortage of some foodstuff lines until the following harvest.

Fulton Lewis, Jr.

I say "barely possible" because the Army has fabulous quantities of canned goods and meats stored up, far in excess of any peacetime needs and which should be releaseable immediately upon victory.

If, however, these reserves were inadequate to make up the deficiency, it might be necessary to continue a skeletonized system of rationing and price control until the first harvest is in.

Beyond that period there is no conceivable reason why either one should be continued, and every reason why they should be discontinued.

M. D. THATCHER

President, The First National Bank, Pueblo, Colo.

The question you ask as to the wisdom of extending controls beyond the end of the war does not seem to me subject to a categorical answer. Naturally, I think they should be abolished promptly, but it seems to me doubtful that that can be done in every case. Some control may prove necessary for a short period on gasoline and certain other items until supplies can be built up. I do not feel competent to comment on the matter at this stage.

DAVE ELMAN

Hobby Lobby Radio Program New York, N. Y.

I am certainly against price-fixing or rationing in the post-war years. I do feel that it may be necessary to carry them for a few months into peacetime until commerce can be stabilized sufficiently to make certain that there will be no more inflation than we already have. But I am certainly against it as a steady practise.

Dave Elman

SETH RICHARDS

Chairman, Richards & Blum, Inc., Spokane, Wash.

My opinion is that, with ample purchasing power which will be available and the danger of inflation because of this purchasing power and shortage of consumer goods, it would be almost necessary for some temporary controls to be maintained by the Government until production develops a balance and the law of supply and demand can operate freely again.

I wish to emphasize the words "temporary controls" which should be released as soon as the situation is well in hand.

KARL M. ARNDT

Associate Professor of Economics, University of Nebraska, Lincoln Neb.

Should price fixing and rationing be extended into the post-war period? I think both should be continued during that limited conversion period when the war savings of consumers, in addition to their current incomes, are flowing into markets as yet inadequately stocked with the goods of peace. In my view, this rush of money may not be so explosive as some have feared, for should incomes fall sharply after the war savings might be prudently conserved. But I believe that we should be on guard against excessive and premature consumer (and perhaps industrial) purchasing not only to the general end of cushioning our economy from an inflationary jolt, but for the specific purpose of preventing the dissipation of war savings held in cash and in bonds. The citizen buying war bonds is told of the back-log of purchasing power he is patriotically storing up for himself. National policy should not allow this investment to vanish in an inflationary scramble for goods. It is true that the individual consumer has some responsibility in this matter; but I think the Government also has the responsibility of helping him, through rationing and price controls, to get real values in merchandise when his bonds are cashed.

K. M. Arndt

These restrictions, analagous to letting the clutch in easily, may be necessary while the national economy is being shifted into civilian gear, but not afterward.

As to the precise nature and extent of these controls, I think it is too early to hazard a guess.

HON. C. DOUGLASS BUCK

U. S. Senator from Delaware

I can't see that rationing will be necessary, unless it be for a very brief period after the war, but I do believe that price fixing will have to continue for sometime after the cessation of hostilities if we are to guard against dangerous inflation.

C. Douglas Buck

ALBERT N. HOGG

Vice President, Corn Exchange National Bank & Trust Co. Philadelphia, Pa.

I have been following the trend of economic development in this country for a great many years, and under normal conditions the cycles of trade were not too difficult to anticipate. All those old landmarks have been swept away, of course, by the war, and it is very difficult to chart a course covering post-war conditions. Any one who makes a positive statement about any of these things today is hazarding a guess.

What constitutes a sound domestic economy includes so many variables because of the war that I think the solution will be a slow one, but a process nevertheless that should insure the perpetuation of free enterprise.

PAUL S. DICK

President, The United States National Bank, Portland, Ore.

To my mind, there are excellent grounds for fearing that Government controls of various kinds will be applied during the post-war period as well as for the duration. Notwithstanding this, it is my personal feeling that a certain amount of price fixing and rationing should be continued for an indefinite period after the war has been won. Price controls would tend to curb the inflationary trend. If, as now seems probable, this country will be called upon to feed and clothe the people of certain belligerent nations for a period following the end of the war, the continuance of rationing is almost unavoidable. When the threat of inflation has passed and when the citizens of the warring nations have demonstrated their ability to provide food and clothing for themselves, these controls should be immediately removed.

Paul S. Dick

During the past few years both Congress and the people have been deprived of inherent rights and powers largely on account of war conditions. These prerogatives should be returned to where they rightfully belong without unnecessary delay.

For the reasons explained only, I would favor the continuance temporarily of price fixing and rationing. When conditions rendering these courses necessary have passed, both should immediately be discontinued.

HON. SAM H. JONES

Governor of Louisiana

With reference to the development of a government controlled economy after the war, I want to say that I am among those who will use every ounce of energy and strength at my command to help maintain our democratic system of individual enterprise. No other system is thinkable for the American people. The questions of extending price fixing and rationing into the post war period will not necessarily have very much effect on the continuation of a free enterprise system. I do believe, of course, that an end to these controls should be brought about at the earliest possible date commensurate with general economic conditions:

Hon. Sam H. Jones

1. Rationing. Rationing should be curtailed or discontinued by commodity groups after the war. This should be done in those commodities which evidence an adequate supply. As soon as the war is over the government should be able to turn loose considerable quantities of automobile tires and gasoline and the question of rationing these can be determined only by the supply that can be made available at that time. The rationing of metals could be relaxed within a relatively short time. The rationing of canned meats and canned vegetables should not be discontinued until after the supply available for consumption is adequate to meet the needs. This could not be until after the harvesting of the first crop of vegetables and an even longer period for the meats unless the Army was able to return considerable quantities to the market in a shorter period of time. In general rationing may be discontinued earlier than price controls but should be kept up until there is a relatively normal flow of goods in the particular group concerned.

2. Price Fixing. It would appear desirable to maintain price ceilings into the post war period as a means of preventing excess prices resulting from inflationary tendencies in the money market. The enormous financing that has been carried on by the government for war purposes is leaving the banks filled with deposits. If all the money available should go into circulation in the purchase of a limited quantity of goods, prices could be bid up very rapidly. It appears necessary, therefore, to maintain price control until the supply of goods is sufficiently large to meet ordinary market demands. It is hoped that this period will not be too long.

I am sure you will be interested to know that here in Louisiana we are doing a lot of economic planning for the purpose of enabling private enterprise to develop more fully the natural resources of this state and to thereby maintain the free enterprise system. It is expected that the development of the resources will provide work for all labor available and that the production of goods will make it possible for consumers to obtain food at reasonable prices. In other words, here in Louisiana we are doing a lot of economic planning for the development of private enterprise as the best means of forever preventing the possibility of a "planned economy."

FRANK L. KING

Executive Vice-President, California Bank, Los Angeles, Calif.

I am in complete agreement with the thesis advanced by Dr. Hauhart in the Nov. 11, 1943, issue of the "Chronicle," that excessive Government controls conduce to collectivism and hence to the same degree tend to obliterate democratic institutions. Also I am convinced that the greatest economic and cultural benefits which a society can give its citizens can be achieved only in a democratic society where individual enterprise has the fullest play consistent with the common good.

Frank L. King

It is in this light that we should examine the practical wisdom of extending economic controls into the post-war period. If the alternative to limited controls were to be chaos then it would seem that sound policy indicates the continuance of such controls; for history shows that chaos, and not order, is the most fertile ground for dictatorship and authoritarian government. Such controls as are retained should be dispensed with as rapidly as it develops they are no longer required. Perhaps the best way to achieve this would be to have the administration of these controls actively participated in by representative business men, thus insuring consideration for their judgments as to when regulation could be safely dropped.

From the practical viewpoint, one of the most pressing immediate post-war problems will be the apportionment of our production between the rehabilitation requirements of war-torn areas on the one hand and our own civilian needs on the other. Can this be done without the continuance of some rationing controls? And if rationing is retained and price controls are removed, what is likely to be the effect on our price structure? Closely tied in with these issues is the disposal of Government-owned surpluses at the end of the war.

Obviously, the solution of these and related problems requires forethought and planning which in turn implies a positive course of action. The important point, it seems to me, is that we must differentiate between the post-war adjustment period and what we are adjusting to.

Unfortunately, whether we like it or not, the waging of modern total war by a democracy or a dictatorship, necessarily has totalitarian aspects to it. And the only way a democracy can return to its normal way of life is by avoiding confusion and disorder as it retraces its steps.

DR. J. ANDERSON FITZGERALD

Dean, School of Business Administration, The University of Texas, Austin, Texas

At the present time it appears to me that price fixing and rationing will need to be projected into the post-war period. The commodities involved should be eliminated one by one as fast as supplies reasonably match the demand.

Dr. J. A. Fitzgerald

JOHN L. DICKINSON

President, The Kanawha Valley Bank, Charleston, W. Va.

As to whether or not it would be wise to extend price fixing and rationing into the post-war period, I am opposed to this system for the reason that it has a tendency to break down our system of individual enterprise, which is so important to the well-being of our nation. So much, however, depends upon the amount we do spend in the assistance of other nations. One can hardly be altogether opposed to some help along that line but the extravagances of systems that have already been extended to other countries, if continued after the world war, may require some system of price fixing and rationing to prevent severe inflation. If the people are so opposed to both of these systems, in my opinion it would be bad politics to, in a large way, extend it, and therefore we can only prevent it or soften it by the opposition of the people.

In these days, when everything turns on the question of politics, it is necessary to bring politics into every question of life.

Another matter which might be taken into consideration, over which we have no control, is the large amount of money the Government is borrowing from its people that is in fact payable upon demand and will be used in aid of inflation after the war is over.

D. Y. PROCTOR

President, Broadway National Bank, Nashville, Tenn.

With respect to price fixing and rationing in the post-war period, I have given this considerable thought and believe that both should be continued for six months after the end of the war. In the event ceiling prices were removed, some things would be at a price far beyond the person of average income. However, I believe that conditions would be straightened out within six months and prices would adjust themselves.

Insurance and Bank Stock Evaluator—Comparison

Butler-Huff & Co. of California, 210 West Seventh Street, Los Angeles, Calif., have issued their Insurance and Bank Stock Evaluator for January 1944 containing a comparative analysis of 82 insurance companies (figures to December 31, 1942) and 38 Banks, figures to December 31st, 1943. Copies of the Evaluator and an interesting circular entitled "Banking: Foremost Growth Industry" may be had from Butler-Huff & Co. upon request.

EDWARD KRONVALL

President, Springfield Safe Deposit & Trust Co., Springfield, Mass.

I feel that both price fixing and rationing might wisely be extended for a few months into the post-war period, but believe that any further regimentation would seriously retard any forward surge in business.

Pennsylvania Municipals

It is the same old story—a strong market with limited activity—peculiar activity to say the least. All indications point to a very bullish attitude toward the municipal market in general but the day-to-day dealings are somewhat puzzling.

Quite often large syndicate holdings of bond offerings experience no sizable movement of bonds for several days and then suddenly large blocks of these bonds are moved out of the market.

As one dealer said, speaking of yield bonds primarily: "Names mean very little in this mad scramble for 'yield situations,' discount bonds and issues that afford the dealer or the investor unusually high yields."

Since the wholesale revision of municipal ratings by Dun & Bradstreet as of the first of the year, the resulting confusion at that time has been corrected and the market seems to be once more stabilized at a higher or lower level, as the case would warrant.

There have not been too many new offerings of sizable character and those that have been shown have been marketed successfully but in somewhat of a spasmodic fashion. Interest has centered to some great extent in semi-speculation situations, those in which the investor is supplied the speculative chance of an upward move in market value. When issues of this character receive any buying support, and more particularly in a strong market of this kind, the name of the particular credit assumes a secondary importance.

The improved strength in credits, such as City of Philadelphia, City of New York and others of a more national trading prominence, can be traced to definite improvement of the financial condition of these municipalities. Some part of the recent upward movement in issues of the State of Arkansas can be attributed to specific possibilities as to the improvement in investment status from the standpoint of the bonds becoming legal investments for certain limited or restricted buyers.

It is quite apparent that wartime industrial activity throughout the nation has been quite beneficial to a great majority of municipal subdivisions and has afforded these municipalities an opportunity to improve their finances. Post-war planning has provided the spark which has set off the wave of buying interest in issues which, up to this time, have been neglected.

The recent sale of $15,000,000 City of Los Angeles Department of Water and Power refunding bonds indicated confidence on the part of bidding dealers as to the strong tone of the market, and it will be interesting to note the results of the public sale of $8,330,000 State of New York Housing Authority bonds as of March 1, 1944. These bonds will have longer maturities than any other New York State offering, and inasmuch as it is not too sizable an issue, there will no doubt be quite some competitive bidding and interesting results.

There seems to be a disinclination on the part of bond dealers and investors to follow into the field of the higher grade municipals, long or short, which are currently offered at very low investment returns.

When one stops to realize that there exists the possibility of the elimination from the market of several billion of tax-free Government instrumentalities within the next two or three months, replacement necessarily will be the problem and the question is, what can be used as replacements of a tax-exempt character?

Tax Deficiency Held Administration's Fault

(Continued from first page)

the future and the opportunities of the men who are doing the fighting so that we can now live in comparative comfort. We must not bequeath to them a heritage of overwhelming debt—in short, make them pay more than is necessary of the cost of the very war which they are fighting.

"But we need additional revenue now for another basic reason. We must pay now so that after the war is over taxes may be lowered in order to give that stimulus which lower taxes always give to our economy—the stimulus necessary to provide jobs and opportunities after the war for our present war workers and our returning soldiers.

"The violent and ill-tempered Presidential veto message advanced none of these causes. It was overridden by both houses of Congress, as every one, probably including the President, expected. The President, of course, made a paper record but lost the opportunity to be constructive. That bitter message had no rhyme or reason behind it when it is considered in terms of our national well-being. It served to stir up personal animosities; to bring increased discord between the Executive and the Congress.

"The only definite tax proposals that could be attributed to the President were those submitted by the Treasury Department, and some of them were unsound in method and misleading in approach. The President, by the nature of his veto, lessened the opportunity for the eventual passage of an appropriate and sound tax law. The forces of inflation concerning which he has so frequently warned, were aided by his ill-tempered and unwise conduct.

"Congress, in its action, is but reflecting the people's mood—a mood of worry and doubt about the Administration's sense of obligation in handling their money. This problem will not be solved by dramatic resignations and over-sentimental reconciliations. It will be solved when the Administration, by its conduct, convinces the people that it is a responsible custodian of their funds and a unifier of their national life."

Named To Fed. Reserve Open Market Group

Alfred H. Williams, President of Federal Reserve Bank of Philadelphia, has been named alternate member and Hugh Leach, Richmond, has been elected representative of Federal Reserve banks of Boston, Philadelphia and Richmond on the Federal Reserve open market committee for year beginning March 1.

Pennsylvania Brevities

When a corporation much in need of recapitalization approaches the formative stages of such a plan, its securities are likely to get pyrotechnical in behavior. Brill Corp. 7% preferred, up some 30 points in the last month, reflects some plain and fancy guessing as to the terms later to be offered to the holders of this senior issue.

Brill Corp. is a holding company owning 99% of the preferred and 100% of the common stocks of J. G. Brill Co. of Pennsylvania. Brill Corp. also owns 60% of the preferred and 70% of the common stocks of American Car Foundry Motors Co., which, in turn, controls Hall-Scott Motor Car Co., the A.C.F. Motors Co. and Fageol Motors Co. of Ohio.

Generally speaking, American Car Foundry Motors, through its subsidiaries, provides Brill Corp. with the bulk of its earnings on a consolidated basis. From an asset standpoint, however, book value of Brill Corp. preferred far exceeds that of American Car Foundry Motors preferred. The principal problem, therefore, in the hands of those attempting to work out a reclassification, is to find an acceptable balance between the relative values of earnings and assets.

Since a substantial majority of American Car Foundry Motors preferred and common is owned by Brill Corporation, an equitable allocation of new securities should be easy to determine and consummate. With net current assets of approximately $175 per share, an equivalent book value of $300 per share and dividend arrearage of over $80 per share, Brill Corp. preferred at about 110 is probably still undervalued. Many, however, believe that American Car Foundry Motors preferred at 60 is relatively more attractive. Traders continue to make their respective guesses in the market place while the final answer is being formulated in conference. It makes for lively and spirited activity.

The stockholders of two Pennsylvania corporations, last week, voiced objections to management-devised activities which, they alleged, tended to reduce stockholders' equities.

Victor Frey, attorney for a group of United Gas Improvement stockholders, termed the company's estimate of the cost of its retirement and annuity plan "expert camouflage." Frey said company will be required to expend lump sum of $765,000 for past service annuities at the inception of the plan and that the company proposed to charge this cost to surplus. He estimated the total cost to UGI stockholders to be $1,509,000, which, he says, "is not peanuts, when it is recalled that total net income of the UGI applicable to dividends on its stock will be only $763,000 per year after its distribution of Delaware Power & Light Co. stock."

According to information contained in a report filed with the Federal District Court by Paul Zens, Treasurer of Edward G. Budd Mfg. Co., the company has issued options for all the 300,000 shares of unissued common stock to 160 key officers and employees by way of "incentive pay," but at $900,000 less than it would have received if the options had been issued and exercised on July 13, 1943, as originally intended.

Marine refrigeration and air conditioning equipment for more than 1,100 U. S. cargo ships and 2,000 naval vessels from battleships to tugs is now being produced by York Corp., according to S. E. Lauer, president. This represents a 44% increase in company's volume of marine business in 12-month period. The major part of this equipment, valued at $12,300,000, has been refrigeration for Liberty ships, more than 1,000 of which have been equipped by York since Pearl Harbor.

For the first quarter of present fiscal year, York reports total sales of $10,609,893 compared with $6,658,613 for the corresponding preceding period. Net profit, before income and excess profits taxes, was $864,348, compared with $364,178.

Reporting net profit of $4.56 per share, compared with $2.91 in

(Continued on page 899)

Omer Joins Staff Of Hemphill, Noyes Co.

Hemphill, Noyes & Co., 15 Broad Street, New York City, members of the New York Stock Exchange and other leading exchanges, have announced that Paul T. Omer has become associated with them as counsel. Mr. Omer was formerly a member of the law firm of Satterlee & Warfield of New York. He has specialized for many years in financial law and was an original staff member of the Securities and Exchange Commission.

Paul T. Omer

Situation Looks Good

The $5 cumulative preferred stock of Cleveland-Cliffs Iron Company offers interesting possibilities, according to a circular discussing the situation in some detail, issued by G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y. Copies of this circular may be had upon request from G. A. Saxton & Co., Inc.

Changes In Income And Corporation Taxes In New Tax Law; Higher Taxes On Luxuries

Changes In War Contracts Renegotiation Law

Reporting essential features of the new legislation embodied in the tax bill which became a law on Feb. 23, Associated Press Washington advices from Feb. 25 given in the New York "Journal of Commerce," noted that the legislation increases the income tax take from individuals and business concerns, raises some postal rates, and increases taxes on liquor, furs, cosmetics and many other items, effective April 1. From the advices we quote:

"Congressional tax experts estimate it will return $2,315,000,000 a year, raising the Treasury's annual income to over $42,000,000,000, but President Roosevelt disputed the prospective return.

"Salient provisions of the new law include:

"1. Increases in individual income taxes for 1944, to yield an additional $664,900,000. There is no general rate increase, the new revenue being derived through elimination of the earned income credit and removal of deductions for excise taxes paid out.

"2. A boost in the corporation excess profits tax from 90% to 95%, to yield $502,100,000 more.

"3. Higher excises on items classified as luxuries — another $1,051,300,000.

"Playboy and householder, socialite and factory hand are affected by the new excise load. The tax on cabaret charges jumps from 5% to 30%. Cosmetics, furs, luggage and most jewelry will bear a 20% sales tax. The rate on railroad tickets and local telephone service goes from 10% to 15%. Beer and wine taxes go up, along with those on liquor.

"4. Increased postal rates in several categories of mail—$96,900,000 more. The out-of-town letter rate remains at three cents. The in-town letters, beginning 30 days hence, must carry three-cent rather than two-cent stamps. Air mail charges rise from six cents to eight cents per ounce. Other increases affect C. O. D, registered and insured mail, and money-order fees.

"5. The social security payroll tax rate is frozen at 1% for the rest of 1944, instead of rising automatically to 2% each against employer and employee.

"6. Numerous changes become effective in the war contracts renegotiation law, including an amendment which opens the way for contractors to appeal to the courts from renegotiations they consider unfair. Next Dec. 31 is set as the termination date for renegotiating war contracts for recovery of excessive profits, although the President is given an option to set the date forward or backward as much as six months if he deems it necessary.

"7. Labor unions, farm cooperatives and other organizations are required to make annual financial statements to the Treasury, although no tax is imposed."

Cite Lt. J. E. Cagle; John Nuveen Associate

CHICAGO, ILL. — Lt. Jackson E. Cagle, USNR, general counsel of John Nuveen & Co., municipal bond house, now on leave of absence, has received a commendation from the Secretary of the Navy for "outstanding skill and devotion to duty as commanding officer of the United States Navy Armed Guard on board a U. S. merchantman in action with hostile forces during convoy operations."

Lt. Cagle volunteered for service in November, 1942.

Pennsylvania Brevities

(Continued from page 898)

1942, J. Howard Pew, President of Sun Oil Co., lists the following among company's 1943 achievements: Completion of $13,000,000 Marcus Hook aviation gasoline plant; almost tripled production of aviation gasoline; new high in refinery crude runs to stills; development of super aviation fuel 50% more powerful than 100-octane test fuel; 19% increase in wells drilled; delivery of 73 huge sea-going ships.

During the fiscal year ended Oct. 9, 1943, Lukens Steel Co. purchased $634,000 of its 4¾% debentures, leaving $1,566,000 publicly outstanding as of that date.

Owners of publicly-held issues of Pittsburgh Railways Co. system are expecting that arrangements will presently be concluded for a series of discussions with the Philadelphia Company, traction system parent, the objective being a dismissal of bankruptcy proceedings. It is probable that a prominent Philadelphia banking house will assume the role of "negotiator" between security holders and the parent company. Much preliminary work has already been accomplished.

The preferred and Class "A" stocks of Botany Worsted Mills are finding wider dealer acceptance in Pennsylvania. An initial dividend on the Class "A" shares is expected in April. Although government orders for worsteds have substantially augmented gross sales, the management consistently seeks to expand its civilian goods production. At present approximately 60% of company's business is non-military.

Pennsylvania dealers, despite recent advances, are still heavy buyers of reorganization rails. A study reveals that most issues are yet available at prices 10% to 40% below the indicated values of securities to be received in reorganization. By the time holders of existing issues actually receive new securities, prices are expected to be considerably above current levels. An important consideration, not always given full market recognition, is the fact that most roads emerge from bankruptcy with a large amount of cash on hand and that this cash is frequently applied to the reduction of the new debt.

The $6,000,000 first mortgage bonds outstanding against Philadelphia's Bellevue - Stratford Hotel, past due since 1935 and in default of interest since 1933, present an interesting and timely speculative opportunity. Bondholders are now the sole owners of the property, the court having confirmed a settlement agreement eliminating all other claims except accrued unpaid taxes, penalties and interest. Reorganization has been delayed because of delinquent taxes. A new Pennsylvania Tax Abatement Act became law on May 21, 1943. The act provides for abatement of penalties and interest on the condition that the delinquent pay current taxes and pay back taxes (without penalty) over a five-year period in annual installments. Bellevue-Stratford qualified under the Abatement Act by paying its 1943 assessment in full and making the first of its installment payments on Oct. 28, 1943.

Owing to largely increased earnings, it is now thought that the hotel can complete a reorganization plan along the lines earlier suggested. This plan provides for the creation of a $650,000 mortgage for the purpose of liquidating taxes and the exchange of old bonds for stock on a basis of 10 shares of stock for each $1,000 bond.

Earnings for the first half of 1943 showed gross of $1,225,514 and net of $192,793, before interest and depreciation. The comparable figures for 1942 were $917,322 gross and $42,648 net.

Larry F. Hardy has been elected vice-president in charge of Home Radio Division of Philco Corp.

Henry H. Ziesling has been elected vice-president of Midvale Co., in charge of sales, to succeed Stuart Hazelwood who resigned effective April 1.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

This week it is possible to present an analysis of the principal operating figures of nine leading fire and marine insurance companies, as reported in their 1943 annual statements. For the sake of comparison, results for 1942 figured on the same basis are also shown. It will be observed in Table I that five companies, viz., Aetna, Fire Association, Great American, Pacific and Phoenix, show net operating profits for 1943 substantially in excess of those of 1942, while three companies, viz., American Alliance, Jersey and Springfield, show substantial declines. Another company, Bankers and Shippers, shows a drop of only one cent per share in total net operating profits.

TABLE I

	1942				1943			
	Net Und. Before (Fed. Taxes)	Fed. Taxes	Net Inv. Income	Total Net Op. Profits	Net Und. Before (Fed. Taxes)	Fed. Taxes	Net Inv. Income	Total Net Op. Profits
Aetna	—$0.29	$0.19	$1.91	$1.43	$1.08	$0.24	$1.75	$2.59
American All.	0.50	0.23	1.40	1.67	0.03	0.14	1.38	1.27
Bankers & Shippers	3.10	3.67	5.90	5.33	1.12	0.52	4.72	5.32
Fire Association	0.17	1.92	4.08	2.33	0.15	0.24	3.95	3.86
Great American	—0.12	0.07	1.26	1.07	0.55	0.23	1.25	1.57
Jersey	1.70	1.70	2.56	2.56	0.22	0.02	2.28	2.48
Pacific	5.05	4.85	6.65	6.85	2.02	0.12	5.60	7.50
Phoenix	0.33	0.44	3.52	3.41	1.04	0.50	3.43	3.97
Springfield F. & M.	4.13	1.27	5.51	8.37	—0.95	0.10	5.57	4.52

Total net operating profits alone, however, do not tell the whole story, as further inspection of the tabulation shows. For instance, all companies, with the exception of Springfield, experienced a moderate decline in net investment income, but when the results of underwriting operation are examined, great diversity of experience is found. Furthermore. Federal income taxes, which were small prior to 1942 and did not greatly affect operating figures, now constitute an important factor. It will be observed that in cost cases 1942 taxes were higher than those of 1943, and in many instances substantially so. Generally speaking, companies which were relatively heavy in ocean marine risks in 1942 show better underwriting results in 1943, while those which were relatively light in ocean marine but heavy in fire risks, show poorer underwriting results.

All of the companies show substantial increases in year-end surplus, and moderate increases in unearned premium reserves, with the exception of Fire Association. Liquidating values per share of stock of each of the nine companies also show substantial gains. (See Table II.)

TABLE II

	Dec. 31, 1942			Dec. 31, 1943		
	Surplus	Un. Prem. Res.	Liq. Value	Surplus	Un. Prem. Res.	Liq. Value
Aetna	$23,265,000	$23,047,000	$53.31	$26,614,000	$24,456,000	$58.48
American All.	2,967,000	2,369,000	23,05	4,016,000	2,494,000	26.71
Bankers & Shippers	1,887,000	3,399,000	106.17	2,383,000	3,467,000	119.22
Fire Association	9.107,000	9,677,000	74.89	11,584,000	9,567,000	87.05
Great American	22,619,000	16,350,000	*22.85	28,292,000	16,742,000	*26.50
Jersey	1,058,000	2,153,000	58.38	1,301,000	2,246,000	64.00
Pacific	2,823,000	3,907,000	134.65	3,303,000	4,027,000	147.85
Phoenix	43,763,000	10,506,000	89.94	48,457,000	11,001,000	98.09
Springfield F. & M.	14,636,000	16,182,000	130.54	15,965,000	16,557,000	137.94

*Excluding capital and surplus of Great American Investing Co.

Greatest gain in surplus was made by American Alliance with 35.4%, minimum gain was 9.1% by Springfield Fire and Marine, and average gain of the nine companies was 20.9%. Aetna shows the greatest gain in unearned premium reserves with 6.1%, and Bankers and Shippers the minimum gain of 2%, while Fire Association shows a decrease of 1.1%, and the average gain is 3.2%. Maximum gain in liquidating value per share is 16.2% by Fire Association, minimum gain is 5.7% by Springfield and the average is 11.6%.

As regards dividends, six companies paid the same in 1943 as in 1942; on the other hand, Bankers and Shippers paid $4 instead of $4.25; Jersey Insurance, $1.50 against $1.75, and Pacific Fire, $5.25 against $5.

Morris Mather Dead

Morris Mather, senior partner of Morris Mather & Co., Chicago investment bond firm, died on Feb. 26. Mr. Mather, who was 58 years old, came to this country from England and entered the investment business in 1913.

NASD Headache Continues

(Continued from page 891)

The New York Security Dealers Association on Feb. 8, 1944 petitioned the SEC to revoke the "5% rule" or, as an alternative, hold a hearing. The Commission has not as yet announced its intentions in the matter. As ground for its request, the Association pointed to the failure of the NASD to submit the so-called "interpretation" to a vote of its members.

That's a good reason, although a limited one. Advocating the revocation of a bad rule that found its birth in the violation of the NASD Constitution is sound policy.

However, the widespread opposition is based upon additional and more fundamental grounds. The "5% spread philosophy," were it limited to a philosophy, would be no threat. In private life, we each have a right to an opinion, and philosophy is but an opinion of a course of conduct to be followed, or refrained from. Philosophies vary with individuals and are not forceably imposed. Their charm for, and comfort to man, lies in their being purely voluntary. When a "philosophy" becomes a rule of enforcement, and one unlawfully imposed at that, to continue to call it a "philosophy" is as arrogant as it is false.

Fundamentally, dealers believe there are serious implications in "the rule." It is another step in that creeping paralysis with which bureaucrats have been shackling free enterprise. Nor is opposition a matter for the security field alone. Business generally must, and will, realize that such perverted doctrine is a malignancy that will spread rapidly until ultimately no field of commerce will be immune from its depredations. Hence, the persistent and unabating effort for revocation.

You will recall the NASD's "minimum capital requirement" of "sainted" memory. It was based upon the utterly false premise that honesty bore a direct relationship to assets. In it the belief was inherent that a man was as honest as he was wealthy. The effort to smear that one over the industry failed, and we predict that history will be repeating itself with respect to the "5% spread."

The NASD has a full-blown headache. It's mistake was lethal. In private, some members of its Board have voiced their opposition to the "5% philosophy." It is generally believed that the Association is looking for a way out, for some face-saving device or compromise.

However, there is no compromise with freedom, whether it be freedom of speech or of the press or of doing business. Illegal restraints are alike odious to all liberty loving people. The danger lies not in a specific limitation, but rather in its tendency to grow.

To us this business of saving face has always seemed "the bunk." 'Tis a wise judge who, knowing he is wrong, will reverse himself. The call is for courage, not face-saving. If the Board of Governors of the NASD met and, frankly acknowledging their mistake, revoked the "5% rule," both their stature and that of the organization they represent would increase.

The security field has the right to demand and to expect such action.

Somewhere along the line revocation must come; if not through the NASD then through the SEC. If both bodies fail to do this, the Courts will come to the rescue.

In the meantime, the longer the delay, the more acute the headache.

Goldman, Sachs Quit Syndicate Because Of Justice Dept. Stand On Price Stabilization

The banking firm of Goldman, Sachs & Co., one of the largest underwriting houses in the country, withdrew from the syndicate which was formed for the sale of $16,000,000 Florida Power Corporation 3⅜% mortgage bonds, headed by Kidder, Peabody & Co., because of the action of the Department of Justice on Feb. 12 in the case of the Public Service of Indiana bond issue put out in 1938. The Justice Department held essentially that any restriction on resale prices was in effect a violation of the Sherman Anti-Trust Act.

In withdrawing from the syndicate, the firm pointed out that the policy of price stabilization and control contained in syndicate agreements has been in effect since the creation of the Securities and Exchange Commission, and with the full knowledge of this supervisory agency, and in view of the close margin of profit to underwriters on most new issues, they did not feel justified in entering the syndicate without a fixed reoffering price for a definite period.

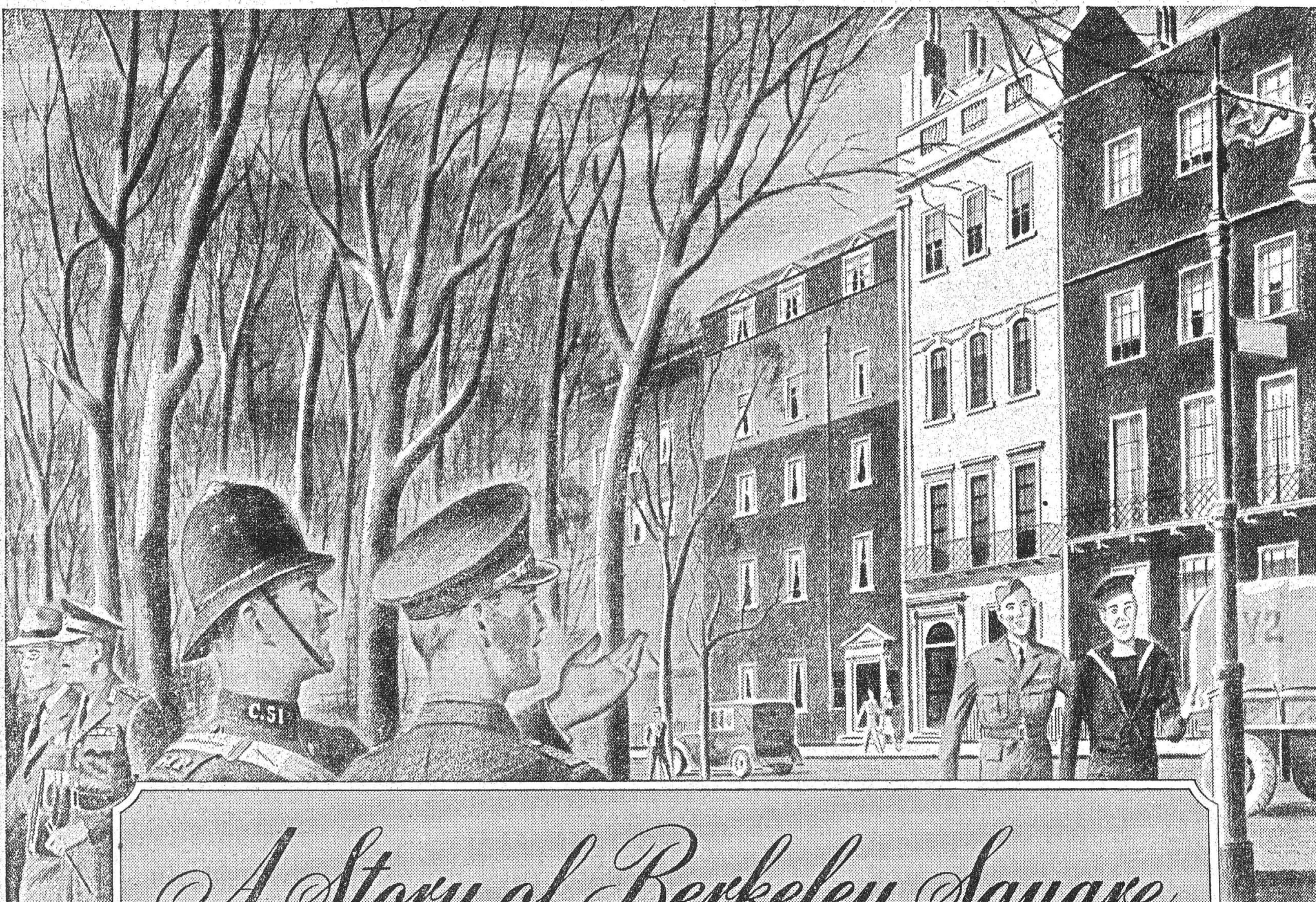
Because of the ruling of the Department of Justice in the Indiana Public Service issue, price restrictions are reported to have been removed or altered in at least four deals relating to new offerings. According to the opinion of investment bankers, the matter will require further clarification before normal conditions relating to the offering of new security issues will be restored. The controversy arose over the determination of the right of the National Association of Securities Dealers to fine 70 of its members for failure to live up to the price agreement in the initial distribution of the Public Service of Indiana $38,000,000 bonds.

C. G. Wolfe Joins Staff Of R. M. Horner

Clarence G. Wolfe, formerly vice-president of C. D. Robbins & Co., has joined the sales organization of R. M. Horner Co., 30 Broad Street, New York City.

Associated Gas & Electric Four Yrs. After Bankruptcy

G. A. Saxton & Co., Inc., 70 Pine Street, New York City, have issued a study of Associated Gas and Electric, surveying the situation four years after the bankruptcy proceedings were started, and reviewing the 17th report of the trustees. Copies of this interesting study on the situation may be had upon request from G. A. Saxton & Co., Inc.



A Story of Berkeley Square

IN London's old Berkeley Square, whose pavements William Pitt, Lord Clive and Alexander Pope once trod, a branch of an American bank came into being seven years ago. For a few too-brief years it served its original purpose. *Then Hitler struck*—and through the Blitz this office, one of the three London branches of the Chase National Bank, continued to facilitate the aid which America was even then extending to hard-pressed Britain.

Pearl Harbor raised the curtain on a new scene in the short history of this Chase branch. A new service was immediately inaugurated there. As a result, tens of thousands of men of our armed forces, G.I.s and generals, bluejackets and admirals, are using this Chase branch in ways seldom associated with a commercial bank. Thousands of families throughout the United States are being cheered by flowers, candy and other gifts from their boys overseas—the bank taking care of the orders by cable or airmail, without profit to it for the service.

This Berkeley Square branch is near the very center of American military and civilian activities in the British capital. Hence it has come to be financial headquarters for much of the personnel there. Checks are cashed daily for many members of our armed forces and funds are transmitted for them to and from the United States. The staffs of American missions and departments likewise utilize these convenient facilities extensively.

Thus the oldest American banking organization in London helps the men overseas keep their ties with their families at home. Berkeley Square has a new chapter to add to the many events its stately Georgian houses have seen.

THE CHASE NATIONAL BANK

OF THE CITY OF NEW YORK

HEAD OFFICE: *Pine Street corner of Nassau*

LONDON—Main Office, 6 Lombard Street; Branches, 51 Berkeley Square; Bush House, Aldwych

Mutual Funds

What Is A Mutual Fund?

Recently we received a letter from Mr. Walter L. Morgan, President of **Wellington Fund, Inc.**, on a question which has probably caused more head-scratching than any other in the distribution end of the mutual fund business.

Mr. Morgan writes: "I have had many people ask me what a mutual fund was, with a view towards having me respond in a few words that could be understood by a layman." He then comments on the difficulty of giving a satisfactory "layman's" description of a mutual fund within the scope of a 25 to 50-word paragraph, and concludes with the flattering request that we prepare such a description and publish it in this column.

Anyone who thinks it is easy to give a clear, non-technical description of a mutual fund in a few words has probably never been called upon to do just that. To the millions of people who know only vaguely the difference between a stock and a bond, it means very little to say, for example, that "a mutual fund is a Federally regulated investment company with redeemable shares."

Some time ago we had the opportunity of discussing this question with Mr. Kenneth S. Gaston, President of **Group Securities, Inc.** He gave a "layman's" description of a mutual fund which ran about as follows: (The first paragraph may not be exactly what Mr. Morgan had in mind, but it comes as close to making mutual funds understanddable to the average investor in a few words as anything we have yet seen.)

"What Is a Mutual Fund?"

"If you and a group of your friends, each with money to invest, should decide that individually you did not have the time or the facilities to handle your own investments and that you should put your investment money together and hire someone to manage it for you—**that would be a mutual fund.**

"To make the fund practical, you would have to work out an arrangement so that any one of you could withdraw his money at any time without injuring the interests of the group. Since other friends might want to join you at a later date, some way would have to be worked out to include them on a basis that would be fair to everyone.

"By the time you and your friends had thrashed out all the details, what you would end up with would be a mutual fund in the modern, technical sense of that term. It would most likely be a corporation in which each of you would own stock. (Although it could also take the form of a trust fund.) The number of shares each of you owned would depend upon the amount of money you put in. Some might own a lot, some just a little.

"The later joiner would pay for his stock, not the original price, but a price that was **fair at the time he joined.** The fellow who wanted to withdraw would sell his stock back to the corporation, not at the original price, but at a price **fair at the time.** Income received on the investments made, and profits realized on such investments, would be paid out to stockholders from time to time as dividends.

Management

"As in all corporations, you would elect a board of directors and this board would be responsible for the sound conduct of the business, (for that's what it is, a **business** of investing money). The directors would seek out the best investment manager they could find and hire him. They would arrange to have someone talk to other investors like yourselves, to persuade them to join—for the larger the group the less the expense of operation would be for each member and the better quality of investment management you could afford to hire.

Safeguards

"The directors would hire a bank to act as custodian of all the cash and investment securities, a firm of certified public accountants to audit the books.

Federal Regulation

"The directors would register your company with Federal authorities and submit regular reports to them, for by Act of Congress enterprises of this type are under Federal regulation. In other words, they would surround the business of investing your money and that of your friends with all the modern safeguards.

"A mutual fund is **cooperative investing.** Nearly **three-quarters of a billion dollars** of investors' funds are being managed by this method.

The Services a Mutual Fund Performs

"Your investment money may be quite small—too small by itself to buy more than one or a few different securities—too small to enable you **alone** to hire professional investment management. But because you have joined with many others the total amount to be invested is large—large enough to spread over a wide list of securities—large enough to afford good management. You get every benefit that the largest contributor gets. Your money is being handled in just the way that an investor with millions would have his money handled.

"Diversification, that is, the buying of many investments rather than one or a few, is the corner stone of sound investment procedure. It is the first requirement of all institutions which make a business of investment — savings banks, insurance companies, endowment funds, foundations, etc. **You need diversification just as much as they do.**

"Investment management is a full-time job. It requires training, experience, special facilities for gathering information, close contact with markets. Investment institutions have to have it — **you need it just as much as they do."**

* * *

Your comments and criticisms on this "layman's" description are invited. Certainly there are few if any problems in the mutual fund field which lend themselves more completely to cooperative action on the part of sponsors and participating dealers than that of clarifying the understanding of the layman as to exactly what a mutual fund is and what it does.

We shall be glad to print in this column such other appropriate brief descriptions of a mutual fund as our readers may care to submit.

Heavy Government Borrowing Does Not Necessarily Lead To Inflation: Hansen

(Continued from page 891)

sen further pointed out that an increase in public borrowing in times of widespread unemployment "offers no dangerous inflationary potentialities," but, during war-time full employment periods "any increase in Government expenditures must be offset by a decrease in private expenditures, if inflation is to be prevented." He adds "since, in fact, all modern governments have found it politically necessary to finance a very large fraction of war expenditures by borrowing from banks, inflationary potentialities appear. But these potentialities need not result in price inflation. Private expenditures may be curtailed as an offset to the increase in public expenditures even though holdings of currency and demand deposits increase. No inconsiderable part of this restraint in private expenditures is voluntary. If you cannot buy an automobile, you may decide not to spend at all. If you cannot build a house, you may decide to save your money in order to build after the war. In part, the voluntary restraint on spending is induced by fears or anticipations with respect to the future —the fear of future tax increases, the fear of future unemployment, anticipations with respect to post-war business needs, and so on."

The Government's program of rationing and price control, Professor Hansen believes, has been an effective means in decreasing private expenditures and preventing inflation. As to the post-war period, much will depend on maintaining an equilibrium between private investment and net private savings. "If private investment exceeds net private saving, inflationary tendencies will be present in the economy when the level of the public debt is maintained. This inflationary tendency could be offset by a budgeting surplus and the retirement of public debt or by the Treasury holding the surplus in idle balances."

The system of taxation followed, it is pointed out, also will have an influence in determining the inflationary tendency of a heavy Government debt. If the tax structure is such as to discourage investment, "the potentialities of a public debt are deflationary, not inflationary." Accordingly, "a tax structure that goes light on corporate income taxation and relies more heavily upon a progressive personal income tax is more favorable for investment than one which taxes corporations heavily and personal incomes lightly."

Professor Hansen emphasizes strongly the importance of maintaining Government credit as a fundamental factor in preventing inflation. "We must defend that credit. Government credit is the foundation of our whole financial structure. In the great depression it was Government credit that came to the rescue of bankrupt railroads, bankrupt banks, bankrupt home owners, and bankrupt land owners. Government credit underlies the security of our savings institutions, our insurance companies, our commercial banks, and our entire credit system. There are currently dangerous attacks being made upon the credit of the Federal Government. Resolutions have passed a number of State legislatures proposing a constitutional amendment to limit the taxing powers of the Federal Government. Even before the Constitution was adopted, Alexander Hamilton, in his Federalist papers, argued that any limitation on the taxing power of the Federal Government would be a grave mistake. If, as is now suggested, we should, by constitutional amendment, deprive Congress of the power to impose income tax rates in excess of 25%, will not others propose an amendment to raise exemptions to $3,500 and to limit the rate on the lower incomes? Proposals have also been made to limit the borrowing power of the Federal Government. Such proposals should be vigorously resisted by all who have any regard for the integrity and security of our financial institutions. If our social order is to survive we must maintain the credit of the Government, the purchasing power of our money and the value of Government bonds."

Railroad Securities

(Continued from page 895)

Moreover, there should be little difficulty in covering the full dividend requirement on gross revenues of as little as $120,000,000, or more than $100,000,000 below gross reported last year. With the basic improvement in the road's western territory in recent years and the importance of this section in any post-war development of the Far East, there should be little danger of the road's business falling to such a level for many years to come at least.

Under the proposed reorganization, the Gold 5s, 1975, are allocated $225.78 in cash, $179.38 in Series "B" Incomes, $918.91 in preferred stock and 0.975 shares of new common stock. The Series "B" Incomes should sell at least around 60 and the common at perhaps 15. Taking these prices and allowing for the cash allocation, the 5s, 1975 at their recent price of around 56 reflect a value of only 23 for the new preferred stock. This is about in line with the common stocks of many of the other reorganization properties. Actually with a constructive debt retirement program this preferred might well sell around 50. Such a price for the preferred would indicate a potential value of 80¾ for the 5s, 1975, including the cash distribution of $225.78 per bond. To this would be added approximately $54 representing the preferred dividend and Income bond interest for this year.

Objections to the plan have been of a minor nature, mainly centering around technical details as to reorganization managers, the escape clause in the bonds, and the dividend restrictions. One group has also suggested that the cash payment to the 5s, 1975 be specified as including the dividend on the new preferred for a period of three years so as to lift the restriction on common dividends. No objections were voiced over the security allocations or over the actual distribution of the cash. The proceedings should, therefore, move fairly rapidly and may well be out of the court and presented to bondholders by the fall.

In view of the timing, some question has arisen as to when the cash provided in the plan should be distributed. As no objections have been filed to the cash distribution there appears to be no reason why at least a portion should not be paid out later this year. For one thing, splitting the payment would avoid an unjustifiable tax penalty on holders of the bonds. Obviously the payment does not represent a single year's earnings but if paid all at one time on consummation of the plan it would be taxable to the holder of the bonds as income in that year. Perhaps even more important on an over-all basis is that payment of part of the cash this year would give the company an up-to-date list of the holders of bonds, so that ballots to vote on the plan could more readily be distributed. The saving in time and money in getting the names in this manner would be considerable. With these considerations it is generally felt that part of the cash will be paid out this summer.

Canadian Securities

Although in the last few years marked improvement has been registered by the bonds of the Canadian western Provinces, nevertheless the Canadian appraisal of many situations in this category is still considerably higher than here. This is particularly noticeable in the cases of British Columbia and Manitoba. In Canada, the credit of British Columbia now vies with that of the highest rated Provinces, Ontario and Quebec. There are obviously very good reasons for this state of affairs, a few of which are cited as follows:

British Columbia has a wider range of natural resources than any other Canadian Province, including the finest stand of softwood in the British Empire, vast coal, iron and precious and base metal mines, rich fisheries, abundant hydro-electric power, rich soil and the best climate and scenery in all Canada. The provincial finances have been expertly handled by Premier John Hart and the present position is excellent. A revenue surplus of $5,196,040 was realized during 1941-42 and, in the last financial year, the surplus exceeded $8 millions. Consequently, there is every justification for the obligations of this province to sell well in line with those of Ontario and Quebec.

Turning to Manitoba, as far as investment opinion in this country is concerned, it can be very well termed the cinderella Province of the Dominion. The popular belief is that Manitoba is just a wide extent of prairie producing very little except wheat. In reality, wheat accounts for less than 10% of the value of the provincial income. Manufacturing is the principal item in Manitoba's economy, and in 1942 represented 48% of the total. The proportion for agriculture was 43% in the same year, and it is more widely diversified than in any other Province. Although the mining percentage currently is only about 4%, there are high prospects for greatly increased mineral production. An immense tonnage of chromite ore containing iron was discovered in 1942 in the Bird River area, where there is also abundant hydro-electric power. Therefore, it is hoped to develop an important ferro-chrome industry in the post-war period. Also recent gold discoveries in the Snow Lake area of northern Manitoba may be the basis of a major post-war field. With regard to the financial management, Manitoba's record in this respect is second to none in the Dominion. **We arrive at the conclusion, therefore, that Manitoba bonds should rank with those of Nova Scotia and New Brunswick.**

Market activity during the past week was on an increased scale with bonds moving from Canada in greater volume. As anticipated, however, this did not prevent the market making further headway in all sections. Rumors concerning an imminent settlement of the Montreal debt situation brought the issues of this municipality to the forefront of popular interest, and the long 4½s were well bid at par. Direct Dominions moved higher and there was an excellent demand for the 3s of 1953 at 103¾ and the 3s of 1958 at 104.

Nationals continued their upward course and the 5s of October 1969/49 were in demand at 117¾. Ontarios and Quebecs were also firm, especially in the shorter term area. Nova Scotias and New Brunswicks were steady with little activity, but Manitobas again were in strong demand with the longer term issues quoted on a 3⅞% yield basis. Saskatchewans continued their improvement and the 4½s of 1960 were quoted either side of 91. There was a renewed demand for Albertas with the 4½s bid at 83. Canadian Pacific perpetual 4s reached into new high ground with bids around 93½. Internal issues were inactive with the dollar in the "free" market slightly easier at 10½% discount.

A bullish factor affecting this section of the market has been largely overlooked. This is the right of holders of Canadian internal bonds who have brought bonds down from Canada on the rate, to register them with the Foreign Exchange Control Board. Such holders then have the privilege of resale of the bonds in Canada, which is obviously an important advantage.

Looking to future developments, we are now within a few weeks of the commencement of the Sixth Victory Loan drive. This might slow down the general activity to some degree, but there is no reason to suppose that the present strong tone will not continue, especially in the shorter term section of the market. Two factors that could be of material assistance in this direction would be the news of a definite settlement of the Montreal debt problem and a call for redemption on or before May 1 of the Canadian National 5s of July 1, 1969/44.

Inflation Antidote – High Output And Low Taxes

(Continued from page 890)

great outpouring of money. The national income has increased rapidly without any commensurate increase in the supply of non-war goods. Inevitably we have had a degree of inflation already. Since the war began the cost of living, according to the Index of the Bureau of Labor Statistics, has increased an average of 24%—the equivalent of a flat sales tax, without exemptions, of 24% on every family in the United States.

In a sense inflation itself is, of course, a form of taxation. It hits particularly those of fixed incomes, the millions of "white collar" workers, the beneficiaries of insurance policies, old age pensioners, disabled veterans, dependents of soldiers and sailors, and endowed institutions of religion, science, education and philanthropy. The burden of inflation, however, is much more serious, for inflation is a tax not only on every individual's expenditures, but on his savings and capital as well.

So far, inflation is more of a threat than an actuality, due to three factors; thorough publicizing of the danger, reasonably adequate rationing and price control, and an intensified willingness to save, rather than to spend, the tremendous surplus of disposable income.

The Increase in Savings

The savings of the American people have increased from an annual average of only $5,000,000,000 during the 1930's to more than $13,000,000,000 in 1941, $27,000,000,000 in 1942, and $36,000,000,000 in 1943. It is estimated that by the end of 1944 the country will have a reservoir of savings approaching $100,000,000,000, more than our whole national income in any year before the war. These savings are in hands of people who normally spend more than they save; three-fourths are held by members of the lower-income group.

While inflation-conscious America has shown examplary self-control during the war, to what extent will this attitude persist after the war is over? Hitherto several factors have entered into the practice of saving rather than spending: the purchase of war savings bonds in response to appeals to patriotism; unwillingness to pay higher than accustomed prices; inability to obtain durable goods such as automobiles, refrigerators, etc., and lack of opportunity to spend for construction and improvements. The restraint of the people may not have been altogether voluntary, for a lot of things that could be bought before have disappeared from the market, but a great deal of the failure to use the purchasing power must have been deliberate.

The war's termination will probably see the removal, partial at least, of these factors, and then will come the test of inflation control.

Production as the Answer

The pent-up demand for goods in the post-war period will be enormous, and the means of purchase will be plentiful—cash, bank accounts and salable Government bonds. With the advent of peace many individuals probably will cash in their Government bonds in order to buy hitherto-unavailable goods or make a down payment on a new home; or else they may regard their savings as a backlog and may spend more and save less out of their post-war incomes. This normal pent-up demand undoubtedly will be supplemented by a heavy demand for our products to feed and reconstruct the devastated countries, together with the need of all types of repairs, renovations, modernization, plus development of new products and processes.

The great danger is that the public may try to buy more goods than are immediately available, causing price inflation and destroying the value of both incomes and savings. It is fundamental that the price of a commodity or a service will not rise if the supply is ample in relation to the demand. Consequently the solution of the inflation problem seems to lie in the one word—production.

Our resources and facilities for production are sufficient to satisfy even the high levels of demand to be expected. The nation is Croesus-like in its natural resources, manufacturing facilities and normal labor supply. Its capacity to produce, developed and enhanced by the demands of war, is estimated at 50% more than it was in 1940. The industrial machine can function superbly, if unhampered by factors such as taxes, price fixing and restrictions that retard the incentive to produce.

The Factor of Taxes

It is generally assumed that the excess-profits tax will be repealed and corporate income and surtaxes modified, which will encourage the investment of "venture capital" in new products and processes, as well as further development of industries in new fields such as plastics, electronics, sulfa drugs, etc.

There are some who believe that taxes should be kept high as an anti-inflationary transition and post-war measure. But insofar as taxes hold back production, and especially since political considerations and administrative problems have prevented taxes from being levelled where inflationary pressure is greatest, high taxes would be inflationary, because they would tend to a limitation on the supply of goods.

The Means of Production

Just as the normal desire of consumers will be to replenish, resume and add to their required or wanted goods and services, the normal desire and course of producers will be to supply such goods and services.

The tremendous feats of war production demonstrate conclusively that, given free rein, American suppliers of goods and services can produce to such an extent that the inflation unbalance—a greater amount of the means of payment than of goods and services to be bought—need not become operative for any important period of time.

Against the inevitable delay in switching to full civilian production there will be the offset of the release of large amounts of surplus goods no longer needed to be held for military purposes and of the reduction in military consumption of other goods.

Thus, without restrictive factors, strong inflationary developments need not be expected—indeed, deflationary ones are possible in the switch from what is a sellers' market toward a buyers' market.

Possible Restrictive Factors

There are, however, possible restrictive factors, including Government limitations on production, on materials for production, on prices or wages, which would prevent production from being brought fully into play, and corporate financial limitations which could also rise, principally as a result of Government action (contract payments, taxes).

The Baruch-Hancock report on Post-War Adjustment Policies, just published, is a statesmanlike document which gives a bright picture of the nation's economic future and states the American free enterprise philosophy in strong terms. It reaffirms faith in private enterprise:

"There has been too much loose parroting of the slogan that if individual enterprise fails to provide jobs for everyone it must be replaced by some one of the other systems that are around. The war has been a crucible for all the economic systems of the world, for our own, for Communism, Fascism, Nazism—all the others. And the American system has outproduced the world.

"America's productive capacity can perform still another miracle in a fine and lasting peace. It will not do so if pressure groups are permitted to turn that productive capacity into a battleground for their own selfish interests or inflate ourselves out of the world market."

Conclusion

During the war inflation has been more of a threat than an actuality. The danger, always present, has been in the main averted by a combination of war-time price controls and the nation's determination to save rather than to spend increased income.

The danger will be enhanced in the post-war period by a combination of record savings, accumulated pent-up demand for goods and services, and relaxed controls, which can be met with adequate production. The means to prevent inflation, therefore, are ready to hand in the normal supply-demand factor of a free economy, unless hampered by unwise Government restrictions and excessive taxes. — From "Investment Timing" of Feb. 24th, issued by the Economic & Investment Dept. of the National Securities & Research Corp., New York City.

Kobbe, Gearhart Place Majestic Radio Stock

Kobbe, Gearhart & Co., Inc., on Feb. 29 completed a secondary distribution of 69,945 shares of Majestic Radio and Television Corporation common stock at $3.375 per share and the books have been closed. The shares offered are already issued and outstanding and the proceeds will be received by the selling stockholders. The net to the selling stockholders is $2.75 per share, with 50 cents per share for underwriting discounts and commissions.

Majestic was organized to produce and sell radio receiving sets to be sold under the name and trade mark of "Majestic" and "Mighty Monarch of the Air," which were acquired at the time Majestic began operations. The present production of Majestic consists of radio and electronic equipment for the Army and Navy, including manufacture of Piezo quartz crystals. Orders for such equipment have been sufficient to date to enable Majestic to make use of its production facilities and increase its earnings. Majestic has had no major problem in converting to war work and, while no assurances can be given, expects no substantial problem or delay in reconverting to peacetime products when that becomes permissible.

Majestic's manufacturing operations both in peacetime and in war, consist primarily of the assembly of parts produced by others to its specifications.

The only year since organization in 1936 in which Majestic has shown profits was the fiscal year ended May 31, 1943. Earnings in that year and at present are derived entirely from business directly or indirectly with the United States Government in connection with the war effort and there is no assurance that future business of this nature will be received nor that present contracts may not be cancelled in whole or in part at any time.

Forms Lewis & Broy

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — Del M. Broy is engaging in the securities business under the firm name of Lewis & Broy from offices at 381 Bush Street. Mr. Broy recently was connected with The Broy Company. In the past he was a partner in Lewis & Broy.

Promoting Labor Harmony In The War Effort

(Continued from page 891)

ice, such as one, two, or more years, may be included, and other classifications may be chosen where appropriate. However, no classification may discriminate in favor of employees who are highly paid employees, stockholders, supervisory employees and the like.

Benefits payable in some future period are then determined. The benefits may be in the form of a pension payable for life after retirement, and usually in proportion to compensation, or they may be in the form of funds distributable at some earlier time.

The problem of salary stabilization is sidestepped because if the plan secures Governmental approval, the contributions are exempt from stabilization restrictions. This is because the contributions are made to a trustee or an insurance company, and are not made immediately available to the employee. On the contrary, they are distributable only at retirement, or death or disability, or in 10% annual insallments beginning in 10 years, or 20% annual installments in the event of termination of employment. Thus their inflationary gap is not increased.

On the other hand, the wage earners participating in such a plan receive the benefit of having a nest egg laid aside for them out of current high earnings against some rainy day in the future.

Not only this, but these contributions are not taxed until actually received by the employee. This means that the withholding tax does not apply and when the funds are eventually received it may be expected that taxation will be at lower rates.

Frequently very substantial life insurance protection accompanies these plans as one of their elements.

A vast proportion of the funds contributed by employers is invested directly or indirectly in Government securities, thereby assisting the war financing program of this nation.

The observed effects upon morale of these plans are tremendously beneficial. Labor feels that it is getting a fairer share in current inflated earnings without contributing to the inflationary spiral. The specter of post-war deflation is largely defeated and the fear of death, penniless old age or disability is removed. The result of all this is a happier workman, more cooperative with management and more effective as an essential unit of production.

War plants all over the country are engaged in the process of installing these plans with very successful results.

Here are some of the public comments about employee benefit plans:

In a statement published on July 15, 1943, Senator George, Chairman of the United States Senate Finance Committee, said: "They are a prime means of preserving private capitalism in its contest with State capitalism."

With reference to pension plans before the House Ways and Means Committee, the following testimony was given: Mr. Paul E. Griffith, President, National Federation of Telephone Workers, stated:

"The public and employee interest and benefit demand that the Bell System pension plan be not terminated. The maintenance of the pension plan has markedly increased the continuity of service of Bell System employees and reduced labor turnover. These employees, long regarded as one of the most efficient groups of employees in the nation, have an average period of service approaching the span of 15 years.

"The maintenance of the pension plan plays an important part in the building up of morale among the employees, which is an important factor in permitting the companies to give the character of telephone service which the nation demands and requires."

Mr. Harry J. Hughes, a member of the Executive Board of Electrical Workers, affiliated with the American Federation of Labor, stated:

"Probably no other condition of employment is cherished so highly as the comfort one receives in knowing that he will be secure in his old age. Industries that do not provide pensions turn their loyal and faithful employees away when they are old, and they have to depend upon the mercy of the State or the goodwill of their friends for support."

In its latest annual report to stockholders, Standard Oil Co. of New Jersey stated:

"An outstanding feature of our labor program as adopted in 1918 deals with security of employment and protection against the hazards of sickness, accident, old age and death. These are the basic worries of employees. Our policy recognizes that workers put forth their best efforts if they are relieved of these anxieties. It was found that such protection is an incentive toward better work. Many industrial companies have since adopted similar programs, and social security has been provided by Government. Most employees look at job security as the most important feature of a labor policy. While unemployment benefits are helpful in emergencies, the feeling by employees that they can make a career in the business results in advantages to themselves and the company both. With these incentives, they devote themselves wholeheartedly to their work. The number of employees who have had continuous service of 30 to 40 years testifies to the effectiveness of these policies in promoting a feeling of partnership in the business."

Why NASD 5% Rule Will Close Capital Markets To Small Business

(Continued from page 891)

writing of smaller issues unless and until that rule is eliminated.

Let me try to explain our dilemma:

The SEC has permitted a profit of 15% to 20% on new "second-grade" financing, depending whether it is preferred stock, investment or semi-speculative common stock. At the first thought, it might be said that the 5% Rule will cause smaller security firms to join selling groups more readily and obtain more than half of the 15% to 20% of the underwriting profit and henceforth not pick up over-the-counter issues for resale to customers as much as such dealers have done in the past. But, on second thought, it must be realized that when the primary distribution of a new issue is completed, such preferred or common stocks become over-the-counter securities and then the dealers must henceforth comply with the 5% Rule to trade or resell such stock.

Note the inconsistency, the selling group members get more than half of 15% to 20%, or 8% to 12%. With such profit, that firm in turn can pay their retail salesmen 50% to 60% of their profit. Upon such a basis, the smaller dealers can carry on and their salesmen can earn a living compensation. But, if the dealers must divide with their salesmen on the secondary market the 5% profit, because of the 5% Rule, neither the small dealer nor salesmen can survive in the security business with such limited profit.

Many people do not realize the hard work involved or the salesmanship required to distribute second-grade or semi-speculative issues. Only experience as a salesman or small dealer could convince many people that a small retail distributing security firm must have 8% to 12% profit. Remember, all former prime issues or "blue chips" were once second-grade although they may have been originally distributed 10, 20, 30, 40 or 50 years ago. The buying of such issues as General Motors, Kresge Stores, General Electric and American Telephone and Telegraph were once speculative and many a fortune or a comfortable family income was once acquired by past risking of capital.

Now, if the security dealer cannot help maintain the secondary market of a new issue because of the 5% Rule, obviously, the underwriting firm cannot buy all the stock back at the offering price because of lack of resources, the market on the newly sold issue will fall off sharply.

Suppose the underwriting firm tries to go out with an entirely different second issue to cover the same territory, his wholesale salesmen, covering the dealers located in many cities in various States, will be greeted by dissatisfied dealers, former selling group members of the first issue (if they are still in business), with the fact that the market on the previous issue has declined sharply from the public offering price. Therefore, with numerous smaller dealers unhappy, because their retail salesmen are "getting hell" from the customers, who purchased the stock of the first issue; the underwriting firm is stimied in floating the second or third issue, and all succeeding issues, which under normal conditions should be readily marketable.

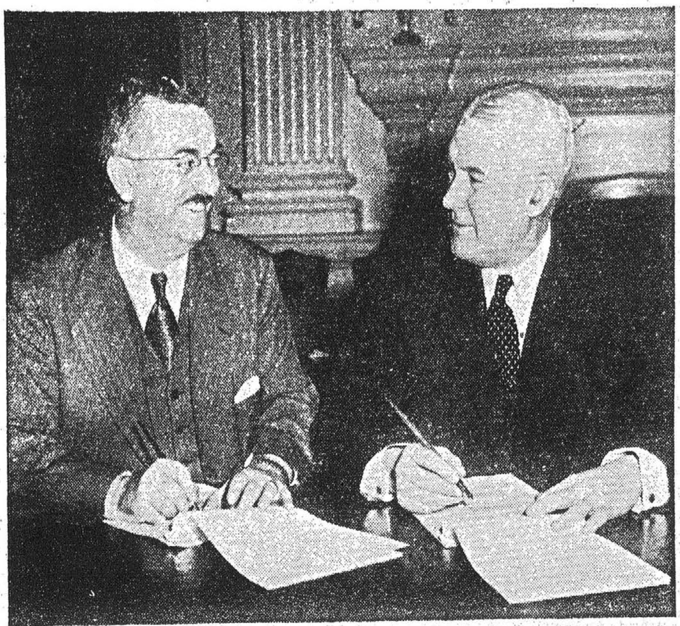
Thus ends all your underwriting business as no firm with wholesaling or distributing ability will even start the second underwriting as long as the 5% Rule exists. The whole situation is so evident that the 5% Rule ends all second-grade or speculative originations that "common sense" should be quickly injected by the SEC to terminate the 5% Rule.

If the SEC should not do so, then Congress should act; otherwise, all small businesses will either have to "grub" along with high taxes or sell out to "big business" in similar lines. Without adequate working capital furnished to hundreds of small firms, the post-war employment possibilities are very dark. Probably the employment burden will have to be again assumed by the Government with a revived WPA, because the larger corporations surely cannot provide all employment necessary at the end of the war.

WHITNEY-PHOENIX
COMPANY, INC.
STRABO V. CLAGGETT,
President.

New York City,
Feb. 26, 1944.

Bank of Manhattan Renews 104-Year-Old State Contract



State Comptroller Frank C. Moore (left) and F. Abbott Goodhue, President of the Bank of the Manhattan Company, renew 104-year-old State contract under which the bank continues to act as transfer agent for New York State.

Municipal News & Notes

A group headed by The Chase National Bank is making a public offering of a new issue of $8,330,000 State of New York 1.30% housing bonds, having won the award of the bonds yesterday on a bid of 100.3599 for bonds with a 1.30% coupon. The bonds, dated March 2 and due $170,000 each year, March 2, 1946 to 1994, inclusive, are priced to yield from 0.40% for obligations maturing in 1946 to a price of 97½ for 1993-94 maturities.

The bonds are redeemable at par and interest on March 2, 1964, or any interest payment date thereafter, all bonds then outstanding, or all bonds of a single maturity beginning in the inverse order of their maturity. They are exempt from present Federal and New York State income taxes and are legal for savings banks and trust funds in New York, Connecticut and certain other States and for savings banks in Massachusetts. They are also acceptable to the State of New York as security for State deposits, to the State Superintendent of Insurance to secure policyholders, and to the State Superintendent of Banks in trust for banks and trust companies.

New Decision In Cochran County Case Resolves Callable Status of Refunding Bonds

The Texas Supreme Court has just resolved one of the several important questions posed by its decision of June 16, 1943, in the highly publicized Cochran County bond redemption case. The Court, in a ruling made on Feb. 23 in a test case brought by Bexar County, held that refunding bonds issued by the county in accordance with the decision in the Cochran County litigation, were not subject to redemption until the expiration of the 10-year optional date specified in the instruments.

The effect of the latest judgment is to resolve the question raised by some municipal bond attorneys as to the callable status of refunding bonds issued by local subdivisions in accordance with the provisions of the Cochran County decision. These sources had held that some doubt existed as to whether refunding bonds thus issued might not be subject to call at any time after date of issue regardless of the specific callable date named therein. The Court's current decision is given in full text further below.

As reported to us by Charles W. Anderson, Bexar County Judge, whose advices were given in these columns on Feb. 17 (page 707), the county decided to have the Court pass on the question at issue and, to this end, called for payment on Feb. 15, 1944, the outstanding portion of an issue of juvenile home refunding bonds, dated Oct. 10, 1943. These bonds were made subject to call after 10 years from date of issue and were issued by the county in connection with the call for redemption on Oct. 10, 1943, of a total of $1,283,000 bonds, such action having been taken as a result of the Cochran County decision.

Judge Anderson also advised that $673,000 of the called bonds have been turned in and either paid off or refunded and went on to say that "many holders of the called bonds have not turned them in for the reason that they have been advised that further litigation might be expected" in connection with the Court's original decision.

Coincident with the Supreme Court's current decision, the San Antonio, Texas, investment firm of Dewar, Robertson & Pancoast has supplied us with the text of the ruling and a copy of a memorandum on the Cochran County decision which the firm has prepared. We quote from the memorandum in part as follows:

"The most important questions that are still before us relate to the effect this (Cochran County) decision has had on other types of bonds. In the opinion of some attorneys, other types may be callable and this has caused the destruction of good markets in these bonds. We heard the other day of a block of road district bonds selling at 103½ which normally would have sold at 125. Therefore, these questions must be determined and efforts to do this are presently in the mill. . . .

"With end of interested insurance companies and banks we have employed the best legal talent available and we are very hopeful of winning the fight to determine that other bonds are not callable. This phase of the matter is far more important than the original decision as it covers the important categories of unlimited tax road and road district bonds which run into the hundreds of millions as against less than 20 million covered by the Cochran County decision. Bexar County cooperated in the first test case and Jefferson, El Paso and Travis counties stand ready to cooperate in friendly suits to test out the other questions. There is also some hope left that the scope of the original decision may be narrowed and suits are in process along this line.

"In conclusion, we should like to reiterate our often expressed belief in the fundameintal soundness of Texas credits and institutions whose integrity has been questioned by some statements we have recently seen in print. While the Cochran case has had many unfortunate consequences, we feel that Texas people, as expressed through their courts and public bodies, are particularly concerned with questions of good faith and integrity, and have so demonstrated this over the years."

Text of Recent Decision

Below we give full text of the Texas Supreme Court decision of Feb. 23 last, in the Bexar County case:

Motion No. A-69
In the Supreme Court of Texas
Bexar County, Texas,
Petitioner,
v.
Grover Sellers, Attorney-General,
et al,
Respondents.

Bexar County has filed in this Court a motion for leave to file a petition for mandamus to compel the Attorney-General to approve the issuance of certain refunding bonds proposed to be issued by said county.

In 1925 the Commissioner's Court of Bexar County issued Bexar County Juvenile Home Bonds in the sum of $50,000, maturing serially from 1927 to 1965, both dates inclusive.

These bonds were issued under Chapter 1, Title 18, Revised Statutes of 1911, which is now Chapter 2, Title 22, of Revised Statutes of 1925.

In 1943 the Commissioner's Court of said county issued refunding bonds in the sum of $33,000, to take up and refund the balance of the original 1925 series of bonds. The refunding bonds were dated Oct. 10, 1943, and maturing serially from 1944 to 1962, inclusive, "with option of redemption on any interest payment date on or after Oct. 10, 1953, upon 30 days' notice."

Said county now proposes to issue new bonds of date Feb. 15, 1944, to take up the refunding bonds previously issued on Oct. 10, 1943. The holders of the 1943 series of bonds have refused to surrender them for redemption, and the Attorney-General has refused to approve the record for the issuance of the new bonds to be dated Feb. 15, 1944.

We think the Attorney-General is correct in his position. Revised Statutes of 1925, Article 720, reads as follows:

"All bonds issued under this chapter shall run not exceeding 40 years, and may be redeemable at the pleasure of the county at any time after five years after the issuance of the bonds, or after any period not exceeding 10 years, which may be fixed by the commissioners' court."

Revised Statutes, Article 725, authorized the issuance of the 1943 series of refunding bonds, and since that Article is a part of the same chapter as is Article 720, quoted above, the refunding bonds issued in 1943 by virtue of Article 725 are subject to the provisions of Article 720.

As held by this Court in Cochran County v. Mann, — Tex —, 172 S. W. 2d 689, all bonds issued under chapter 2, title 22, of Revised Statutes of 1925, are subject to the provisions of Article 720, and if at the time the bonds are issued the Commissioners' Court does not evidence its election as to when the bonds may be redeemed, they automatically become redeemable at any time after five years after the issuance thereof. But the Commissioners' Court, if it elects, may postpone the date after which the bonds may be redeemed to not exceeding 10 years from the date of their issuance. In accordance with the provisions of said Article 720 the Commissioners' Court of Bexar County elected to fix the date after which the 1943 series of bonds could be redeemed at 10 years after their date. Consequently, all of the bonds which do not by their terms mature prior to Oct. 10, 1953, are not redeemable prior to that date without the consent of the holders thereof.

Petitioner seems to be of the opinion that the five and 10-year period provided for in Article 720, after which the bonds may be redeemed, begins to run from the date of the creation of the original indebtedness, and not from the date of the issuance of the 1943 refunding bonds sought to be redeemed. We are not in accord with this view. The refunding bonds which the county now seeks to refund are "bonds issued under this chapter" within the meaning of Article 720, and the five and 10-year period therein provided for after which the bonds may be redeemed begin to run from the date of the issuance of the bonds sought to be redeemed—in this instance Oct. 10, 1943—and not from the date of the original indebtedness—that is, 1925. Therefore, the refunding bonds issued in 1943 are not redeemable at this time.

The motion for leave to file the petition for mandamus will be overruled.

JAMES P. ALEXANDER,
Chief Justice.

Opinion delivered Feb. 23, 1944.

California Municipal Credit On High Plane

In their current memorandum, "Economic Trends in California," Kaiser & Co., of San Francisco and New York, observe that while for some years prior to the war, California municipalities were increasing in population and assessed valuation, and were decreasing their debts and tax delinquencies, the war has accelerated these trends, except with respect to assessed valuations which have suffered because of restrictions on home building.

Continuance of the favorable trends, the bond house says, resulted in the raising on Jan. 1 of the credit ratings of a large number of California political subdivisions by Moody's Investors' Service. The memorandum contains a list indicating the upward revision that was made in the credit ratings of various counties, cities and school districts. In addition to noting the local trends in bonded debt, assessed valuations, populations and tax delinquencies, the study also includes informative comment regarding indebtedness and finances of the State of California, San Francisco-Oakland Bay Bridge, East Bay Municipal Utility District, Metropolitan Water District of Southern California and the City and County of San Francisco.

As to whether the State will retain the wartime growth which in a few years has given it an industrial development that otherwise would have taken decades to achieve, the memorandum says that the answer is in the affirmative, assuming the correctness of the conclusions contained in a recent study by Dr. Philip M. Hauser, Assistant Director, Bureau of the Census, in which he classified 137 metropolitan areas in the United States according to war growth and post-war prospects.

Kidder, Peabody Offers Florida Power Bonds

Formal offering was made Feb. 25 by Kidder, Peabody & Co. and associates of a new issue of $16,500,000 1st mtge. 3⅜% bonds due 1974 at 104.8257 and accrued interest. The banking group purchased the bonds at competitive sale Feb. 23. The underwriters include White, Weld & Co., Shields & Co., Harris, Hall & Co. (Inc.), Lee Higginson Corp., F. S. Moseley & Co., Equitable Securities Corp., Hallgarten & Co., Laurence M. Marks & Co., L. F. Rothschild & Co., Alex. Brown & Sons, Stroud & Co., Inc., Auchincloss, Parker & Redpath, R. L. Day & Co., Putnam & Co., Dean Witter & Co., Bacon, Whipple & Co., Clement A. Evans & Co., Mitchum, Tully & Co., Johnson, Lane, Space & Co., Moore, Leonard & Lynch, J. M. Dain & Co., Folger, Nolan & Co. and Harold E. Wood & Co.

Proceeds from this financing and of $4,000,000 3¼% serial debentures to be sold privately will be applied to redemption of all the outstanding funded debt of the company, including that of Florida Public Service Co., assumed, of an aggregate principal amount of $20,070,400.

Now H. J. Lamm & Co.

The firm name of Lamm, Guthy & Co. was changed to H. J. Lamm & Co. effective February 24th on which date, Catherine Lamm, a limited partner in the firm, became a general partner. Offices of the firm, which is a member of the New York Stock Exchange, are at 29 Broadway, New York City.

Heinzelmann & Ripley Admits Partners

Leslie R. Schwab and Frederica R. French have been admitted to partnership in Heinzelmann & Ripley, 40 Exchange Place, New York City, with Henry B. H. Ripley. Paul Heinzelmann has withdrawn from partnership in the firm.

Available On Request

Schenley Distillers Corporation have prepared an attractive booklet containing the first articles in the series they have been running in the "Financial Chronicle." Copies of this booklet may be had upon request by writing to Mark Merit, in care of Schenley Distillers Corporation, 350 Fifth Avenue, New York 1, N. Y.

Block, Maloney To Admit

Miles T. Maher will shortly be admitted to partnership in Block, Maloney & Co., 1 Wall Street, New York City, members of the New York Stock Exchange. Mr. Maher will act as alternate on the floor of the Exchange for E. Coyne Maloney.

Attractive Situation

Capital stock of Pollak Manufacturing offers interesting possibilities, according to a detailed discussion of the situation prepared by Raymond & Co., 148 State Street, Boston, Mass. Copies of this study may be had upon request from Raymond & Co.

Arkansas Highway Principal And Interest Payments

Halsey, Stuart & Co., Inc., in a communication to holders of the $133,542,000 State of Arkansas Highway Refunding Bonds of 1941, state that they will pay as funds are provided on April 1, 1944, the interest coupons then due on all of the bonds presented to them and principal then due of $1,880,000. In addition, the State has elected to redeem on April 1, $1,000,000 Term Bonds which are due April 1, 1972, and which may also be presented to Halsey, Stuart & Co., Inc.

OUR REPORTER'S REPORT

The furore touched off by the Pennsylvania Railroad some months ago when it negotiated directly with bankers for the sale of an issue of $28,483,000 Pennsylvania, Ohio & Detroit RR. bonds re-echoed through the investment banking world early this week.

Cleveland bankers who raised hob with the big trunk line's officials at the time, charging that they had ignored more favorable bids, have now filed suit against the two roads involved, their officials and directors.

The bankers, in this instance, are acting in the capacity of stockholders and charge that the manner in which the sale was arranged, a procedure long followed in the railroad field, resulted in loss of $1,000,000 to Pennsylvania stockholders.

It was this piece of underwriting which finally forced the hand of the Interstate Commerce Commission and brought about hearings on the demand of the Middle Western banking interests that all railroad financing be done on a competitive basis similar to the policy followed in the public utility field under the rule promulgated by the Securities and Exchange Commission.

Thus far the Interstate Commerce Commission has not handed down its ruling in the railroad case, but since testimony has been in for some months a decision should be available soon.

The current suit seeks to establish whether officials and directors with small ownership in a great corporation can continue to treat "financing as a personal prerequisite to be passed out to their banker friends regardless of the cost to stockholders," say the plaintiffs.

Button, Button, Etc.

Banking firms which make a specialty of participating in sizable secondary offerings had something of a mystery on their hands during the last few days.

Via the well-known "grapevine" telegraph word got around that there was a large block of U. S. Steel Corp. common stock coming out on the secondary market.

Word got around fast, and it was not long bfore virtually the entire banking and brokerage fraternity "had wind" of the prospective offering of 100,000 shares or more of the stock.

But despite the fact that everybody seemed to know that the offering was coming, no one appeared to have any definite idea of who had the stock or where it originated.

There Are Times

As a general rule, utility holding companies having sizable blocks of subsidiary stocks of which they must divest themselves under the operation of the Public Utility Holding Company Act, are found applying to the Securities and Exchange Commission for exemption from Rule U-50 which provides for competitive bidding.

But as the old saying goes, "the exception often proves the rule." So now we find Engineers Public Service Co. preparing to dispose of its holdings of 51,357 shares of common stock of El Paso Natural Gas Co.

Since El Paso Natural Gas is classed as a non-utility, selling only to industrial and wholesale users, it is exempt from compliance with the competitive bidding requirement.

But report now has it that Engineers Public Service will shortly invite bids from a number of potential buyers.

A Quick Premium

Florida Power & Light Corp.'s $16,500,000 of first mortgage 3⅜% bonds, brought out late last week, proved a quick mover, in line with preliminary predictions.

From all indications, a substantial portion of the issue has found its way into the portfolios of the larger life insurance companies. Bankers pointed out that it was the type of offering which would attract considerable interest from such buyers.

That the bonds are not in the hands of people seeking to realize a quick-turn profit appears to be evident from the fact that they continue to command a premium averaging a point or so above the offering price of 104.8257.

Hassett Named Secretary To President Roosevelt

On Feb. 19 William D. Hassett, veteran newspaperman, was appointed a full Secretary to President Roosevelt. He has been an assistant to White House Press Secretary Stephen Early, said Associated Press advices from Washington to the Washington "Post," which also had the following to say:

"Mr. Hassett's appointment papers were presented him at a surprise ceremony arranged by Mr. Roosevelt in the Presidential office.

"Mr. Hassett, 63, a native of North Field, Vt., succeeds the late Marvin H. McIntyre. His appointment marks the first time in several years that the President has had three $10,000 a year secretaries as authorized by law. The other two are Early and Maj.-Gen. Edwin M. Watson, who also serves as chief military aide.

"Both Mr. Hassett and Mr. Early were members of the Associated Press Washington staff during the first World War."

Attractive Situation

The Mohawk Rubber Company offers an attractive situation, with the postwar outlook for synthetic tires and the sensational advance in this field pointing to increased earnings and prosperity at the close of the war, according to a circular issued by Cayne, Ralston & Co., Union Commerce Building, Cleveland, Ohio, members of the Cleveland Stock Exchange. Copies of the circular, which also contains a balance sheet, may be had from Cayne, Ralston & Co. upon request.

Sholts Inv. Co. Formed

(Special to The Financial Chronicle)

WAUWATOSA, WIS.—Budd L. Sholts has formed the Sholts Investment Co. to engage in a securities business. Mr. Sholts was recently associated with Gardner F. Dalton & Co. of Milwaukee. Prior thereto he conducted his own investment business in Milwaukee.

Mfg. Situation Interesting

Common stock of the A. E. Staley Manufacturing Co. offers interesting possibilities according to a circular issued by Cruttenden & Co., 209 South La Salle St., Chicago, Ill., members of the New York and Chicago Stock Exchanges. Copies of this circular may be had upon request from Cruttenden & Co.

A Post-War Program For Taxation Of Corporations And Stockholders

(Continued from first page)

consists of the following four planks:

1. The abolition of all corporate taxes, with the exception of a very small corporation income tax.

2. The adoption of a new method of taxing gains and losses on sales of common stock, in order to prevent undistributed corporate earnings escaping individual income taxes and to allow the individual stockholder the benefit of the corporate losses.

3. The reduction of the individual income tax rates in the higher brackets.

4. A reduction in individual income tax rates on income from new risky enterprises.

I.

The abolition of all corporate taxes with the exception of a very small corporation income tax.

When originally adopted, corporation income taxes were in substance a mechanism for collecting the individual's normal taxes at the source, since dividends received from corporations were exempt from normal taxes in the hands of the stockholder. In 1936 this exemption was eliminated, and as a result there has been brought about what is in reality double taxation of corporate earnings. The effect of this is to completely violate all principles of equality of taxation. If a corporation earns one dollar a share and pays a corporation tax of forty cents on it, and distributes the remaining sixty cents, an individual subject to a 20% tax on the dividend pays a tax of 12 cents. Thus in effect he has paid a 52% tax on the dollar earned by the corporation for him. If the same business had been conducted in the form of a partnership, he would only have paid a 20 cents tax on that dollar. Even an individual in the 90% bracket would, by paying 54 cents on the dividend received, be in effect paying a total of 94 cents as compared to the 90 cents he would pay as a partner. These figures illustrate that in the case of a corporation distributing all of its earnings in excess of income taxes, the effect is that taxes are both greater than the taxes on other income, and also disproportionately high in the case of the small taxpayer.

Similarly if the same corporation earns two dollars a share and pays the same dividend of 60 cents, retaining the other 60 cents, a 40% tax will in effect be paid on the second dollar by both the small and large stockholder, which is in the one case greater and in the other case less than the individual rates of the two stockholders assumed above.

Not only does inequality thus exist if a corporation has earnings, but a similar inequality exists if a corporation has losses. If a business is conducted in partnership form and has losses, such losses are deductible from the other income of the partners. In the case of a corporation, however, the losses cannot be deducted by the stockholders. This not only violates the principle of equality of taxation, but obviously results in much greater injustice to the large taxpayer than the small taxpayer. If a corporation loses ten dollars a share, a holder of 100 shares in the 20% bracket pays $200 greater taxes than he would if he were conducting the business as a partner, whereas a similar stockholder in the 90% bracket pays $900 more.

These wholly unjustified inequalities have been accepted by our country in large part because of the fallacious personification of a corporation. We have come to think of a corporation as a profit-making instrumentality which should be taxed as a separate entity. In fact, however, the corporation is only a legal form through which individuals invest their money. It is the individuals, in the last analysis, who are the ones who alone bear the burden of taxes.

While admittedly an individual stockholder in contrast to a partner has little, if any, voice in the decision as to how much of the income of a given year should be held in the business, and while he likewise is free from personal liability for the corporation's debts, these real distinctions between the two forms of organization nevertheless do not justify the existing great difference in tax treatment of stockholders and partners. At most they would justify a tax at a very low rate of approximately 5% for the privilege of doing business in the corporate form.

The reduction of the corporate income tax to this rate would therefore appear to be the first step in a sound tax program to eliminate the existing inequalities in the taxation of corporate income.[1]

The effect of this proposal on Government revenues is, of course, a major factor which must be considered. Upon analysis it does not seem as serious as might first appear. In most cases, if corporate earnings before taxes remain the same, the increased earnings after taxes would be distributed to the stockholders, and the loss of the corporate tax would be offset to a large extent by the additional individual taxes, the exact amount of the offset, of course, depending upon the rates in effect for the individual. There might be a tendency for some corporations to accumulate more earnings if the corporate tax were reduced, but even in those cases whatever loss of Government revenue would occur would be largely offset through the adoption of the second proposal discussed below.

The preceding deals only with the corporation income tax and does not deal with the corporation excess profits tax. Obviously where such a tax exists the inequalities above shown are increased even further. Furthermore the present tax is intended to reach war profits only.[2] The excess profits tax on corporations should therefore likewise be abolished when the war is over.

Thereafter an attempt should be made to develop a new type of excess profits tax as an alternative to applying government price fixing, which now exists in the field of public utilities, to other monopolistic situations such as for example arise from the ownership of natural resources.

The outlines of such a tax were suggested in The Twentieth Century Fund Survey of Taxation, prepared under the supervision of a committee of which the writer was a member:

"We do recommend that a strenuous effort be made to apply the tax to unincorporated firms. * * * So far as possible, each business should be taxed separately. Indeed, an effort might be made to isolate and tax the monopoly productions and transactions within a single business, though this may of course prove to be impossible. * * * The rate of return that is called 'fair' should vary with the degree of risk. * * *

"We have no idea how much revenue can be expected from the kind of tax that we propose. We are not drawn to it primarily as a means of capturing high profits from risky enterprises, or windfalls, or inflation profits. It if were not for the monopoly problem, we should not recommend the tax at all, for we are impressed by its theoretical and technical difficulties."[3]

The current controversy over the so-called renegotiation of war contracts law—which is a misnomer for a 100% tax on "excessive profits" from such contracts—has brought out how great these difficulties in fact are. However if an excess profits tax of this nature is not adopted, the extension of price fixing is inevitable, and certainly our American experience with rate regulation gives us little confidence in this alternative. Yet we cannot hope to maintain capitalism without finding some solution to this problem.

One other tax on corporations which now exists, namely the capital stock tax and its implement the declared-value excess profits tax, should unquestionably be eliminated.

II.

The adoption of a new method of taxing gains and losses on sales of common stock in order to prevent undistributed corporate earnings escaping individual income taxes and to allow the individual stockholder the benefit of the corporate losses.

If corporation income taxes, other than a small privilege tax, are to be abolished, equality of taxation will be attained in the case of corporate earnings distributed as dividends. However, a fundamental problem still remains untouched, namely, how to effect such equality with respect to undistributed earnings and losses. If this is not solved, undistributed earnings would escape individual income taxes.

This problem has been as baffling to economists as the problem of squaring the circle has been to mathematicians. Various solutions have been suggested.

A. The first is that corporations should be taxed like partnerships. Under this method the stockholder would treat as his personal income his proportionate share of the profits or losses of the corporation.

This proposal is unsatisfactory for three reasons.

Firstly, under the last decision of the Supreme Court dealing with the subject, this proposal would probably be unconstitutional. However, the Court as presently constituted might now reverse the earlier decision. If not a constitutional amendment would be necessary.

Secondly, in the case of a corporation which determined to retain a large part of its profits, this proposal would result in injustice to stockholders who did not have sufficient money to pay the tax on their share of the undistributed profits. If the stock of the corporation had a ready market the necessary cash could be realized by a sale of part of the stock. However, in the case of corporations with a very narrow market or without any market, such forced sale, if it could be effected, would probably be at a price far below true value, with consequent great hardship to the stockholder.

Thirdly, this proposal would materially complicate the preparation of the stockholder's income tax return and the administration of the tax.

Stockholders would have to be advised by the corporation of their share of accumulated earnings or losses for each year, and would have to include it in their return. In addition, when a stockholder sold his stock the value of the stock sold would include the accumulated profits upon which he had already been taxed. Accordingly this amount would have to be computed and deducted from the sale price before computing his capital gain or loss. Likewise, if the corporation had sustained losses which the stockholder had already taken advantage of, these would have to be ascertained and added to the sales price. A sale at a profit might thus be turned into a sale at a loss, and vice-versa. The resulting complications involved in the preparation of individual returns would be well-nigh insuperable.

In the light of these three objections, this proposal would seem impracticable.

B. Another method of solving the problem which has been widely supported is that of an undistributed profits tax. Such a tax was in effect for 1936 and 1937, in addition to the corporate income tax. In England it is the sole method of corporate income taxation, although it is not usually called an undistributed profits tax.[4] English corporations are subject to an income tax on all profits at the same rate as the individual's normal tax, but when any profits are distributed the tax paid on such profits is treated as a tax on the stockholder withheld at the source.

This alternative likewise does not provide a satisfactory solution to the problem we are faced with. On the one hand it would not accomplish complete tax equality between distributed and undistributed profits unless the tax were so high as to force 100% distribution of earnings remaining after the 5% privilege tax, and on the other hand even if that were accomplished the stockholder would still not get the benefit of corporate losses.[5]

Moreover the suggestion of compelling a 100% distribution of corporate earnings is unsound if such distribution must be in the form of cash; the adoption of such a policy, by preventing corporations from retaining any portion of their earnings, would to a very great extent put an end to the possibility of desirable corporate expansion.

Accordingly, various alternative mechanisms have been suggested whereby the distribution of earnings could be made in some other form than cash, but still be taxable to the stockholder and at the same time furnish him with a means of paying his tax. One such plan now under consideration is to issue scrip which would be payable in cash in varying amounts to each stockholder depending upon the amount of his income tax; and the balance would be automatically convertible into stock of the corporation. This proposal, while ingenious, is too complicated for possible adoption as well as being open to other objections.

No satisfactory way can be found to avoid the difficulties inherent in an undistributed profits tax, and accordingly it must be rejected.

C. A third solution to the problem which has been advocated is the imposition of a penalty tax upon unreasonable accumulations of earnings. This would be an extension of Section 102 of the Income Tax Law which imposes a penalty if earnings are withheld for the purpose of avoiding surtaxes on the stockholders. Even in its present form it has proved most unsatisfactory, and it should be restricted to closely held companies rather than extended as suggested.

The reason for this is that it is impossible to devise any precise test of where the line is at which an unreasonable accumulation of profits commences. In effect, therefore, it would mean that some Government agency would have to decide in each particular case to what extent accumulation or distribution of profits was socially desirable, and this would take from private management of business one of its major functions. Furthermore, the administrative problems in creating machinery to provide for prompt decisions by the Government before action must be taken by the directors, rather than decisions by courts some three or four years after the event, as at present, are insoluble. In addition, even if all of these difficulties could be worked out, the major objectives would still not be attained in that the amount of profits reasonably withheld would be free from tax, while corporate losses could not be availed of by the stockholder.

D. Another solution to the problem would be to value all common stocks at the end of each year and to treat the increase or decrease in value during the year as profit or loss to the stockholder.

Wholly apart from the broader question involved in this proposal, namely, the taxation of capital gains, which will be discussed hereafter, this proposal seems unsatisfactory for two reasons.

The one is the impossible administrative task of making such evaluation annually for all corporations. The other is that even if this could be surmounted, the stockholder in a corporation which had no market or only a very narrow market for its stock and who was compelled to sell a part of his stock to pay for his tax on the unrealized gain in a particular year, would in many cases be forced to sell such stock at a sacrifice price far below its true value.[6]

E. We come now to a fifth solution to the problem. Mr. George O. May suggested over 20 years ago that a tax might be imposed on the sale of stock of corporations

"where it might appear that

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1 This was proposed in The Twentieth Century Fund Survey of Taxation (1937) at pages 406, 430.

2 Carl Shoup, The Concept of Excess Profits under the Revenue Acts of 1940-42, Law and Contemporary Problems (1943) Vol. X, p. 28.

3 Page 410.

4 Shirras and Rostas, The Burden of British Taxation (1943), page 97 and following.

5 Kimmel, Postwar Tax Policy and Business Expansion (1943), Brookings Institution Pamphlet No. 53, favors the adoption of an undistributed profits tax similar to that in England with a normal tax rate of 22%; pages 15, 41. This conclusion is justified by the statement

"British experience indicates that a high normal or standard tax collected at the source largely disposes of the undistributed profits tax question." (Page 16, Note 22.)

The best British opinion, however, is to the contrary:

"Successive Finance Acts made special provisions against the practice of using the device of undistributed profits tax on undistributed profits as a means of avoiding the payment of surtax. It is now illegal for companies owned by less than a certain number of persons not to distribute within a reasonable time the income derived by the company to its shareholders. Although these provisions make the intentional avoidance of surtax much more difficult than formerly it would be idle to pretend that the ratio of undistributed profits to dividends, over the general field of companies, would remain the same if these tax differences between the two types of income were eliminated." (Shirras & Rostas, *supra*, page 100, Note 1.)

6 The Twentieth Century Fund Survey of Taxation's conclusion with respect to this solution to the problem of undistributed profits was as follows:

"The Committee believes that an unremitting effort should be made to devise some practicable plan by which annual changes in the accrued value of stockholdings can be reflected in the stockholder's income tax returns." (Page 479.)

The writer is now convinced that this effort can never attain success.

there was a profit which was attributable to the accumulation of undivided profits by the corporation and that the sale was made to avoid the imposition of the tax which would be assessed on such profits if distributed as dividends."[7]

The first half of this suggestion might well be adopted and developed into the following program:

(a) Whenever common stock is sold at a profit, the portion of the profit up to the amount of earnings accumulated by the corporation during the period the stock was held, should be taxed as ordinary income. The balance of the profit, if any, should be taxed as a capital gain.

(b) A corresponding procedure should be adopted in the case of the sale at a loss of stock of a corporation which had accumulated losses.

(c) To enable the stockholder to make the necessary calculations, corporations should be required to inform their stockholders annually of the amount of accumulated profit or loss per share during the year.

(d) In the case of a stockholder buying or selling during a year, the accumulated profits or losses for the year would be presumed to have been incurred proportionately throughout the year, and days within any month could be ignored.

To illustrate this proposal, assume that a stockholder purchased a share of stock in corporation X for $100 on the 1st of April, 1941, and sold the stock on the 1st of July, 1943 for $150. Assume for the sake of simplicity that the corporation reported to its stockholders that the undistributed earnings per share for each of the years 1941, 1942 and 1943 was $12. The stockholder in question had a profit of $50 on his share. The amount of accumulated earnings during the period held was $8 for the nine months in 1941, $12 for the full year 1942, and $6 for the six months in 1943, or a total of $26 per share. This amount would accordingly be taxed to him at ordinary rates in 1943, and the balance of his profit of $50, or $24, would be taxed as capital gain.

This proposal would appear to constitute a solution to the problem above presented in that in most cases it would result in undistributed corporate profits being ultimately taxed at ordinary rates to the stockholder, and would correspondingly give the stockholder ultimately the benefit of corporate losses.

What, if any, objections can be advanced to this solution of the problem?

One objection is that since it involves an increase in the tax rate on a part of some capital gains, it is subject to the argument advanced against general taxation of capital gains, namely that it constitutes a deterrent to selling on a rising market and thus tends to accentuate the swings in security prices.

This objection admittedly has some validity, although it has probably been overemphasized. To some degree the desire to avoid the payment of tax is without rational basis for the tax probably must be paid sooner or later if the profit is to be taken, but under certain circumstances the imposition of a tax on capital gains undoubtedly is a justifiable reason for postponing selling. However, since no tax program can be devised which is perfect, this disadvantage must be weighed against the other advantages of the proposal.

Another argument against taxing capital gains generally as ordinary income is that since justice would then require capital losses to be deductible from ordinary income, the Government's revenues would fluctuate widely and be increased in boom periods and be decreased in depression periods. Nevertheless within limits this result is not undesirable. Boom periods are the very time when the Government should endeavor to increase the yield from taxes and reduce its debt, while during depression periods it should relieve the taxpayer, thus increasing his purchasing power and thereby lessening the deflationary effects of the depression. Yet if capital losses of all types of assets were allowed as deductions from ordinary income, the yield from the income tax might in periods of depression become wholly inadequate.

However, the suggestion under consideration of limiting this treatment to that portion of the capital losses of common stocks which represents accumulated losses of corporations will have a far lesser effect in reducing revenues. Consequently it would appear that this objection to the proposal under consideration is not a very serious one.

A third objection to taxing capital gains generally is that they are affected by a change in the value of the dollar. If an asset cost $100 and is sold for $200, but the value of the dollar has been cut in half, there has been no real gain; the apparent gain is purely illusory. This difficulty might, of course, be overcome by taking into consideration changes in the value of the dollar, although the administrative problems involved in this are obvious.

There is, however, another aspect of this objection. As a result of inflation real loss occurs to holders of fixed obligations. If a bond cost $100 and is sold for $100, and if the value of the dollar is cut in half, the bondholder has really had a loss of $50. Yet it would seem impossible for any tax system to allow the deduction of such losses from ordinary income; the effect of this would probably be, even if similar gains were included, to completely disrupt Government finances during inflation periods. Any system of taxing capital gains generally would require some solution of this problem.

However, a change in the value of the dollar would not create any difficulty under the limited proposal under consideration which is applicable only to the portion of capital gains and losses on common stocks attributable to accumulated earnings or losses. Therefore it is not an objection to such proposal.

A fourth argument against the general taxation of capital gains is that they do not constitute true income. Whatever validity this argument may have with respect to the taxation of capital gains in general, it likewise would not seem applicable to the limited proposal under consideration, of taxing capital gains to the extent that they represent accumulations of income.

A fifth objection to the proposal is that under the present tax law, by holding the stock until death, the taxpayer would avoid paying the income tax on the undistributed earnings. This objection can and should be met by an amendment to the law, which perhaps for constitutional reasons might have to be part of the estate tax law, imposing a tax equal to that which the stockholder would have paid under the proposal if he had sold the stock the day before his death at a price equal to its value as determined for estate tax purposes.

Another objection is that of the practical difficulty in the annual furnishing of the necessary data by corporations to their stockholders. This is however surmountable. In the case of corporations whose fiscal year is not a calendar year or in those cases where the data would not be ready by March 1, the corporations could be required to make an estimate which would be final as far as the stockholder was concerned and any error in such estimate would be added as an adjustment to next year's figure. Likewise, in the case of the ordinary corporation, any correction of income made by the Treasury Department upon audit would be added as an adjustment to the next figures reported to stockholders. In this way the stockholder's task would be simplified although some minor injustices might result.

There is a final objection that the proposal does not produce complete tax equality and permits undistributed earnings in part to escape individual income taxes. This is true. One way in which this might happen would be that stockholders might hold stock appreciating in value for many years, perhaps until their death, and thus by postponing the payment of the tax in effect be borrowing money from the Government without paying interest. It would be obviously impracticable to work out any method of payment of interest, but it should be noted that this advantage would be offset in such a situation by the fact that the stockholder would presumably pay higher rates if he waited to take his profit all in one year. Another situation in which complete tax equality would not be attained would be that of a stockholder who sold his stock for a profit less than the accumulated earnings upon his shares, and thus completely escaped taxation upon a part of such earnings. This could be avoided by taxing the accumulated earnings when the stock was sold irrespective of the amount or even existence of profit, but such a suggestion is open to other objections, including that of unduly complicating the individual's income tax return.

However, no solution to the problem of undistributed corporate earnings is perfect, and the solution proposed would appear not only preferable to any other suggested alternative, but also far preferable to the present method of corporate taxation which, apart from Section 102, makes no attempt ever to tax undistributed earnings as ordinary income to the stockholder.

The first two planks in the suggested program would thus appear together to constitute a method of achieving the maximum tax equality which is practicable between stockholders of corporations and other recipients of income.

III.

The reduction of individual income tax rates in the higher brackets.

Income tax rates in the higher brackets have reached the height where they materially reduce the incentive to work. If mankind was actuated entirely by unselfish motives and was not influenced by the rewards for activity, this would not be the case. At the present stage of man's development, even though selfish motives are only a part of the considerations which activate him, as is shown by the example of the dollar-a-year men working for the Government during wartime nevertheless the inducement of financial reward is a material factor in bringing forth his greatest energies. When income tax rates reach 93% at $200,000, the inducement to further activity has been for all practical purposes eliminated.

If the two proposals suggested are adopted, they will result in more income being brought into the higher brackets, which will thus increase the effect of the existing rates in destroying the incentive to further activity. Consequently the necessity of reducing rates in the higher brackets will be increased.

How can one decide what the exact rates should be? When progressive taxation, as contrasted to proportional taxation, was first suggested, it was opposed by most economists. M'Culloch expressed the early 19th century view when he wrote:

"When you abandon the plain principle of proportion you are at sea without rudder and compass, and there is no amount of injustice that you may not commit."[8]

The principle of progressive taxation is now universally accepted as justified by the doctrine of ability to pay, but no formula has been found for fixing the rates. Professor Seligman states:

"While the usual arguments advanced against progressive taxation are almost entirely destitute of foundation, it is not a simple matter to decide how far or in what manner the principle of progression ought to be actually carried out in practice. Theory itself cannot determine any definite scale of progression whatever."[9]

Since there is no exact method of determining what the progressive rates should be, a decision must therefore be reached by attempting to balance the need of revenues, the principle of ability

7 George O. May, Twenty-Five Years of Accounting Responsibility (1936) Vol. II, page 156.

8 Quoted in Sir Josiah Stamp, The Fundamental Principles of Taxation (1936) at page 40.

9 Edwin R. A. Seligman, The Income Tax (1914), page 33.

(Continued on page 910)

Tomorrow's Markets Walter Whyte Says—

(Continued from page 894)

back to await developments. If 27 seems small pickings and you want to hold on, then don't forget that 24 represents a level stock should not break. If it does, get out. Otherwise, an approximate one-point loss may stretch to four or five points.

* * *

Two weeks ago I suggested switching Armstrong Cork to American Car & Foundry. The former was gotten out of approximately even (not including commissions and taxes). The latter, recommended between 33 and 34 hovers between 35 and 36. If the trend stock shows continues, it can rally to above 38 before it meets any serious resistance. But with the market dogging it, 37 is the figure more likely to stop it. So, advice continues not to chase Car & Foundry. If a minor setback brings it down to 33-34, climb aboard. Remember, though, that its stop at 33 is a close one. If it breaks it, get out.

* * *

J. I. Case is in a similar market position as the foregoing stock, even though it is part of an entirely different group. Stock now between 35 and 36 looks attractive but effect of general market cannot be overlooked. So keep buying order at 32 with a stop at 31. With Case's usual swings you'll probably get the stock sooner than you think.

* * *

Kroger is gradually building up for some kind of an advance if general market doesn't pull it back. But, in any case, a minor reaction is indicated first, hence buying advice at 32 with a stop at 31. Of course, between Case and Kroger there is a wide difference. For even if their prices are the same their market habits have little in common. Former swings widely while latter is at best a creeper. If you are speculatively inclined, Case is the one you want—at a price. If wide moves scare you then Kroger, with it's $2 dividend is your baby. But whichever one you choose wait for a price. Don't chase them.

* * *

Two weeks ago I recommended United Air Lines between 23 and 24. The same week stock ran up across 26. Currently it is 26½. I know how difficult it is to sit by and watch a stock you like run away from you. But if you can't control yourself you have no business in the market. More money is lost in chasing stocks than is realized. Not so much in the buying but in the selling. Air Lines, for example, has a stop at 22. If you buy it at, say, 26 you are faced with a four-point loss before technical signals tell you to get out. True, even if you buy it between 23 and 24 you will still face a one to two-point loss in case stock breaks its 22 figure. But that's 50% less already.

* * *

So far as general market action is concerned, the condition that existed last week is still in effect. Offerings overhead tend to push stocks down and bidders don't seem interested in buying except at their own prices. How long this condition will exist next week's market may tell. So far, market isn't saying a thing.

* * *

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.]

A Post-War Program for Taxation of Corporations And Stockholders

(Continued from page 909)

to pay, and the importance of retaining incentives to activity. Obviously in balancing these diverse factors, different individuals will reach different conclusions. To the writer peace-time income tax rates graduated progressively up to a maximum of around 50% in the top bracket would appear to constitute a reasonable solution. The constitutional amendment now being advocated limiting such maximum to 25% would appear to be going too far.

IV.

A reduction in individual income tax rates on income from new risky enterprises.

Even if income tax rates are reduced as suggested, so as to increase the financial incentive for the individual to work and thereby earn and save, there still remains another problem, namely, that of promoting investment in risky enterprises.

One result of progressive taxation which is not commonly appreciated is that even in the lower brackets it tends to deter risk-taking by in effect changing the gambling odds. Inasmuch as the first two proposals made above would result in subjecting to progressive taxation corporate earnings now not subject thereto, the impact of progressive taxation would thus be increased and this problem rendered more acute.

Suppose, for example, that an investor estimates that with an equal investment he has one-tenth the chance of succeeding in venture A where success will bring him $50,000 income in one year, as in venture B where success will bring only $5,000 income in one year. The two ventures thus appear to him equally attractive apart from the income tax. Under the income tax at present rates, however, assuming that his other net income is $10,000, the return from the risky venture A will be cut to $16,680, whereas the return from the comparatively safe venture B will be cut to $2,690. The risky venture insead of bringing in ten times as much as the other if successful, will then bring in only six times as much.

Obviously this change in the odds will result in the investor preferring the less risky venture. In view of the importance of the development of new kinds of industries both in furnishing employment and in stimulating the economy as a whole, this result is most undesirable.

Accordingly, it is suggested that a provision be inserted in the tax law whereby investments in the form of common stock in new risky enterprises should, for a period of time, be granted preferential tax treatment. The working out of the details of such a proposal would involve decisions as to three matters:

First, what is to be the test of a risky enterprise. It would not include all new investment; the construction of a new plant to increase the capacity of a company with an established business, such as a public utility, should not come within the test. The most practical solution would appear to be to define a risky enterprise in general terms and then to provide for an application to the Treasury Department in advance for a ruling in each particular case, which, when made, would determine the matter finally.

The second question is the length of time for which preferential treatment should be granted. A minimum period of five years and a maximum of ten years is suggested as reasonable.

The third question to be decided is the extent to which preferential treatment should be given. It is suggested that one-half of the dividends paid during the preferential period, together with the same percentage of capital gains, be free from income tax. This mechanism would be the simplest from the point of view of the taxpayer in preparing his return.

The degree of preferential treatment above set forth is merely a suggestion and it might well be considered desirable to grant a greater preference in order to reduce the deterrent effects of progressive tax rates on new risky investments.

Would it be desirable to go further and stimulate not merely risky investments but also all new investments or even possibly all savings? The first could be accomplished by extending the preferential treatment to all new investments, and the second could be accomplished by, in addition, reducing the income tax on that portion of the income which is saved, which is the same thing as levying a higher tax on that portion of the income which is spent.

Such a program, it will be noted, is the opposite of the provision in our tax law, just repealed, which granted to a very limited extent a preference to so-called earned income, and is likewise opposed to the views of those who advocated the 1936 undistributed profits tax on the ground that it would tend to decrease corporate savings and put more money into the hands of stockholders for the purchase of consumption goods.

While during wartime conditions such a program would be desirable, for the post-war period it would not seem wise to adopt it at the present stage of our economic knowledge, for there is too wide a difference of opinion among economists as to whether or not the United States has reached a stage in its economic development where savings are already accumulating too rapidly or, in the alternative, where productive capacity is already being increased too rapidly through new investments. To the writer it appears that, at least as to productive capacity, further increase is desirable and that general overproduction can never exist. However more study of these difficult questions seems necessary before a decision can be reached as to whether or not taxation should be used to promote or retard savings or investment beyond that involved in the preference to risky investments. The dangers of making the wrong decision because of insufficient knowledge make caution a preferable course.

Even without granting any preferential treatment to savings, the adoption of the third proposal above set forth, namely the reduction of rates in the higher brackets, would of itself increase the incentive to save, and the first proposal of reducing corporate income taxes to 5% might tend to increase corporate savings.

Conclusion

The four proposals above set forth constitute an integrated program consisting of the substantial abolition of corporate taxes and the changes in our tax laws made necessary thereby. They do not purport to cover the entire field of possible changes in our Federal income tax laws. The difficult question of taxation of capital gains generally has only been discussed incidentally without attempting to formulate a program. Many other important matters have not even been mentioned, such as the exemption from Federal income taxation of state and municipal bonds issued hereafter. Obviously these subjects cannot be dealt with within the limits of this paper.

Furthermore the above program is, as has been stated at the beginning, proposed for adoption only after the war has been won and when the productive energies of our country will again be turned back to the manufacture of articles of peace instead of munitions of war. When that time comes it would be desirable that the program should be adopted in its entirety rather than in gradual steps. Whether that will be possible however depends upon the conditions which will then exist, such as the extent of our Federal debt, the size of our national income, etc. No one can today prophesy what these will be.

Finally, as already recognized, the suggested program is subject to various objections, some of considerable weight. This is, however, unavoidable in any tax program. As has been so aptly expressed in the much quoted paraphrase of Pope's couplet:

"Whoever hopes a faultless
tax to see,
Hopes what ne'er was, or is,
or e'er shall be." [10]

[10] Quoted in Stamp, *supra*, page 215.

Sentenced For Fraud; Three Acquitted

Frank L. Miller, New York attorney, was found guilty by a jury in United States District Court on a three-count indictment for the interstate transportation and sale of $40,000 in stolen bonds and for conspiracy.

Joseph W. Grober, a promoter of London, and Russell Safferson and Sigmund Saxe, partners in the securities firm of Biel, Russell & Saxe, 60 Broad Street, New York City, three co-defendants, were acquitted by the same jury after almost five hours of deliberations.

Nine other defendants who had previously pleaded guilty to the same indictments, are to be sentenced on March 8th. Maximum penalty is 30 years imprisonment.

ICC On 1943 Rail Results

Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock and Curb Exchanges, have issued an interesting circular covering ICC comment on 1943 rail results. Copies of this circular may be had upon request from Vilas & Hickey.

The Securities Salesman's Corner

WHO WANTS TO WORK FOR GLORY?

The Effect Of The NASD 5% Rule On The Sale Of Low Priced Stocks

Last week, a dealer who has established a clientele composed largely of smaller investors, told us of his experience operating under the new 5% ruling. It's a classic illustration of the absurdity of trying to regulate profits for every type of security and all classes of dealers under one blanket arrangement.

Whether it is generally realized or not, there are a number of low-priced stocks that no only offer outstanding investment opportunities, but are also the perfect type of investment for the smaller securities buyer with limited funds available.

For instance, take the case of an investor with limited funds. He can buy 50 or 100 shares of a stock selling between 5 and 10 and thereby increase the diversification in his small list by investing in several of these issues, meanwhile he has the satisfaction of owning little round lots of securities rather than only a few shares of higher-priced issues. There may be some who would say that this is ridiculous—the small investor can buy 5 shares of General Motors or 3 shares of DuPont just as well as he can 100 shares of a lower-priced issue. The facts are, however, that he doesn't do it. Only occasionally will you find the smaller investor who buys odd lots of 5 shares or less of anything. There are a few who do this—they are in the vast minority among smaller investors.

This dealer has had an experience in security analysis that goes much farther than just looking in the quotation sheets and selecting some low-priced issue at random and then making an offering to his clients. In this case he had established contacts in the textile industry among practical textile men that were invaluable as an aid IN GETTING BEHIND THE FIGURES OF THE BALANCE SHEET AND INCOME ACCOUNT. One of these friends in the industry brought him a special situation. He received confidential figures three weeks before the publication of the annual statement which indicated that a certain stock selling at $5 per share was grossly undervalued. Based upon net quick assets of about $11 per share, current ratio of 7 to 1, income yield of about 20% in the prior year and an expected return of almost as good in the coming 12 months despite much higher taxes, management excellent, industry outlook good, condition of plan A1, trade acceptance high, and floating supply of stock small—this dealer after a thorough check-up of his own decided he had something worthwhile to offer his clients.

Since this dealer was intelligent enough to know that you can't get something for nothing, he readily accepted his textile friend's suggestion that he pay him a small finder's fee on each share he sold to his clients. Good information is worth money to a dealer—his clients should also know it. Incidentally, this is something the SEC and the Board of Governors of the NASD should recognize. Some of those who make and disseminate rulings under which the investment business is now laboring do not realize the value of the time and effort required to properly serve the investor.

But to go on—let's see what happened to this dealer when he went out to sell this stock to his clients. He bought 100 shares at 5. He marked it up to 5¼ under the rule. (Quoted market was 4¾-5.) His gross on this 100 shares was therefore $25. Now let's look at his expenses BEFORE HE STARTED TO FIGURE HIS REGULAR OVERHEAD AND ALLOW FOR HIS PROFIT. Taxes were $3.40 (State and Federal); clearance charges $1.50; finder's fee was 1/16th, or $6.25, which leaves a GROSS PROFIT OF $13.85.

This dealer has two salesmen who work on a 50% basis. One-half of $13.85, as is obvious, is BEAN-BAG MONEY. How can a salesman be expected to work for such a commission? How can a dealer be expected to stay in business on such a profit? How can he advertise, pay rent, telephone, take the manuals and services, hire office help, carry insurance, afford traveling expenses and entertainment for customers on this meager mark-up?

If the smaller investor doesn't get service, AND HE WON'T GET IT IF DEALERS WHO HAVE FORMERLY SUPPLIED IT ARE NOT ALLOWED TO EXIST, THEN HE WILL JUST DROP OUT OF THE PICTURE. THE SEC SHOULD STEP INTO THIS NASD RULING AND BRING SOME SEMBLANCE OF COMMON SENSE AND SANITY INTO THE BOARD OF GOVERNORS' REGULATORY ACTION. IF THE SEC IS DERELICT, THE KEY MEN IN CONGRESS SHOULD GET THIS WHOLE STORY AND COMPEL COMPLIANCE WITH THE PROVISIONS OF THE MALONEY ACT WHICH THE PROMULGATION OF THIS RULE VIOLATES IN THE MOST HIGH-HANDED AND CONTEMPTUOUS MANNER.

Bank Investment Policy And National Fiscal Requirements

(Continued from page 892)

Also, Europe will be in ruins and chaos, and credits with which to finance foreign trade and reconstruction may be forthcoming more slowly and in smaller amount than anticipated in some circles. Under such circumstances, production and employment could be disappointing and deficit-financing inevitable.

Commercial bank holdings of U. S. Government obligations, direct and fully guaranteed, as of Oct. 31, 1943, reached an all-time high of $62,600,000,000. On that date they represented about 50% of bank assets. This total also amounted to 37% of the national debt then outstanding. Some idea of the increasing importance of United States Government bond investments to total bank assets and the national debt is indicated in the accompanying table. Federal securities, it may be observed, now constitute 50% of all bank resources as against only 25% in 1939.

ALL COMMERCIAL BANKS

Year Ending June 30	U. S. Government Securities Direct and Fully Guaranteed	Total Bank Assets	U. S. Government Securities to Total Bank Assets	Total Federal Debt Direct and Fully Guaranteed	U. S. Government Debt in Commercial Banks
1939	$15,316,000,000	$61,027,000,000	25.1%	$45,890,000,000	33.4%
1940	16,549,000,000	73,393,000,000	22.5	48,466,000,000	34.1
1942	26,415,000,000	80,409,000,000	32.9	76,970,000,000	34.4
1943	52,604,000,000	104,634,000,000	50.3	140,788,000,000	37.4
1943 (Oct.)	62,600,000,000	*		169,160,000,000	37.0

*Data relating to total bank assets as of Oct. 31, 1943 is unavailable.

Commercial bank investment policy is irrevocably tied up with national fiscal policy and commercial banks appear destined to continue their present role as "Government bond investment trusts." When 1944 ends, their Federal security portfolios may easily exceed $80 billion.

Calendar Of New Security Flotations

OFFERINGS

FLORIDA POWER CORP.

Florida Power Corp. has registered $16,500,000 first mortgage bonds series due Jan. 1, 1974. Interest rate will be supplied by amendment.

Address—101 Fifth Street, South, St. Petersburg, Fla.

Business—Public utility operating wholly within the State of Florida, except for transmission line connecting with the transmission facilities of Georgia Power Co.

Underwriting—To be supplied by post-effective amendment.

Offering—Price to the public to be supplied by amendment. Company will invite bids for the purchase of bonds from it under the competitive bidding requirements of the Commission's Rule U-50. Successful bidder will name the interest rate.

Proceeds—Company also proposes to sell privately to John Hancock Mutual Life Insurance Co. of Boston $4,000,000 face amount of 3¼% serial debentures. Proceeds from sale of bonds and serial debentures, together with other funds of the company to the extent required, will be applied as follows: To the redemption of the following securities: $11,000,000 Florida Power Corp. first mortgage 4s, Series C, due Dec. 1, 1966, at 104%; $5,148,400 Florida Public Service Co. first mortgage 4s, Series C, due 1955, at 102.90; $1,622,000 Florida Power 3½% serial debentures and $2,300,000 Florida Public Service 4½% serial debentures and for other purposes $730,451. On Jan. 14, 1944, Florida Public Service Co. and Sanford Gas Co., affiliated companies, and Sante Fe Land Co., a subsidiary, were merged into Florida Power Corp. as the continuing corporation. Company is controlled by General Gas & Electric Corp., which is part of the Associated Gas & Electric Corp. system.

Registration Statement No. 2-5293. Form A-2 (1-24-44).

Registration statement effective 1 p.m. EWT on Feb. 16, 1944.

Awarded to Kidder, Peabody & Co. and associates as 3⅜s on bid of 103.7799.

Offered Feb. 25 at 104.8257 and int. by Kidder, Peabody & Co., White, Weld & Co., Shields & Co., Harris, Hall & Co. (Inc.), Lee Higginson Corp., F. S. Moseley & Co., Equitable Securities Corp., Hallgarten & Co., Laurence M. Marks & Co., L. F. Rothschild & Co., Alex. Brown & Sons, Stroud & Co., Inc., Auchincloss, Parker & Redpath, R. L. Day & Co., Putnam & Co., and Dean Witter & Co.

FOOD FAIR STORES, INC.

Food Fair Stores, Inc., filed a registration statement for $3,500,000 15-year 3½% sinking fund debentures, due Feb. 1, 1959.

Address—2223 East Allegheny Avenue, Philadelphia, Pa.

Business—Operates supermarkets engaged in the retail sale of groceries, meats, meat products, vegetables, etc.

Underwriting—Eastman, Dillon & Co., New York, head the underwriting group, with names of others to be supplied by amendment.

Offering—Price to the public will be 102.

Proceeds—To the payment of outstanding bank notes of $3,150,000, with prepayment premium and accrued interest, and to increase working capital.

Registration Statement No. 2-5280. Form S-1. (12-24-43.)

Registration statement effective 5:30 p.m. EWT on Feb. 23, 1944.

Offered Feb. 24, 1944, at 102 and int. by Eastman, Dillon & Co., A. G. Becker & Co., Inc., Central Republic Co., Inc., The First Boston Corp., Hemphill, Noyes & Co., Kebbon, McCormick & Co., McDonald-Coolidge & Co., Piper, Jaffray & Hopwood, E. H. Rollins & Sons, Inc., Smith, Barney & Co., and Stroud & Co., Inc.

HOUSTON LIGHTING & POWER CO.

Houston Lighting & Power Co. has filed a registration statement for 112,264 shares of $4 preferred stock and 47,513 shares of common stock, both stocks without nominal or par value.

Address—900 Fannin Street, Houston, Texas.

Business—Principally an operating electric utility company.

Underwriting—Smith, Barney & Co., Lazard Freres & Co., and Blyth & Co., Inc. all of New York, are underwriters of 60,000 shares of the $4 preferred stock. The balance of the preferred and the common stock which is being offered in exchange to holders of presently outstanding preferred stock, is not being underwritten.

Offering—The company will offer to each holder of its 7% preferred and $6 preferred stocks the following options as to any part or all of such holdings: To exchange such preferred stock for $4 preferred on the basis of 1 1/10 shares of $4 preferred for each share of 7% preferred or $6 preferred stock—(b) to exchange such preferred stock for $4 preferred stock and common stock on the basis of one-half share of preferred and one share of common stock for each share of such preferred. The offering price of the $4 preferred stock to the public will be supplied by amendment.

Proceeds—Net proceeds from the sale of 50,000 shares of $4 preferred will be added to working capital (in part to replenish the company's treasury for cash used for construction), and no part of such proceeds will be used for redemption of any of the company's 7% or $6 preferred stock. Net proceeds from sale of remaining 10,000 shares of $4 preferred sold to the underwriters will be set aside by the company in the first instance for use in the redemption or retirement of its 7% and $6 preferred stocks and in making necessary cash adjustments with exchanging stockholders. Any balance will be added to working capital.

Registration Statement No. 2-5307. Form A-2. (2-18-44).

Offered March 1, 1944, at $102 per share by Smith, Barney & Co., Lazard Freres & Co. and Blyth & Co., Inc.

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. and Kobbe, Gearhart & Co., Inc., may be underwriters.

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.)

Offered Feb. 29 at $3.375 per share by Kobbe, Gearhart & Co., Inc.

NORTHERN STATES POWER CO. (MINNESOTA)

Northern States Power Co. (Minnesota) has filed a registration statement for $5,000,000 first mortgage bonds, series due Feb. 1, 1974.

Address—15 South Fifth Street, Minneapolis, Minn.

Business—Operating public utility company and is also a registered public utility holding company.

Underwriting—To be filed by post-effective amendment.

Offering—Price to the public to be filed by amendment. Company proposes to offer the bonds for sale pursuant to the competitive bidding requirements of Commission's Rule U-50. Company also proposes to issue and sell to banks $4,000,000 face amount of its serial notes.

Proceeds—Will be used to pay the $4,999,000 face amount of St. Paul Gas Light Co. general mortgage gold bonds, 5% assumed by Northern States which mature on March 1, 1944, and the $4,000,000 face amount of promissory notes of the company dated June 14, 1943, which mature on Feb. 28, 1944.

Registration Statement No. 2-5290. Form A-2. (1-21-44.)

Registration statement effective 5 p.m. EWT on Feb. 9, 1944.

Bonds awarded Feb. 21 to Lehman Brothers as 2¾s on bid of 100.0699.

Offered Feb. 24, 1944 at 101 and int. by Lehman Brothers and Associates.

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

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

Offerings will rarely be made before the day following.

THURSDAY, MARCH 2

REPUBLIC INVESTORS FUND, INC.

Republic Investors Fund, Inc., has registered 300,000 shares of common stock, par value $1 per share.

Address—40 Exchange Place, New York, N. Y.

Business—Management leverage investment company.

Underwriting—W. R. Bull Management Co., Inc., is named principal underwriter.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5305. Form A-2. (2-12-44).

MONDAY, MARCH 6

MASSACHUSETTS INVESTORS TRUST

Massachusetts Investors Trust has filed a registration statement for 866,368 shares of beneficial interest.

Address—19 Congress Street, Boston, Mass.

Business—Investment trust.

Underwriting—Massachusetts Distributors, Inc., is named principal underwriter.

Offering—Date of proposed offering April 1, 1944. At market.

Proceeds—For investment.

Registration Statement No. 2-5306. Form A-1. (2-16-44).

WEDNESDAY, MARCH 8

AMERICAN CASUALTY CO. OF READING, PENNA.

American Casualty Co. of Reading, Penna., has filed a registration statement for 100,000 shares of capital stock, par value $5 per share.

Address—607 Washington St., Reading, Pa.

Business—Multiple line casualty company. Conducts a general casualty insurance business.

Underwriting—None reported.

Offering—The 100,000 shares of capital stock are being offered by the company at $11 per share to stockholders on the basis of one-half of a new share for each share held. The new stock will be offered to stockholders of record March 10, 1944. The stock purchase warrants are to be exercisable for a period of 30 days after issuance, but, at all events, until at least April 20, 1944.

Proceeds—Proceeds to company from proposed offering is $1,100,000. The purpose of the financing is to increase the capital and surplus of the company to enable it to, (1) meet the capital requirements for admission to transact business in all of the states and territories of the United States; (2) organize or acquire a stock fire insurance company, and (3) retain a larger portion of its business without resorting to reinsurance.

Registration Statement No. 2-5308. Form S-1. (2-18-44).

Dates of Offering Undetermined

BEN-HUR PRODUCTS, INC.

Ben-Hur Products, Inc., has filed a registration statement for $300,000 5% convertible debentures, series of 1943, due Feb. 1, 1951, and 11,400 prior preferred shares, for the purposes of such conversion.

Address—800-812 Traction Avenue, Los Angeles, Cal.

Business—Engaged in business of processing and marketing at wholesale of coffee, tea, extracts, prepared mustard and spices.

Underwriting—Pacific Company of California, and Wyeth & Co., both of Los Angeles, are named underwriters, each having agreed to purchase $150,000 of the debentures at 92½%, or a total amount of $277.500.

Offering—Price to public, 100.

Proceeds—To retire bank loans and working capital.

Registration Statement No. 2-5273. Form S-1. (12-20-43.) Statement originally filed in San Francisco.

Amendment filed Feb. 15, 1944, to defer effective date.

(This list is incomplete this week)

Canadian Situation Has Interesting Possibilities

Wood, Gundy & Co., Inc., 14 Wall St., New York City, have issued a new circular discussing the interesting possibilities of Province of Ontario. Copies of this circular may be had upon request from Wood, Gundy & Co., Inc.

Du Mont Lab. Attractive

The current situation in Du Mont Laboratories offers attractive possibilities according to a memorandum issued by J. F. Reilly & Co., 111 Broadway, New York City. Copies of this interesting memorandum may be had from the firm upon request.

Sage Co. To Admit

Robert H. Muller will be admitted to partnership in Sage & Co., 52 Wall Street, New York City, members of the New York Stock Exchange, on March 9th.

On the same date James M. Grady, a partner in the firm will acquire the Exchange membership of the late Otto H. Gruner.

White Motor Interesting

White Motor offers an interesting situation, according to a memorandum distributed 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 may be obtained from Ira Haupt & Co. upon request.

Now Shaw McDermott & Co.

DES MOINES, IOWA — James C. Shaw and Owen P. McDermott announce the formation of Shaw McDermott & Co., with offices in the Liberty Building, as successors to Shaw, McDermott & Sparks, Inc. The firm will specialize in municipal bonds.

"Our Reporter On Governments"

By E. P. TEE

Biggest news to Government bond dealers since our entry into the war was the announcement late Monday by the Treasury that it would refund through an exchange offer $4,730,000,000 outstanding obligations. . . .

Details of the security to be offered present holders and the method of adjusting interest are to be made public today. . . . In the meantime speculation ranges all the way from a 1⅜% note to a 1¾% short bond. . . . But the big news is that the Treasury has reestablished "rights" on its refunding operations. . . . This was a familiar pre-war device that has been absent since Pearl Harbor. . . . Many dealers have felt that the day of "rights" was gone forever, in view of the enormous amount of Government debt outstanding and the relative shortness of maturity on a good portion of these obligations requiring frequent refundings. . . .

However, the tip-off came on the Treasury's refunding of the Feb. 1 certificate issue, which fell due in the middle of the Fourth War Loan drive. . . . This was exchanged for a 0.90% 13 months issue—not much improvement, but an indication that a little sweetening would be injected where necessary to insure a quick, successful operation. . . .

The present operation is the Treasury's biggest maturity problem of the year. . . . It will be made sufficiently attractive to go over big. . . . Once these maturities are out of the way there are no issues due before September, when about $900,000,000 notes mature and then again in December, when $1,037,000,000 of 4% bonds will be called. . . . Bills and certificates that mature at regular intervals will be rolled-over as indicated by Monday's announcement which excluded mention of the $5,250,000,000 certificates due April 1. . . . Expect a separate offering on these during the latter part of this month. . . .

GUESSING CONTEST INTENSIFIED

The Treasury's announcement has intensified the guessing contest of the past few weeks, as to what the exchange offer will be. . . . There are few maturities in 1947, 1948 or 1949, years which the Treasury apparently has kept open for its refundings. . . . If you can guess which year will be selected for the present exchange offer, you can come close to naming the coupon rate. . . .

Best informed opinion in the "street" favors a 1½% note running for four and a half years, or to about Sept., 1948. . . . This would command a fair premium and fit the circumstances. . . .

Since the commercial banks own the bulk of the called issues, since the Treasury has indicated that it wants banks to stay within the ten-year maturity range, since banks agree with this reasoning and since the longer section of the market is pretty well crowded and any offering out here would be just too attractive, it is a safe bet that whatever is offered will be somewhere in the 1947-49 range.

Conservative bank policy is opposed to any exchange that is too attractive, since this might lead to criticism at a later date. . . . The Treasury in the past has misjudged the market badly at times, as for example, the especially attractive offering of 1½% notes last September. . . . While the offer to be announced today is expected to be sufficiently good to insure a prompt and successful operation, also anticipated is that it will be keyed pretty closely to the market. . . . But that it will be attractive is indicated from the nominal yield basis on which issues which may be used for the exchange are now selling. . . .

It may be stated with reasonable certainty that the Government bond market over the next two weeks will offer little other excitement in the way of price movements. . . . Nevertheless, it will be watched carefully for clues to the future probable course of events. . . .

Reason for this attitude by dealers and the New York banks is the March 15 income tax payment date with a record turnover of funds in prospect. . . . These quarterly periods, always important to the Government market, are especially significant now, first, because of the huge sums involved in the transfer from private balances to Government account and secondly, due to the fact that the banking system as a whole is working with a minimum supply of excess reserves. . . .

HEAVY PAYMENT IN PROSPECT

The tax take this month will set a new record high in collections and bank deposit turnover. . . . It is difficult to estimate with any certainty just what the total will be, due to many complicating factors never before present such as the unforgiven portion of 1942 taxes and balances due above the withholding tax. . . .

But it is certain that every commercial bank in the country will temporarily lose deposits as taxpayers settle their bills. . . . These funds will flow back promptly to the banks, of course, through Treasury expenditures and moves made by the money market management to assist redistribution. . . .

In the meantime, however, commercial bankers whose buying and selling constitute the backbone of the Government bond market, must prepare for a tight situation. . . . They will be more concerned with the probable deposit turnover in their institutions than with portfolio changes or new acquisitions. . . .

Estimates of the Treasury's probable March income tax receipts range as high as $8,000,000,000. . . . This is a tremendous figure, representing an all-time record. . . . When it is considered that only 15 months ago, at the start of the first Victory Loan, the objective was $9,000,000,000, to be raised by borrowings, this month's payment assumes even larger significance. . . . It means we have made long strides on the financial front as well as on the war front. . . .

Is this estimate too large? . . . When it is realized that the Treasury collected $5,000,000,000 in income tax payments last December, that the current payment will reflect for the first time the full impact of the 1942 Revenue Act on corporation and large individual tax liabilities, as well as final settlement of unforgiven balances the estimate does not appear unduly excessive. . . . In fact, the final figure may well be larger. . . .

MONEY MARKET MANAGEMENT

Will the banks find it necessary to liquidate securities over the next two weeks? . . . Not at all. . . . Despite the fact that we are entering this period with slim excess reserves, banks may be assured that the money market management, which has proved itself extremely capable, will provide the reserves necessary to the banking system in meeting this heavy deposit turnover. . . . This situation undoubtedly was carefully covered at the meeting in Cleveland last Monday of the presidents of the twelve regional Federal Reserve banks. . . .

The Treasury can sell upwards of $5,000,000,000 securities to the Federal Reserve banks and will doubtless use part of this privilege prior to March 15 in the form of one-day special certificates. . . . Such has been the procedure in the past. . . . This operation creates reserves and the certificates can be promptly liquidated out of the tax receipts so that the net effect is to smooth out the squeeze arising from deposit transfers to pay taxes. . . .

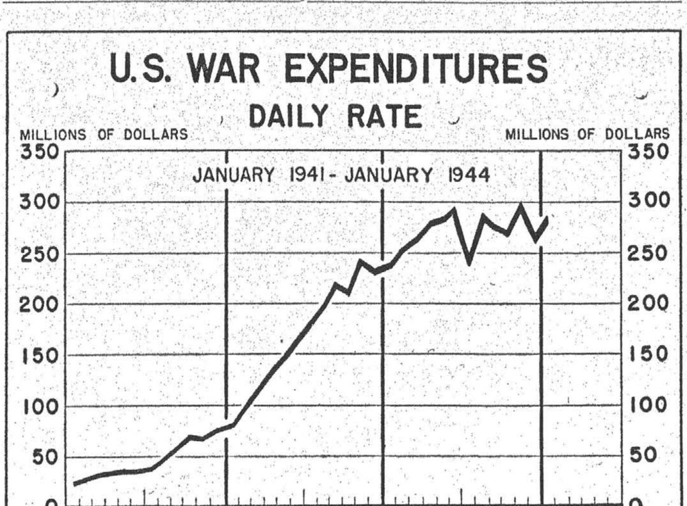
The tender of Tax Saving notes may greatly ease the amount of actual cash transfers. . . . This is another factor that cannot be determined in advance but the amount of notes turned in has been steadily increasing at each successive tax period. . . . The corporations, especially, are large holders of these obligations and their surrender for taxes will involve no deposit shift and have no effect on the banking position. . . .

This is the way the situation shapes up for the next two weeks, with the money market management having a big task ahead, but enjoying both the authority and the experience to see it through without any disturbance in the Government bond list. . . .

With over $17,000,000,000 now in War Loan account and with cash resources slated to expand substantially on March 15, the Treasury again will have a huge working balance on hand. . . . In these circumstances, the outlook favors:

1. An easing by the Treasury of calls against its balances in War Loan accounts with the banks thereby enabling the banks to hold these funds invested for a longer period with consequent improvement in earnings, and

2. Probable postponement of the next major War Bond drive now discussed for May, to not earlier than June. . . .



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