Final Edition — ESTABLISHED OVER 100 YEARS — In 2 Sections—Section 1

The Commercial and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 159 Number 4262 — New York, N. Y., Thursday, March 9, 1944 — Price 60 Cents a Copy

Condemns Destructive Taxes On Business

In his annual report to stockholders for the year ended Oct. 30, 1943, J. Cheever Cowdin, Chairman of the Board of Universal Pictures Co., pointed out that "when the war ends, most companies will need capital for improving plants, replacing machinery, buying raw materials, enlarging payrolls, and to pay a reasonable return for the savings invested in the business," as well as to expand their markets. "Existing excess profit taxes," he said, "make it difficult for companies to retain in the business sufficient earnings for these purposes. If," he continued, "the taxes are confiscatory, business will be left after the war with insufficient funds to continue full operations, and will,

J. Cheever Cowdin

(Continued on page 990)

In This Issue

Special material and items of interest with reference to dealer activities in the States of Illinois and Wisconsin appears in this issue.

How To Make Money In The Stock Market

Gerald M. Loeb Of E. F. Hutton & Company Advises Investors To Look Primarily For Appreciation—Holds Correct Selection Of Individual Issues and Concentration Of Investment In A Few Best Securities Safer Than Wide Diversification—Sees Short-Term Outlook Favorable—Long-Term Outlook Doubtful—United Aircraft His Favored Long-Pull Purchase

Gerald M. Loeb, a partner of E. F. Hutton & Co., in speaking extemporaneously before the Association of Stock Exchange Brokers on Feb. 29, began his address by commenting on the numberless investors and advisers he had noted over a period of years who depended mainly upon either statistics, economics, charts or historical sequences for their ideas. Purely as a matter of observation, he had personally paid the minimum of attention to such factors.

Gerald M. Loeb

He also elaborated on what he felt was the almost universal mistake of all investors to get their capital "working" either for income or in the belief that there was always something worthwhile buying in the market. He pointed out that the first thing a customer's broker must do to get such an investor thinking along profitable lines is to disabuse him of that idea.

He said there were two situations in which full investment or even debit balances were justified and that was either when the

(Continued on page 1005)

The Nation's Post-War Financial Structure

By Dr. MARCUS NADLER*

The financial structure of the United States for years after the war will be under the influence of the huge debt created during the war. The entire economy will be marked by great liquidity, the credit structure of the country will rest, to a large extent, on Government obligations and the liquid assets in the hands of the people will be larger than ever before. Public debt will entail an interest service alone of 5 or 6 billion dollars per annum, as contrasted with total Federal expenditures of less than 4 billion dollars in 1930 and 7,240,000,000 dollars in 1938. The consequences of the huge public debt and of the increased expenditures for the armed forces and veterans will be high taxes for years to come; those who believe that the end of the war will be followed by a wholesale reduction of corporate and personal income taxes are not basing their calculations on facts or are indulging in wishful thinking. For quite some time after the war, the credit policies of the monetary authorities will be dominated by the needs of the Treasury and by its refunding operations.

Dr. Marcus Nadler

The volume of bank deposits at the end of the war may well be over 150 billion dollars. If commodity prices remain approximately what they are today, the supply of funds in the hands of business enterprises in general

*Summary of an address delivered by Dr. Nadler, Professor of Finance at New York University, before the American Management Association on March 1, 1944.

(Continued on page 1009)

Reconversion To Economic Democracy---Demobilization The Democratic Way

By LEWIS H. HANEY

Professor of Economics, New York University; Author of "Value And Distribution"

When economic democracy goes to war, it marches, regimented, under orders, with little freedom of individual choice. But should the existing or similar controls of the war economy be projected into the future? More specifically, should price-fixing and rationing be continued in the post-war period?

It may turn out that these questions are really the fundamental issues back of the present political campaign. This is true, first, because a good many persons, as office holders, seek such an extension of Government control, either to extend their present jobs or to carry out their theories. The tendency of some labor leaders to seek greater power and prestige through a "participation in management" leads almost inevitably to Government control: only through their influence over the numerous votes of a large pressure group, thus acquiring political power, could they hope to attain business leadership. Or their main motive may be to avoid the regulations and responsibilities which will have to be imposed upon labor

Lewis H. Haney

(Continued on page 1006)

Sound Finance Or Spending In The Post-War Era

By Hon. ROBERT A. TAFT*
United States Senator from Ohio

Sees Necessary Federal Post-War Budget Of 18 Billion Dollars—Believes That With Drop In National Income To More Normal Proportions Present Tax System Would Not Raise Much More Than This—Views It Impossible To Support An Export Trade By Loans Or By Any Of The International Panaceas Like The Keynes Or White Plans Or The Morgenthau International Bank

There has been tremendous excitement this last week about the current tax policy of the government, and a great difference of opinion regarding the exact amount which the government should raise. But, after all, this is only a temporary problem. When the war is over we will have a public debt close to 300 billion dollars, and whether or not we raise five billion dollars more by taxes in the last year of the war will not change materially the problem we face after the war. The President, for this last year ending July 1, 1945, would raise 50% by taxes and 50% by bonds. Congress would raise 45% by taxes and 55% by bonds. There is no fundamental issue. Everyone agrees that the war cannot be financed

Robert A. Taft

*Address delivered before the American Retail Federation at the Waldorf-Astoria Hotel in New York City on Feb. 29, 1944.

(Continued on page 1008)

J. F. Reynolds With Hornblower & Weeks

(Special to The Financial Chronicle)

CHICAGO, ILL.—John F. Reynolds has become associated with Hornblower & Weeks, 39 South La Salle Street. Mr. Reynolds was previously with the Chicago office of Bear, Stearns & Co. and Kidder, Peabody & Co. for a number of years. In the past he was an officer of Hickey & Co., Inc.

Over-the-Counter Review

Bristol & Willett, 115 Broadway, New York City, have prepared the current issue of their "Over - the - Counter - Review" Copies of this interesting review may be had from Bristol & Willett on request.

Eversharp Attractive

Common stock of Eversharp, Inc., offers interesting possibilities according to a circular being distributed by Stanley Heller & Co., 30 Pine Street, New York City, members of the New York Curb Exchange. Copies of this circular may be had upon request from Stanley Heller & Co.

Interesting Possibilities

Adams & Co., 231 South La Salle Street, Chicago 4, Ill., have prepared a recent analysis of National Terminal Corporation, which offers interesting possibilities, the firm believes. Copies of this circular may be had upon request from Adams & Co.

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, Feb. 24 and March 2, starting on the cover page in each instance. We give now another group of comments and others will be published in subsequent issues.—Editor.

GANSON PURCELL
Chairman, Securities & Exchange Commission, Philadelphia, Pa.

You say that you are interested to know whether or not I think it wise to extend price fixing and rationing into the post-war period. I am very glad to give you my views. I had occasion to marshal my thinking in that regard in an address which I gave before the Executives' Club of Chicago on Oct. 15, 1943. In developing the subject matter of my address, I referred to the rising trend of corporate liquid savings and the increasing accumulation of savings of individuals and unincorporated businesses. I then made the following statements which bear directly on the question that you have put to me:

Ganson Purcell

"The other day Alfred Sloan, Chairman of the Board of the General Motors Corp., warned

(Continued on page 1002)

"What Are Rock Island Bonds Worth?"

Frederick M. Stern, member of the New York Stock Exchange, with offices at E. F. Hutton & Co., 61 Broadway, New York 6, N. Y., has prepared a memorandum entitled "What Are Rock Island Bonds Worth?" Copies of this interesting study may be obtained upon written request from Mr. Stern.

Alfred Nimmo Joins Glore, Forgan Staff

Glore, Forgan & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, announce that Alfred L. Nimmo is now associated with them in their municipal bond department.

Mr. Nimmo was formerly municipal bond trader for Gruntal & Co. Prior thereto he was in the municipal bond department of the New York office of Content, Hano & Co. and was with Turner, Knight & Sholten.

The COMMERCIAL and FINANCIAL CHRONICLE
Reg. U. S. Patent Office
William B. Dana Company
Publishers
25 Spruce Street, New York 8
BEekman 3-3341
Herbert D. Seibert,
Editor and Publisher
William Dana Seibert, *President*
William D. Riggs, *Business Manager*
Thursday, March 9, 1944
Published twice a week
every Thursday
(general news and advertising issue)
and every Monday
(complete statistical issue—market quotation records, corporation, banking, clearings, state and city news, etc.)
Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613), in charge of Fred H. Gray, Western Representative; 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.
Subscriptions in United States and Possessions, $26.00 per year; in Dominion of Canada, $27.50 per year; South and Central America, Spain, Mexico and Cuba, $29.50 per year; Great Britain, Continental Europe (except Spain), Asia, Australia and Africa, $31.00 per year.
Other Publications
Bank and Quotation Record—Mth. $20 yr.
Monthly Earnings Record—Mth. $20 yr.
NOTE—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Taxation Problems Of The Transition Period

Treasury Department Official Sees Advantages In The Carry-Back Provisions Of The Tax Laws To Cover Reconversion Losses—Prefers These Provisions To The Setting Up Of Specific Reserves—Holds Government Should See That Tax Remissions Should Be Related To Re-employment, and Circumscribe Tax Deductibility To Prevent Abuse

By RANDOLPH E. PAUL*
General Counsel of the Treasury

I am very glad to participate in the opening session of this meeting of the American Management Association. And I speak for the Treasury when I say that it appreciates this opportunity to present its views along with those of industry on "Taxation Problems of the Transition Period."

We hear much these days about post-war problems and programs. So much, in fact, that I am reminded of a squib in a recent magazine in which a wife called her husband to task for being the only guest at a dinner party without a post-war plan.

Randolph E. Paul

Since Mr. Stempf and I are approaching tax problems of the transition period from different directions, it is not surprising that we offer different solutions. The subject calls for light from every angle. The best solution will be the one that gains acceptance in the competition of the intellectual market after a vigorous free trade in ideas.

Mr. Justice Frankfurter has wisely remarked that "the right answer depends on putting the right question." On the kind of question before us this morning, I would go the learned Justice one better. I believe that the right

*An address delivered before the Conference on Financial Management of the American Management Association at the Hotel New Yorker, New York City, on March 1, 1944, and read, in Mr. Paul's absence, by Gordon Keith, Treasury representative.

(Continued on page 1010)

Harley Lutz's Suggested Post-War Tax Program Subject Of Discussion

In an article bearing the caption, "A Post-War Tax Program," which appeared in the "Chronicle" of Feb. 10, Dr. Harley L. Lutz, Professor of Public Finance, Princeton University, suggested a program for allocation of tax sources between the various levels of government—Federal, State and local—which, in his opinion, "appears to offer the maximum possibilities of automatic restraint upon the abuse and the destructive use of the taxing power." A number of letters have been received commenting on Mr. Lutz's article and those that can be accommodated in this issue are given herewith:

HON. WILLIAM LEMKE
Member of the House of Representatives from North Dakota

I am in full accord with Dr. Lutz's intimation that the present tax laws of our nation are not only outrageous but almost an insult to one's intelligence. There is so much red tape and duplication that it almost seems as if the tax eaters were playing the game of graft.

Hon. Wm. Lemke

No person can question the necessity of a thorough revamping of our entire tax system and a total abolishment of the red tape and rules and regulations imposed upon an already complicated system by the Treasury Department.

People in the lower brackets can ill-afford to employ experts competent to comply with all the red tape and rules in making out tax returns.

May I also suggest to Dr. Lutz that just as it is important to revamp our tax system, to simplify tax reports and returns and to cut out the idle bureaucrats that invent new ideas, so is it important to revamp our entire system of Governmental expenditures, to cut out the red tape in expenditures and to cut out waste, graft and inefficiency in connection with public expenditures.

J. FRANK SMITH
Houston, Texas

This letter is in response to your invitation to comment on a reprint of an article by Harley L. Lutz entitled, "A Post-War Tax Program," appearing in the Feb. 10 issue of the "Chronicle."

In paragraph 1 he states, under "Productivity": "The general sales tax and the tax on gross individual incomes would be much less affected by variations in economic activity than are the taxes on business and individual net incomes, . . ."

By the same token, the total tax revenue obtainable by such method during a period of low economic activity (depression) would be inadequate to meet essential public requirements.

Also, it is well known that a sales tax has many objectionable and bad features. It is the baby of the ultra-wealthy, and if the rate is sufficient to raise necessary or important tax it would be oppressive to the lowest income group. This is academic. It would tend to raise prices of the retailer in essential living commodities.

Under paragraph 3, Mr. Lutz states: "The present Federal tax system has 'frozen' the economic order at its current stage of development." Why not—for the duration? We will be lucky if it is not greatly shrunk or depleted, much less "frozen." The alternative might well be military and utter defeat! Just enough tax to satisfy the chronic golddigger would be always, to the war effort, "too little and too late."

I am not sure what Mr. Lutz means by his phrase "progressive income tax" or "progressive tax system." If he means larger rates progressively from year to year, it is one thing; if he means larger rates for larger unit incomes, it is

(Continued on page 1012)

NASD "5% Spread Philosophy" ---Rule Or Interpretation?

Considerable twaddle has been going the rounds in an effort to convince security dealers that the NASD "5% spread philosophy," in and of itself, is not a rule, but is an interpretation of an existing rule.

So much oral legerdemain has been used in this effort to becloud the real issue, to muddy the waters, that it would be wise to look to the record for the purpose of determining why the attempt is being made to draw this distinction.

As is generally known, the National Association of Securities Dealers is a creature of the so-called Maloney Act. When that bill was in the legislative hopper, hearings were held to determine its soundness.

To demonstrate the apprehension that the intended legislation might create a monopoly and should be trimmed to conform to the "general policy of our form of govern-

(Continued on page 989)

Folger Sees Need Of Confidence In Country's Future To Encourage Venture Capital

Cites Competitive Bidding And Private Placement Of New Issues As Detriments

To aid industry's post-war conversion from government to private financing, the government should provide a "catalog" of all business firms which have received government loans or advances, J. Clifford Folger of the Washington investment firm of Folger, Nolan & Co., and President of the Investment Bankers Association of America, urged in speaking at Philadelphia on March 8 before the annual meeting of the Eastern Pennsylvania Group of the IBA.

John Clifford Folger

The investment banker described a proposed list of corporations which have received financial aid from Government agencies, arranged "like a classified telephone directory," by industry, location, size and other essential facts. It would be a way of getting down to cases and seeing "who needs what," he said.

Among things that would encourage private capital to flow into ventures was, he said, "a good dose of confidence in the future of the country," and in this connection he expressed his own confidence in an extended period of rapid expansion in business after the war. As another encouragement he said that "Eventually, venture capital should be taxed less than money which plays safe under the bed." He added that some of the "under the bed" money had already come out, but that it had gone off to South America where taxes are low and returns on money high.

Two factors he mentioned as working against the ready flow of venture capital were competitive bidding for new security issues and private placement of new issues with a few large institutional investors. "Private placement is an accident which has become a vested interest," he said. "Competitive bidding is a noble experiment which has reduced the selling group commission of country dealers to a quarter of a point or ¼ of 1% and has hurt country-wide distribution and merchandising methods." Both of them, he added, are opening the channels of distribution only to the large and sophisticated buyer, and tend to deprive the rank and file investors of the best investment opportunities.

Referring to the Securities and Exchange Commission as the "umpires who makes our rules and run our ball games," he said: "Here we have an umpire to call strikes, a first base umpire, a second base umpire, and one at third and one for each outfielder, but what has happened to the ball game and the crowd? A good many are going off to play in the private placement park, and that little backlot pastime seems to be growing tremendously. Another thing, it seems to be attracting the best brand of baseball. At least the large, sophisticated investors seem to think so. Is it sound to have the big sellers of securities and the big buyers of securities get together and pass the ball around privately? If so, what happens to the little investor and the little dealer? They seem to be left out.

"It is true a counter attraction in the form of competitive bidding has been set up and is exciting a bit of talk. What about that noble experiment? The little dealers and the little investors who were supposed to get first row seats seem to be further and further away from the play. According to last reports, under competitive bidding the selling group commission to country dealers has declined so that it is really a race now to see whether shipping charges won't surpass selling group commissions."

"After ten years," he asked, "wouldn't it be a good idea to take a fresh look at this ball game to make sure everyone is playing the same game in the same ball park, under rules which are best for all, including the big investor, the little investor, the big dealer and the little dealer?"

Moore Appointed By N. Y. Bankers Ass'n

The appointment of Donald A. Moore, secretary-treasurer of the Ontario County Trust Company, Canandaigua, as assistant secretary of the New York State Bankers Association has been announced by E. Chester Gersten, president.

Donald A. Moore

Mr. Moore, who will devote his full time to Association work, has been employed in upstate banks since 1925. As assistant secretary of the State Bankers Association, he will alternate between the association's New York City headquarters and field work among the 600 upstate commercial banks. He succeeds Albert L. Muench who was elected secretary of the association on Feb. 1, after Harold J. Marshall had resigned to become an officer in the Bankers Trust Company.

Mr. Moore is a member of the class of 1937, Graduate School of Banking, Rutgers University, and is a former director of the American Institute of Banking, Buffalo.

N. Y. Analysts To Hear

On Friday, March 10, at the regular luncheon meeting of the New York Society of Security Analysts, Inc., there will be a round table discussion of the market outlook for various classes of utility securities under the leadership of E. Ralph Sterling of Merrill Lynch, Pierce, Fenner & Beane. The meeting will be held at 56 Broad Street, at 12:30 p.m.

Interesting Utility

American Cities Power & Light 2.75 and 3.00 preferred offer an interesting situation according to a memorandum prepared by Buckley Brothers, 1529 Walnut Street, Philadelphia, Pa., members of the New York and Philadelphia Stock Exchanges. Copies of this memorandum may be had from the firm upon request.

Gerhard Noll Now With Graham, Parsons & Co.

(Special to The Financial Chronicle)

CHICAGO, ILL.—Gerhard B. Noll has become associated with Graham, Parsons & Co., 135 South La Salle Street. Mr. Noll was formerly with Eastman, Dillon & Co. and prior thereto for thirteen years with Stone & Webster and Blodget. In the past he conducted his own investment business in Chicago.

NASD "5% Spread Philosophy" ---Rule Or Interpretation?

(Continued from page 987)

ment," we quote in part from the hearing held on April 11, 1938:

"Mr. Matthews. As to certain very important types of the securities business, it is true, I think, that one could not operate successfully outside of this association, if the association gets organized on the scale that this bill visualizes. But it does emphasize the importance of being certain that the right to this association to act in such a way as to injure any of its members without fully protecting that member in his rights, is very carefully guarded.

Mr. Boren. It strikes at the fundamentals of our American philosophy of government; I mean, it places an obligation on the Commission to carry out that fundamental, in that it becomes your obligation, if you set up this corporate body, to absolutely assure equal rights to each corporate member, especially if you are giving them such a power as will more or less compel the individual to turn to the corporation for his future operation and security.

I am not finding fault with the provisions necessarily, but it seems to me that the Commission is recognizing in this Act what the country at large has refused during the last 50 years to recognize, that capitalism, as an individual capitalistic system, no longer exists in this country, and that we are rather dependent, so far as security even as individuals, is concerned, upon a corporate system.

So your obligations are so great that I want to be certain, in passing over this Act, that the security and safety of the individual within the corporate action is on a basis of equality comparable to the general philosophy of our form of government."

In these quotations, two thoughts stand out. Speaking of the individuals composing the membership, the importance is emphasized of "protecting that member in his rights"; and it is stressed that each individual be "on a basis of equality comparable to the general philosophy of our form of government." These two themes are inherent in the legislation which gave rise to the NASD.

Our lawmakers recognized that an association created with powers and special privileges such as those enjoyed by the NASD, powers and privileges which would compel many to join against their very will—such an association required curbing and the setting up of safeguards against the abuse of these powers and privileges.

We shall not here and now attempt an analysis to determine the adequacy of the safeguards set up in the Maloney Act, but let us examine the one dealing with the making of rules.

The law provides that an association may be registered under the Maloney Act by, among other things, filing with the Securities and Exchange Commission

"Copies of its constitution, charter, or articles of incorporation or association, with all amendments thereto, and of its existing by-laws, and of any rules or instruments corresponding to the foregoing, whatever the name, hereinafter in this title collectively referred to as the 'rules of the association.'"

No association may be registered unless "the rights of the association assure a fair representation of its members in the adoption of any rule of the association, or amendment thereto."

Finally,

"The Commission is authorized by order to abrogate any rule of a registered securities association, if after appropriate notice and opportunity for hearing, it appears to the Commission that such abrogation is necessary or appropriate to assure fair dealing by the members of such association, to assure a fair representation of its members in the administration of its affairs or otherwise to protect investors or effectuate the purposes of this title."

All this adds up to the plain fact that under the law the SEC has the power to revoke a **rule** of the National Association of Securities Dealers.

Now comes the "5% spread philosophy" foisted upon the membership of the NASD by its Board of Governors, contrary to the provision of its own constitution, which requires that a **rule** be submitted to the franchise of all the members.

In its communication of Oct. 25, 1943, to the membership, and in its instructions of Nov. 9, 1943, to the Business Conduct Committees, the "5% spread" is cagily referred to as a "philosophy," and as an "interpretation" of an existing rule. Let no one be so naive as to believe that these characterizations were accidental. To have dubbed this innovation a **rule** would in the first place have made is compulsory to submit it to the members for their vote. That would have meant its inevitable defeat. By circumlocution, this proceeding was avoided, and the power of the SEC to revoke was left open to debate.

This un-American attempt to place a ceiling on "spreads," this modification of custom and the regular course of business which could ordinarily be accomplished only by the Legislature, has been foisted upon the security dealers by an ultra vires fiat. Is there any wonder that there is open rebellion?

We believe there can be no question amongst men of reason that the "5% spread philosophy" constitutes a rule. By the very instructions of the NASD's Board of Governors, the Business Conduct Committees are ordered to apply that rule as a measure in judging guilt in disciplinary proceedings.* We believe that the SEC, jealous of its jurisdiction, will not permit the mumbo-jumbo of evasion, to prevent the recognition of its plain duty to abrogate this rule, because it was illegally arrived at, and primarily because it constitutes a dangerous threat against our democratic way of life.

---

*These instructions outlined in the letter of Oct. 25, 1943, said that Business Conduct Committees should enforce Section 1 of Article III of the Rules of Fair Practice having in mind that 71% of the transactions covered by **their** survey were consummated on a gross mark-up basis of not over 5%, with the exception of certain low priced securities, such as those selling below $10, when a somewhat higher percentage may sometimes be justified.

The normal interpretation of this would be that gross mark-ups of more than 5% on securities selling above $10 is prohibited. This means that Business Conduct Committees are being coerced into changing trade custom. This entirely aside from the valid objections that could be raised with respect to the means and methods used by the Board of Governors to determine what constitutes fair trade practice.

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.

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.

Situation of Interest

The $2.50 preferred stock of Goldblatt Bros., Incorporated, offers an interesting situation according to a circular being distributed by William A. Fuller & Co., 209 South La Salle Street, Chicago, Ill. Copies may be had from the firm upon request.

Okla.-Tex. Trust Attractive

The current situation in Okla.-Texas Trust offers interesting possibilities according to T. J. Feibleman & Co., 41 Broad Street, New York City, who have just issued a circular, describing the situation. Copies of this circular may be had from the firm upon request.

Real Estate Securities

Will The Bull Market Of The Rails Be Duplicated By Real Estate Bonds?

July 30, 1943, in this column, the writer made the following statement: "The coming boom should be in Real Estate Bonds."

Current prices compared with prices of that day have justified the prediction. Considering the low dollar prices of the securities, the rise in price percentage-wise has been quite large.

Earnings, likewise, have had a tremendous rise, indicating that there may still be more room for price appreciation of the various securities.

As an example we cite year-end condensed statements of a few hotels:

Sherry Netherland Hotel: Report for the 12 months ended Dec. 31, 1943, showed a **37%** increase in income, amounting to $1,211,074.20, compared with $885,173.98 the preceding 12 months. Profit after taxes and insurance increased **430%** from $47,194.44 to $252,967.22 in face of an increase in payroll amounting to $67,154.25. Net earnings permitted operation of a sinking fund in addition to payment of 3½% interest. Its first mortgage bonds are currently quoted 42 bid, offered at 43.

Hotel Lexington: Report for the 12 months ending Dec. 31, 1943, showed a **36%** increase in income, amounting to $2,809,982.83 compared with $2,066,807.89 in 1942. Net profit available for interest and sinking fund purposes during 1943 was $499,452.72, against $333,519.65 in 1942 and $187,982.23 in 1941. As a result of sinking fund operations, which began August, 1942, **17.44%** of the corporation's funded debt was retired. A total of $680,200 income bonds and debentures were retired, leaving $2,575,680 income bonds and $644,120 debentures outstanding. Securities of the hotel trade as a unit of an $800 income bond, a $200 debenture bond and 15 shares of the stock. The units are currently quoted 77 bid, 79 asked. Because of stock issued in reorganization to junior liens and a supply of stock available because only the bond portion of the units are accepted by the sinking fund, there is also a separate market for the stock. Earning $3.93 per share in 1943, the stock is currently quoted 8½ bid, 9½ asked.

Governor Clinton Hotel: Gross earnings for the last fiscal year amounted to $2,500,164, compared to $1,761,345 the previous year. Net before bond interest was $623,484, compared with $255,425, or **12.47%**, on the bonds, against **5.11%**. First mortgage ahead of the bonds ($750,000 at time of reorganization) was further reduced by a payment of $300,000 in 1943 and now only $185,000 remains due. Upon complete retirement of the first mortgage, earnings permitting, the company will be in a position to make full 4% interest payments on its bonds in addition to an operation of a sinking fund and dividends on its stock. (Interest is restricted to 2% until such retirement.) Each bond carries two shares of voting trust stock representing an equal share in 60% of the ownership of the property. Its bonds are currently quoted 55½ bid, 57½ asked.

With no ceiling on office building or loft building rents, and with the demand for space together with the current increases now being put into effect, the writer looks for much better earning reports and interest payments for bonds secured by this type of real estate.

Increases in prices of various hotel bonds since July 1943 (when we suggested "a coming boom in Real Estate bonds") and the prices Monday of this week are as follows:

Hotel—	Price 7-30-43	Price 3-6-44	Gain
Beacon	16½	22¾	+ 6
Gov. Clinton	41¼	55½	+ 11¼
Mayfair House	35	43	+ 8
Park Central	43½	52½	+ 9
Savoy Plaza	24½	49½	+ 25
Sherry Netherland	32½	42	+ 9½
St. George	53½	60	+ 6½

Increases of prices of office building bonds between the respective dates have been as follows:

Building—	Price 7-30-43	Price 3-6-44	Gain
Harriman Bldg.	21½	34	+ 12½
50 Broadway	19	25	+ 6
61 Broadway	24½	29½	+ 5
Trinity Building	30	38	+ 8
165 Broadway	30¼	40½	+ 10¼
Broadway Barclay	21	29½	+ 8½
Wall & Beaver	34¼	43½	+ 9¼

The Post-War Pattern Remains Puzzling

Although few are in a mood these days to predict just when the wars will end, each month that goes by brings us that much nearer to victory and peace.

Six months ago one heard on every side that the European War would end in late 1943 or early 1944 and the Japanese War a year or so later. Currently, no one is in a mood for guessing, and our amazing progress in the Pacific conceivably may indicate that the Japs will be the first to collapse.

But regardless of when the wars are to end, the post-war pattern remains just as unclear as ever, not one bit clearer as a matter of fact than heretofore although we are in the 27th month of the wars.

The one encouraging phase that has developed rapidly and broadly is the nation's determination to try to sustain a high level of national income and to prevent unemployment from becoming a serious social and economic problem. On this point the entire nation is in agreement.

And this represents substantial progress, for it wasn't many decades ago that economic cycles came and went and *unemployment was taken for granted as a natural concomitant of downswings.*

Apart from this agreement on the part of Government, capital and labor that unemployment must be eliminated, there is little in the post-war period that is predictable. One can argue with equal effectiveness that inflation or deflation will accompany the wars' termination. It can be demonstrated similarly that there will be a mad rush for consumer goods, and with equal effectiveness the argument is made that the average American is going to hold on to his savings and his War Bonds to ward off the recurrence of the tragedies of the last depression.

However, those who predict price inflation and at the same time doubt the maintainance of full employment are talking, it seems to us, in contradictory terms. The two can hardly be paired. Dr. Alvin H. Hansen covered this point we thought rather adequately some years ago when he wrote:

"The fact is that no price inflation is possible so long as vast unemployment resources of men and machines can be drawn upon to produce an ever-increasing output of goods and services. So long as there are unused resources, every increase in demand is matched by an increase in supply. Thus any incipient price rise is held in check. *There can be no general price inflation* until scarcity conditions, owing to full employment, become general over a considerable range of industry."

We dwell on this phase of post-war years in our letter today because it may aid the investor who is trying mightily to guess what is ahead. And we think Dr. Hansen's point has very real validity for, as we see it, it is almost impossible for a price inflation to be accompanied by unemployment. And even with full employment we have some doubt that a lasting price inflation will be the nation's post-war lot when we think about the country's gigantic, and war-increased, productive facilities and productive genius.

It is all very well for motor-car manufacturers to tell us that following the war our automobiles are going to cost 25% to 30% more. Perhaps this will be so for a very brief time, but the competitive scramble for the market, our resources of skilled labor, our production capacity and our production genius will all be highly important factors constantly operating to distribute consumer goods at lower prices.—*Ralph E. Samuel & Co.*

N. Y. Stock Exchange Weekly Firm Changes

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

James A. Jackson retired from partnership in Lazard Freres & Co., New York City, on Feb. 29.

Thomas Lynch, general partner in Moore, Leonard & Lynch, Pittsburgh, Pa., became a limited partner in the firm effective March 1.

The late Myron I. Granger had retired from partnership in Sulzbacher, Granger & Co., New York City on Feb. 29.

Attractive Speculation

Province of Alberta Bonds, a Canadian provincial bond currently returning 2¾% to 3¼% at half-interest rates, offers interesting speculative possibilities according to a circular issued by Charles King & Co., 61 Broadway, New York City. Copies of this circular may be had upon request from Charles King & Co.

Speculative Possibilities

The Central of Georgia Consolidated 5s of 1945 offer attractive speculative possibilities according to a memorandum on the situation issued by Otto Hirschmann. Copies of this interesting discussion may be obtained upon request from Mr. Hirschmann at Halle & Stieglitz, 25 Broad Street, New York City.

Condemns Destructive Taxes On Business

(Continued from first page)

therefore, be unable to provide necessary employment for many. It is important, therefore, that destructive taxes on business enterprises be early supplanted by a constructive program which will encourage dynamic business and provide full employment in the country."

In commenting on the post-war outlook, Mr. Codwin stated that "Universal Pictures is already projecting plans for post-war production and markets, both domestic and foreign. We expect to be in a sound position whenever the war ends to resume full peacetime operations without delay. Obviously, no one can predict the course of business in the post-war era, but it is reasonable to assume that the motion picture will continue as a major form of popular entertainment and increase in usefulness as an educational medium."

The Universal Pictures Company for the fiscal year ended Oct. 30, 1943 reported a net profit after all charges and taxes of $3,759,968 or $6.57 per share of common stock, compared with $2,806,952 or $5.34 per share in the preceding fiscal year. Net working capital increased from $14,229,423 to $16,094,903 in the same period. Taxes paid by the company amounts to $10,100,447, equivalent to $17.66 for each share of common stock outstanding.

Cgo. Traction Interesting

Chicago Traction securities and Chicago North Shore & Milwaukee Railroad offer interesting possibilities according to a circular containing a comprehensive discussion of the situation issued by Brailsford & Co., 208 South La Salle Street, Chicago, Ill. Copies of this circular may be had from the firm upon request.

Tomorrow's Markets Walter Whyte Says—

Continued gap between both averages a potential danger—Volume break-through on either side would point to immediate direction—What buying is done should be at specific prices

By WALTER WHYTE

The past seven stock market days have shown little more than the preceding weeks. Based on the overall action of the industrial averages, since the present dullness set in, there is only one conclusion to make: a status quo for another two weeks. This is hardly electrifying news, but markets are like that. One week they are full of down signals that can be followed with profit. The next week they are just as full of up signals which can also mean money. But frequently markets don't say anything. To try to interpret their silence into something positive or dynamic can sometimes be done. But in most cases such interpretations are no better than guesses.

* * *

Since Dec. 8 the Dow industrials have to all intents and purposes been stalemated. Any advances during that period were limited to rails and a handful of specialties. In the former, signs of stalemate, similar to that existing in the industrials, are beginning to crop up. So far these seem to be limited to the second grade rail bonds, but a look at the rail common stock average will show there has been little progress in the past week. Given normal times, a rising rail market and a do-nothing industrial market would not be disturbing. But only the naive would consider these normal times.

* * *

Since last July the industrials, starting on their intermediate set-back, lost approximately 13%. The rails declined about 18%. In the subsequent rally the latter

(Continued on page 1013)

Owners Of Foreign Dollar Bonds Must Report To Treasury Regarding Holdings

Both the Federal Reserve Bank of New York and the New York Stock Exchange have issued notices calling attention of owners of Foreign Dollar Bonds to the Treasury Department's advices relative to Form TFR-500, as to which the Department has advised that a preliminary review of the reports on the form, which persons in this country were required to file concerning their foreign property, "indicates that some persons owning foreign dollar bonds are still unaware of the reporting requirements or have failed to understand that the exemptions from filing reports did not apply to such bonds."

In its notice the New York Stock Exchange says:

"The Treasury has stated that 'by reason of their volume and the income due therefrom, United States holdings of foreign dollar bonds have an important place in the financial relations between this country and many foreign countries. They comprise a large part, sometimes the larger part, of the total American-owned assets in certain countries. Not only the Treasury Department but also the Departments of State and Commerce are greatly interested in the results of the census as it relates to this field.'

"To assist in obtaining this important information, the Treasury requests that a copy of the enclosed notice be given to each of your customers for whom you hold a foreign dollar bond in custody or who brings to you for collection a coupon from such a bond. By this means it is hoped to reach those bondholders who have not as yet realized their obligation to report. As the Treasury Department indicated in its letter of Dec. 22, 1943, there is no disposition to seek the application of penalties against persons who file reports promptly upon becoming aware of the requirements.

"It is proposed that the distribution of notices to persons presenting coupons for collection begin at once and be continued long enough to include coupons due in August of this year, so as to insure a coverage of a full half year's payments. Your assistance in distributing the notices will be greatly appreciated by the Treasury Department.

"Although the notice contemplates that the necessary forms and instructions for reporting may be obtained from the appropriate Federal Reserve Bank, there will, of course, be no objection to any firm's assisting its customers to obtain the requisite materials and prepare reports.

"Member firms are requested to pass this information on to their branch offices and correspondents throughout the country."

In its notice to owners of foreign dollar bonds, the New York Federal Reserve Bank says:

"You are required by law to report any foreign bonds payable in U. S. dollars (including Canadian, Latin American and Philippine issues) which you owned on May 31, 1943, **regardless of their value.** The exemption of $10,000, provided for most kinds of property reportable on the form, does **not** apply to foreign dollar bonds.

"If you should have reported but have not yet done so, your report must be filed immediately."

Railroad Securities

The Delaware, Lackawanna & Western system has continued to attract speculative interest based on the cumulative effort to straighten out the leased line situation. For more than a year dividend payments on various of the leased line stocks have been restrained by court order due to the income tax status. Lackawanna contends, and has been upheld by the courts, that income taxes on that portion of the rental going to pay dividends on leased line stocks should be paid by the leased line and deducted from the dividends paid. The leased lines have contended that Lackawanna itself should pay the income taxes without any reduction in the rental paid. The difficulty goes back to 1933 and the income taxes have accrued, unpaid, since that time. The entire claim, plus interest, is now indicated at well above $8,000,000.

The logical solution is the exchange of leased line stocks for bonds, whereby income taxes would be eliminated entirely regardless of whether the bonds bore fixed or contingent interest. So far the Lackawanna has devised plans covering five of its largest leased lines. For Lackawanna Railroad of New Jersey, Utica, Chenango & Susquehanna, New York, Lackawanna & Western and Morris & Essex the plans provide part fixed and part contingent interest. In the case of Valley Railroad an offer has been made to purchase publicly held stock at $79 a share. These five properties represent 91% of the net annual leased line charges of the system. The minor properties remaining will probably mainly be offered an opportunity to sell their stocks to the Lackawanna.

Naturally in devising the proposals Lackawanna has made an effort to reduce its obligation under the leases—that the former burden was too high is obvious from the fact that net deficits were sustained in every year from 1932 to 1939, inclusive. A worthwhile reduction in charges is only possible through lower rental payments. Net fixed charges in 1942 (eliminating rentals paid on securities owned by Lackawanna itself) amounted to $6,858,914. Of this amount $6,312,846 represented leased line rentals, with only $546,068 representing interest on equipment, etc.

All in all, the plans so far presented contemplate a reduction in net fixed rentals of $1,014,252. This is largely offset, however, by the creation of contingent interest charges of $656,566. The net reduction in overall charges, then, is limited initially to $357,686 before any sinking funds or capital funds to be established. When, and if, the whole operation is consummated the stock of the lessee will presumably be further removed than ever from effective earnings. It is true that the potential income tax liabilities of more than $1,000,000 a year will be eliminated but this is of little moment in appraising the potential new earning power of the property as the tax was not accrued prior to 1941 in any event. In general the exchange proposals contemplate that the contingent portion of the new interest shall be applied to payment of accruals of income taxes against the individual property until half of the accruals have been paid.

If all of the plans so far promulgated are put through fixed charges will be reduced to $5,844,662. The company would have failed to cover even these reduced charges in four years of the depression decade and for the ten years 1931-1940 such charges would have been earned on the average only 1.1 times. The contingent interest charges contemplated under the plans would be covered only in years of prosperity. This is particularly true in the case of the Morris & Essex and the Lackawanna Railroad of New Jersey, where it is specified that contingent interest is to rank junior to contingent interest on the New York, Lackawanna & Western.

While the efforts to clean up the leased line tax situation are constructive and the Road is obviously not in any danger of financial difficulties in the visible future, the plans in themselves do not answer the problems of the Road. Far more progress will have to be made (presumably by open market purchase of bonds) before the Lackawanna will have returned to a reasonably firm credit position.

Interstate Aircraft Situation Looks Good

Fred W. Fairman & Co., 208 South La Salle Street, Chicago, Ill., members of the Chicago Stock Exchange, have available an interesting thirty-page descriptive brochure discussing the situation in Interstate Aircraft & Engineering Corporation, which the firm believes offers attractive possibilities both now and after the war. Copies of this brochure may be had upon request from Fred W. Fairman & Co.

Fashion Park of Interest

The current situation in Fashion Park, Inc., offers attractive possibilities according to a descriptive circular issued by T. J. Feibleman & Co., 41 Broad Street, New York City, members of the New Orleans Stock Exchange. Copies of this circular discussing the situation in some detail may be had from the firm upon request.

Public Utility Securities

Profit-Sharing Program Proposed For Utilities

Charles Tatham, Jr., Vice President of Institutional Utility Service, Inc. has recently issued an interesting study of the Supreme Court decision in the Hope Natural Gas case. In his opinion the longer term significance of the decision has not yet been fully recognized. The old familiar landmarks of utility regulation have been discarded by the Supreme Court. The theory of fair value and the principle of eminent domain, based on constitutional protection of private property, are no longer fully recognized by the Court, which appears to have swung over to the idea of social and economic expediency.

Newspaper comment on the decision was confused, because the decision itself and the dissenting opinions did not present the Court's views in a clear-cut manner. The general press opinion appeared to be that there was no definite change in the basic theory of rate-making. Thus, the Wall Street "Journal" stated: "Analysis of the majority opinion indicates that while it adheres to the letter of the law of the land, it circumvents its spirit. . . . At all events it does not formally change the law of the land. . . . The theory itself is left where it has been for half a century."

However, the Institutional Utility Service feels that the opinion reflects an important change in judicial viewpoint. Justice Reed apparently was the only one to defend "fair value" and even he agreed with the FPC findings. The keynote to the Court's philosophy appears contained in the statement that "the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. The return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."

This would be a splendid basis for the utility industry if it could be practically applied. But the Government itself has depressed utility earnings by levying huge "excess profits taxes," and the industry for some years has been unable to "attract capital," assuming that this refers to sale of common stock (as well as bonds and preferred stocks) to raise new funds. The danger with the idea of "maintaining credit" and of the "prudent investment" program is that there is little expectation of any increased earnings reward for sound management and growth of the enterprise. The Supreme Court's view is sound as far as it goes, but a new approach to rate making is necessary in order to permit the utility industry to attract speculative as well as investment capital—and only by this means can it maintain a sound financial structure, with a proper ratio of common stock to senior capital (the larger that ratio the more "conservative" the structure is usually considered).

Mr. Tatham believes that a great responsibility rests upon the utility industry, as well as the commissions and courts, to clarify and solve this problem. He suggests that "one such method might be through some sort of a 'profit-sharing' agreement under which earnings in excess of the prescribed return would be divided between the company and the consumers. In at least one instance this has been practised voluntarily by the Hartford Electric Light Co., which back in 1925 inaugurated its Customer Dividend Plan providing for a refund to consumers in years of favorable earnings. Another method might be through the use of a varying rate of return, recognizing efficiency and progressiveness in management by allowing a higher rate of return on the investment. . . . The general acceptance of such a program by the regulatory authorities should be obtainable. At a round-table discussion of utility problems, sponsored by the Savings Bank Journal early in 1940, Chairman Olds of the FPC, in answer to a direct question from Moderator Parker as to whether managerial efficiency should be rewarded, replied: 'I am very much in favor of providing an incentive to the development of cost control, looking to efficiency and economy in the operation of utilities, and I am very seriously considering the possibility of working out a satisfactory arrangement somewhat along the line that your question suggests.' "

The profit-sharing idea is by no means new. In addition to the Hartford Plan mentioned above there is the Washington Plan for rate adjustments—which worked well until recently, when the Government fought a rate increase to compensate for higher costs, on the ground that it would be inflationary. There had never, of course, been any Federal objections to the previous rate cuts. England has long used the method successfully. Efforts should be made to develop a suitable formula which can be generally applied in this country, thus clarifying the regulatory problem and reassuring investors.

What is called "an innovation in public utility rate regulation" has just been announced by the New Jersey Board of Public Utility Commissioners. A hearing has been called to discuss a "rate adjustment plan" developed after some two years of negotiations between the Board and the New Jersey Power & Light Company. The plan provides a definite method, it is said, under which it may readily be determined annually whether earnings are above a fair return—if they are, a billing credit will be immediately given to residential and commercial customers.

While complete details are not yet available, the new plan appears to have been worked out with considerable care and may represent an important step toward developing a profit-sharing program for all utilities.

For Readjustment Of El Salvador's Debt

A plan of readjustment of El Salvador bonds of Series "A", "B" and "C" has been under discussion in the United States between an Economic Mission of the Government of El Salvador and Representatives of the Foreign Bondholders Protective Council, Inc., of New York City, N. Y. and of the British Council of Foreign Bondholders. According to an announcement March 2 by Hector David Castro, Ambassador of El Salvador, as a result of these discussions, the National Assembly of El Salvador, which will meet in March, 1944, will be requested to approve a plan under which a minimum service of $800,000 per annum would be provided to pay current interest beginning Jan. 1, 1944, at one-half of the original contract rates, to fund half of the back interest from Jan. 1, 1938, by the issuance of new bonds bearing 3½% interest per annum, and to apply the balance of the service monies for sinking fund, of which 75% would be applicable to the dollar bonds and 25% to the sterling bonds. The announcement adds:

"Bondholders who did not assent to both the 1933 and 1936 plans would receive, in addition, cash payments at the rates offered under those plans, i.e., $365 on each $1,000 bond of series A, £27 on each £100 bond of series B and $213 on each $1,000 bond of series C.

"In expectation that the National Assembly will be prepared to act promptly in approval of the proposed plan, the Foreign Bondholders Protective Council, Inc., has informed the representatives of the Government of El Salvador that it will recommend the proposed plan to the favorable consideration of the holders of dollar bonds, and the British Council of Foreign Bondholders has stated that, being convinced no better terms are obtainable, it will therefore recommend that holders of sterling bonds accept the offer."

It is also announced that "there are included in the proposed debt plan of El Salvador $2,939,000 of 8% Dollar Bonds of series A and $7,322,700 of 7% Dollar Bonds of series C, as also £851,140 of 6% Sterling Bonds of series B.

"Default occurred originally in 1932 and 1933. Holders of unassented bonds have received no payments since that time. Reduced payments of cash and scrip were offered to those holders who assented to the 1933 and 1936 plans, service under the latter plan being temporarily suspended from Jan. 1, 1938, by Decree No. 210 of Nov. 29, 1937."

The Economic Mission of the Government of El Salvador, which has participated in the discussions in this country consists of Arturo Bustamante, Under Secretary of Finance, and Victor Manuel Valdes, Secretary of the Central Bank of Reserve of El Salvador.

New War Contracts Price Adjustment Board Created Under 1943 Revenue Act

At its first meeting, held February 26, the new War Contracts Price Adjustment Board, created by the renegotiation section of the Revenue Act of 1943, which became law on February 25, 1944, established its organization, it is announced by the Office of War Information.

The personnel of the new board, appointed by the heads of the agencies involved, is as follows:

Joseph M. Dodge, Chairman of the War Department Price Adjustment Board, chairman.

Laird Bell, chairman of the Navy Price Adjustment Board, vice-chairman.

Commander Arthur G. Rydstrom, Maritime Commission Price Adjustment Board, who is also representing the War Shipping Administration Price Adjustment Board.

Captain Harry C. Maull, Jr., Chairman of the Treasury Department Price Adjustment Board.

Charles T. Fisher, Jr., Chairman of the Reconstruction Finance Corporation Price Adjustment Board.

Carman G. Blough, War Production Board representative.

W. James MacIntosh has been appointed general counsel to the War Contracts Board.

The announcement from the OWI Feb. 28 added:

The authority of the Board applies to renegotiation for war contractors' fiscal years ended after June 30, 1943, while authority of the Joint Price Adjustment Board—established last October by voluntary action of various individual departmental boards—applies to war contractors' fiscal years ended before July 1, 1943.

All legal authority on renegotiation is lodged in the War Contracts Board, which among other things has the responsibility for fixing policies, principles, interpretations and procedures.

As provided by Congress, the War Contracts Board has delegated certain of the authorities conferred on it by Congress to the heads of the various governmental agencies that have been administering renegotiation of war contracts. The delegation of auhority will provide the means of continuing the actual conduct of renegotiation through the organizations with which the contractors are familiar.

Regulations regarding the filing of financial and other data by each war contractor, made mandatory by the new law, are under the direction of the new War Contracts Board, which approved a "Standard Form of Contractor's Report" for filing information to make it possible to determine whether or not renegotiation should be initiated with the contractor. The Board expects to release promptly similar forms for construction contractors and for brokers and agents. This is in accordance with the provision of the new law to the effect that contractors and subcontractors subject to renegotiation are required to file data prescribed by the board. In the case of contractors whose fiscal years have already closed, such filings must be on or before June 1, 1944. In the case of contractors whose fiscal years have not yet closed, such filing must be on or before the first day of the fourth month following the close of their fiscal years.

The filing of the mandatory forms is to be with the War Contracts Board, Assignments and Statistics Branch, Room 3 D 571, Washington 25, D. C., from which copies of the form will be available.

In connections with its functions of formulating over-all policies and procedures for the departmental price adjustment boards to follow, the War Contracts Board has in preparation Renegotiation Regulations which will be available in manual form for distribution to the public as soon as practicable.

As established by the new law, the War Contracts Board is to maintain its principal office in the District of Columbia. With the consent of the head of any department of agency in the United States, it may utilize the services of any officer or employee of another department or agency.

Results Of Treasury Bill Offerings

The Secretary of the Treasury announced on March 6 that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated March 9 and to mature June 8, 1944, which were offered on March 3, were opened at the Federal Reserve Banks on March 6.

The details of this issue are as follows:

Total applied for, $2,450,653,000.

Total accepted, $1,011,344,000 (includes $66,044,000 entered on a fixed-price basis at 99.905 and accepted in full).

Average price, 99.905+; equivalent rate of discount approximately 0.375% per annum.

Range of accepted competitive bids:

High, 99.910; equivalent rate of discount approximately 0.356% per annum.

Low, 99.905; equivalent rate of discount approximately 0.376% per annum.

(31% of the amount bid for at the low price was accepted.)

There was a maturity of a similar issue of bills on March 9 in the amount of $1,011,452,000.

With respect to the previous week's offering of $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated March 2 and to mature June 1, 1944, tenders were opened at the Federal Reserve Banks on Feb. 28 and the details of this issue are as follows:

Total applied for, $2,151,449,000.

Total accepted, $1,002,953,000 (includes $63,985,000 entered on a fixed-price basis at 99.905 and accepted in full).

Average price, 99.905+; equivalent rate of discount approximately 0.375% per annum.

Range of accepted competitive bids:

High, 99.910; equivalent rate of discount approximately 0.356% per annum.

Low, 99,905; equivalent rate of discount approximately 0.376% per annum.

(38% of the amount bid for at the low price was accepted.) There was a maturity of a similar issue of bills on March 2 in the amount of $1,006,307,000.

Reasonable Deductions To Cover Reconversion Cost Essential: Stempf

President Of American Institute Of Accountants Favors Amendment Of The Internal Revenue Code And The Renegotiation Act To Alleviate Conversion Problem

In an address delivered before the Conference on Financial Management at the Hotel New Yorker on March 1, Victor H. Stempf, President of the American Institute of Accountants, disapproved the Treasury's policy of providing through post-war tax refunds, for reconversion losses. He advocated a change in the tax laws to permit immediate provision for these losses. Mr. Stempf said in part:

Victor H. Stempf

"Those costs, which reasonably and properly relate to the war years, should be provided for in those years in the determination of genuine profits. Without such provision, the profits subjected to both taxation and renegotiation are fictional profits, and the Government's 'take' is confiscatory. The allowance of these costs for the one purpose and not for the other does not satisfy the principle.

"The allowance of reasonable deductions for the purpose must be assured for both taxation and renegotiation, by specific amendments of both the Internal Revenue Code and the Renegotiation Act.

"Difficulty of determination does not obliterate the soundness of the principle nor condone the rejection of reasonable and appropriate deductions.

"It is necessary to bear in mind that all the costs of reconversion, conversion, and other post-war planning costs and expenses are not of the same general character, and certainly are not, from a sound accounting standpoint, wholly and indiscriminately chargeable to the operations of the war years. To a great extent management, itself, has been guilty of confusing the issue and of befuddling the Congressional Committees and the Treasury through a failure to sharply differentiate between the types of costs that are appropriately attributable to the war years and those that are clearly development and organization costs which are not appropriate costs of the war years but are decidedly chargeable against the operations of the post-war years.

"The term 'reconversion' should be construed strictly as relating to the readaptation of facilities converted from peace to war needs, and which are now to be reconverted from war production to post-war civilian purposes. In other words, they are to be put back into relatively the same setup that existed prewar. On the other hand, 'conversion' should be construed as relating to facilities of production acquired during the war years which are not to be adapted to new post-war purposes. As to reconversion costs, there is no doubt that these are appropriate costs of the war years. In general, conversion costs as here defined, are not appropriate costs of the war years.

"It is apparent that where war facilities were erected solely at company's risk without Certificates of Necessity, the excess of undepreciated cost at the war's end over the post-war utilization value of such facilities constitutes a cost of the war period. (By utilization value is meant an amount representing a balance of recoverable costs justified by forecasts of subsequent profitably marketable production during the remaining useful life of such facilities.) However, in the case of such war facilities covered by Certificates of Necessity, complete amortization will have been borne by the war years. To the extent that such facilities are salvaged and converted to post-war use, the costs of doing so are certainly no different than similar costs incurred upon the acquisition or adaptation of facilities in normal times. All such capital expenditures are, in effect, deferred charges to be spread against future production pursuant to the basic concept of matching revenue with related costs. This is true of new costs incurred in converting to civilian needs facilities acquired for war production, whether the basic facilities were covered by Certificates of Necessity or not.

* * *

"The Treasury persists in stressing the alluring possibilities of the carry-back in lieu of reserve provisions. It should be observed, in the first place, that the failure to allow reserve provisions both for purposes of taxation and renegotiation, results not only in business posting a forefeit which it may or may not get back through the carry-back provision, but as to renegotiation, so-called excessive profit recaptured by the Treasury is computed without regard to the costs attributable to reconversion. So-called voluntary renegotiation settlements on that basis preclude any reopening subsequently in respect of such reconversion costs.

"Let us not underestimate the probable pressure for the repeal of the carry-back provision which may develop at the very time when refunds will be needed most. One may be reasonably sure that the claims for refund growing out of carry-back provisions will reach very large figures in the post-war years. When these refunds begin to affect seriously the net yield of the revenue, both the Treasury and Congress will want to do something about it. Past experience clearly demonstrates this conclusion. The carry-back provision is at best a gamble. Instead of providing that genuine profits shall be determined in the first place, it assumes that a corporation must suffer subsequent losses in order to enable it to effect a determination of the genuine profits of prior years. Were corporations generally to be so fortunate as to continue profitable operations in the post-war period, the taxation of fictional profits in the war years would never be corrected. It is true that the Treasury's proposal to make specific carry-back provisions of reconversion costs, regardless of whether post-war years are profitable or not on an over-all basis, meets this objection; but that provision nonetheless denies the taxpayer's right to determine genuine profits in the first instance, and takes from the taxpayer both taxes and renegotiation recoveries based upon fictional earnings.

"The true character of post-war reserves has been misconstrued in many other respects. The hearings before Congressional Committees are replete with references to the capital needs of corporations in the post-war period and demands for reserves for 'future' expenses, adjustments, costs and losses. It should be driven home that reconversion reserves do not contemplate 'future' expenses, but concern costs accruing in the present war years, which should be matched against revenues of those same years. There are repeated allusions also to the 'funding' of reserve provisions; and implications that corporations are unable to manage their own financial affairs; that the main problem involved is to hold business by the hand in such a way as to assure that it will have cash in the post-war period with which to do the things that must be done to promptly reestablish civilian enterprise. These two things are separate problems! Tax and renegotiate business on genuine profits pursuant to generally accepted accounting principles, and it will take care of its own problems of future financing without being regulated and regimented as to how it shall conserve its working capital in the interim.

* * *

"The existing provision of the itnernal revenue code regarding post-war refunds of excess profits taxes is an abortive half measure which obscures significant fallacies. It purports to afford corporate enterprise the means whereby to meet post-war nonrecurring costs of reconversion. Arbitrarily fixed at 10% of excess profits taxes, fortuitously assessed, it has no relation whatever to the varying needs of corporate enterprise.

* * *

"It is self-evident, but it should be emphasized, that the objectives of reconversion reserves cannot properly be served by such simple devices as arbitrarily limited percentages of (a) gross revenues, (b) net earnings, or (c) fractions of tax assessed. All these are arbitrary and unsuitable because they do not discriminate between the divergent needs of individual cases.

* * *

"Appropriate allowances for post-war reserves are the keystone to the survival of vigorous private enterprise; reasonable profits and seed money are the tokens of healthy industry; it is certain that the post-war objective of full employment at higher levels of national production will be jeopardized if existing industry is left prostrate at the close of war by reason of inordinate and unjust taxation and stern renegotiation based upon fictional earnings.

"The cut in tax revenue and renegotiation recoveries is but a drop in the bucket compared to the disastrous effect of industry emerging from the war impotent by reason of drained resources and, therefore, unable to reconvert to peacetime pursuits and prompt re-employment of workers."

Reserve Bank Heads Continue Conference In Washington

President Matthew J. Fleming of the Federal Reserve Bank of Cleveland was host to the Presidents' Conference on Feb. 26 and 27 when that body, comprising Presidents of each of the 12 Federal Reserve banks, met in Cleveland for the first time since the founding of the Federal Reserve System nearly 30 years ago. Each of the 12 presidents had indicated his intention of attending the conference except William A. Day, conference chairman and president of the Federal Reserve Bank of San Francisco. Mr. Day, prevented by illness from attending, was represented by Ira Clerk, First Vice President of the San Francisco Federal.

Allan Sproul, president of the Federal Reserve Bank of New York and vice-chairman of the conference, presided. In attendance, besides Mr. Fleming, Mr. Sproul and Mr. Clerk, were the following Presidents: William W. Paddock, Boston; Alfred H. Williams, Philadelphia; Hugh Leach, Richmond; William S. McLarin Jr., Atlanta; C. S. Young, Chicago; Chester C. Davis, St. Louis; John N. Peyton, Minneapolis; H. Gavin Leedy, Kansas City, and Randle R. Gilbert, Dallas.

Saturday sessions were conducted at the Cleveland Federal Reserve bank building. Sunday sessions were at the Hotel Statler. All sessions were closed. Following its two-day meeting in Cleveland, the conference continued its sessions on Feb. 28 and 29, in Washington, D. C. It is understood that bank policy was the subject of the Cleveland meeting.

Bendix Luitweiler Partner

Thomas J. Arciero will shortly be admitted to partnership in Bendix, Luitweiler & Co., 52 Wall Street, New York City, members of the New York Stock Exchange. Mr. Arciero will act as alternate for Woodley B. Gosling on the floor of the Exchange.

Chicago Recommendations

Adams & Co., 231 South La Salle Street, Chicago, have available a recent analysis of **National Terminal Corporation** which may be had from their statistical department upon request.

Brailsford & Co., 208 South La Salle Street, Chicago, have January earnings available on **Chicago, North Shore & Milwaukee Railroad.** Copies may be had upon request.

Caswell & Co., 120 South La Salle Street, Chicago, now have 1943 earnings and balance sheet figures on **General Box Company.** Copies of these figures may be had from Caswell & Co. upon request.

Enyart, Van Camp & Co., Inc., 100 West Monroe Street, Chicago, have just compiled an up-to-date quotation card on **Chicago and Suburban Bank Stocks**, copies of which may be had upon request.

Hicks & Price, 231 South La Salle Street, Chicago, have additional data on **P. H. Butler Co.** common stock which is now qualified in Illinois up to $7 per share and up to $25 on the preferred. For 1943, gross sales will show $11,500,000 with $116,774 added to surplus. These figures reflect operations of additional stores, only from Sept. 1, 1943, and must be considered in the light of only four months' earnings for the new super-markets. The company now has a total of 79 stores. Total current assets over 1943 are $1,125,000 as compared with $925,000 in 1942. Total net worth shows the increase from $1,254,000 in 1942 to $1,568,000 in 1943. Further information may be had from Hicks & Price upon request.

Straus Securities Co., 135 South La Salle Street, Chicago, have prepared recent reports on **Black Hills Power & Light Co.**, common; **Foote Bros. Gear & Machine Corporation** common; **Clearing Machine Corporation** common; and **General Bottles, Inc.**, preferred and common. Copies of these reports may be had upon request from the statistical department of Straus Securities Co.

Interest in railroad issues continuing unabated, during the past month **Thomson & McKinnon** have put out a 5-page analysis on the **"Changed Status of Railroad Equities,"** following this up in their recent weekly Bond Reviews with articles on: **Railroad Maintenance and Charges; Recent Price Changes; Junior vs. Senior Issues in Rail Reorganizations;** and **Calendar of Reorganizations;** and in their weekly Stock Reviews on: **Outlook for Railroad Equities; Market Action of Rail Stocks;** and **Price Changes in Railroad Equities.**

However, their last weekly Stock Review, veering away from the subject of rails to the industrials, highlights a **study of 32 industries**, covering over 300 leading issues and the years 1936 to 1942, inclusive. This pertains to their market volatility not only as regards one group and another, but also between each group and the general market.

Thomson & McKinnon will furnish any of the above releases free of charge. Requests should be addressed to Thomson & McKinnon's Statistical Library, 231 South La Salle Street, Chicago 4.

Zippin & Co., 208 South La Salle Street, wish to call attention, at this time, to the conversion plan of the **Republic of Colombia** 6s of '61 for conversion into 3s of '70, which plan expires April 1, 1944. Further information on this situation may be had upon request from Zippin & Co. upon request.

E. M. Oren Joins Globe Roofing Prod.

CHICAGO, ILL.—Abbott Coburn, president, Globe Roofing Products Co., Inc., announces that Earl M. Oren, Chicago manager of Doremus & Co., national advertising agency, joined Globe's management staff on March 1.

Before assuming the management of Doremus & Company's Chicago office, Mr. Oren was editor and publisher of the magazine, "Building," a business and economic review for all factors of the building industry. Previously he was with the United States Gypsum Company, first as publicity manager and then as advertising manager, and before that was city editor of the Chicago Journal of Commerce.

In Larger Quarters

Hicks & Price, 231 South La Salle Street, Chicago, Ill., members of the New York and Chicago Stock Exchanges, are moving to new and larger quarters on the same floor as their present offices.

Chicago Brevities

The latest mishap to befall the $8,346,000 Cook County funding bond issue sold last November to Seipp, Princell & Co., is a taxpayer's suit filed recently by the Hoyne-Norwood Apartments Corporation, Chicago, charging that the flotation was illegal.

The principal complaint against the funding obligations is that, according to the plaintiffs, the legislation passed to authorize it by the State was "special legislation" since it only applied to counties of 500,000 population or over—and Cook County is the only one in the State answering to that description.

Superior Court Judge Schwartz has set a trial of the case for March 20, and La Salle Street firms are following developments with interest.

Only a week before the suit was started, Seipp, Princell & Co. had made a public offering of $7,500,000 of tax exempts, and had reported that the response of investors was encouraging. The latest legal bombshell, however, quickly stopped the marketing of the issue.

The bonds have been loaded with troubles ever since bids were taken last year. Seipp, Princell & Co., in their bid, had inserted the qualification that an acceptable legal opinion be furnished. Chapman & Cutler, the law firm that passes on most Chicago and Cook County issues, however, refused to render a favorable opinion until certain claims had been certified by the Illinois Supreme Court.

Two other law firms were then engaged to render an opinion. This took several months, since the new attorneys went over the claims to be funded with the utmost caution.

And finally, when the opinions had been completed and public offering advertised, the newly filed law suit threw everything into confusion again.

The latest reports from the Chicago traction front indicate that Mayor Edward J. Kelly's municipal ownership plan is not proceeding too well.

Federal Judge Michael L. Igoe, at the latest hearing on the transit plan, told the attorneys for the city, the elevated lines, and the surface lines that they should renew their efforts to achieve a suitable traction unification pro-

(Continued on page 995)

Food Processors' Profit Rate Cut 35.5% Although Dollar Sales Doubled In Past Four Years: Willis

Head Of Grocery Manufacturers Says Figures Belie Charge That Industry Profits Caused Living Cost Rise

A survey of 50 representative food processing companies, based on official earnings statements, shows that, despite the fact that the dollar volume of business nearly doubled, in the past four years, the rate of net profit has been reduced approximately 35.5%, according to Paul S. Willis, president of the Grocery Manufacturers of America.

"This survey," states Mr. Willis, "should provide an answer to unsupported charges that profits of food processers have caused an increase in the cost of living".

Paul S. Willis

The rate of net profit per dollar of processed food sales in 1943 was about the same as in 1942, the year in which the maximum price regulations went into effect. For both years they approximated 3 cents per dollar of sales for the companies analyzed, compared with 4 cents in 1941 and 4.7 cents in 1939.

While total American food production was rising 24% between 1939 and 1943, according to the U. S. Bureau of Agricultural Economics, the proportion of food being processed has been climbing even more rapidly. "It should be borne in mind" Mr. Willis said, "that these records were achieved in spite of acute shortages of manpower, containers, machinery and equipment. At the outbreak of the war there were over 600 scientific laboratories in the food industry working night and day on production, processing, preservation and kindred problems. New and improved methods of freezing food and packing it have been developed, particularly dehydration, essential in supplying the maximum amount of food to our fighting men and allies in the smallest amount of space.

Interstate Aircraft And Engineering Corp.

Interesting Post-War Position

Interstate Aircraft and Engineering Corporation reports:

Earnings after taxes for 9-month period terminating Jan. 31, 1944	$549,445.49
Earnings per share after taxes, for same period	$4.28
Earnings per share after taxes, for month of January	0.58
Net current assets as of January 31, 1944	$847,050.43
Or approximately per share	$6.60
Book value, approximately per share	10.00

Interstate Aircraft and Engineering Corporation enjoys an enviable position in the aircraft industry inasmuch as they own only the El Segundo Division. All other plants are DPC. At the cessation of hostilities they can contract back to their debt-free original plant at El Segundo which is completely equipped with practically new machinery, testing and experimental laboratories.

The company will shortly release important information regarding definite post-war contracts, some of which are national in scope and should reflect excellent earnings on the small capitalization of 128,000 shares of common stock. These contracts are exclusive of any commitments in the aircraft industry.

One of the above mentioned contracts has to do with the manufacturing of a dispensing machine, new in design and principle. Interstate, in addition to the manufacturing of this machine, will also have the exclusive sale, distribution and servicing on the west coast which comprises about twelve states. This machinne is to be used in the dispensing of America's most popular five-cent drink.

The management has taken a liberal viewpoint in the past regarding dividend policy and an answer should be forthcoming regarding their decision on further quarterly cash disbursements before the end of their fiscal year, April 30, 1944.

Renegotiation of 1942 contracts was completed. Earnings were not affected.

Post-War Outlook For Chemical Industry To Be Surveyed By Dr. L. W. Bass

Dr. Lawrence W. Bass of Boston, Director of the New England Industrial Research Foundation, has been named Chairman of a symposium on the post-war outlook for the chemical industry to be held by the American Chemical Society in connection with its 107th meeting in Cleveland, April 3 to 7. Announcement of this is made by Dr. Thomas Midgley, President of the Society. Leading scientists and industrialists will discuss reconversion problems affecting all industry, world markets, financial aspects of the of the transition period, and the need for more intensive research. Several thousand chemists and industrialists are expected to attend the Society's sessions, at which hundreds of papers and addresses tracing progress in science and industry will be presented.

Lawrence W. Bass

Among those scheduled to present their views are Ralph E. Flanders, President of Jones & Lamson Machine Co., Springfield, Vt., and Chairman of the Research Committee of the Committee for Economic Developments; D. M. Sheehan, Comptroller of the Monsanto Chemical Co., St. Louis; Dr. W. L. Badger of Ann Arbor, Mich., Manager of the consulting engineering division of the Dow Chemical Co.; John B. Glenn, President of the Pan American Trust Co., New York, and Vice-President of the New York Board of Trade and Chairman of the Latin American Section; Raymond Stevens, Vice-President of Arthur D. Little, Inc., Boston, and Dr. H. S. Rogers, President of the Polytechnic Institute of Brooklyn.

NYSE Governors May Re-Employ Schram

Members of the New York Stock Exchange approved on Feb. 17 an amendment to the constitution of the Exchange approved by the Board of Governors on Feb. 3 empowering the Board to authorize "any officer, on behalf of the Exchange, to enter into a contract of employment with any person for such period of time and upon such other terms and conditions as may be set forth in a written agreement which has been submitted to and authorized by the Board of Governors by such vote."

Under date of Feb. 4 advices to the members regarding the amendment stated that "It is the judgment of the Board of Governors that authority should be obtained from the membership in order that the Board may, having in mind particularly the re-employment of the President of the Exchange, (Emil Schram), enter into an agreement with him prior to the expiration on June 30, 1944, of the term which he currently is serving.

Chicago Brevities

(Continued from page 944)

posal under private ownership, in case the municipal plan does not succeed.

The Illinois Commerce Commission, some time ago, rejected a plan for reorganization and unification of the lines under private ownership, but it is believed that the commission might accept such a plan if it were reworked slightly.

The chief difficulty with the municipal setup, thus far, has been that the negotiators of the city and the lines have been able to get no agreement on price. At latest reports, there were millions of dollars separating the various parties.

* * *

La Salle Street quarters have been buzzing with rumors of impending management changes of the Chicago and Eastern Illinois Railroad.

It is said that, although the changes are still in the talk stage and may not materialize, a definite announcement may be expected soon. Ultimately, a recapitalization and a consolidation may be involved.

Refinancing operations may be conducted to eliminate the Reconstruction Finance Corporation from the C. & E. I. picture, some sources say. The RFC holds the entire issue of $10,348,000 first mortgage bonds, allocated to it in the road's reorganization completed in 1941.

The other possibility is that V. V. Boatner may increase his holdings in the carrier, and attempt a consolidation with the Gulf, Mobile & Ohio Railroad. Mr. Boatner has been identified with G. M. & O. as consultant, and has been a specialist in railroad reorganizations.

NASD Files Reply To Department Of Justice

A brief in reply to one submitted recently by the Department of Justice justifying its intervention in the Securities and Exchange Commission's review of certain disciplinary actions taken by the National Association of Securities Dealers, Inc., against some of its members for alleged violation of an underwriting syndicate agreement more than four years ago, has been filed with the SEC by the counsel for the NASD, according to a special dispatch on March 3 from Philadelphia to the New York "Herald Tribune," which further states:

"Entry of the Justice Department into the proceedings has been under attack by the NASD on the ground that it could show no proper 'interest' in the matter. "'The Department's position does not even allege that it is "interested" in the present proceedings and much less does it allege any facts which would support a bald conclusion,' the NASD brief stated. 'In an effort to bring its petition within Rule XVII (A), the Department, citing a lay definition in Webster's dictionary, contends that the word "interested" in the rule means nothing more than that the "attention has been aroused."

"'When used in the law, administrative or judicial, the meaning of the words "interest" and "interested" is not found in lay definitions embodied in Webster's or other dictionaries but in the well-settled definition of those words which has been firmly imbedded in our judicial and administrative law.

"'Where an officer in his official capacity seeks to intervene in a judicial or administrative proceeding, he must in any case show that in his official capacity he has an "interest" within the meaning of the law.'"

Bliss & Co. To Admit

Bliss & Co., 761 Fifth Avenue, New York City, members of the New York Stock Exchange, will admit Benjamin Stenzler to partnership in their firm on March 16.

Central States Group Of IBA To Meet In Cgo.

One full day of six meetings featuring forums on municipal, utility and railroad securities has been scheduled for the Ninth Annual Conference of the Central States Group of the IBA. Plans for the conference, to be held at the Palmer House, Chicago, Mar. 16, were announced on March 7 by John E. Blunt, 3rd, of Lee Higginson Corp., Chairman of the group.

John E. Blunt, 3rd

Among the principal speakers on the program are IBA President, J. Clifford Folger of Folger, Nolan & Co., Washington, who will speak at dinner, and Major General Alexander Hugh Gatehouse, head of the Armored Fighting Vehicles branch of the British Army Staff, Washington, and the commander of the British armored forces at El Alamein and throughout the North African campaign against Rommel.

The British General will speak at a luncheon following a morning forum on municipal securities, which will have as speakers David M. Wood of Wood, Hoffman, King & Dawson, New York municipal attorney; Carl H. Chatters, executive director of the Municipal Finance Officers Association, Chicago; and Hazen S. Arnold of Braun, Bosworth & Company, Toledo, Chairman of the IBA's Municipal Securities Committee.

At afternoon sessions, the speakers will include Ralph Chapman of Farwell, Chapman & Co., Chairman of the National Association of Securities Dealers; William H. Duff of Duff & Phelps, Chicago utility securities analysts; and Arthur C. Knies, railroad securities specialist with the investment house of Vilas & Hickey, New York.

Wisconsin Brevities

Cutler-Hammer, Inc., Milwaukee, showed a large increase in earnings for 1943 after provision of $1,000,000 for possible inventory losses, postwar adjustments and renegotiation. Net was $2,034,000, equal to $3.08 a share on the Common stock, compared with $1,510,000, equal to $2.03 a share on the Common stock a year previous. The company has an outstanding Regulation V loan credit arrangement for $15,000,000 but was not borrowing any money against this at the end of the year.

Cutler-Hammer will pay a 35¢ dividend on March 15 to holders of record March 4. In the similar quarter of 1943 the company paid 25¢.

Waukesha Motor Company reports net income of $396,000 or 99¢ per share for the first half of its fiscal year ended January 31, compared with 86¢ a share in the same period of 1943.

Harnischfeger Corp., Milwaukee, reports net profit of $1,174,000 after taxes and provision of $600,000 for renegotiation for 1943. This is equal to $3.84 a common share, in contrast to $1,445,000 or $4.79 a share in 1942. Reserves for renegotiation and other contingencies in 1942 were $450,000.

Wisconsin Investment Co., Milwaukee, reports asset value of $3.01 a share as of Dec. 31, 1943, in contrast to $2.20 a share twelve months previous. This represents an increase of 36.8% in asset value during the year. Giving effect to dividends of 15¢ per share paid during the year, asset value increased 43.6%. Net profits for the year from all sources totaled $89,036, equal to approximately 20¢ per share.

The company made what is described as a temporary reduction in the use of borrowed capital during the year from $250,000 to $100,000. Cash and Governments on hand at the end of the year totaled $132,210.

Roosevelt Presents Warship To French

Incident to the presentation to the French Navy, under lend-lease, of the new destroyer Senegalis, on Feb. 12, President Roosevelt stated that the time is not far distant when millions of Frenchmen, now underground, will spring upon their Nazi conquerors and help smash them into defeat. The President, in making this forecast, said the Associated Press, noted that French ships and French troops are fighting the Germans in Italy and added:

"The time will come soon when the Nazis in France will learn from millions of brave Frenchmen—now underground—that the people of France, also, are not out of this war." From the Associated Press we also quote:

Presentation of the warship, Mr. Roosevelt said, "emphasizes the determination of this nation, and of all the United States, to drive from the soil of France the Nazi invaders who today swagger down the Champs Elysees in Paris."

Saying he hoped the "Nazis and the Japs are listening," the President promised Vice-Admiral Raymond Fenard, Chief of the French Naval Mission here, that the "speedy and dangerous" destroyer escort "is not the only ship you will receive from us—we are building others for your sailors to man."

Vice-Admiral Fenard, accepting the vessel, paid tribute to the continued fight of Frenchmen both within and without France.

The President remarked that although France fell, her fleet still is fighting.

"At Nettuno and Anzio," he said, "French ships were among those which bombarded the German coastal installations."

H. J. Borne Joins Staff Of Holley, Dayton Co.

(Special to The Financial Chronicle)

FOND du LAC, WIS.—Henry J. Borne has become associated with Holley, Dayton & Gernon, 208 South La Salle Street, Chicago. Mr. Borne, who has been in the investment business for many years, formerly conducted his own investment business under the name of H. J. Borne & Co.

Boren Bill Specifically Exempts Municipals From SEC Control And Curbs Agency's Powers

Measure Viewed As First Move Toward Preventing Exercise Of Regulatory Functions Beyond Intent Of Congress. Would Amend In Important Respect Present Provision Of Law Endowing SEC With Authority To Make Own Determination Of "Fraudulent Devices" In Securities Transactions.

The Municipal Securities Committee of the Investment Bankers Association of America is urging passage of the Boren Bill (H. R. 1502), introduced on Jan. 23 of last year by Lyle H. Boren, Representative in Congress from Oklahoma. (Previously referred to in the Chronicle of February 4, 1943, p. 157 and March 11, 1943, p. 906). This bill specifically aims to remove dealings in state and municipal securities from the possibility of regulatory action by the SEC under section 15 (c) (1) of the Securities and Exchange Act of 1934. The bill would simply amend this section by adding the words "exempted securities" to the clause which lists commercial paper, bankers' acceptances or commercial bills as excluded from the prohibition against "the use of manipulative, deceptive, or other fraudulent devices or contrivances" in dealers transactions. In addition, however, the bill would eliminate from the above-mentioned section the sentence, which reads:

Lyle H. Boren

"The Commission shall, for the purposes of this sub-section, by rules and regulations define such devices or contrivances as are manipulative, deceptive, or otherwise fraudulent."

Representative Boren's reason for urging the elimination of the foregoing sentence is that it gives the SEC unwarranted legislative power, since this section of the Act is a penal statute, and the courts have held that a penal statute must define the offense with certainty so that the citizen may know exactly what is unlawful.

The legal technicalities and the "unlawful delegation" of power which section 15 (c) (1) in its present form confers upon the SEC, was the subject of a recent article by David M. Wood of the New York municipal law firm of Wood, Hoffman, King & Dawson. In analyzing the various possible interpretations of the section, Mr. Wood declared that "if the second sentence of the section has any meaning at all, it confers upon the Securities and Exchange Commission a power of legislation—the power to declare acts, which were not theretofore criminal, to constitute Federal offenses, punishable by fine, imprisonment, or both."

In expressing approval of the purpose and need of the change proposed in the Boren bill, the noted New York attorney wrote as follows:

"Congressman Boren is, therefore, manifestly right in taking the position that the second sentence of this section should be repealed. His position is that with the repeal of this sentence the power to define the offences 'will revert to Congress, where it belongs.' Indeed he might have gone further and stated that Congress had no constitutional right to attempt to confer this power upon the Securities and Exchange Commission."

The Boren bill, if passed, will undoubtedly provide a check against the expanding regulatory activities of the SEC. It is reported to have the support of many members of Congress, and is now under consideration by a sub-committee of the House Committee on Interstate and Foreign Commerce. There is considerable probability that it will soon find its way to the floor of Congress.

It is of particular interest to dealers in municipal securities as, contrary to the will of Congress as expressly stated in the Securities Act of 1933, Securities Exchange Act of 1934 and the Maloney Bill of 1938, the SEC attempted through the medium of its proposed, and long dormant, Bid and Asked disclosure Rule X-15C1-10, to include transactions in local governmental obligations within the scope of its regulatory powers. Aside from this point, however, passage of the bill will have greater significance as it will deprive the SEC of its present authority under Section (C) (I) of the Exchange Act of 1934 to define by rules and regulations of its own choice "such devices or contrivances as are manipulative, deceptive or otherwise fraudulent" incident to transactions in securities. Under existing circumstances, the SEC has the power to label any "acts" not consonant with its own rules and regulations as fraudulent in character and criminal in nature.

Representative Boren's bill is viewed by many as the first step toward restricting securities regulations to a clear and concise administration of legislative intent. The predilection of various Federal administrative agencies to greatly exceed the powers conferred upon them reportedly prompted one Congressman recently to suggest that all bills relating to such bureaus carry the sentence, "By God! We Mean It!"

Brazil's Economic Position Improved By War, New York University Survey Shows

The war has accelerated the process of industrialization and economic diversification of Brazil and has improved materially the international financial position of the country according to a bulletin entitled "Effect of the War on Brazil's Economy" issued March 6 by Dean John T. Madden, Director of the Institute of International Finance of New York University. The Bulletin States:

"While in 1938 the traditional seven staples—coffee, cotton, cocoa, tobacco, hides and skins, rubber and mate—accounted for 75% and manufactured goods for only 0.36% of total exports, in 1942 manufactured products increased to 14.9% and the seven staples declined to 33% of total exports." It is also stated that for the first six months of 1943 manufactured commodities accounted for 22.6% of exports. Thus, it is added, "Brazil is turning away from an economy depending for its well-being mainly on the exportation and prices of coffee, foodstuffs and raw materials. Agriculture, however, still employs about eight times as many workers as industry and provides a livelihood for approximately 75% of the population."

In analyzing the effect of the war on Brazil's foreign trade, the bulletin states:

"The war also had a profound effect on the foreign trade of the country. Exports increased rapidly while imports were adversely affected by the lack of shipping facilities and the scarcity of manufactured products in Brazil's customary sources of supply. As a result of these developments the excess of exports over imports in 1942, at 2,851,000 contos ($142,550,000), was the highest on record. For the first six months of 1943 the excess of exports over imports amounted to 1,318,000 contos ($65,900,000), as compared with 228,000 contos during the same period in 1939. The war has also affected the geographical distribution of Brazil's foreign trade. During the first six months of 1943 nearly 75% of the total exports went to Western Hemisphere countries, of which 55% was absorbed by the United States. In the same period over 89% of the total imports originated in the Western Hemisphere, of which more than 50% came from the United States. Particularly noticeable was the increase in the trade with Argentina and South Africa."

In reviewing the currency and banking situation, the bulletin has the following to say: "Brazil has no central bank and some of the central bank functions are performed by the Rediscount Department of the Banco de Brasil, while currency notes are issued by the Treasury. As in other countries, the intensified economic activity since the outbreak of the war caused a substantial increase in currency in circulation and demand deposits. But the gold and foreign exchange holdings of the Treasury and the Bank of Brazil have also shown a remarkable increase, reaching on Sept. 30, 1943, 198 tons of gold worth $222,825,000 and 4,072,700 contos or $203,635,000 in net foreign exchange balances, or a total of $426,460,000. This amount represents an almost tenfold increase over the corresponding figure on July 31, 1939. The ratio of gold and foreign exchange to notes in circulation on Sept. 30, 1943, was 84.7%.

"Under a decree of Oct. 5, 1942, notes issued by the Treasury to the Rediscount Department must be secured by gold and foreign exchange assets to the extent of 25%. Another decree of the same date established a new monetary unit, the "cruzeiro," equal to the milreis, which it displaced, and worth about 5 cents U. S. currency. Although foreign exchange restrictions are still in effect, they are not interfering with the movement of international trade and no foreign balances for unpaid claims have accumulated in recent years."

The bulletin concludes with a discussion of public finances, and in part says:

"The Federal debt of Brazil has increased considerably during the last few years and amounted to 18,504,500 contos at the end of 1942 as compared with 12,063,300 contos at the end of 1937. While the total debt has increased, the external debt was reduced in the years 1940 through 1942. On Nov. 25, 1943, the Brazilian Government announced a permanent settlement of the outstanding dollar and sterling bonds of the Federal Government, states and municipalities, the Coffee Institute of the State of Sao Paulo and of the Banco do Estado de Sao Paulo. Although the bondholders are required under the plan to make substantial sacrifices, yet, on the whole, it was considered as equitable, since the current favorable conditions may not continue after the war. The new settlement makes provision for amortization, which will gradually reduce the external debt over a period of years."

Wartime Report of the Pennsylvania Railroad

SUMMARY OF 97th ANNUAL REPORT which was mailed to stockholders at the end of February. Operating revenues increased $141,298,532 over 1942. Operating expenses increased $109,369,984. Taxes increased $55,826,689, or 44.8% over the previous year. Net income was $85,418,484, a decrease of $16,050,309.

THE YEAR 1943

The war continued to dominate the ever increasing transportation effort. While performance was highly satisfactory from the standpoint of meeting every demand of the war emergency, it could not of necessity be wholly adequate from the standpoint of the character of the service performed, particularly the passenger service. Nevertheless, considering the abnormal conditions that prevailed throughout the year, the results as a whole can be viewed as a creditable achievement. There was a heavy increase in the volume of business handled, the railroad being operated to a greater capacity than ever before.

Notwithstanding decreases in rates, operating revenues increased $141,298,532 due to the greater volume of traffic, both passenger and freight, but this very fact, together with higher costs of material and fuel and increases in wages, resulted in an increase in operating expenses of $109,369,984. At the same time, taxes increased by $55,826,689, or 44.8%, over the previous year.

Despite the fact that the Company in 1943 did the largest business in its history, its Net Income was less than in 1942 by some $16,050,309 because of the substantial increases in operating costs and taxes mentioned above. It seemed wise to maintain the dividend at the same rate as paid in 1942, namely, 5%, or $2.50 per share. Dividends at this rate were accordingly paid in 1943.

THE NATIONAL EMERGENCY

In 1943, the railroads performed a service unequalled in the history of transportation. They were called upon to handle a volume of freight and passenger traffic exceeding that of the record year 1942.

The ability of the railroads to handle this record volume of traffic was due to further improvements in facilities and operating methods; to splendid cooperation between the railroads, the shippers and employes, the Army and Navy, and other agencies of Government, and to the continued helpful attitude of the Office of Defense Transportation.

The railroads look to the future with the conviction that they will keep in the forefront of industrial progress, and will meet successfully the competition to be expected. They are convinced that no other form of transportation can supplant the railroads unless unintelligent regulation, excessive subsidization of competitors or inequitable taxes shall so overburden them as to deprive them of equality of opportunity, an essential in any sound economic order.

TAXES

The railroads, always a heavily taxed industry, are accustomed to bearing their full share of the cost of government, and well realize that any excessive profits derived from the war effort should be subject to taxation as are the excess profits of any other industry; but the determination of what profits are excessive should not ignore the plain facts respecting the railroad industry, its position and needs.

During the last several decades, the processes of regulation have made it necessary for most of the financing by the railroads to be done with borrowed money for which they are not given adequate credit in calculating return on investment. Again, the railroads have not been, like other industries, in a position to carry adequate charges for depreciation and obsolescence-amortization, and income which should properly be charged off for these purposes is subject to the excess profits tax. Thus, the railroads find a large part of what is, in fact, no more than a reasonable return on their investment treated as excess profits and subjected to an enormous excess profits tax, where in fact no excess profits exist.

The effect on the railroads of the so-called excess profits tax is not only to deprive them of a reasonable return on their investment, but to prevent them from laying aside out of current earnings the reserves needed for future expenditures which are being made inevitable by wartime conditions and the pressure of wartime traffic.

Sound public policy not only justifies but should require the accumulation by the railroads of large post-war reserves to meet post-war changes in transportation practices and methods, but the tax policy of the Government is heading them along the same unfortunate path as at the close of the last war, when the railroads had to borrow large sums of money and go into debt to revamp their properties.

Today, while the railroads are doing the largest business in their history, it would be advantageous not only to them, but also to the public at large and to railroad employes as a whole, if the tax laws were amended so as to permit the creation now of the reserves needed for post-war rehabilitation, with resulting greater employment in the post-war period.

FUNDED DEBT

The Pennsylvania Railroad System has retired or purchased during the year debt in the hands of the public amounting to $45,354,220, which, after allowing for the issuance of $12,240,000 Equipment Trust Obligations, makes a net reduction in debt of System Companies in the hands of the public of $33,114,220.

During the last five years, there has been a net reduction of $124,000,000 in the debt of the System in the hands of the public.

STOCKHOLDERS

The Capital Stock of the Company at the close of the year was owned by 209,618 stockholders, an increase of 3,653 compared with December 31, 1942, with an average holding of 62.8 shares.

The management is always appreciative of the cooperation extended by security holders, the public and employes. It recognizes its responsibility to keep the stockholders, the employes and the public generally, informed as to the Company's business, service, finances and other important matters, which is done through advertising in newspapers and magazines, in announcements to the press and in the dissemination of information in other forms, as well as in the annual report.

THE EMPLOYES

The Board takes pleasure in acknowledging the continued efficiency and loyalty of the employes, which made possible the handling of a volume of traffic exceeding that of any year in the history of the Company.

44,448 employes of the System have entered the Armed Forces, serving in every part of the world, of whom 123 have made the supreme sacrifice.

Many thousands of new employes have had to be trained to take their places, including 21,730 women who are now in the railroad service.

Never were the demands upon the employes so great; never have they met the burden more efficiently and more courageously.

M. W. CLEMENT, *President*

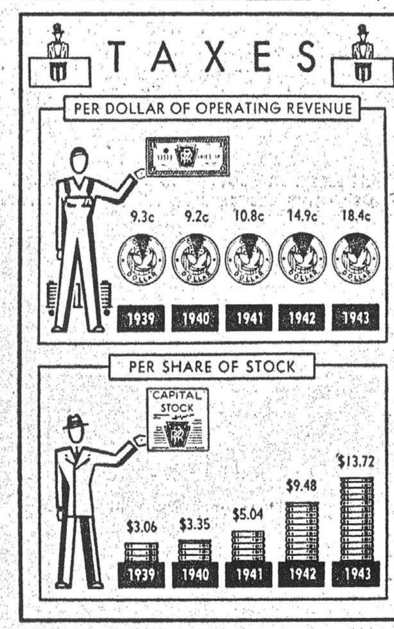
OPERATING RESULTS

	1943	Comparison with 1942
Operating Revenues	$979,773,155	I $141,298,532
Operating Expenses	663,510,711	I 109,369,984
Net Revenue	316,262,444	I 31,928,548
Taxes	180,405,491	I 55,826,689
Railway Operating Income	135,856,953	D 23,898,141
Hire of Equipment and Joint Facility Rents	8,310,542	D 6,166,208
Net Railway Operating Income	127,546,411	D 17,731,933
Non-Operating Income, chiefly dividends and interest on securities owned	42,503,518	I 1,406,637
Gross Income	170,049,929	D 16,325,296
Fixed Charges, chiefly rentals paid to leased roads, and interest on the Company's debt	84,631,445	D 274,987
Net Income	85,418,484	D 16,050,309
Appropriations to Sinking and Other Funds, etc.	1,924,119	D 794,112
Retirement of matured Debt—Penna. R. R. Co. (Does not include $28,425,431 of matured debt of leased lines retired)	17,311,000	D 13,069,000
Dividend of 5% ($2.50 per share)	32,919,385	
Transferred to credit of Profit and Loss	33,263,980	D 2,187,197

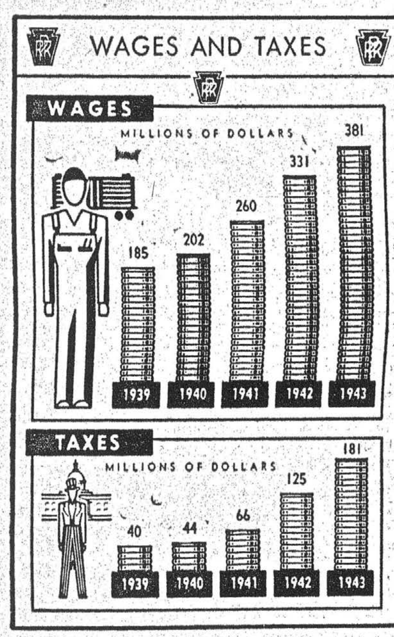
THE PENNSYLVANIA RAILROAD

Serving the Nation

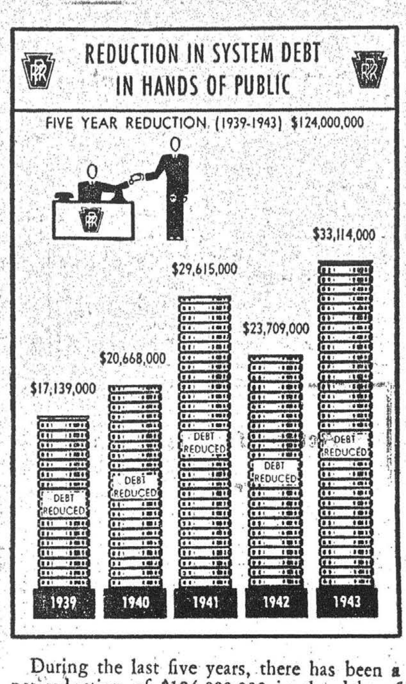
BUY UNITED STATES WAR BONDS AND STAMPS



Taken as a whole—taxes—the Company's chief burden, amounted to 18.4 cents out of each dollar of operating revenue, the equivalent of 27.4% upon the Capital Stock, or $13.72 per share, an increase of $4.24 per share over 1942. As a result of the heavy increase in taxes, the Net Income of the Company was less than in 1942, notwithstanding the large increases in revenues from operations.



Recent wage increases, together with vacations with pay, based on present force, are estimated to increase the expenses of the Company by approximately $45,000,000 annually.



During the last five years, there has been a net reduction of $124,000,000 in the debt of the System in the hands of the public.

Mutual Funds

Industrial Selection

The current issue of **Hugh W. Long & Co.'s New York Letter** announces a unique contest based on the question, "What Industries Will Lead in 1944?" The basis for determining the best answer will be the market performance of the various industry stock groups of **New York Stocks, Inc.**

Contestants are required to name the seven industry series of **New York Stocks** which, in their opinion, will stand at the top of the list with regard to market performance during 1944. At the end of the year the contestant having made the most accurate selection will receive a $500 first prize. Other prizes ranging from $250 to $100, for a total of $1,150, will be given for the next best answers. All prizes are payable in maturity value of U. S. War Bonds, series E. Only members and salesmen of affiliated investment firms are eligible to compete.

One of the important results this contest may be expected to achieve, aside from encouraging a more careful appraisal of the outlook for various industry stock groups, will be to create a continuing consciousness of the really remarkable variation in performance among separate industries.

Last year, for example, the merchandising and public utility series of New York stocks advanced over 50%, while the metals and chemical series advanced less than 10% and the aviation series actually declined. Only when the investor realizes that proper industry selection can mean all the difference between success and failure will sufficient attention be given to this vital factor.

* * *

National Securities & Research Corp. has published a helpful discussion on "Some Corporate Effects of the New Tax Law" in the current issue of **Investment Timing.** This new tax law, which was underscored recently by Congressional enactment over a Presidential veto, will not have any marked effect on the majority of corporations, according to the article.

In conclusion, it is stated that "some (corporations) with high earnings will be affected by the excess-profits tax increase from 90% to 95% and the reduction in invested capital exemption; others, already benefiting from the 80% tax ceiling, will remain immune. The changes in most cases may not be noticeable in net income, since tax effects, unless of major character, are often obscured by other factors."

A previous issue of **Investment Timing** contains an encouraging article on "Inflation Antidote—High Production and Low Taxes." The danger of inflation is not minimized, but it is pointed out that the means to prevent inflation are at hand if they are wisely used.

In summing up, the following quotation from the Baruch-Hancock report on post-war adjustment policies is given:

"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 out-produced 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."

* * *

A memorandum from the management staff of **Commonwealth Investment Co. makes** neat application of one of President Roosevelt's early political slogans. It is entitled, "The Underprivileged Investor," and reads in part as follows:

"You remember the ill-fed, ill-housed and ill-clothed third of our population we used to hear so much about. But did anyone ever focus attention on our ill-diversified investors? Their plight is no less real, even though it is not so basic or dramatic. Certainly, there are vast numbers of underprivileged small investors—underprivileged because their investments are not adequately diversified.

"No one will deny the problems confronting the person of limited means when he sets out to achieve diversification. Fortunately, there is a readily available solution to these problems, and more and more investors and their advisers are recognizing the mutual investment fund as the answer."

This principle of diversification is given unusually broad application in the portfolio of **Commonwealth Shares** and, judging by the performance of this fund, the diversification has been as skillful as it has been broad.

* * *

An interesting and pointed discussion on corporate taxes in the post-war period is presented in the current issue of **Keynotes.** In this discussion, the **Keystone Corp.** traces the rise in corporate tax rates from the 13¾% combined normal and surtax during the years 1932-1935 up to the 40% normal and surtax and 90% excess profits tax which was in effect during 1943.

The bulletin scouts the theory heard in some quarters that it will be impossible to eliminate excess profits taxes after the war because of the increased needs of our Federal Government. It is pointed out that the excess profits tax on corporations could be eliminated without serious loss of revenue. Today this tax provides approximately $10,000,000,000 out of a total tax revenue of approximately $43,000,000,000. If it were to be eliminated, the same income would automatically become subject to the 40% normal and surtax rate and the Treasury would immediately recover $5,000,000,000 of the $10,000,000,000 through increased revenue from normal corporate taxes.

If, in turn, the other $5,000,000,000 were paid out to shareholders as dividends, taxes from individual incomes should be increased by approximately $2,000,000,000. Thus, the elimination of the present excess-profits tax, other things being equal, would actually result in a loss of only 30% of the revenue from this source and a reduction of only about 7% in the total income tax revenue of our Federal Government.

* * *

Lord, Abbett announces that, as a result of the continuing growth of Union Preferred Stock Fund and Union Common Stock Fund B, daily quotations on these two offerings will be carried hereafter by the Associated Press. As a result of these additions, the Associated Press now carries quotations on seven of the eight funds in the Lord, Abbett group.

* * *

Hare's Ltd. has announced the offering of **Stock & Bond Group Shares.** This new offering was registered with the SEC and various States before the outbreak of war. "However," as stated in the announcement letter, "in view of the purpose of the fund being largely the proper 'timing' of investments, it was considered advisable to delay actively merchandising the shares until such time as the present, i.e., when the outcome of the war could be anticipated and the post-war outlook for various industries more closely appraised and thus the most desirable current portfolio of securities might be determined."

The initial offering price of **Stock & Bond Group Shares** was $12.50 with a regular commission of 5% to selling group members. Additional commissions ranging from ½ of 1% up to 2% will be paid on sales in graduated amounts above $5,000 up until May 1, 1944.

Fund Literature

Massachusetts Distributors, Inc.—Recent issues of **Brevits** discussing the Baruch-Hopkins report and the recent Standard & Poor's study of investor confidence. **Selected Investments Co.**—Also a discussion of the Baruch report in the current issue of **Selections. Lord, Abbett**—A revision of the folder, "How $1,000 Gets the Investment Potential of $1,700. . . Revised portfolio folders on Union Bond Fund B and Union Bond Fund C. **Keystone Corp.**—A revised current data folder on the ten **Keystone Custodian Funds** as of March 1, 1944. **Distributors Group**—A new folder on **Low-Priced Shares** and a new issue of Railroad Equipment News entitled, "Post-War Boom Forecast for Railroad Equipment Industry." **National Securities & Research Corp.**—Revised current information folder on the **National Securities Series** and **First Mutual Trust Fund.**

Dividends

Keystone Custodian Funds—Semi-annual distributions of 35 cents a share on series B-4 and 55 cents a share on series S-1, payable March 15 to shareholders of record Feb. 29, 1944.

Maryland Fund, Inc.—A distribution of 6 cents per share payable March 15 to stock of record Feb. 29, 1944.

Massachusetts Investors Second Fund, Inc.—A dividend of 10 cents a share, payable March 20 to shareholders of record Feb. 29, 1944.

Life Insurance Companies Increased Holdings Of Mortgages & Securities In 1943

American life insurance companies in 1943 increased their holdings of securities and mortgages by $3,310,000,000. The total of policyholder funds so invested amounted to $32,270,000,000 at the year end as compared with $28,960,000,000 at the end of 1942, according to an analysis made by the Institute of Life Insurance and made public on March 6. The report also said:

Holdings of United States government securities, representing direct financing aid to the war effort, increased $3,340,000,000 as compared with $2,300,000,000 the year before, and at the year end aggregated $12,730,000,000 or nearly 34% of the companies' total assets. The increase in holdings of these bonds during the year was greater than the over-all increase in investment holdings and also greater than the increase in assets. Purchases of U. S. government bonds absorbed almost 75% of the funds which were invested in mortgages and securities. At the year end, holdings of these bonds represented $187 on the average for each of the 68,000,000 policyholders.

"The extent to which life insurance investment funds, representing the pooled resources of policyholders, are being directed to the support of the war effort is further emphasized by life insurance company subscriptions of approximately $1,700,000,000 in the Fourth War Loan drive," the Institute said. "It is significant of the constructive role of these funds in the economic life of the nation that this investment in U. S. government bonds has been built up without diminishing the support extended to the national economy through investment in business securities and in home and farm mortgages. Holdings of business securities aggregated $10,270,000,000 at the year end, an increase of $70,000,000, while farm and city mortgages owned by the companies were maintained substantially unchanged at $6,670,000,000."

Analysis shows that while purchase of railroad bonds amounted to $210,000,000 as compared with $140,000,000 in 1942, holdings showed a net decrease of $60,000,000 during the year to $2,650,000,000. Purchase of public utility bonds amounted to $380,000,000 as compared with $520,000,000 in 1942, with holdings at the end of the year reported at $5,150,000,000, an increase of $50,000,000. The companies bought during the year $280,000,000 industrial and miscellaneous business bonds, $100,000,000 less than in 1942. The holdings at the year end were $70,000,000 higher at $1,890,000,000. The investment in stocks was up $10,000,000 at $580,000,000.

Farm mortgages acquired during the year amounted to $140,000,000, but due to maturities and pre-payments, holdings showed a net decrease of $50,000,000 to $840,000,000. Holdings of city mortgages, of which $750,000,000 were acquired during the year, amounted to $5,830,000,000 at the year end, an increase of $40,000,000 during the 12 months.

Purchase of Canadian, state, county and municipal bonds were 50% greater than in 1942, amounting to $330,000,000. Notwithstanding, holdings of these bonds reported at $2,600,000,000 showed a net decrease in the year of $90,000,000, as the companies sold part of their holdings to provide funds for purchase of U. S. government bonds.

Further substantial progress in the liquidation of foreclosed real estate was indicated by a decrease in farm properties by $140,000,000 to $340,000,000 and a decline in urban properties of $180,000,000 to $970,000,000.

REPORT OF LIFE INSURANCE COMPANY INVESTMENTS
(Millions of Dollars)

	1943 Purchases	Year-End Holdings
Bonds:		
U. S. Government	$6,020	$12,730
Other Govt.	360	2,600
Railroad	210	2,650
Public Utility	380	5,150
Industrial and misc.	280	1,890
Stocks	50	580
Real Estate:		
Farm	140	340
Other	210	970
Mortgages:		
Farm	140	840
Other	750	5,830
Total	$8,540	$33,580

Internat'l Monetary Conference Is Planned

Bankers in New York indicated on March 7, according to the New York "Journal of Commerce" that the international monetary conference which Harry D. White, Treasury currency expert, stated was nearing the parley stage will probably begin sessions late next month or the early part of May. The paper quoted went on to say:

Reports have been current that the meeting will be held either at White Sulphur, W. Va., or at Miami, Fla., with the latter locale favored. Mr. White indicated yesterday that all sessions will be open to the press because "we want the public to be as well informed on the monetary question as possible."

It is understood that the Russian delegation, which has been in this country for some weeks conferring with the Treasury, has been the main factor in delaying the meeting. The delegates are reported to have deluged Treasury officials with queries on various phases of the world currency stabilization program and the world bank while at the same time lacking any authority to come to a working agreement on principles.

The result has been a one-sided meeting with Treasury representatives thus far unable to get answers to their questions to the Russians, since all such queries must be cleared first through Moscow.

Favorable Outlook

Jonas & Naumburg Corp. offers an interesting situation with a definitely favorable post-war outlook, according to a memorandum issued by T. J. Feibleman & Co., 41 Broad Street, New York City. Copies of this memorandum may be had from the firm upon request.

OUR REPORTER'S REPORT

Several major pieces of refinancing in the public utility field moved into sight this week with the filing of merger and recapitalization plans by two big companies.

From current indications, however, it appears that only one of these undertakings is likely to be carried through in a manner which will bring the new securities into the market.

Should the consolidation plan filed with the Securities and Exchange Commission by the six holding companies making up the New England Power Association system meet with approval, the program would call for refinancing of the several bond issues now outstanding.

The new company proposed to take over the assets and liabilities of the existing units would have a funded debt of $60,000,000, embracing new bonds to be sold to provide funds for the redemption of existing obligations.

In the case of the United Gas Corp., however, where the task of setting up a plan to meet the demands of the SEC has been a long one, it now appears that public offering of new securities involved is unlikely.

The $100,000,000 of new bonds proposed in this particular operation are considered quite certain to be lodged with large institutional buyers through direct sale, rather than be offered in competitive bidding under the Commission's Rule U-50.

Universal Pictures Common

Unless another negotiated deal by a utility, or a railroad, crops up in the interval, it now looks as though the projected sale by Universal Pictures Co. of the block of common stock and warrants, in registration with the SEC, will be the next issue to move to market, on March 27.

The stock was placed in registration back in October, last year, but a delaying amendment was filed subsequently late in November.

The projected sale, designed to expand working capital, involves 234,500 shares of common and 125,000 warrants.

Southern Indiana Gas & Elec.

Although the company has not yet indicated if, or when, it will call for bids it becomes evident from activity in underwriting circles that competition will be keen in the event that Commonwealth & Southern Corp. decides to market its holdings of 400,000 shares of common stock of Southern Indiana Gas & Electric Co.

Just how many groups eventually will be in the running with tenders for the stock is not certain, but from discussion in banking circles it is indicated that at least five groups are in process of formation to participate.

Commonwealth & Southern would divest itself of its holding under a simplification plan recently filed with the SEC. One proposal involves distribution of the stock pro rata to C. & S. common holders.

Virginia Electric & Power Co.

Virginia Electric & Power Co. financing is now counted upon to reach the market before the end of the current month, with March 27 looked upon as the likely date.

This undertaking involves an issue of $24,500,000 of first mortgage and refunding bonds which would have a maturity of 30 years.

Financing grows out of the proposed absorption by the company of the Virginia Public Service Co., and proceeds, together with those from the sale of $5,000,000 notes and certain company funds, would be used to redeem $26,000,000 of bonds and $10,500,000 debentures of Virginia Public Service.

Still In Talking Stage

Several other sizable deals, which should attract considerable interest when time for bidding arrives, still appear to be in the talking stage.

But the bankers are inclined to count on calls for bids in the not distant future on a number of these projects, such as $18,000,000 bonds of Oklahoma Natural Gas and $17,000,000 for Laclede Power & Light.

Meanwhile report persists that New Jersey Power & Light will soon reveal plans for undertaking a piece of refinancing.

Govt. Portfolios Of Major N. Y. C. Banks

Huff, Geyer & Hecht, Inc., 67 Wall Street, New York City, have issued an interesting memorandum on the "Government Portfolios" of major New York City banks. Copies of this and a detailed tabulation of 1943 operating results of fire and casualty insurance stocks may be had from Huff, Geyer & Hecht, Inc., upon request.

Pittsburgh Rys. Look Good

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

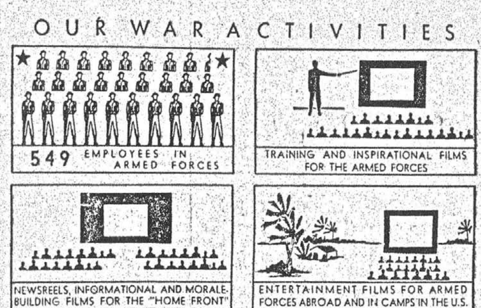
Universal Pictures UNIVERSAL PICTURES Company, Inc.

Reports to the Public

NEXT to letters from home, motion pictures are the greatest morale builders for our fighting forces. The motion picture industry has given its full co-operation to the Army, Navy, and Marines to make it possible for our fighting men all over the world to enjoy the finest screen entertainment.

* * *

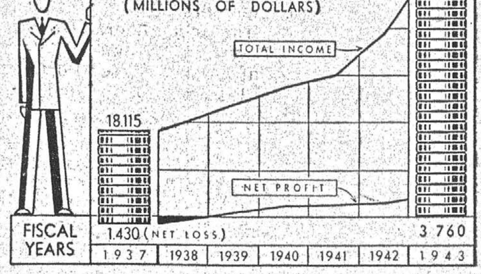
The pictures released by Universal in 1943 were made available without cost to the Armed Services for showing to our fighting men abroad. More than 35,000 showings of Universal



pictures were made at military and navy bases in this country. Training films are being produced for the Armed Forces and Universal is also making and distributing informational films for the government at cost. In countless newsreels, shorts and trailers, Universal is endeavoring to aid our people to understand and perform the home-front job.

* * *

More millions of people were entertained by Universal pictures last year than ever before in the Company's history, these pictures bringing needed relaxation from the work and



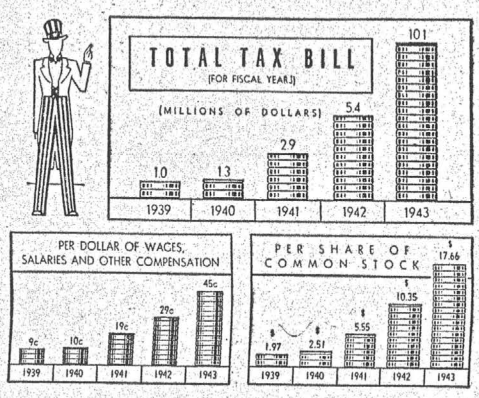
tension of war. New production and sales records were set, following a consistent uptrend in the Company's business for seven consecutive years.

Universal's domestic business increased 16% over the preceding year. Foreign business increased 24%, the gains in English and Latin American revenues having made up for revenues previously obtained from foreign markets now closed.

Total income from the operations during the fiscal year ended October 30, 1943, amounted to $46,527,527 compared with $39,109,524 in the preceding year. Net profits after all charges including provision for Federal income and excess profits taxes amounted to $3,759,968, equivalent to $6.57 per share on common stock, compared with $2,806,952, or $5.34 per share, for the preceding year.

The Company's net working capital was $16,094,906 at the end of the fiscal year compared with $14,229,423 the year before.

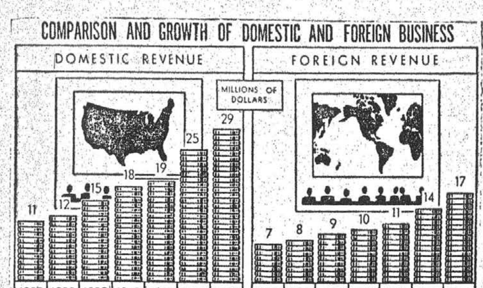
Reflecting increased earnings and simplification of the Company's corporate structure, the Directors declared a dividend of $1 a share on the common stock on October 30, 1943.



Here is how the total income of the Company was used in the past fiscal year:

		% of Total Income
Wages, Salaries and other Compensation	$22,191,614	47.7
Federal Income and Excess Profits and all other Taxes	10,100,447	21.7
Other Costs and Expenses	9,749,266	21.0
Interest, Financing Expenses and Depreciation	726,232	1.5
Dividends Paid	571,942	1.2
Added to Earned Surplus	3,188,026	6.9
	$46,527,527	100.0

Despite manpower shortage and other wartime handicaps, Universal met production schedules throughout the past year and its sales organization secured the largest number of contracts in the Company's history. Its product was well received both in this country and abroad. In the current season, Universal has released pictures such as "His Butler's Sister,"



"Gung Ho!", "Ali Baba and the Forty Thieves" and "Flesh and Fantasy" and has available for release a substantial portion of its product for the remainder of the year.

Universal is developing plans to take advantage of post-war market opportunities. We are confident when peace comes, a world-wide demand for American films may be expected.

J. CHEEVER COWDIN
Chairman of the Board

A copy of the Annual Report will be gladly furnished on request to Universal Pictures Company, Inc., Rockefeller Center, New York 20, N. Y.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Bank Stocks

Earnings of leading New York City banks have shown a strong and consistent upward trend over the past five years, despite increasing taxes and rising costs of operation. Net operating earnings per share, exclusive of security profits and recoveries, are shown in Table I for seventeen leading New York City banks for each year of the five year period 1939 to 1943. So far as possible figures are presented on a comparable basis; however, since strict uniformity in accounting and reporting procedure does not exist in commercial banking, comparability is perforce approximate.

TABLE I

NET OPERATING EARNINGS PER SHARE

	1939	1940	1941	1942	1943	Improvement 1943 over 1939
Bank of Manhattan	$1.11	$1.14	$1.37	$1.81	$2.01	81%
Bank of New York	17.57	17.61	20.05	20.70	28.59	63
Bankers Trust	2.80	3.36	3.19	3.39	3.79	35
Central Hanover	4.74	5.77	6.31	5.76	6.54	38
Chase National	1.80	1.83	1.96	1.81	2.33	29
Chemical Bank & Trust	1.60	2.00	2.60	2.68	3.42	114
Commercial National	9.79	10.89	11.00	12.91	17.95	83
Continental Bank & Trust	0.95	0.91	0.95	1.14	1.55	63
Corn Exchange	2.18	1.44	2.58	3.30	3.56	63
First National	104.07	99.24	102.50	106.42	106.16	2
Guaranty Trust	13.15	14.11	14.25	16.28	17.38	32
Irving Trust	0.48	0.62	0.70	0.84	1.00	108
Manufacturers Trust	3.71	3.92	3.91	4.03	5.28	42
*National City	1.91	1.98	1.94	2.18	2.44	28
New York Trust	5.16	5.11	5.36	6.06	†6.51	26
Public National	2.89	3.09	3.29	2.85	3.30	14
United States Trust	82.07	71.64	72.10	78.83	87.07	6

*Includes City Bank Farmers Trust.
†600,000 shares in 1943; 500,000 shares previous years.

The improvement in net operating earnings for 1943 over 1939 in several instances is quite remarkable; in most cases it is substantial and in only a few instances is it just moderate. The average improvement of the seventeen banks is 49%; greatest improvement is shown by Chemical Bank and Irving Trust, with 114% and 108% respectively. Excellent improvement is also shown by Bank of Manhattan with 81%; Bank of New York, 63%; Commercial National, 83%; Continental, 63% and Corn Exchange, 63%. The rest of the banks show substantial to moderate improvement, as noted in the last column of the tabulation.

TABLE II

	Book Value 12-31-43	Current Market	Annual Dividend	Dividend Coverage (Times)	Dividend Yield	Earning Yield
Bank of Manhattan	$25.03	$23⅝	$0.90	2.23	3.8%	8.5%
Bank of New York	358.97	407	14.00	2.04	3.4	7.0
Bankers Trust	50.15	52	1.40	2.71	2.7	7.3
Central Hanover	99.15	104	4.00	1.63	3.8	6.3
Chase National	36.88	40¾	1.40	1.66	3.4	5.7
Chemical Bank & Trust	41.23	52	1.80	1.90	3.5	6.6
Continental Bank & Tr.	23.27	21½	0.80	1.94	3.7	7.2
Corn Exchange	49.35	50	2.40	1.48	4.8	7.1
First National	1,246.60	1,670	80.00	1.33	4.8	6.4
Guaranty Trust	323.77	318	12.00	1.45	3.8	5.5
Irving Trust	21.28	15¾	0.60	1.67	3.8	6.3
*Manufacturers Trust	41.75	51⅞	2.00	2.64	3.9	10.2
†National City	36.38	37½	1.00	2.44	2.7	6.5
New York Trust	85.34	98	3.50	1.86	3.6	6.6
Public National	48.30	38¼	1.50	2.20	3.9	8.7
United States Trust	1,517.50	1,505	70.00	1.74	4.6	5.8
Average	----	----	----	1.93	3.8%	7.0%

*Common stock. †Includes City Bank Farmers Trust.

In Table II, the current market (asked price) of each stock is shown in relation to book-value (12/31/43), annual dividend rate and 1943 net operating earnings per share. It will be noted that only six stocks are priced at a discount from book-value, viz: Bank of Manhattan, Continental, Guaranty Trust, Irving Trust, Public National and United States Trust. Current dividend yield averages 3.8%; highest yield is 4.8% for both Corn Exchange and First National, and lowest, is 2.7% for Bankers Trust and National City.

Dividends were earned by net operating earnings alone, exclusive of security profits and recoveries, 1.93 times on average. Bankers Trust shows highest coverage with a ratio of 2.71, Manufacturers Trust comes second with 2.64, Chemical Bank is approximately average with 1.90 and First National is lowest with 1.33. In the last column of the table will be found the "earning yield" of each stock at current market prices, and based on net operating earnings. For the investor who is looking for appreciation and growth, rather than current income, "earning yield" is of great significance. For example, Bankers Trust cut its dividend rate from $2.00 to $1.40 in 1942, with the result that the current dividend yield of its stock is only 2.7%, but this dividend was earned 2.71 times in 1943 and its "earning yield" is 7.3%, which is better than the average of 7.0%. Bankers Trust, therefore, is in excellent position to restore the $2.00 rate when its directors deem it advisable. National City is another case of low dividend yield but substantial earning yield, and Public National appears to have sufficient earnings to justify a higher dividend in the post-war years. It is the thought of this writer that the investor in bank stocks, particularly the long term investor, should study and compare "earning yields" rather than "dividend yields".

Congress Urged To Provide Application Of Baruch Report to Preserve Small Business

The American Business Congress has endorsed the Baruch-Hancock Report on War and Post-War Adjustments as a "first-class engineering job," but called upon the United States Congress to make sure that the application of the report maintains small business in existence. "The greatest danger is that while the Baruch report is being discussed many small businesses may die," said George J. Seedman, National President of the American Business Congress. "The report makes provision for the protection of the interests of small business, but Congress must start **now** to make that protection tangible," he continued. Many of the demands of small business today will be voiced at the forthcoming dinner symposium being sponsored by the American Business Congress on March 17, at which Vice-President Henry A. Wallace and other speakers prominent in Government, industry and labor circles will discuss these problems.

"Mr. Baruch and his associates have tackled a gigantic task and brought a high degree of order out of it," Mr. Seedman continued, "but independent and small business has questions to ask and recommendations to make to Congress and to the Office of War Mobilization. As we see it, **how** the plan is administered **now** becomes a matter of life and death to us."

In reference to the disposal of war-accumulated inventories, contract termination and reconversion, the American Business Congress, it was made known on March 6, urges immediate action upon the following seven-point program:

"1. That small business be represented by a competent small business man on the Central Policy Committee the creation of which is recommended by the Baruch-Hancock report.

"2. That the uniform contract termination clause be made applicable for small business, by making it work for sub-contractors as well as for prime contractors.

"3. That upon the termination of prime contracts the small businesses be burdened by no more than their proportionate share of contract cancellation.

"4. That a specific policy of dismissal or severance pay for war workers be worked out now; this will accomplish the important dual purpose of permitting consumers to secure the necessary requirements and at the same time maintain a healthy level of trade.

"5. That Mr. Baruch's insistence upon so-called surplus goods moving through **normal** channels of trade—a matter of vital importance to every wholesaler and retailer in America—be scrupulously followed in the administration of the plan outlined in the report.

"6. We endorse the call for unity and for all-out production to hasten the winning of the war. Without victory, small business can have no existence. To achieve victory, we call for the fullest utilization of the will, the energy and the ingenuity of small business.

"7. That time is of paramount importance—the very existence of thousands of small businesses depends upon swift action now along the lines indicated."

"It is not enough to sound the praises of the Baruch-Hancock report," says Mr. Seedman. "It is also necessary to understand how it applies to small business. Big business and prime contractors can now foresee their immediate futures from the recommendations in the report, but it is up to the Congress to make sure that small business too can view the future with some assurance of continued existence. It is therefore essential that small business be represented by a competent small business man on the Central Policy Committee which is suggested in the Baruch report." In part, Mr. Seedman also states:

"We feel that the 'financial kit' provided for the prime contractor is at least equally necessary for the well-being of the sub-contractor. We hold that no prime contractor should be able to draw a 100% settlement of his termination claims until he can show certificates of satisfactory settlement from every one of his sub-contractors. The problems of reconversion are often more difficult for the small fellow than for the big plant, even when no changes in plant or machinery are necessary, and the cost of reconversion can conceivably wipe out the total resources of a small plant.

"We ask for a program on dismissal pay for war workers because we foresee here a nationwide social and economic problem which might well prove an unsettling factor in a particularly trying period. Furthermore, consumer purchasing power must not be permitted to drop just at the very time when peace-time production is being partially resumed. This would result in a wave of cancellations, uncertainty and mounting fear, when we all want to see the nation advance with assurance.

"The cancellation of prime contracts will come as a shock to the small business men who hold subcontracts. At this point many small businesses face the danger of sudden extinction. How is it to be provided that the prime contractor who receives a partial cancellation or cut-back in his contracts does not himself continue on full war production while all of his sub-contractors bear the full shock of termination?" asked Mr. Seedman. "And how will we handle the cases where the prime contractors themselves convert to peace-time production while their sub-contractors continue on war production, facing termination at a slightly later date when they may be less able to meet the new conditions of business competition?

"The American Business Congress insists upon observance of Mr. Baruch's recommendation that surplus war materials move through normal channels of trade as a matter of life and death to many small businesses throughout the country. In that connection a provision similar to those contained in the Murray and Patman bills, providing for representation of small business men's interests by competent small business men on the Surplus War Property Administration should be incorporated in any legislation enacted by Congress."

In addition to the speakers previously announced for the March 17 dinner of the American Business Congress, viz.: Vice-President Wallace; Justice Thurman Arnold, U. S. Court of Appeals; Maury Maverick, Chairman of the Smaller War Plants Corporation; Senator James E. Murray, Chairman of the Senate Committee on Small Business; Philip Murray, President of the CIO; Wayne C. Taylor, Under-Secretary of Commerce, and George J. Seedman, National President, American Business Congress, the names of several new speakers have been added to the list: Senator Joseph H. Ball, Senator Harold H. Burton and James V. Forrestal, Under-Secretary of the Navy.

House Committee Continues Study Of Tax Simplification

Incident to the study of tax simplification, under way by the House Ways and Means Committee, it was indicated that the Committee on March 6 gave "special consideration" to a plan designed to arrange the present withholding tax in such a way as to eliminate for an estimated 30,000,000 taxpayers with incomes of not more than $5,000 a year the necessity of filing the regular income tax return. According to Washington advices March 6 to the New York "Times" from which this is learned, it was said that a successful plan would enable taxpayers in these brackets to choose between the regular return and the filing of a simple statement on income.

Representative Doughton, Chairman of the Committee, after a closed session that day, was quoted as saying:

"The committee and the staffs, the Joint Committee (on Internal Revenue Taxation), the Treasury staff and the Bureau of Internal Revenue staff, are continuing their work on this as well as other phases of simplification, and will continue actively at work and hold frequent meetings. We hope to have a program in the near future."

The "Times" advices added:

"In seeking tax simplification, Committee members said, there were two principal objectives. One, they asserted, was to maintain but not increase the present tax burdens levied against various income levels and the excusing of comparative few, if any, taxpayers from income and victory imposts.

"The second objective now in the forefront, it was said, is integrating the Victory, normal and surtax into a single overall rate, a plan which, it is held, would simplify matters materially for the 20,000,000 taxpayers receiving more than $5,000 income who would continue to file annual returns.

"It was emphasized that nothing on which the Committee was working would affect or lessen the necessity for all the 50,000,000 taxpayers to file their returns on 1943 income by March 15.

"A special warning that action taken in the near future would not be likely to become effective until next year was given by Representative A. Willis Robertson, Democrat of Virginia, a member of the Committee. Hence, he argued, it was 'more important that Congress do a good job than a quick one on tax simplification.'"

The plans for the simplification of the tax returns were referred to in our issue of March 2, page 915; in the same issue, page 914, we reported the passage of the tax bill by Congress over the President's veto.

Home Ins. Attractive

Home Insurance Company offers attractive investment possibilities according to a memorandum on the situation issued by Butler-Huff & Co. of California, 210 West Seventh Street, Los Angeles, Calif. Copies of this interesting memorandum, discussing the matter in some detail may be had upon request from Butler-Huff & Co., with a comparative tabulation of insurance company statement figures for 1943 on 30 companies.

RR. Situation Interesting

The current situation in issues of the St. Louis & San Francisco Railway Company offers interesting possibilities according to a detailed discussion issued by Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock and Curb Exchanges. Copies of this memorandum may be had upon request from Vilas & Hickey.

Otis & Co. Of Cleveland Ask $1,000,000 Damages In Rail Suit

Otis & Co. of Cleveland, investment bankers, filed Feb. 29, in Federal District Court at Philadelphia, a suit for $1,000,000 against the Pennsylvania RR.; its subsidiary, the Pennsylvania, Ohio & Detroit RR. and 16 officers and directors.

Otis & Co. charged that the railroad companies lost financially by the sale of a $28,483,000 bond issue last summer to Kuhn, Loeb & Co. for $100 a unit despite the fact that Otis & Co. and Halsey, Stuart & Co. Inc. bid $102.

The suit contended that the action violated a resolution of the directors of the Pennsylvania, Ohio & Detroit to obtain the best price possible and also that there was a "conflict of interests" among the directors named. It alleged that some of them represented insurance and other companies, which bought the railroad bonds, as well as the railroad.

The suit asks a trial by jury and the court to adjudge that the individuals named "are liable for all loss and damage suffered by the P. R. R. and the P., O. & D."

Individuals named are Martin W. Clement, President of the Pennsylvania; George H. Pabst, Jr., President of the P., O. & D. and Vice-President of the Pennsylvania; Walter S. Franklin, Jas. E. Gowen, C. Jared Ingersoll, Richard K. Mellon, Leonard T. Beale, J. F. Deasy, J. R. Downes, F. J. Fell, Thomas S. Gates, Robert T. McCracken, Thomas Newhall, George J. Adams, F. W. Hankins and H. W. Shotter, all of whom, save Adams, Hankins and Shotter, are directors of the Pennsylvania. These three are directors of P., O. & D.

According to a spokesman for Otis, the suit was filed "in order to obtain a court test of whether officers and directors having but small ownership in great corporations can continue to treat the financing of those great corporations as a personal prerequisite to be passed out to their banker friends regardless of the cost to stockholders."

Canadian Securities

One of the few dark chapters in Canada's financial history is drawing rapidly to a close with the presentation of a Government bill in the Quebec Legislative Assembly respecting the financial reorganization of the City of Montreal. The bill received a unanimous first reading so it can be confidently anticipated that the great metropolis of the Dominion will shortly be restored to sound financial condition and will regain the confidence of its creditors.

As mentioned on several occasions, the settlement of one of the two major Canadian financial black spots should precipitate an agreement in the other case. The Alberta reorganization plans, however, are not making any spectacular headway at the moment. A primary stumbling block is the comprehensible reluctance on the part of the Canadian bondholders neither to place any premium on default nor to render any injustice to other provinces which, in time of financial stress, took the hard road and continued to pay high rates of interest. It might be well, however, in the greater cause of removing a blot on the entire Canadian record, to seek a quick business-like compromise and not insist on full legal rights.

Some measure of punishment is already being meted out to Alberta by the refusal of the Dominion Government to renew maturing treasury bills, whereas every facility is still given to those provinces which have always fully cooperated with the central authority. It must not be forgotten also that the author of the default is no longer on the scene, and the unceasing efforts of Mr. Solon Low, the Provincial Treasurer, to secure a speedy settlement are worthy of encouragement.

Furthermore, the tentatively proposed basic interest rate of 3¾% is much more attractive today than it was a few years ago, and with the restoration of the provincial credit permitting greater development of this province's tremendous natural resources, Alberta bonds, on such a basis, would be an outstanding Canadian investment.

During the past week, the market moved in accordance with the pattern that has recently commenced to become more clearly defined. The tone was firm, generally, but the greatest strength manifested itself in the short and medium term issues.

This section has previously been largely neglected. For many years the greatest support for the Canadian market in this country has been supplied by the insurance companies, which have, naturally, bought the long term bonds. Other investors, correctly anticipating a considerable improvement over the past few years, have also derived greater profit from the purchase of the longer maturities.

Therefore, the shorter term have become out of line with the longer term issues. However, in view of the increasing interest displayed by commercial banks, which previously were a negligible factor in the market, it is probable that the differential in favor of the short and medium term bonds will tend to diminish.

It is interesting to note that, since the turn of the year, the following improvements have been recorded in the shorter bonds:

Canadian National Railway	5s of Oct. 1, 1969/49	from 2.65%	to 2.40%	yield basis
Manitoba	4½s of 1951	from 3.95	to 3.55	
British Columbia	5s of 1949	from 3.05	to 2.70	
Ontario	4½s of 1950	from 2.65	to 2.50	
Toronto	4½s of 1950	from 2.75	to 2.50	

Among the outstanding specific features of the past week was the persistent demand for Manitoba issues of all maturities, the continued buying of Saskatchewans and the placing of a large block of the longest term Ontarios. Montreal issues also shared the limelight and the long 4½s were bid at 101. There was a little more interest displayed in the internal bonds but the Canadian dollar in the "free" market was practically unchanged at 10 9/16% discount.

In the absence of any unforeseen major development, the present trend of the market appears likely to continue, with increasing interest in the shorter term issues. This tendency should be further accentuated on the announcement of the forthcoming public issue of short term New Brunswick bonds.

Symposium On Question Of Post-War Price Fixing, Rationing

(Continued from page 986)

that these funds,* if not properly controlled, could exert inflationary influences that might threaten an orderly transition from a war to a peace economy. It is interesting and gratifying that a sober recognition of the need for controls of this sort should come from industry. It is also important to recognize that this recommendation carries with it the implication that some of our wartime controls will have to be continued, in some measure at least, after the end of the war. There will, in other words, have to be a tapering off of wartime controls.

"In the same breath with his well-timed warning, Mr. Sloan called upon Government to make a 'pronouncement of the nation's firm belief in competitive enterprise and the profit motive as the keystone of economic policy.' For my own part, I can give Mr. Sloan wholehearted assurance that whatever measure of control may be needed to soften the conversion back to a peacetime economy will be conceived in a spirit of conserving and preserving this nation's system of free and competitive enterprise for profit."

*In another part of his speech Mr. Purcell said: "The growth in the currency and deposit holdings of individuals and unincorporated business since the war started in 1939 has been approximately $28 billion. In addition their purchases of U. S. Savings Bonds now exceed $23 billion. Also during this period individuals have reduced their consumer indebtedness by $4½ billion. The rate of increase in these public liquid savings is at present $35 billion a year."

Mr. Purcell in this same address then went on to cite briefly his reasons for feeling that some of the wartime controls must remain in effect for a temporary period following the end of the war, and his remarks in this respect follow:

"The problem of control is less difficult today in the war years than it may be in the post-war period. During the war the appeal to patriotism is strong. On this appeal people withhold from excessive spending and respond to the war loan drives by purchasing bonds. They even pay taxes with relatively little complaint. After the war there will be many articles which the public has been unable to buy and there will be the temptation to redeem bonds before their maturity. There will also be a call for tax relief. Corporations, too, will be subject to these temptations. They will want to use their savings and redeem or sell their holdings of Government bonds. There will be the natural desire of business management to get its wares on the market before its competitor and to attract the public's savings into new and dazzling products. There is real danger that with immoderate use of these savings they may be dissipated in price increases before full production can get under way.

"On the other hand, I believe that if these resources are guarded and employed in an orderly and constructive manner they can well provide a source of supply for the capital needs of industry in converting to peacetime operations, and will constitute a huge reservoir of post-war purchasing power that could be felt as an influence for stability in our economy for many years to come. Industry will have many uses for its accumulated liquid assets—the conversion of plant, the replacing of worn-out, obsolete equipment from deferred plant rehabilitation, the re-stocking of civilian inventories, the utilization of technological improvements and the creation of new industries. Attractive uses for funds and capital equipment will be found not only in the domestic field, but also in foreign countries where rehabilitation and reconstruction will need our resources.

"Our domestic industry, in addition to its own resources and bank credit which will be available, will no doubt look to the capital markets for the wherewithal to carry out its rehabilitation and expansion. New products will require financing; there will be new ventures and new corporate entities. These should entail equity financing which the banks are not set up to provide. For these ventures business always has looked to the public for its funds. It should be a source of real satisfaction to business enterprise to note the tremendous idle funds which the public has accumulated these past two years, a substantial part of which could be counted upon for sound investment. Here, again, it is hoped that the attraction of these funds will not be helter-skelter and that these savings will not be dissipated in speculation and the desire for short-term profits which too often in our history have been costly to their owners.

"During the war years there has been very little, if any, net investment by individuals in corporate securities. The conversion of a substantial portion of the public saving into investment would be highly salutary for the national economy. No doubt people will wish to employ some of their money in the purchase of new automobiles, homes, refrigerators and other durable goods, the appetite for which has been sharpened by the period of scarcity. This use of savings will, of course, be welcome to industry and helpful in insuring national prosperity. But for the maintenance of full employment and a high level of national income it is earnestly to be hoped that a large share of the public savings will be judiciously invested at home and abroad.

"The other area for the post-war employment of savings which the public has accumulated during the war, perhaps an even wider area than our own reconversion, is the rehabilitation and reconstruction of foreign lands and foreign industries. Our experience after the last war should also make us cautious in approaching this problem so as to avoid the mistakes and losses which attended the totally unregulated flotation of foreign issues in this country in the 1920's.

"The world will need and want our capital for its rebuilding, and with the assurance of a just and permanent peace, we can confidenty expect that there will be a repetition of foreign investment and the offering of foreign stocks and bonds. We have the comfort of knowing that if a sizable investment in foreign countries and foreign enterprises is invited again that there will be a much more adequate protection for our American investors than surrounded the flotations following the last war.

"I have pointed out that we have in our tremendous liquid resources a substantial pool of capital sufficient to finance our domestic reconversion and to make a real contribution to foreign rehabilitation. While this appears to be the condition of business generally I am not unmindful of those companies in a few industry groups whose own resources and credit may not be sufficient to carry them through. This is another problem which calls for careful administration. But I feel that it is highly important for the future of the world economy that the flow of funds into domestic in-

International Money Pact Basis Of Expanding World Trade: Gov. Towers Of Bank Of Canada

Discussing the subject of international trade, G. F. Towers, Governor of the Bank of Canada, in his recent annual report pointed out that an international monetary agreement would be no more than a good start towards expanding world trade and laying the economic foundations of a durable peace. He went on to say: "Measures designed to reduce tariff barriers, increase international investment and stabilize primary commodity prices are also needed; and the extent of such economic collaboration will no doubt largely depend upon how far confidence in international political security can be established.

"If sensible international arrangements cannot be worked out, Canada, like most other countries, will presumably have no choice but to adopt increasingly nationalistic economic policies. Growing economic and political friction between countries would inevitably result, and it is hard to believe that any nation would deliberately choose such a course if all its implications were clear. On the other hand, it would be foolish to expect that any given country will make and fulfill international commitments unless it sees an interest in doing so. Self-interest is indeed the only practical basis for durable international agreements. What we badly need, therefore, is a hard-headed appraisal by each country of what that self-interest really is in the long run, and what is necessary to achieve it."

Preceding his remarks just quoted, Mr. Towers, in his report submitted to Minister of Finance Ilsley on Feb. 10, noted that "the specialized character of Canada's resources, and her relatively small internal market severely restrict the standard of living which she can achieve without the benefit of a large export and import trade." He added "Her choice will, however, necessarily depend on whether other countries, too, are willing to give international trade a chance.

"One indication of the prospects in this regard will no doubt be found in the extent and character of the international monetary arrangements which can be worked out by the United Nations. Three plans have been put forward by British, American and Canadian experts respectively, which are genuinely international in their approach. Though differences exist between these plans and need to be reconciled, the broad objective is the same in each case, viz: that countries should get together and provide credit on a collective basis, within certain limits, in order to achieve a reasonable degree of exchange stability and promote the exchange of goods."

dustry and foreign fields be subject to careful and overall supervision, so long as that may appear necessary."

WALTER P. NAPIER
President, Alamo National Bank, San Antonio, Texas

It is difficult for me to wholeheartedly subscribe to any program of price fixing and rationing except under the most extraordinary circumstances, and I can possibly bring myself to recognize that, for the duration of the war, these activities are necessary. As to whether they should be continued in the post-war period, however, is a question that requires much understanding as to our post-war program. The first factor is, will we have a continuation into the post-war period of our lease-lend program? If so, for what length of time? If there is to be a continuation of this program, then price fixing and rationing may be necessary. If not, I doubt the necessity of price fixing and rationing.


Walter Napier

That is about as far as I feel that I can go at this time.

HON. SIDNEY P. OSBORN
Governor of Arizona

I have always considered price fixing and rationing as necessary means to the attainment of a socially desirable end. That the operations of the war price and rationing system have not led to inconvenience and difficulties, I should be the first to deny. But it is my considered judgment that the consequences of **not** imposing a war price and rationing system would be dire, indeed.


Sidney P. Osborn

As for the future, I am confident that at such time as the volume of consumer goods and services once more becomes commensurate with the demand, there will be a relaxation and eventual abolition of price fixing and rationing. I do not believe that any government would perpetuate price fixing and rationing as ends in themselves.

GEORGE H. DUCK
Lee Tire & Rubber Corp., Conshohocken, Pa.

It seems to be the consensus of those I have heard express themselves on the subject that both price fixing and rationing are likely to be extended into the post-war period, particularly so if the present administration is continued. The advisability of this procedure is so intricately involved with other domestic policies that the adjustment of these policies will have to be coordinated with others which are not recognized as a part of rationing or price fixing.

P. H. SITGES
President, Louisiana Savings Bank & Trust Co., New Orleans, La.

As much as I dislike regimentation and Government control, I am afraid that it will be necessary to extend price fixing and rationing for a limited period of time after the war. I think, however, that both should be done away with at the earliest possible moment.

While not precisely in line with your request, I should like to say that I am not pessimistic about the post-war period, and I believe that the thing we have most to fear is such Governmental control and regulation and such tax policies as will prevent business from doing the necessary job. For the past 10 or 15 years we have been trying to promote employment through a system of economic scarcities. I think this is clearly impossible, and that if we can have full employment for war production, the same can be done for peace production, particularly if a free interchange of money and goods between the nations of the world can be accomplished.

ALVIN H. HANSEN
Member of Board of Governors, Federal Reserve System, Washington, D. C.

I feel very strongly that it is of the utmost importance to maintain general price control for a couple of years or so following the war, with general price control and rationing in such areas as seem necessary. Price control and rationing in the post-war period is not anything that anyone needs to be the slightest disturbed about with respect to continued Government control, I believe, because once we get over the period of scarcity in certain areas, the problem will be one of finding markets, and there will not be the slightest reason for continuing price control. Moreover, if there is anything that we can be absolutely certain of, it is that it would be utterly impossible for any government such as ours to continue rationing of any product beyond the time when it is necessary. Once supply catches up with demand, rationing would become ridiculous on the face of it. I just cannot see how anybody can be really seriously apprehensive about price control and rationing in the post-war period.


Alvin H. Hansen

On the other hand, consider how enormously important it is even from the standpoint of private business. If we do not continue price control and rationing, it seems to me that there is not the slightest doubt that food prices will rapidly rise, and in turn this would lead to excessive demands for higher wages. This would give us exactly the spiral which would bring us a serious post-war inflation. Such a development would be very serious from the standpoint of private business.

It seems to me that there are few policies as important as this, and I would earnestly hope that private business would in this matter more and more come to see its own long-run advantage.

F. M. FARRIS
President, Third National Bank, Nashville, Tenn.

With respect to extending price fixing and rationing into the post-war period, I wish to advise that, insofar as my personal opinion is concerned, I am against extending price fixing and rationing into the post-war period, and I hold considerable doubt as to whether or not the advantages of price fixing and rationing during the war period are not more than offset by the many disadvantages now existent.

BARTHOLOMEW O'TOOLE
President, Pullman Trust & Savings Bank, Chicago, Ill.

Inasmuch as we are operating under fixed prices and rationing, I think we will be almost compelled to continue the practice for some time during the post-war period, as there will be so much money in the hands of people who want to buy things which will be available only in limited quantities, and under the conditions I believe it would be the lesser of two evils.

Ins. Stocks Look Good

Mackubin, Legg & Company, 22 Light Street, Baltimore, Md., members of the New York and Baltimore Stock Exchanges, have prepared memoranda discussing the current situation in the following companies which the firm believes offer interesting possibilities at this time: Bankers & Shippers Insurance Company, Jersey Insurance Company, Massachusetts Bonding & Insurance Company, Pacific Fire Insurance Company, and United States Fidelity & Guaranty Company. Copies of these memoranda may be had from the insurance stocks department of Mackubin, Legg & Co. upon request.

ABA Bankers May Participate In War Contract Settlement Training Program

Bankers interested in the settlement of war production contracts will have an opportunity to participate in training schools to be conducted for Government negotiators and contractors, under the auspices of the Baruch report, it is indicated by a letter sent to the Secretaries of State Bankers Associations on Feb. 26, by the American Bankers Association. The latter states that these schools will be held in every State and their classrooms will be open to bankers. Their purpose is to acquaint all interested parties with the necessary steps to be taken on cancellation of war production contracts and to assure quick and fair settlements of Government contracts.

State Association Secretaries are asked to ascertain from local Army and Navy procurement officers when and where the schools will be held in their States and to inform their members accordingly. The letter follows:

"The ABA Committee on War Loans and Commercial Credit has asked me to inform you that, as recommended in the Baruch report, schools are now being set up around the country for training Government negotiators, contractor representatives and bankers in the same classrooms.

"The purpose of these schools is to acquaint all interested parties with the necessary steps to be taken on cancellation of war production contracts and to assure quick and fair settlement of Government contracts.

"It is our understanding that there will be at least one school in each State, and this letter is being sent to you with the thought that you might wish to find out from the procurement officers of the Army or Navy located in your State where and when these schools will be held in your State, then notifying your member banks accordingly.

"We believe it imperative that bankers should participate in these schools, and it may be that you will wish to urge certain bankers in your State who are particularly qualified and interested in this problem to attend."

The Securities Salesman's Corner

It's The Investor Who Gets Hurt When The Dealer Makes Insufficient Profits

Anytime you take the incentive out of any business you can be deadly certain that two things will happen. The business will deteriorate and SO WILL THE QUALITY OF THE MERCHANDISE IT SELLS TO ITS CUSTOMERS. When profits get too small to justify a business obligation which normally exists in every field of commercial and industrial activity—that of meeting competition by taking care of your customers—THEN CUSTOMERS ARE NOT TAKEN CARE OF.

The worst feature of the NASD 5% mark-up ruling out of all the many bad results which it is bringing about, is that small investors all over the country ARE GOING TO FIND THEMSELVES ENTIRELY WITHOUT THE SERVICES WHICH HAVE BEEN OF INESTIMABLE VALUE TO THEM IN THE PAST. They are going to lose money. They are going to be without assistance when it comes to buying or selling investments intelligently. Instead of having the protection they now enjoy through the efforts of the thousands of small, but conscientious, and intelligent dealers who have been serving them for years, IF THIS REGULATION CONTINUES FOR ANOTHER SIX MONTHS OR A YEAR they are going to find out that either their dealer is out of business, or can't afford to bother with their affairs.

Here's a case in point. We know of a dealer who has among his clients two elderly sisters. Between them they have investments which bring them in about $3,000 per annum in income. He just finished making out their income tax reports last week. This took over two hours and another two hours was spent in traveling to get to their home.

Every three months during the year this dealer checks and watches over the various holdings, consisting of about 25 separate items. Occasionally there is a small cash sum to be invested—but this account is mostly intact. Last year two changes in holdings were made and this dealer made about 10% on the two items sold to this account. This 10% represented slightly over $200 in total gross profits—THE ENTIRE AMOUNT THIS DEALER MADE OUT OF THIS ACCOUNT DURING THE YEAR.

WAS HE ENTITLED TO IT? WAS HIS WORK WORTH IT? Let us see if it was. Here are two old ladies, they are in good hands, their faith and their trust in this dealer is absolute—frankly, if he were not a real credit to the investment business and was less conscientious, HE COULD TRADE THE SECURITIES IN THAT ACCOUNT A NUMBER OF TIMES INSTEAD OF ONCE A YEAR. What if he had MADE A GROSS MARK-UP OF 2% UNDER SUCH CONDITIONS? He would have had 50 trades during the year instead of one and his PROFITS AT 2% MIGHT HAVE DAMNED NEAR RIDDLED THIS ACCOUNT. THAT WOULD HAVE BEEN ALL RIGHT UNDER THE 5% RULING—NO CRITICISM—HERE WAS A FELLOW WHO TOOK 2%—BUT WHAT WOULD HAVE HAPPENED TO THAT PROTECTION THE INVESTOR WAS SUPPOSED TO HAVE HAD?

As it now stands, the dealer is handling this account in the most exemplary and efficient manner—he is entitled to $200 on those trades. It is service he is selling, NOT SECURITIES. Incidentally, we heard last week that one of the largest houses in the country told its salesmen to put all accounts which were inactive (to the extent that they only had one or two trades a year) IN THE INACTIVE FILE. It was no longer possible to service such accounts due to the higher overhead existing today. Isn't that a great way to PROTECT THE INVESTOR? The day when it isn't profitable to handle investor's accounts, AND DO A REAL SERVICE FOR THEM, will be A SAD AND SORRY TIME FOR THE INVESTOR AS WELL AS THE DEALER.

THAT TIME IS RIGHT HERE UPON US NOW—THE 5% RULING IS NOT ONLY A ROPE AROUND THE NECK OF THE SMALLER DEALER BUT HIS CLIENTS AS WELL.

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; Hartford Empire Co.; Metal & Thermit; A. E. Staley; Central Electric & Tel.; Massachusetts Power & Light $2 preferred.

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.

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.

Municipal News & Notes

Refinancing of the indebtedness of the city of Montreal, which has been in default on bond principal maturities sance May, 1940, moved a step nearer reality on March 2 when the Quebec legislative assembly approved a bill "to ratify the financial situation of Montreal and to give it back its autonomy."

Content of the bill is the terms of the refunding program adopted by the City Council on Feb. 18 and approved by the Quebec Municipal Commission, which has supervised the affairs of the city since the initial default. Representatives of creditors in England and the United States have approved the plan and it is currently being studied by a committee of Canadian creditors.

The plan provides for the underwriting by a syndicate of banks and bond houses of a new issue of $55,900,000 bonds, the proceeds to be used by the city in the payment of bank loans and defaulted bond principal.

Holders of the approximately $228,000,000 of other funded debt will be issued new bonds on an exchange basis, bearing contract interest rates to present maturity and at rates of from 3¼% to 3¾% thereafter. Maturities will be extended from nine to 16 years.

South Tucson Utility Condemnation Proceedings Illegal

Arizona State Attorney General Joe Conway recently made public an opinion serving notice of his intention to disapprove any bonds issued by the town of South Tucson, Ariz., for the purchase of properties of the Tucson Gas, Electric Light and Power Company, under condemnation proceedings. The Attorney-General, according to report, ruled that such proceedings would be illegal.

Voters of the town have approved an issue of $9,500,000 bonds to finance purchase of the utility. Similarly, the citizens of the city of Tucson have expressed the desire to acquire the plant and, at a later date, will be asked to approve a bond issue in order to provide the means with which to effect the purchase. Meanwhile, the SEC is said to be considering the possible consolidation of the Arizona, New Mexico and Colorado holdings of the Federal Light & Traction Company, parent concern of the Tucson Gas unit.

Lewistown, Pa., To Acquire Local Water Plant

The Lewistown, Pa., Borough Council recently completed proceedings incident to the creation of a municipal authority for the purpose of acquiring the local facilities of the Lewistown & Reedsville Water Company. A special committee of council has been negotiating for purchase of the plant for over three years and their efforts culminated in the decision of holders of 90% of the company's stock, at a meeting on Jan. 24, to sell the property to the borough at a price of $1,650,000. The necessary funds will be obtained from the proceeds of a revenue bond issue to be sold by the municipal authority.

The firm of Harrison & Co., Philadelphia, acted as agents for the borough throughout the protracted negotiations and, according to report, agrees that the projected revenue bonds can be soundly financed on a 30 to 35-year basis and 2¾% yield. One of the reasons which prompted the utility to sell the property was the steady increase in corporate taxes which the firm has been obliged to pay in recent years. The figure increased from $9,000 in 1940 to $31,000 last year, it was said.

Fort Wayne, Ind., Seeks To Acquire Competitive Utility

Pursuant to a contract unanimously ratified by Fort Wayne, Ind., City Council on March 1, the Chicago investment firm of C. W. McNear & Co. will act as agent for the municipality in future proceedings looking toward possible acquisition by the city of the properties of the Indiana Service Corp., value of which is estimated between $14,000,000 and $16,000,000. Under the terms of the agreement, fee for the company's services is wholly contingent upon actual consummation of the purchase and will be based on the cost of the project to the city, up to a maximum of 1%.

The Indiana Legislature in 1943 passed a law requiring that bonds issued by local units, general obligation or revenue, be offered at public sale and forbids municipalities from making contracts for the furnishing of legal, engineering or other services with any concern or corporation which is interested as a bidder or purchaser of the bonds.

In connection with the current proceedings, it is pointed out that the city of Fort Wayne has successfully offered a light and power plant for 35 years and the purchase of the Indiana Service Co. properties will eliminate the competitive situation and avoid the needless waste resulting from duplication of facilities. The municipal law firm of Chapman & Cutler of Chicago has been retained to study the various legal problems involved in the proposed acquisition and the financing incident thereto. Aside from the McNear proposal, the city considered a competitive offer made by Stifel, Nicolaus & Co. and A. C. Allyn & Co.

How Milwaukee Achieved Debt Free Status

The story of how the City of Milwaukee, Wis., achieved the remarkable accomplishment of establishing a fund which is now sufficient to take care of maturing principal and interest charges on its approximately $10,000,000 of outstanding general obligation indebtedness is related in the brochure, "Milwaukee, A Debt Free City," just issued by City Comptroller William H. Wendt. Although various reports on the subject have been carried in these columns and elsewhere, the Comptroller's current study constitutes a detailed history of the successful conclusion of a program which was inspired back in 1915. As stated by Mr. Wendt, except for $300,000 due for bond principal in 1944, which is provided for by the tax levy, all subsequent bonded debt charges will be paid out of the city's Public Debt Amortization Fund. The city had a total of $10,654,000 general obligation bonds outstanding at Dec. 31, 1943, with the last bond maturing in 1952.

Creation of the fund was authorized by Act of the State Legislature in 1923, the City Comptroller observes, at which time the city's bonded debt was $29,700,000, and thereafter climbed to a peak of $50,338,000 in 1932. Since the latter year the city has rigidly adhered to a policy of not issuing any further general obligation bonds, and this factor was a primary factor in shortening from the original estimate of 50 years to 20 years the time when the fund would be enabled to assume the outstanding indebtedness.

Although the city called a halt in 1932 to the issuance of bonds, it has continued nevertheless to make permanent improvements. The fund for this work, Mr. Wendt states, has been obtained pursuant to a plan adopted by the city in 1937, whereby a tax levy is made equal to the reduction in the amount annually required for sinking fund purposes. Pending the adoption of a definite long-term program, the following amounts were levied for the permanent improvement fund: for 1937, $400,000; 1938, $800,000; 1939, $1,200,000; 1940, $1,500,000; 1941, $1,900,000; 1942, $2,100,000; 1943, $2,260,000.

A special committee of the Common Council recently submitted a report recommending a six-year improvement program, including many projects which had to be deferred because of wartime restrictions on use of materials. It was determined that the permanent improvement tax levy for 1944, after allowing for a $2 reduction in the tax rate, should be $3,035,000, and $3,800,000 each year thereafter. Commenting on this point, Mr. Wendt says:

"Many Governmental units are busy on plans for post-war programs. In this respect Milwaukee is in a favorable position. It not only has a definite program of needed improvements mapped out, but, what is perhaps even more important, the way has been shown whereby it can and proposes to finance that program ITSELF on a cash basis. There is now available $6,000,000 for the 1943 and 1944 units of the long-term program. In addition there is $1,000,000 for new street construction and additional funds for street widening and for water department construction. Under the long-term improvement program Milwaukee proposes to finance on a cash basis $22,000,000 of improvements in six years, ending in 1949. The taxpayer will not be called upon to pay $1.50 for each $1 of improvements, which was the penalty under the old plan of issuing bonds."

New York City Debt Cut $44,000,000 In Seven Months

City Comptroller Joseph D. McGoldrick reported that New York City reduced its bonded debt in the amount of $44,384,975 from July 1, 1943 to Jan. 31, 1944, the first seven months of the present fiscal year. The totals on the respective dates were $3,047,866,834 and $3,003,481,859. Of the Jan. 31 aggregate, $2,476,932,784 was held by the public and $526,549,075 by municipal sinking funds. The sinking funds also held $72,346,800 in war loan bonds.

American Internat'l Air Transport Development

The New York Institute of Finance, 20 Broad Street, New York City, announces a series of factual and instructive lectures on the development of American International Air Transport. These will be given by officials and personnel of Pan American Airways System and are designed to present the history and the general background of American International commercial air transportation.

Six lectures will be given as follows:

March 13: Air Transport Pioneering in the Americas—David E. Grant, Foreign Counsel.

March 20: Air Transport in International Relations — David E. Grant.

March 27: Backstage Problems of Air Transportation — Paul de Kuzmik, Aeronautical Engineer, Operations Department.

April 3: Passengers and Cargo Take Wings — R. C. Lounsbury, Passenger Traffic Manager.

April 10: Regulation of Air Transport in the United States—John C. Cooper, Vice-President and Assistant to President.

April 17: International Control of Commercial Aviation—John C. Cooper.

The cost of the series, which is open to the public, is five dollars.

How To Make Money In The Stock Market

(Continued from first page)

capital was small or the account was a purely trading account. If a man is to operate a purely trading account, the important thing to consider is the dollar loss that might be sustained if the trade turns out to be a bad one and not the total amount of investment. For instance, the purchase of 1,000 shares of stock with a broad market at 10% for an immediate advance represents under normal circumstances a trading risk to the buyers of perhaps ⅜ point plus cost and not the amount of investment.

Mr. Loeb said he knew that customers' brokers ordinarily liked debits because they were profitable and also because they seemed to tend to make for larger orders, but he said that in the long run an under-invested account (by popular standards) without debits will be more profitable to the client and will pay out the broker better as well.

He devoted considerable time to making the point that no one can make any real money through owning a diversified list of securities.

The basic requirement, according to Mr. Loeb, is to have, first of all, a proper market background and, second, a stock or stocks promising to at least double in price. He pointed out that every time the market reached a level where one could not find such situations, it was an automatic signal to stay out of it. Mr. Loeb said:

"There is another factor about the amount of money to be put in the market, and that is the factor of diminishing returns. I have never been able to figure out the ideal amount of money to employ in this way—maybe $25,000. Really clever people using that amount of money often stand to make a much higher return than others make on the $250,000. The larger the amount of money a client has, the smaller the portion that can generally be used in ordinary transactions.

"No matter how well one is trained or how successful one has been, the stock market is still a place where the best judgment can be upset.

"Even with the best information and best care, I think stock market forecasting is a very inexact science. I know no one who has ever been right all the time; and I think the big secret of those who have made more money than others is to realize their mistakes and get out quickly. I think this is a very important factor, purely from a business standpoint, of keeping accounts alive and active. I do not think anyone should keep an account active just to make commissions. Many have gone through the experience of buying stocks for someone, seeing them go down two or three points instead of up, holding those stocks for many months and having an account become completely inactive. This hurts commissions and it hurts the customer because in the interval there might have been opportunities in which he could have recouped his losses. So I think it is important, if we are going to make mistakes which entail losses, those losses should be assumed quickly and that profits should be left to take care of themselves. I do not think this hurts business, but rather helps it very much, because only once in a great while does one find customers who shy away from such quick losses.

"When it comes to finding stocks that are going up 100%, we have several different choices. Perhaps the best consideration for most of us is timing stocks that are well known and have a broad market. 75% or 80% of one's attention should be given to this procedure, and at a time when no one wants those stocks.

"In order to select a stock, you first must have your general market in the right position, because the chance of picking a well-known stock and having it move against the averages is rather small.

"I think one important element is unpopularity. The way I look at it is that one should buy some active, well-known stock when people do not want it. Then, when you begin to see the idea become popular, it is time to consider selling it. Unpopularity is of course called for only when one is trying to pick attractive, long-term bargains. Quick short-term trading profits are generally made long after stocks have left the accumulation area and long after they have become popular.

"Another approach is to try to uncover some unknown stock, some stock that no one possibly ever heard of, that is going to be a great thing in the future. Such discoveries, however, are of rather rare occurrence.

"The question of income and taxes is a very important one today. People seem to feel that there is magic in receiving dividend checks and clipping coupons, forgetting that the securities they buy may depreciate in capital value many times the amount received in income even before taxes.

"The way I get around this, if I can, is when an account is opened, to try to get it to agree to draw down 6% of its capital annually or 3% every six months and throw all of the dividends and interest into the general performance of the account. If you can convince a client that this is the way to run his account, you will find it less trouble to get him to buy stocks for appreciation. I have had a lot of people, who were against short-term trading, to follow the latter course.

"Then there are a lot of people in every office in the Street who have much more money than they know how to profitably use in the stock market at any given time. If you can show these people that by trading short-term and continuing to trade day in and day out you are a good enough trader to help them make a profit, I think you can have a very good chance to show them that it is worthwhile despite the seemingly high tax. For example, at the end of a few months a trader of this type might have made enough money from one source or another to be in the 60% bracket. In other words, he would only make 40% net of the profits shown from any short-term trade. This 40% is nothing to be sneezed at because, in the first place, it is made with funds that would not have been employed otherwise; next, it is realized in a comparatively short time; and, finally, the risks involved are below normal investment risks. Consequently, the profit is practically found. In case of loss, except as I will explain in a few minutes, the same percentages approximately prevail. In other words, in the case used as an example here, a loss of a dollar before tax in actuality is only a loss of 40 cents after tax."

Mr. Loeb went on: "Of course, if a man does not know how to trade and loses money consistently so that he has no profits from which to deduct his losses, he is allowed only $1,000 a year deduction against his ordinary income; but this type of man should not trade at all.

"The big point to realize about short-term trading profits is that, while they are subject to the same rate of tax as ordinary dividends and interest, the risks involved are much smaller. As I pointed out, it is one thing to make an investment for 3, 4 or 5% and hold it for a year with all of the vicissitudes that might happen to it and another thing to buy a block of trading stock which is only going to be held for a brief turn, and where in any event the loss is limited, to throwing it out at a fraction or a point or so if it does not work. The only risk I can see in the latter is an occasional overnight catastrophe that turns what one hoped to hold to a trading loss into something larger.

"Talking about income, I set up a new table only the last day or two, which I am going to have printed, to try to convince people how much more important it is for them to pay no attention to interest or dividends, only to appreciation. I took various examples in making up this table with estimated ordinary income from business or profession at $5,000 to $100,000 a year plus various assumptions of savings available for investment of from $5,000 to $250,000. As an example, let us discuss a man earning $25,000 a year. I believe that somebody with such an earning power from his personal services should certainly have accumulated $100,000 for investment. It should be realized that, as this man has paid his tax on his ordinary income, he is already in the 61% bracket as far as any income from his investments is concerned. Thus a 5% bond would yield him only 1.95%. If this man invested his $100,000 at 4%, he would get only $1,560 a year, the rest going for taxes. On the other hand, if he made a 4% long-term capital gain (and 4% is a very low rate of capital gain) he would keep $3,000 of it. If he made a 10% capital gain, he would keep $7,500; 20%, $15,000; 30%, $22,500.

"It is perfectly evident to me that, to tie up $100,000 to make $1,560 a year is a ridiculous risk to take, especially when one considers that stocks fluctuate in the course of a year many times their dividends. In 1942 I made up a table showing about a dozen prominent investment stocks with dividend rates ranging from $1.05 in the case of Paramount to $6 in the case of Bethlehem Steel and with a spread in points for the year ranging from 4 points in the case of Consolidated Edison to 26 points in the case of Chrysler. Why anybody should risk buying Chrysler for $3.50 dividend less tax when the stock in the course of a single year fluctuated more than 7 times the dividend rate is more than I can see. The actual fluctuation is greater because of the larger amount that has to be deducted from the dividend than has to be deducted from capital gains, after the stock is held for six months. I could make up a similar table on bonds. While the tax on capital gains seems moderate compared to ordinary income tax rates, capital gains are of course not income at all, and are not taxed as such in most other countries of the world (including Great Britain and Canada). We can hope for eventual complete elimination of the capital gains tax in some enlightened post-war period."

From this point Mr. Loeb went into the second part of the discussion, which was the outlook for stocks at the present time. He particularly stressed the tremendous difference between the accuracy of such opinions when they may be volunteered and when they must be given, such as is the case right now.

"If I can remain silent in my office for a few months and then can say I think the market should be bought or it should be sold," Mr. Loeb declared, "my chances of correct judgment are pretty good; but when wire or telephone messages come to me every minute, I do not think my judgment can be nearly as good. This is somewhat the position in which I find myself today. However, at present I shall give you my views in the best way I can.

"I think the market is now tied up with the question of outcome and duration of the war. Politics, taxes, regulation and the price level all stem back to it; how the war is going to be won and to what extent; how long it is going to take to win it and how much it will cost. Really, I do not think we know very much about the war, although we read the papers, hear a lot of things and have been doing so for so long.

"My feeling about the war is that as yet very few of our troops have been engaged in it, and that we shall have to wait until two or three million of our men have been engaged before we shall know what we are up against. By and large, I think the war will last a long time, and that the market outlook will have to be considered in that light. Markets go up or down for psychological reasons, and the excuses we get for strength or weakness are never the real ones.

"I think that, basically, the longer the war lasts, the more difficult it is going to be to preserve stock values, and the more difficult it is going to be have a political situation to our liking, with less regulation and lower taxes.

"Yet my immediate inclination is to be bullish. I think the market is more apt to go up than it is to go down at this time, and more apt to go down than up in the long run. I have seen a tremendous amount of data, including our own, on post-war prospects and post war earnings estimates, and all I can say is that I think, if we are to have a bull market, it must come now before we can actually check those estimates against reality.

"The post-war estimates that I have examined I think in many cases amazingly high. I think people have been doing their figuring altogether by mathematics. They have taken theoretical income figures and sales figures and pre-war profit margins with taxes of 40 or 50% and end up with earnings figures which in many cases are substantially above 1937. I think the 'nigger in that woodpile' is the tax rate, because it seems to me almost impossible to expect Washington to cut taxes to such an extent that corporation earnings as a whole will exceed with certainty the best of the 1934-1939 years.

"Most of the people I have been in contact with think that the market does not act well now; that it is bumping on the top; that they don't like the action of the industrials in relation to the rails, etc.; that there will be an early peace; that we will have a break on transition to peacetime conditions, and that they will buy their stocks cheaply and await the later post-war boom.

"I think that a market rise based on post-war estimates will probably come in the next few months. So I am bullish for the near term and rather indifferent as to the long term. I infer it is only the immediate term you are interested in.

"Of course, total corporation earnings are double now, even after deducting taxes, than during the best of the 1935-1939 years and from five to six times those years before deduction of present taxes. So, on this basis, I would buy my stocks now, when sentiment is for a good post-war outlook, and sell them before actual post-war earnings could be checked.

"In brief, war stocks went up before war was actually declared and went down during most of the war period. In the same way I think peace stocks will go up now rather than after we actually win the war. Of course, if we should not win the war tomorrow, stocks would have to go up because they have not yet reached a reasonable discounting level.

"I think that after the war we are going to have a very difficult time, and stock market money has got to be made now. I think the market is in good enough shape that money can be made now.

"As to which stocks are in the best market position at the minute, I put a very high rating on what people think rather than on what is actually happening. We have had a lot of theories that stocks should be sold when earnings are high, and the contrary, that the stock of a concern should be bought when earnings are low. I think the best view is that you should not buy a stock when people think earnings are going to be high, or sell when people think earnings are going to be low, regardless of the situation. For example, the fact that the aircraft manufacturing companies are thought by the public to be certain of losing money after the war is what makes their stocks interesting. In my opinion, if you will go over the list and see what stocks are the most unpopular, you will profit by it because a stock which is unpopular now is the one in which you get the most buying power later on when people change their minds. For this reason, I think the aircraft manufacturing stocks are in the first rank.

"When I was in California I visited several of these companies. I talked to their executives regarding the situation when peace comes, how much cash they had and how real their earnings were. I also talked to some of the contract termination and renegotiation people in Washington regarding their policies with reference to these concerns. I am convinced that, no matter what happens, United Aircraft is going to be on top and do a tremendous business. I think that if today you will write down such stocks as General Motors, du Pont, Allied Chemical and some others of that kind, you will find that in a few years the greatest favorable change in price will be United Aircraft. The others have grown too large and will find it hard to add to what they have got."

Foster Succeeds Davis As SEC Solicitor

Roger S. Foster, counsel of the public utilities division of the Securities and Exchange Commission, was appointed on Feb. 24 as solicitor of the Commission to succeed John F. Davis, who entered the United States Coast Guard Service last November. Reporting this Philadelphia advices to the New York "Herald Tribune" added:

"Mr. Foster formerly practiced law at St. Paul. He joined the Commission's staff in September, 1935, after serving as Assistant Professor at the Harvard Law School and later as Associate Professor at the Yale Law School, where he specialized in the field of corporate and reorganization problems. He was graduated from the Harvard Law School in 1924 and was admitted to the Minnesota bar that year.

"Morton E. Yohalem was appointed by the Commission to succeed Mr. Foster as counsel to the public utilities division. He is a 1930 graduate of New York University Law School and was admitted to the New York bar in 1932. Prior to his employment by the Commission in 1938 he practiced law at New York, specializing in corporate reorganizations."

Equity Finance For Small Business

The Bankers Bond Co., Inc., Kentucky Home Life Building, Louisville, Ky., have issued an interesting study on the problems of Equity Finance for Small Business; contained in the study are a number of suggestions regarding an approach to the problem. Copies may be obtained from the Bankers Bond Co. upon request.

Reconversion To Economic Democracy---Demobilization The Democratic Way

(Continued from first page)

organizations in any system of economic democracy and fair competition.

Perhaps most dangerous of all is the attitude of a few business leaders. The tendency of any group of men who find themselves hung up with a surplus of goods and facing a drop in prices, is to call for help. But by this time we should know that the Government when it helps is apt to hold on. It is dangerous to ask or accept Government aid in carrying stocks or in fixing price "floors." The competitive position of the product may be weakened (as in the case of cotton), and a minimum price always leads to a maximum price.

The Lord may help those who help themselves, but the Government is different.

At such times there is always talk about the "chaos" of competition. Weak sisters and soft monopolists shudder. They seek to set up cartels. But the only social defense of free enterprise—or "capitalism," if you prefer—is on the basis of free individual choice in buying and selling. That means competition. No monopoly price can have a sure defense against regulation. An economic democracy must be governed by economic laws arising from free choice under competition, or else it will be subjected to political laws imposed by government.

One of the most dangerous notions tending toward eventual government control is that "business" is responsible for full employment. The business leader who gets up and proclaims that "the American people" will never again stand for mass unemployment *may be right*; but it does *not follow* that free enterprise can or should undertake to guarantee to all men an alleged right to work. After all, pump-priming, make-work projects and purchasing-power creation are no better when run by "business men" than by "Government experts." If we have to go through a purgatory of experiments with "full employment" as a system of "work relief" made attractive to millions of individuals, perhaps business men had better stay out. It might be better to let the New Deal bureaus take the responsibility for the dissatisfaction and ruin that would inevitably result.

All Government control finally gets back to money and credit. The business men who accept with complaisance the existing "managed currency" and "easy-money policy" are most ill-advised. These currency schemes are the technique whereby the "social planners" finance not only war, but also their vote-buying and social-security operations. Free enterprise requires a standard of value.

An additional factor that may tend toward an extension of Government control is the possibility that some business leaders may lean toward a combination of labor and enterprise somewhat as was once proposed under "The Swope Plan" and developed under the NRA.

And plenty of economists can be found whose superficial theories, based upon the assumption that all the problems of value and production are either solved or unsolvable, would serve to implement collectivism in one form or another.

Avoid Extremes; Favor Fair Competition

The danger of carrying a "war economy" over into peace is considerably increased by the difficulty of taking a position between two extremes. Not all the existing New Deal laws and bureaus are bad, and the same may be said of the earlier laws and agencies. Not all the controls of the war economy are new or inconsistent with a peace economy. Thus it is difficult to generalize, and the errors of hasty generalization are more likely to be made.

Such terms as "control" and "competition" illustrate the difficulty, for they are vague in their practical meaning, and are a source of confusion and misunderstanding. For example, free business enterprise requires competition, and unless business men compete they will be unable to remain free. But both half-hearted business leaders and collectivistic radicals attack competition, the one fearing loss and disturbance, the other charging waste and chaos. The answer to both is simple: competition must mean "fair competition"—competition in which those competitors who are shortsighted, wasteful, or exploitative will be restrained by government.

Similarly, the word "control" leaves open the question: Where are the initiative and direction to come from? "Control" which merely restrains excesses and guides individual activities is very different from "control" which places entrepreneurial decisions and management in the hands of government. The choice, however, does not lie between (1) centralized and complete government control of business and (2) **laisser faire**—not between control and no control. We have a choice between "control" and "regulation," the latter merely laying down the rules of the business game and telling business men what, in the social interest, they should **not** do.

The failure to understand the moderate position—the truly "liberal" position—that lies between control and no control, or between monopoly and unbridled competition, is the cause of most of our trouble with post-war planning. Undoubtedly, too, it gives rise to the danger that the nation may plunge from one extreme to the other. We may plunge from 12 years of New Deal radicalism to a regime of ultra-conservatism—from revolution to counter-revolution.

"Administrative Regulation"

What, then, is my position?

I oppose the extension of complete government control over business, and especially control by the central government. I oppose the extension of monopoly power, and especially that complete monopoly which arises when the government manages business.

But I do **not** oppose the "regulation" of business by government, especially when local differences are recognized, and accordingly the regulation is duly decentralized. And I do **not** oppose the extension of rules of fairness in competition—rules which do not destroy the profits motive as an incentive to business enterprise.

To be very concrete, I would remind both radicals and conservatives that long before the war this country had made much progress in the evolution which leads from judicial regulation to administrative regulation. The Interstate Commerce Commission had become accepted as a desirable agency, and probably the Federal Trade Commission was gradually making progress in the same direction. These "commissions" express the theory of "administrative regulation," or the idea of a government regulative agency that has administrative and quasi-judicial powers which are (1) granted with due definition by the Legislature, and (2) subject to judicial interpretation by an independent Supreme Court. They may be and have been entirely consistent with the Constitution, and appropriate to the democracy of the United States.

Two points stand out: First, these pre-New Deal administrative commissions were an evolutionary change from the earlier method of "judicial regulation." Second, they are essentially different from the bureaucratic "administrations," "offices" and "corporations" of the New Deal regime. The earlier commissions were the result of the substantial failure of the negative system of passing laws forbidding this and that, and for their enforcement relying on appeal by injured persons to the courts. American democracy rejected that system. It substituted agencies which could be more expert and more flexible in dealing with various and changing conditions. It sought (1) nonpolitical regulation, expressed in rulings based on (2) adequate evidence, according to (3) general principles, and subject to the (4) gradually evolving legal system as interpreted by the Supreme Court. This sort of quasi-judicial administrative body is poles apart from such agencies as the WLB and the OPA with their arbitrary "directives" issued to deal with political "emergencies" as seen by a Chief Executive who is primarily the head of his party. Nor is it represented in the NLRB or the SEC, even if those pre-war agencies have had some good features.

Basis of Policy Lies in Clearly Understanding the Goal, Free Enterprise

My general position is that by far the most important internal question pertaining to the transition from war to peace is: Are we to accept the principles of free enterprise and competitive equilibrium as the bases of our procedure? If so, the transition becomes but a matter of time, and its problems have to do with details. If not, we then may well ask: Is any real transition to be made? Are we merely to perpetuate the system of central controls of the war period? As Henry A. Wallace recently put this approach: By "working together" we achieved success in war; now by "working together" let us achieve success in peace!

Assuming the desirability of free-enterprise economy, and the scientific economics which alone can explain and guide such an economy, we should begin by doing everything possible to make free enterprise work efficiently, according to a social point of view. This means using the good parts of both old and new regimes. It would mean freeing business from bad regulations, while retaining and strengthening good ones. The collectivistic attitude of the Government toward private saving and investment would have to be eliminated at once. With it would go pump-priming, deficit financing, the easy-money policy, and managed currency. Discriminatory taxes, subsidies and protective tariffs would be strictly limited to exceptional and temporary applications. Trade unions would be regulated. But the lessons of financial history would be applied in better regulation of credit and more careful management of the monetary system, to assure maintenance of adequate reserves having objective value. Effective publicity concerning corporations, and certain desirable features of the SEC, would be retained. Equal collective bargaining would be accepted by all, and reasonable reserves for old age and unemployment would be taken as a matter of course.

The essence of the foregoing is that **the basis of a sound transition policy lies in a firm and sure understanding of that system toward which the nation is to move.** In the present case, we should accept the lessons of our own great past and of recent Russian social experiments, and should both (1) recognize the differences among individual producers, and (2) reward them on the basis of incentive pay. Thus only can we, without coercion, develop the full use of all resources and labor.

Second, we must abandon the notion found among some officials—e.g., M. S. Eccles—that by inflating our credit now we can justify the perpetuation of wartime controls in peace. As a democracy, either we must stop inflating the currency now, and do what deflating may be necessary, or we will have to go through a more general price inflation later on as an expression of free individual choice.

The Eccles notion appears in a recent speech in which he argued that we should hold prices down till larger supplies of goods become available, implying that such supplies would develop in peace times and would automatically prevent inflation from causing a large rise in prices. This argument seems to lead directly to a continuation of price fixing and related controls until such a time as the quantities of most goods available at present prices are at least as large as the quantities in actual demand at such prices.

But that time would certainly be greatly delayed by the price fixing controls. It might never come. The way such controls restrict investment and production are so obvious as revealed in the nation's experience between 1934 to 1939 that no discussion is needed. (By a system of virtual business terrorism, the New Deal seriously retarded investment and in a sense prevented price inflation. But at the same time it caused millions of idle men and billions of idle money).

In contrast with the Eccles' argument for temporary price fixing, one might just as well say, let prices rise to encourage the supply of goods until the increased supply hold prices down.

One often hears the argument that after the war there should be a gradual "tapering off" of such controls as price fixing, production quotas and the holding of surpluses by the Government. This argument has a subtle appeal, for its suggests the gradual feeding of a starving man, or the "tapering off" of a drunkard, with the idea of avoiding extreme disturbance.

But the "tapering off" of war controls is like the tapering-off treatment of the drunken man when left to his own devices—it just doesn't work. Nobody is going to put the sovereign state in a hospital and make it carry through the tapering.

On the other hand, the analogies are very imperfect, because they assume that those in control will recognize that controls are bad and should be ended. The tapering of government control is not to be arranged and directed by a scientific, non-partisan physician.

War turns to peace rather suddenly. If it be urged, however, that progress toward peace may come gradually, with growing assurance of victory through adequate provision for war, the reply is that the tapering should begin while the war is still on. The idea of gradual adjustment should be applied 50-50 throughout an overlapping transition period. One has merely to note how proposals for turning surplus materials and plants over to production for civilian consumption are received in war time. At once the cry is raised that the war must first be won. The tapering must all be done after peace comes!

These are the main reasons why we must proceed with caution in following the Baruch-Hancock scheme of organization for reconversion. This scheme relies too much upon the self-control of an executive group that is drunk with power. Despite suggestions to the contrary, it perhaps tends unduly to postpone the tapering. What else can one infer from such points as that additional experience gained by actual administration is needed before new legislation can be worked out, and "for the time being" steps must be taken by existing executive agencies.

With final reference to the tapering-off theory, however, the main point made here is that the nation can pass gradually from a condition of surplus stocks and price maladjustments, under private enterprise as well as under Government control. We should by this time know enough about political planning to know that we cannot assume that it is synonymous with sound and effective control. Let "the Government" do all the "planning" it desires. Let it lay its plans before the people in general and the business men involved. Let it do all the "cooperating" that political agencies are fitted for in a democracy—advising, facilitating, restricting unsocial activities. But why can't we do any tapering off without its being personally conducted and controlled by "directives" from a Washington bureau set up by a political candidate?

The Government can and should quit this business of carrying surplus stocks, and at once. Business should carry this load. Let business men handle the tapering off. It will be well in many cases to take the loss quickly, so as to reduce the ultimate total. (Can't we remember what happens to foreign debts long deferred?)

The Government can and should get out of this business of fixing prices and wages. Let the Government provide information and free markets, and see to it that prices are made without monopoly, fraud, or other exploitation. Then the faster prices rise to a level which represents the true equilibrium between currency and goods, the better. Only at such a level can stability be maintained.

Existing Agencies Not Suitable For Planning

The next most important step is to adopt the political agencies and select the Government personnel which are in accord with free enterprise and individual incentive. This calls for prompt action.

Certainly a great deal depends upon the men who would be in charge of any extension of price and ration control in the post-war period. Give us men whose ambition is to preserve the spirt and the institutions of the American republic, and we need give little time to the present debate.

Indeed, one great danger of attempting to do post-war planning now is that we are at war and the Government is therefore much influenced by the existing war regimentation. Among officials, habits of control are being formed or increased—perhaps, too, among citizens, habits of submission to control. A "war economy" really is not an economy, and war agencies are not for times of peace.

Moreover, the maze of conflicting interests and schemes suggest that the eventual outcome must be some stalemate with reference to the whole mass of proposed political controls: wage stabilization, "national service," price controls, subsidies, war taxes, renegotiation, termination and public works for "full employment"—to mention a few. All these bear upon reconversion and the post-war economy. What sign is there of any agreement under present leadership?

Frankly, with blunt and decisive sincerity, it should be stated that one reason against some of the current post-war plans which propose an extension of Government controls, is that there exists a need to get rid of radicals and demagogues in high places who have used their power to foment class conflict, destroy democratic institutions and bring financial ruin to the nation. Any tendency toward prolonging the influence of such elements is unfortunate;

and the nation can afford to undergo some trouble in its transition to peace, if it can thereby free itself from the incubus of pump-priming and political control over business now exercised under the slogan "social planning."

In this way alone can there be assured expert and nonpartisan personnel in those administrative commissions which should play so large a part in the post-war transitions, including SEC and NLRB. (These would then not be popularly called by the letters or numbers of regimentation but be known as "Securities Commission" and "Labor Board.")

Politically and as a matter of social theory, the mere approach to the question of post-war controls looked very different to those who were to decide in 1918, from what it looks like to those who would decide now. Personally, I don't think that a good job was done after World War I; but I am sure that the remedy does not lie in revolution or going to opposite extremes. The only ones who learn the lessons of the past are those who, in the light of its past, go forward in the line of the nation's evolution, from its own past to its own future.

Some Rationing May Be Required; Price Fixing Should Cease

One of the first definite steps to take is to **separate all thought of "rationing" from ideas about price fixing**, and to **establish rationing on its true basis of needs, thus relating it to aid or relief.**

Rationing is in reality not a matter of choice, and therefore not a matter of economics. The general principle is the same, **whether in war or in peace**, namely, that whenever and wherever a commodity is (1) truly a necessity of life, and (2) scarce, it should be fairly distributed among all the people by direct means. If everybody in a democracy requires a given quantity of some very scarce goods, whether it be milk or gasoline, then the total quantity available should be divided up pro rata among all, and each be given his due share. That is the idea underlying rationing. The detail with which the distribution may be carried out, and the basis of judging individual need, are not matters of principle.

Accordingly, all that need be said in principle is that if, after peace comes, there are shortages of necessities, rationing should be used. (It all depends upon circumstances whether or not such conditions will exist in butter, canned fruits, tires, radios and the like.) And if any fair and equitable rationing now goes on and applies to such cases, it should be extended. Otherwise a good system should be set up.

But note that in all such cases there should be no price fixing. The rationing policy would be adopted because no competition and freedom of choice—no buying and selling in markets—are possible. By the same token, when those things are possible, the iron hand of rationing should be removed and the distribution process be turned over to free market forces guided and expressed by prices.

It should be clear that, since one basis for rationing is scarcity, everything possible should be done to increase the available supply quantity for all needy cases. This can be done most effectively in only two general ways: (1) by encouraging production, and (2) by discouraging unnecessary consumption. Thus the wholesale price of the rationed goods will ordinarily be high. It should be high enough to stimulate the maximum output, especially from those superior producers who have great resources and low costs. It should be high enough to prevent purchases for wasteful (unnecessary) consumption.

At this point in the program, the fallacies that have crept into the discussion of subsidies, inflation and price fixing begin to crop out. Clearly, there may be some cases in which the Government may have to buy or finance the production of the scarce necessity up to the wholesale level, in order that its price may be high enough for producers but not too high for consumers.

In such cases the Government may well take over the wholesaling of the goods for the period of emergency, or it may substitute the producer or wholesaler (whichever course requires the least disturbance and cost). In no case, however, should the "subsidy" policy **as hitherto practiced** be extended. That policy has failed to recognize that marginal or high-cost production exists or should exist, among all producers—that "marginal" production is not limited to a few "marginal producers." Even the company having the lowest average cost per unit of product can and **should** have a marginal cost as high as that of the least efficient company. If the low-cost mine does not use its resources so intensively that it produces all that it can without producing any unit at a loss, it fails to do all that it can for society. Incidentally, it fails to make the highest possible net return for itself.*

Nothing in the nature of a subsidy should be given, or "extended," which is not **an addition to the flat price.** Such an addition is not a subsidy, in the current sense of the term, but is a general raise in the price of a commodity. Never should a subsidy be paid merely to "marginal producers" as distinguished from others. If we pay a high price to a "high-cost producer" to induce him to increase his output, we should also pay a high price to the "low-cost producer" to encourage him to increase his output. Usually, the largest potential addition to supply is in the hands of the more efficient concerns which are already operating profitably. Assuming competition, just raise the price and they will expand their outputs at their ("intensive") margins.

This takes care of much of the current foggy discussion about "new-comers" and the "preservation of pre-war competition conditions" in various industries. The simple, clear-cut way is to invite **new production** into each industry in which increased scarcity exists. This new production may come from old-comers or new-comers, but it should come competitively from any and all who choose to produce efficiently and economically.

Similarly, there is confusion in the talk about price "ceilings" and price "floors"—as might be expected when such picturesque terms are used. (After all, prices aren't rooms. Anyhow, how high is a "ceiling" and which "floor" is meant?) Cases of surplus products are pointed out, and the holders demand price "floors" as a protection. But, at the same time, the same people, as buyers of raw materials and labor, may be demanding that price fixing used to "prevent inflation," to "stabilize wages," or what not, be extended into post-war times. They want high "floors" under the things they sell, and low ceilings over the materials and labor they buy.

Under conditions of fair and reasonably free competition, prices should govern production and consumption. They should also determine the distribution of income in the form of wages and profits. Indeed, this is the only way for a democracy to rid itself of pressure-group politics. At the moment our main problem lies in war wages, both because most of the effective inflation is here, and because they are backed by one of the strongest pressure groups.

*Students of economic theory will recognize the idea of the "differential return" measured from common extensive and intensive margins. Such returns are the necessary result of superior productivity, and unless received by producers, will cease to exist.

In my judgment, the solution must be found in letting prices rise more rapidly than money wages, thus reducing real wages and the labor cost of products.

It is no answer to say that wages will rise as fast as prices. When the war is over the present man-power shortage will end, and for a time there will be such a threat of surplus labor that the suggested readjustment will be the natural course.

The danger here lies in the political pressures. Already we hear business leaders as well as labor leaders and politicians saying that "the people will never stand for mass unemployment again," and then jumping to the conclusion that the business man must assume responsibility for giving full employment to all classes. This is a main prop of arguments for post-war control by government. But there is no need of "mass unemployment," and there will be none if the people are told the truth and led in the paths of common sense. Standards of living must be earned; and if goods are not available to allow each dollar of wages to buy as much as formerly, prices must rise, and living standards be somewhat reduced for a time. The surest way to make the readjustment with least loss is to resort to the system of incentive pay which has saved the Russian economy, and which represents the essence of American democracy. This means "to each according to his work," that is, his productivity.

For the business leader to assume responsibility for full employment is presumptuous folly. Nobody but a dictator can do that; for it involves control over the whole of economic life—demand and supply—what shall be produced, when and where! Is it not obvious that the man who assumes responsibility for "full employment" will next have to guarantee "fair wages" and the kind of jobs desired, in convenient locations?

If the war-economy controls, such as rationing, price fixing and labor "stabilization" are continued there can be no stopping short of a complete collectivism. Prices, wages and profits are all interrelated and must be correlated with production and consumption. One price can't be fixed without affecting a dozen others, and involving a widening circle of controls over production. "Margins" are interrelated: subsidize or control one product, one company or one industry, and you disturb all products, companies or industries. When some prices rise, the products being scarce, the cry of "inflation" is raised and "ceilings" are imposed. But when other products accumulate and their prices go down, there is a demand for help, and price "floors" are set up. The end is complete price fixing and a managed economy.

How could it be otherwise? Do we not see around us the gathering conflict of interests—the "blueprints," the "plans," the demands of sections, industries, employers and employees? Each interest wants a different sort of control. Obviously, there can be no answer in centralization and Government control, for that means one government! The only answer lies in freedom of opportunity—freedom, **under fair rules of competition,** to seek full employment and full production, with the incentive of rewards according to the value of each one's production. This is the unity among many.

Summary

Very briefly to sum up, the main planks in my program with reference to post-war control by the Government are:

(1) Take a definite stand in favor of that essential part of democracy which is known as free enterprise. This involves a definite acceptance of fair competition, standard money, and the principle of incentive pay to all factors in production. It is opposed to any undertaking to provide "full employment" under the guise of a "right to work," with wages not related directly to the value of the products of labor.

(2) Select and put into office persons who will understand and favor the ideals and institutions of free enterprise.

(3) Definitely provide "terminal facilities" for such war (or pre-war) controls as are inconsistent with the foregoing points, but which cannot be dropped at once without disturbance. Boards might be provided solely to determine when certain agencies should cease to function, perhaps by objectively ascertaining when those involved or affected want the "control" stopped.

(4) Since the termination of war will not immediately bring adjustments to peace, transitional mechanisms must be provided. These should include funds for aid and for rehabilitation, to say nothing of the much-discussed arrangements for contract termination and plant reconversion.

(5) Rationing may be carried on where necessary, but should be divorced from price fixing; and, except in cases of monopoly, prices should be free to express the values of goods and the value of money. There should be no subsidies, no "ceilings" and no "floors."

(6) The system of administrative regulations by commissions of experts, subject to judicial interpretation, should be carried on and improved.

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

The Functional Approach To Peace

Noted Educator Warns Against Setting Up A Large Number Of International Functional Agencies—Predicts That Treaties To Manage World Trade And Other Affairs By Such Agencies Would Be Opposed By The Senate—States The Time Has Not Come For The Establishment Of A Complete World State

Dr. Henry M. Wriston, President of Brown University, speaking at the monthly meeting of the Chamber of Commerce of the State of New York on March 2, warned that any attempt to turn the post-war peace program over to a large number of international functional agencies would develop "the same disorderly procedures" that have resulted from the spread of bureaucracy in the United States.

Henry M. Wriston

The public should view with alarm, he said, "the spawning of a vast number of international agencies with strange, ungainly titles, with uncoordinated duties, with undefined responsibilities and with uncontrolled operations." Such organizations, he added, may become the instruments of secret commitments and unrealized responsibilities.

"The proliferation of such agencies has created friction at home, it will produce friction abroad," Dr. Wriston said. "Such practices have produced bitter quarrels between the members of one administration, operating under the immediate supervision of its chief and under party discipline. How much more will such sprawling and uncoordinated agencies make trouble in the international world? They are likely to become instrumentalities not of peace, but of strife—not means for the orderly liquidation of the war, but for the perpetuation of some of its most disagreeable characteristics."

Dr. Wriston said that no treaty setting up an international government cartel to manage the trade of the world would receive any support in the United States Senate, nor would other functional organizations set up by treaties. If the President set them up under his war powers, the agencies might find themselves without appropriations, he added.

Declaring that the moment has not come for the establishment of a complete world state, he said:

"Our first dependence, therefore, must be upon the formulation of moderate, explicit, and firm policies which the United States will pursue with the same fidelity and courtesy with which the Good Neighbor policy has been followed. Second, the United States should not only join, it should take the lead in establishing a world organization, beginning upon a modest basis and gaining experience in solving the problems and difficulties as well as enjoying the rewards and advantages. Third, it should maintain itself in the friendliest contact with the other great powers without depending upon permanent alliances which are worthless if fundamental interests are in conflict and are needless if they are in harmony.

"Finally, there will be need in the organization of the peace for some functional agencies, but they must be proper instruments of American democracy and of free peoples everywhere. They will be effective in the interests of peace only if their relationship to the domestic life of the several nations is explicit and sharply defined, only if they are controlled by the over-all world organization, and their functions and powers are limited."

Phila. Stock Exchange Elects Scott President

At the annual election meeting of members of the Philadelphia Stock Exchange, Edgar Scott of Montgomery, Scott & Co. was re-elected president. The meeting also elected eight governors: William K. Barclay, Jr., of Stein Bros. & Boyce; Harry C. Dackerman, of Dackerman & Waber; John A Murphy, Reynolds & Co.; George E. Snyder, Jr., Geo E. Snyder & Co.; Albert J. Williams, Boenning & Co.; Harold P. Woodcock, Woodcock, McLear & Co.; Spencer D. Wright, Jr., Wright, Wood & Co., and John S. Wynn, J. W. Sparks & Co.

Attractive RR. Situations

Atlanta & Charlotte Air Line $9 stock and Nashville Chattanooga & St. Louis first 4s of 1978 offer attractive possibilities according to memoranda on these situations in the current issue of "Railroad Securities Quotations" issued by B. W. Pizzini & Co., 55 Broadway, New York City. Copies of the "Quotations," which also lists quotations on guaranteed stocks, underlying mortgage railroad bonds, reorganization railroad bonds, minority stocks, and guaranteed telegraph stocks, may be had from B. W. Pizzini & Co. upon request.

Sound Finance Or Spending In The Post-War Era

(Continued from page 986)

entirely out of taxes, without vast dissatisfaction from those who are doing essential work at home, the crippling of industry for its post-war job, and the present stifling of essential production. I rather favor more taxes, but it is a question of degree.

Far more could be saved by an economical administration of the war. War is inevitably a wasteful process. It is impossible for Congress to quibble about the number of ships or the number of tanks we must throw against the Germans and the Japanese. I have been often critical of the administration, and particularly of its policy at home, but all of us must recognize the tremendous work of organization done by our Army and our Navy. Nothing like it has ever been seen. No army has ever been so well equipped. No such navy has ever existed on the face of the earth. The output of shipping and airplanes is far beyond the wildest dreams of five years ago. If we can shorten the war by a month, or save the lives of only a few American boys, we cannot hesitate at the spending of money or the provision of training and equipment. But there is certainly as much possibility of cutting down our borrowings by eliminating wasteful administration as by increasing taxes.

Because we devote our whole energy today to winning the war and are hopeless to prevent a huge debt, there is no reason why we should not face now the post-war problems which are created by this vast expenditure and the extraordinary developments of modern war. Inevitably many people are making plans, and many of those plans are wholly impossible and inconsistent with each other. The press and the people seem to be accepting some ideas about what we should do without adequate thought or analysis, ideas which would destroy our liberty and our national life. The very purpose of this whole war is to insure the retention of liberty here at home, and the opportunity to work out here at home the destiny of the American republic. We should not permit ourselves to be so distracted by the war, so absorbed in creating freedom abroad, that we let the planners concoct for us post-war arrangements at home likely to destroy the very freedom for which we fight. We have had to tear our industrial structure to pieces in order to achieve victory over our enemies, and the manner in which it is put together after the war will determine for us how we and our children and grandchildren shall live for the next hundred years. Many doubt whether it is possible to fight an all-out modern war and preserve the institutions of freedom for which the war is supposed to be fought. Certainly it can only be done by the soundest kind of foresight and government policy.

What are the underlying purposes of any post-war policy? The first universally discussed today is the securing of substantially full employment. That full employment must be secured through private enterprise, and not through government spending.

Second, no matter how prosperous we may be, there will still be some percentage of the population unable to live at a decent standard. The war has emphasized the tremendous productive capacity of the United States. I believe our people are determined that extreme poverty and hardship shall not continue to exist. They are willing to contribute some reasonabe share of the proceeds of their labor and their savings in order that assistance be given to the unfortunate who cannot work or cannot fully support themselves.

But third and most important, we must restore and preserve in this country the liberty and opportunity for which our ancestors fought, on which our progress has been based. An economic prosperity is not the first necessity, although it has filled our thinking for many years past. We can only have a happy and progressive people if they enjoy the independence and the liberty which are essential to the making of character. There is no freedom if States and cities and schools are told what they must do by a paternal and bureaucratic government in Washington. There is no freedom if farmers are told what they must farm and businessmen are told how they must run their business. There is no freedom if workmen are told where they must work, and housewives are told what they must eat.

How do we bring about freedom, full employment, and social welfare? The first step is to terminate the war regulations as quickly as possible. Undoubtedly they must be continued beyond the actual date of the armistice, but the administration should be inspired by a determination to eliminate these controls as to each commodity just as rapidly as reasonably adequate supplies of that commodity are available. My experience with the present bureaus in Washington leads me to believe that most of these bureaus will hang on as long as possible to every control, and find one emergency after another to justify their continuation. We must have an administration that wants to let go.

Obviously the Government in terminating war contracts must take war inventory and machinery off the hands of the manufacturer and settle promptly in cash, in order to provide working capital for peace employment. The manufacturer must make his plans now and go promptly to work. Mr. Baruch has done an excellent job on this question of contract termination. Government-owned plants must promptly be disposed of to private owners, but without the promotion of monopoly. We should go further, and eliminate most of the pre-war regulation, questionnaires, inspections, which doubled your accounting forces and kept the average individual storekeeper doing everything but his own business.

In seeking full employment, we can only hope to succeed by stimulating the machinery of private enterprise. We cannot solve the problem by government spending and relief even if we wished to. Public works may be important as marginal assistance in hard times, but we have to put 55 million men to work, and only a small fraction can possibly be employed on public work. To give a man a real job on public works costs approximately $2,000 per man. That means that it would cost ten billion a year to give employment to five million men, five million out of fifty-five million. The WPA at its height only employed three million, at a cost per employee of less than half the figure mentioned. An increase of 10% in the activity and prosperity of private business will do more than the Government can ever hope to do by Government spending.

Government spending is an easy remedy to suggest, and easy and pleasant for a politically-minded central government. Of course it is harder to work out the sound economic remedies to speed up the machine of production and distribution. But we cannot rely on government spending without fatal results. It is utterly destructive of political morality, for the politician can justify a vote for any expenditure and a vote against any taxes. It destroys all sense of values as between different types of government project, because spending in itself becomes a virtue. It expands indefinitely the activities and the control of the Federal Government. It destroys ultimately the character of the people, because they learn to lean on Uncle Sam in every crisis, instead of exercising their own ability and their own ingenuity.

Furthermore, after the war the Government will face a dangerous financial problem. We will come out of the war with a debt in the neighborhood of 300 billion dollars. That means an annual interest charge of six billion dollars. The peacetime departments of the Government today are spending about four billion dollars, and all of them have been held down and are planning to increase their activities, so that five billion is a fair estimate. I have no means of estimating the exact cost of the Army and Navy, but I feel confident that the American people are not going to sink any of their ships, and equally confident that they are going to maintain a tremendous air force to assure their safety. Merely as a guess, an expense of five billion dollars for the Army and Navy for many years to come does not seem unreasonable. Furthermore, the services for veterans, judging by the last war and the increased number of wounded, is likely to be at least two billion dollars a year. That means a necessary Federal budget of 17 or 18 billion dollars, without any of the vast spending which is now being proposed.

Prior to the war we never raised more than six billion dollars a year in taxes. Our present burdensome tax system raises approximately 42 billion on an annual national income of about 150 billion. Even if the national income is maintained at 120 billion after the war, which seems unlikely, it is not certain that the present tax system would raise much more than called for by the budget I have suggested. Yet everyone is apparently agreed today that taxes must be substantially reduced, that corporations should not pay over 25% of net income, that the excess profits tax should be repealed, that the individual income tax rates should be lowered and exemptions increased. On any normal level of prosperity, the kind of tax system people are thinking of would hardly raise more than ten billion a year.

There is no doubt in my mind that those expenses will be at least 18 billion, and that the tax system which is necessary will prove burdensome and lie heavily upon all initiative. It is the price we pay for this war. In my opinion our American system could not survive another all-out modern war, and is seriously threatened by this one. Yet I believe that with our productive capacity we can perhaps pay 25% of our national income in Federal, State and local taxes, say 30 billion out of the 120 billion, and maintain an adequate incentive and reward for individual thrift, investment, initiative and work. But the problem must be faced frankly. The tax burden must be widely distributed. It must not fall exclusively on the thrifty, the risk-takers, and men and women of exceptional energy and ability.

But we face a still greater threat. There seems to be a general theory, passively accepted throughout the country, that after the war there is to be a great outpouring of Federal money. The National Resources Planning Board has listed Federal activity after activity, and proposed that all shall be financed by Federal taxation and borrowing. The Board was possessed by the dangerous fallacy that a people could spend itself into prosperity; that there is no limit to Federal spending; that debt can increase indefinitely, and should; that a national debt is no debt because we owe it to ourselves.

Imagine what the Federal budget would look like if we went ahead with all the tremendous projects that are proposed today on top of the essential expenditures I have outlined! Take the problem of social security alone. The ideal of the planners is represented in the Beveridge plan proposed for England. Estimating our population at three times that of Great Britain, and the standard of assistance at approximately twice the British standard, the total annual cost of that plan in this country would be 21 billion dollars. Today we are collecting approximately 2 billion 400 million dollars in unemployment and old age taxes, and the Federal Government spends about 400 million more for various services in aid to the states. The states spend perhaps 700 million more, or a total of 3½ billion. Of course part of the expenditures will be financed by the employers and employees, but half of the increase would have to come out of the Federal treasury. Even the employers' and employees' contributions, since they are compulsory, are largely in the nature of taxes, and have much the same effect in burdening the processes of production. In any event, the increase would be somewhere in the neighborhood of 17 billion dollars.

The idea has been spread abroad that every city, state, county and school district should make an extensive plan for every kind of public work they can think of, in order that they may be ready to receive Federal money. Where did the idea come from? Except for a very brief period, no local community ever did receive money for local buildings or local public works. The PWA was abandoned before I came to the Senate in 1939. I see no sentiment in Congress for returning to a policy of Federal grants for local works. Yet plans are being made, and I have no doubt legislation is being prepared.

A report has been made to the Post-War Planning Committee by experts on the highway problem. They propose an expenditure of three billion dollars for highways every year, of which one billion dollars is to be put up by the Federal goverment. This is four times the largest sum ever provided in any year by the Federal government outside of WPA work-relief expenditures, and, after all, we made fairly good headway in road building during the twenties and the thirties. Why should the Federal government do more than assist in the construction of through roads of general interest to the entire country? Road building is undoubtedly one of the best methods of putting people to work quickly, but most of it should certainly be financed by the local governments through the gasoline taxes and license fees which they collect. The people of these communities want roads and are not stingy in providing the money for them.

Of course there should be a reasonable Federal public works program in those fields in which the Federal government has assumed responsibility, and plans for it should be made now. There always has been such a program, and as the country grows that program should grow. But it ought only include public works that are really worth the money spent on them. I see no reason to believe that a vast public works program is necessary to stimulate any revival of peacetime activity just after the war. There is a large accumulated deficit of civilian goods. Demobilization will be effected gradually. Delay will be caused more by a shortage of necessary materials and equipment than by lack of demand, and that will delay public works as well as private. A major public work could hardly get started before private manufacture is operating full tilt. Undoubtedly there is a lot of repair and replacement to be done both by Federal and local governments for which plans and specifications should be made now.

An idea is abroad that every city should tear itself down and rebuild itself on modern lines, and the Federal government is expected to finance a large number of real estate projects the financial soundness of which may well be doubted. Undoubtedly every city should make its plans. Every city should eliminate its blighted areas and its slum areas. More active intervention by State and local governments is required in the real estate field, but the extent to which the Federal government can afford to finance these purely local projects is certainty open to question.

The public works programs which are proposed are of unlimited scope, but apparently if we include urban redevelopment, they come close to five billion dollars a year.

After all, what is the theory of transferring all these expenses to the Federal government? It is said that the taxing powers of the State and local governments are necessarily limited, whereas the Federal government is unlimited. Neither of these propositions is sound. Local financing is limited, not by necessity, but by practical considerations, the competition of neighboring states, the opposition of the people, the undue burdening of their economic activity. But the Federal government is limited by exactly the same considerations. It is said that no one can devise a State tax system to do the things which ought to be done, but neither has anyone devised a Federal tax system to produce the money to do these things. In fact, during the past ten years we have thought it impossible to levy the taxes necessary to pay the existing expenditures of the Federal government. Certainly those who urge a tremendous increase in the Federal budget over that which will be forced upon us by circumstances, should describe the tax system which will produce the necessary money.

The National Resources Planning Board advocates a wide extension of Federal aid to education, including primary and secondary schools. A bill to provide 300 million dollars a year was defeated by a close vote in the present Congress, but the Board's report advocates the increase of this subsidy to something like three billion dollars a year, or more than half the cost of an increased educational program. Apart from the danger of subjecting our education to control by a Washington bureau, we may well ask where all this money is coming from to supplement a State and local system which is already the best and most expensive in the world.

Finally, there is a school of thought which considers that the increase of our export market is the only possible road to prosperity. These enthusiasts recognize that most of the countries which offer markets for our goods will have nothing with which to pay for them. They recognize that the impoverished peoples of Europe are going to undersell us on many manufactured products because of the low standard of living in Europe resulting from the war. Therefore they are making plans to finance these exports by Government loans. American exports last year were over 12 billion dollars, and imports only 3½ billion dollars. The idea of the planners seems to be that we will go on financing some such excess of exports in order to create prosperity for ourselves. It seems obvious to me that if we can only export by lending the buyers the money with which to pay for the exports, we are in effect giving away the goods that we produce. Loans on any such scale are utterly unsound. When that becomes evident, as it did in the twenties, all loaning will stop, and the artificial manufacture which we have built upon it will come tumbling about our heads.

I believe that we should lend, or give, a moderate amount of dollars to help the devastated countries get the machinery they need to go to work. I would even continue some aid to help backward countries help themselves in the future. But we can't support an export trade by loans, or by any of the international financial panaceas like the Keynes Plan or the White Plan or the Morgenthau International Bank. In their present form the primary purpose of these plans seems to be to get American dollars into foreign hands without going to Congress for direct loans which might not be granted. We may regard the UNRRA appropriation of 1 billion 350 million as part of the war cost, but Mr. Morgenthau also proposes an international bank to which we are to contribute about 3½ billion dollars, and this is to be for reconstruction and permanent development. Since the controlling body will have more than a majority of representatives of countries that wish to borrow money, it does not seem likely that our 3½ billion dollars will last much more than six months.

Foreign trade difficulties, like economic problems at home, can only be solved by hard work and sound principles. The only kind of foreign trade that is worth while is one based on a fair exchange of our exports for goods we really need and can't produce economically. The idea that export markets can be created by the panacea of government spending or government lending, or magic support of exchange, is a mirage that can only lead to disaster.

A table of the proposed expenditures that I have discussed will read as follows:

Interest on public debt	$6,000,000,000
Regular Federal Depts.	5,000,000,000
Army, Navy and Air Force	5,000,000,000
Veterans' Care	2,000,000,000
Public Works	5,000,000,000
Aid to Education	3,000,000,000
Additional Social Security	17,000,000,000
Foreign Trade Loans	5,000,000,000
	$48,000,000,000
State and Local	10,000,000,000
	$58,000,000,000

Thus the Federal budget of the planners plus State and local taxes run to nearly 60 billion, or half the highest estimate of national income that any responsible person will predict.

If any such expenditures are undertaken, there can be no doubt in my mind about the destruction of freedom in America. If a tax system could be devised to raise any such money, business and individuals would be so weighted down by taxes that there would no longer be any incentive to work, certainly no incentive to initiate job-giving enterprises or do anything except the minimum amount necessary for subsistence. Men aren't going to work half or a third of their time for the government. Industry would become so unprofitable that no new money would be available. Then the government would be called in to operate or to finance. Permanent government financing could only lead to permanent government operation. The more businesses are taken over by the government, the heavier the burden on the independent business that remains, until gradually industry would be nationalized, and we would find ourselves a socialistic state.

Of course the planners who favor the program I have suggested do not intend to levy taxes. They intend to keep on adding large sums to the public debt. They point to the war deficit spending as the cause of tremendous prosperity in the United States, although the standard of living has in fact been reduced. When asked why government deficits in the thirties did not produce prosperity, their answer is that three billion dollars a year was not enough; we should have had deficits of 15 billion a year.

It is undoubtedly true that war spending has created full employment and we can still pay the interest on the debt. But we have seen a substantial increase in wages and in cost of living in spite of strenuous efforts to control these levels by law and by subsidy. Once peace comes, I believe that any such control would be utterly impossible, and if government deficits continue to create purchasing power out of thin air, there will be no holding of the price level. A few years of fifteen-billion-dollar deficits in peacetime and we would face an inflation of prices such as we saw in Germany after the last war. If that happens, we get to the same loss of freedom by another route. The entire financial and industrial structure breaks down. It has to be reconstituted, and that means the government will put it together. No one can construct a new system of private enterprise out of whole cloth. Once our system has been destroyed, it cannot be put together by all the king's horses and all the king's men, any more than could Humpty-Dumpty. The system may have failed through the attacks of its enemies, but the people will insist on trying some other plan and that plan can only be one in which every detail is directed by the government. By this path also we reach a socialized state, and one which starts from bankruptcy.

What can we do to avoid this kind of result? The first thing, as I see it, is to get down to earth. We are dreaming of a vast new world of radar, refrigerators, helicopters and television. Because everyone works in wartime, when eleven million are in the armed forces, we have been sold the idea that past problems of unemployment can be easily solved. As a matter of fact, America after the war will be fundamentally the same as America before the war. Its problems and its difficulties are the same problems and the same difficulties, and we cannot begin to solve them until we exorcise from our thinking the idea that the nation can spend itself into prosperity now any more than it could during the thirties.

Then we have to settle down to real business. We have to eliminate all unnecessary expense and postpone Utopia. We have to work out a Federal tax system to raise fifteen to twenty billion dollars a year, at the same time that it avoids the choking of all incentive and all industry and encourages men to put their money into new enterprises that will give other men jobs. We cannot hope to succeed unless every incentive is given to men to exercise their ingenuity and their ability and their strength in increasing production and making work for other men; unless the normal business casualties are much more than replaced by new projects. Consequently in our tax laws we must remove the present discrimination against common stockholders, the people who really take the risk in any business, and must remove the present duplication of tax. I believe myself that we should eliminate the capital gains tax, at least in the field of new industry and the enlargement of old industry. There must be a freer capital market, and ability to finance at reasonable cost. That means that the SEC should confine itself to its original purpose of preventing fraud and misrepresentation, rather than trying to direct the flow of capital. I even believe that the government should undertake to insure against some part of the risk, involved in investment in small business, and I am introducing a bill to carry out the plan I suggested in January to the Boston City Club.*

If business is to grow, we must try in every possible way to reduce regulation. The only regulation that seems necessary is that relating to labor and the rules that are advisable to keep competition fair and open. In short, we must change our whole attitude of suspicion towards the business man and his profits. So long as competition is fair, every reasonable reward should be given to those who strike out for themselves and use their natural abilities to increase production and thereby give more work to more people.

I am convinced that at a reasonable cost we can prevent extreme hardship and poverty and improve the present social security measures. The old age pension system and the unemployment compensation system can be extended to classes that do not now enjoy them. Minimum housing standards can be established, I believe, for all those whom the private building industry cannot serve. The gaps in hospital and health service can be filled without any such huge expense and socialization of medicine as is contemplated in the Wagner-Murray Bill. We should provide now a system of work relief and direct relief under the control of the States, to which the Federal Government can contribute small sums in good times and large sums in times of depression.

But we must recognize that the cost of supporting men who do not work or do not fully support themselves must be paid out of the earnings of those who are working at or about the same time. The cost of that support must not be so great as to prevent the increase of industry and employment and discourage those who are asked to pay the cost.

Furthermore, this whole field of social welfare legislation should be primarily under State and local government control, with Federal financial assistance. These problems are primarily local problems. They can be solved best by intelligent local administration. Some States may fail to do a good job, but in the long run that would be the fault of the people who suffer. The Federal Government doesn't do a perfect job either, and its mistakes are on a much greater scale. Only a State system can avoid the political and bureaucratic dangers that creep into every effort to run our affairs from Washington.

Finally, all of this program should be definitely worked out by Federal statute, not by bureaucratic regulations. Congress is to blame for yielding to constant Executive pressure to give arbitrary discretion to the President or his appointees. It is easier to pass a statute expressing general principles than conferring general powers, but the delegation of legislative power has almost destroyed the independence of Congress. It has made this a totalitarian government in many fields where Congress has enacted a general law. The independence of Congress and the courts was not created in the Constitution by chance. It was provided for the very purpose of preserving democratic government.

I said at the start that the whole purpose of domestic policy, as of foreign policy, is to preserve the freedom of the people of the United States. I am convinced that that freedom depends not only on maintaining local self-government, and the independence of Congress and the courts, but on sound finance, on limited government expenditure, and a wise tax system to pay for those expenditures in full. Otherwise we face an economic breakdown which will finally end the liberty of the individual.

The whole prosperity of the country, with full employment through private enterprise, depends more than ever before on sound practice in administration of government. It will be destroyed by the panacea of government spending. The social welfare program itself depends on a high percentage of employment, and on the taxes which can be produced by such prosperity. There is no simple road to Utopia. We have a new and tougher fiscal problem as a result of all-out war, and it can only be met by the same sound principles of taxation and economy which have animated every President of the United States in our history—except Mr. Roosevelt. This nation must face the hard facts of life just as every business man has to face those facts. The only alternative is the bankruptcy court.

*Text of Senator Taft's address before the Boston City Club appeared on the cover page of Section 1 in the "Chronicle" of Jan. 20, 1944.—Editor.

The Nation's Post-War Financial Structure

(Continued from first page)

will be sufficient, not merely to finance the conversion from a war to a peace economy, but also to maintain a high level of business activity in the post-conversion period without much recourse to borrowing from the commercial banks. The liquid assets in the hands of business as well as of private enterprise will be immense indeed. Not only will the volume of bank deposits be three times as large as in 1929, but the amount of currency and Government obligations freely redeemable into cash in the hands of the people may amount to 75 billion dollars, if not more.

The highly liquid position of industry and trade, as well as the large amounts of liquid assets in the hands of the people in general, can be either a force of destruction leading to inflation with all its economic and social consequences; or it can be a constructive force contributing to a high level of business activity, a satisfactory price and wage level, and the creation of a national income that will be necessary to maintain the expenditures of the Government.

If at the end of hostilities, for some reason or other—such as an unsound fiscal or currency policy or a sharp increase in prices of commodities caused by a premature abandonment of price and rationing control, etc.—the people should lose confidence in the purchasing power of the currency, it could lead to a flight from the currency into anything that may be considered as having a stable value. Because of the huge purchasing power in the hands of the people and because of great liquidity of the entire economy, one can readily visualize what an inflationary explosion such a development could create. Inflation would not merely wipe out or materially reduce the value of the liquid assets of the people, but would also have an adverse effect on business activity in the post-conversion period. On the other hand, if at the end of the war the deficit of the Government is drastically curtailed, if there is no effort to further devalue the dollar and the various controls over prices and consumption are removed as the supply of commodities begins to increase and to meet the demand, the huge liquid assets in the hands of the people will be used gradually and judiciously and thus exercise a powerful influence on business activity for years to come. Hence, whether the high liquidity of the financial structure of the United States is a destructive or a constructive force will depend primarily upon the measures that will be taken to keep the inflationary forces in check.

The international financial situation of the United States has also undergone a considerable change as a result of the war and the events that preceded it. On balance today the United States is a debtor on short-term account although still a creditor on long-term investments. During the war the short-term dollar assets in the hands of foreigners will continue to increase because the foreign trade of the United States, exclusive of lend-lease, will continue to show an excess of imports over exports. Lend-lease cannot be considered as a monetary obligation, since the commodities delivered and services rendered to foreign nations are not repayable in dollars. The utilization of the large amount of American short-term liquid assets owned by foreigners will depend primarily on conditions prevailing in this country. If at the end of hostilities there is serious agitation for a further evaluation of the dollar or if commodity prices should rise sharply, foreigners will be inclined to convert into gold their dollar balances as well as their holdings of bonds. This will reduce the gold holdings of the country at a time when the Treasury may be forced to rely on the commercial banks to finance the redemption of war savings bonds held by the people. That such a situation would be embarrassing to the Treasury is quite evident.

On the other hand, if commodity prices remain approximately what they are today, and if there is no agitation for a further devaluation of the dollar the liquid assets owned by foreigners will be used over a period of years to acquire all kinds of American products, and this, too, will contribute to a high level of business activity in the post-war period. In view of the huge liquidity which will mark the American financial structure in the post-war period, it is of the utmost importance that no measures be taken now or later which would frighten the people and induce them to convert these liquid assets into anything that might promise to have a stable value. On the contrary, everything possible should be done to induce the people to defer spending their savings until the conversion is over and our increased productive capacity can provide consumers with the much-needed goods for which they have been waiting.

Status Of Rail Securities

A comprehensive memorandum on railroad equities, including the reorganization issues, has been prepared by Thomson & McKinnon, 231 South La Salle Street, Chicago, Ill., members of the New York Stock Exchange and other exchanges. Copies of this interesting memorandum, entitled "The Changed Status of Railroad Securities," may be had upon request from Thomson & McKinnon.

Situations Look Good

Straus Securities Company, 135 South La Salle Street, Chicago, Ill., have prepared circulars on Black Hills Power & Light common, Foote Bros. Gear & Machine common, Clearing Machine Corporation common, and General Bottlers, Inc., preferred and common, which appear attractive at the present time, the firm believes. Copies of these circulars may be had from Straus Securities Company on request.

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.

Taxation Problems Of The Transition Period

(Continued from page 987)

answer depends upon the intellectual mood—if I may use a contradiction in terms—in which the question is asked. That is, is the mood one of open inquiry? Do we want the right answer, or do we want the answer that best fits our preconceptions? Have we already made up our minds, or are we in deep doubt? Does the question carry with it a sincere desire for enlightenment?

Post-War Relationship Between Government and Industry

Sometimes a question has overtones in the sense that it is premised upon the answer to another more basic question. The question before us this morning is, I think of that type. It goes to the heart of one important aspect of the post-war relationship between government and industry. A Government man cannot discuss the relative merits of carrybacks and reserves for reconversion without a clear idea of the part Government should play in the post-war business world. A business man cannot discuss this issue without a well-delineated mental image of the part industry wants Government to play. Does Government want to subsidize industry through rebates of war taxes? Does industry want to be subsidized by Government?

I hope I can see both sides of the question. I am in the Government. Until a few years ago I was closely associated with business. I believe I understand something of the business man's fears of what lies ahead. He sees the war economy heading into an area in which the production curve will flatten out. He wants to avoid being caught between the upper millstone of high taxes and the lower millstone of reduced profits. He knows where he is, but not where he may be. He wants to create an atmosphere in which business can take hold. He wants to plan with the utmost possible certainty for the day when our country will be the warehouse, not the arsenal, of democracy.

I should like at the outset to set down some major premises of discussion. I take it as self-evident that Government responsibilities will not end with the cease firing order. To save ourselves we have put in motion economic forces that create post-war problems. We had to convert to war. That conversion produced unprecedented national income, unprecedented business activity, unprecedented employment, unprecedented production, and unprecedented taxes. We cannot set such forces in motion and walk out on them. We cannot wind up the national economy and throw away the key. Government must do its part to bridge the gap between a war economy and a peace economy if we are to avoid depression and unemployment when the war orders stop.

When we converted to war, industry's regular trade channels were dammed up and production in a large measure was diverted to the Government. Government became the biggest buyer. But when we begin forging our swords back into ploughshares, Government will step out of its stellar role as purchaser. It will turn back to industry the job of finding customers. It will move into the background. The more responsibility industry takes, the more limited Government's role will be.

Taxing War Profits

In wartime it is important from the revenue standpoint to see that a high tax is imposed on all war profits. But it is even more important from a morale standpoint. National unity is threatened if large numbers of citizens believe that war profits are not bearing their fair share of war costs.

But taxing war profits is not as simple as it seems. "War profits" is an ambiguous term. We cannot isolate the origins of profits. Some profits would have piled up if there had been no war. Some profits derive from activity indirectly stimulated by the high income levels of war. Some profits are war profits, pure and unadulterated. All of these distinctions go to the point of origin.

The term "war profits" is equally difficult to define from the standpoint of timing. And therein lies our present problem. Profits are not earned without expenses of production. Not all the expenses of apparent war profits have yet been incurred. Not all are even yet known. They are not known because reconverting to a peace economy is an item of war cost. No one can make even reasonably precise estimates. We need experience as a "book of wisdom." We cannot profit by its teachings until events have occurred.

A survey of post-war requirements of 100 war contractors was recently conducted by the staff of the Truman Committee. Senator Truman said: "The most striking feature of the replies is not the amount of money which will be required nor the variety of purposes for which it will be required, but the complete uncertainty of the contractors themselves as to how much will be required and the purpose for which it will be needed."

While we are still in the full flood of the war we cannot know when reconversion will occur. We do not know how much reconversion will be necessary. It will be totally unnecessary in some industries. We have no solid granite of fact on which to build. All we have in our grip at the moment is the general principle that certain costs to be incurred following the cessation of hostilities will, from the standpoint of correct accounting and fairness, be attributable to war income.

Industry's Reconversion Problems

In the twilight of transition, industry will face a variety of reconversion problems. Termination of war contracts will lead to new activities which will oblige outlays and cut down income. A period of dislocation of our economy is inevitable. Some industrial plants will have to be reconverted. Some firms may wish to rearrange and rehabilitate their plants and equipment in order to return to prewar production or to compete in post-war markets. Others may wish to make maintenance expenditures which they were forced to defer during the war period because of manpower and material shortages or continuous war production.

In some industrial areas inventories of Victory models may require replacement or readaptation to markets of plenty rather than scarcity. Some firms engaged in wartime production will have a subnormal volume of sales which they will wish to stimulate. Firms created to produce war goods will wish to spend money to enter new markets and develop new products.

In liquidating the war economy there is also the problem of shifting a vast civilian army of workers from a war to a peace basis. Thousands of workers in war industries will be forced to find other jobs. It will be difficult, if not impossible, to maintain employment at the war level after the war orders stop rolling in. It should be the aim of all, however, to keep employment at as high a level as possible. Some firms are planning to pay dismissal wages to workers who cannot be absorbed in their peace-time activities. Expenditures may be necessary even for retained workers and returning veterans, many of whom will have to be retrained and taught new skills. Outlays may be necessary in some cases to hold key employees in the reconversion period.

Not only war contractors will face these problems. Subcontractors will be obliged to mark time until their customers put their plants in running order and swing into peacetime production. This waiting period may call for expenditures for maintenance and personnel. Our tax system should recognize the relationship of many of these cases to wartime production.

Tax Aspects of Reconversion

Since the war started, the Government has measured income and excess profits taxes by income earned after deducting costs incurred during the war period. It has not subtracted war costs which will not be incurred until the reconversion period although those costs are equally valid offsets against wartime income. Unless these costs are subtracted from the base upon which war taxes have been levied, an inequitable distribution of the wartime tax burden will result. The real problem—and one not new in tax law—is how to allocate these post-war expenses to the income with which they are connected.

The ideal solution would be to deduct all war costs directly from war-time income. It is a curious irony that what is professed to be a variation of this ideal solution is being presented on behalf of industry, whereas we in the Treasury are supporting what we think is a more practical alternative. The advocates of the reserve technique are trying to meet the problem in one way. Congress has met the problem in another way. The carry-back provisions of the Revenue Act of 1942 are the Congressional solution. They are not a perfect solution, but perhaps on closer examination most of industry will prefer them to the reserve method.

I use the words "alternatives" and "prefer" advisedly, because it is clear to me that industry cannot, and should not, have both solutions. It cannot play both ends against the middle. It must make a choice.

The Carry-Back Provisions

The carry-back provisions of the Revenue Act of 1942 apply to both net operating losses and unused excess profits credits. All taxpayers are permitted to deduct losses from income earned in the two preceding years; excess profits taxpayers are allowed to reduce excess profits earned in the two preceding years when income falls below normal profits as measured by the excess profits credit.

These provisions accomplish an averaging of income. When the carry-backs are combined with the two-year carry-overs, enacted prior to the Revenue Act of 1942, a five-year averaging period is set up for industries with fluctuating income.

The averaging under which taxes paid on profits of fat years are reduced by losses of lean years has long been recognized as a major contribution to a more equitable tax structure. It is a recognition that profits are best measured not by the year, but by a longer unit of time.

Averaging income, however, is not the sole, nor even the major, purpose of the carry-back provisions. Their major purpose is to provide a general method for offsetting costs and losses suffered as a result of reconversion against war-time income. The record clearly shows that the Congressional choice of the carry-back technique was based on inability to work out a satisfactory method of deducting post-war expenses from wartime income by the reserve method. There is no specific deduction of post-war war costs from wartime income. They are charged against income in the year incurred. They reduce wartime income, either directly or indirectly, only if income in the post-war years is subnormal, or if losses are suffered. If excess profits are earned in this reconversion period, they automatically result in tax savings at wartime rates.

The carry-back adjustment embraces declines in income in the reconversion period — declines whose primary cause may be very difficult to ascertain. This is the greatest strength, as well as the greatest weakness, of the carry-backs. It is a strength because it makes classification of post-war costs on the basis of their relationship to war income unnecessary. It is a weakness because some expenses unrelated to the earnings of wartime income may reduce wartime taxes.

Criticism of the Carry-Backs

So much for the philosophy underlying the carry-backs. Let us now consider some of the main objections to them. I think it is only fair to say that much of the criticism of the carry-backs has been due to misunderstanding and ignorance. There has been a good deal of low visibility. This is less true today than it was six months ago, but one still sees numerous instances of misguided hostility. It is particularly important that business men, as well as the public, should have an unclouded understanding of the nature and the purpose of these provisions. It is a basic tenet of our democracy that if enough people have enough information on any issue, most of them will exercise good judgment more often than not. If business men misunderstand the carry-back provisions, they may commit themselves to alternative programs which from a self-interest viewpoint will end up in far less satisfactory adjustments in the reconversion period.

Inadequacy of the Carry-Backs

Some people say the carry-backs fail to meet the problem of reconversion expenses. Whether or not the carry-backs are adequate to cushion the effects of the cessation of war production depends upon the amount of income serving as a base against which reconversion expenses may be charged. The base provided by the carry-backs is the net income before taxes of the two years preceding the year of low income or deficit. In 1943 net income before taxes for all profitable corporations is estimated at $22.8 billions. If the war were to terminate in 1945, and net income before taxes in 1944 were equal to net income in 1943, the carry-back base would be equal to $45.6 billion.

Aggregate corporation deficits in our worst depression year—1932—amounted to only $8 billion. Unless we assume a long, chaotic reconversion period, it seems unlikely that post-war deficits will approach this figure. While reconversion may bring about substantial temporary losses, we must remember that in the post-war period a devouring pent-up demand for civilian goods will be unleashed; that demand will be reinforced by an enormous accumulation of individual savings. All things considered, it seems safe to assume that the base for charging post-war costs related to the war is sufficiently large under the carry-back provisions.

Reconversion costs must be incurred within a reasonably short period after termination of war contracts. And by reasonably short, I mean within a year or two. Those expenses directly related to wartime income will generally be contracted within that relatively brief time. It will be the extraordinary case where a gradual tapering off of war production, combined with an inability to make any headway in reconverting, will substantially reduce the carry-back base of any one firm.

Improper Cost Allocation

Some people say that the carry-back provisions assign post-war expenses to the wrong year. They mean that although certain post-war expenses may be deducted from post-war income, those expenses may not find their way back as offsets against war income. To this charge the relatively crude carry-back adjustment must plead guilty. It is an over-all, not a specific, adjustment. Here again, we may move from the ideal to the practical; this charge is a serious condemnation of the carry-back provisions only if their allocation of costs would result in an inequitable tax adjustment.

In fact, it appears that failure to deduct expenses in the theoretically correct year does no harm so long as tax rates remain the same in the post-war period. True, if tax rates go down it would make a good deal of difference whether an expense is deducted from income taxed at an 80 or 85% rate, or from income taxed at, say, a 40% rate. Firms continuing to earn profits in excess of income or invested-capital credits will not be affected by the carry-back provisions. Those firms will receive smaller tax reductions than they would obtain form a direct charge of post-war costs against wartime income. Whatever the inequity in this situation may be, we must remember that the firms so penalized will be those suffering least from the after-effects of the war.

So far I have been talking about post-war expenses attributable to the war. This is only one phase of the problem of allocating costs. The carry-back provisions do not restrict themselves solely to costs and losses directly related to the earning of wartime income; they allow a carry-back to post-war costs which have nothing to do with war income. For example, a firm embarking on a post-war advertising program to establish itself in a new market may deduct these costs from wartime income, even though they should be charged against future income. Such a misallocation of costs may have serious effects, if post-war tax rates are reduced, and constitute a defect in the carry-back technique.

Danger of Repeal

Some people object to the carry-back provisions on the ground that they may be repealed at the very time when they are most needed. This criticism obviously rests on the assumption that the commitments made by the 77th Congress are not firm. The carry-back provisions admittedly differ from most other tax provisions in that their effect on current tax yields may be delayed two or even more years. However, since they were enacted in lieu of reserve adjustments and in full recognition of their importance in achieving a correct statement of wartime taxable income, I cannot believe that the possibility of their repeal is as great as some pessimists imagine.

Of course, the life expectancy of the carry-back provisions like the life span of other provisions of the tax law, may depend upon whether they are used or abused. In tax law, as in life, one may bite the hand that feeds him. If it becomes apparent that large refunds of wartime taxes are resulting from inflated costs or losses, the possibility of repeal will be enhanced. There have been attempts to "sell" these provisions to industry, with the plea that it can use the carry-backs to finance post-war expenditures for expansion and growth. In effect, a subsidy program is being urged for industry in the guise of tax relief. I hope that industry will resist the smooth-tongued salesmen who peddle such spurious goods.

Failure to Provide Working Capital

Other people say the carry-backs fail to provide the necessary liquid funds to make reconversion and other similar post-war expenditures. They claim that delay in the payment of tax refunds, resulting from the carry-back provisions, will neutralize their inherent benefits. They believe that the refunds would do no more than lock the stable after the horse is stolen.

Corporations generally file their tax returns on March 15 after the close of their business year, and pay their taxes in quarterly installments throughout the year. This means that in a year of losses corporations must continue paying their taxes for the previous year even though losses in the current year clearly indicate reduction of liability or, indeed, absence of liability. What could be more ridiculous than paying off liabilities that do not exist when liabilities that do exist are pounding at the door?

It was to rectify this weakness of the carry-back adjustment that the Treasury proposed to the Congressional tax committees last year that provision be made for speeding up the carry-back refunds. The Treasury proposed that a tentative claim could be filed when a taxpayer estimated that a loss would be incurred, or income would fall below the excess-profits credit. On the basis of an estimate of income or loss for the year, the tax refund would then be quickly computed. The Treasury proposed that this estimated refund could be applied as an offset to tax installments owing for the balance of the year.

On the following March a regular tax return would present the actual income or deficit of the taxpayer with a precise computation of the actual tax refund. If the corporation had underestimated its income and, therefore, postponed too much tax, it would be required to pay the deficiency. If it had erred on the conservative side and postponed too little tax, an additional tax refund within the shortest reasonable period, say, 60 to 90 days, would be made.

This adjustment would immediately free the cash or securities held to meet quarterly tax payments, and would substantially mitigate working capital shortages in the reconversion period. It would not grant corporations anything to which they are not now entitled by law. It would merely provide a mechanism for expediting payments of refunds.

A similar proposal was not made for partnerships and proprietorships. This was not through oversight, or through any desire on the part of the Treasury to favor the corporate form. Rather it was because partnerships and proprietorships were put on a current basis by the Current Tax Payment Act of 1943. In a year of loss partnerships and proprietorships will base their tax payments for that year on the estimated loss, and not on the income earned in the preceding year.

Alternative Proposals to the Carry-Backs

So much for the arguments for and against the carry-back provisions. What are the alternatives?

Specific Reserves

One alternative is the specific reserve technique. Under this method a specific reserve is taken out of wartime income with the idea of charging against it post-war costs directly related to wartime income. Any unused portion of the reserve, after a specified period, would be returned to wartime income.

In theory this approach is sounder and more direct than the carry-back approach. Under ideal conditions a specific reserve can result in a correct tax adjustment for post-war costs. The amount of income in the war and in the post-war period and post-war tax rates make no difference. But taxation is an intensely practical matter and, in practice, the story is different. The specific reserve technique brings serious administrative problems. In the majority of cases I venture that it would result in a less satisfactory adjustment than the carry-back provision.

There is first the difficulty of estimating what is ultimately to be charged against the reserve. In many cases there is no basis for approximate estimate. To resolve this difficulty, advocates of special reserves have suggested an arbitrary over-all limit on the annual reserve deduction.

This limit, usually based on net income, represents a break with the principle of the ideal allocation of costs. Limitations are crude instruments. They are likely to be too high for some firms and too low for others. Only in the extraordinary case would the ideal allocation of post-war costs to wartime income equal the amount of the reserve deduction in that year. Nor is it likely in most cases that aggregate post-war expenses chargeable against the reserve will match the amounts set aside in earlier years of ignorance.

The second difficulty is how to determine the amount of post-war costs to be charged against the specific reserve. If the principle underlying the specific reserve method were rigidly followed, every item of expense charged against the reserve would require an administrative determination of appropriateness. This determination would be laborious, and in many instances as complex as a Section 722 determination.

Moreover, the reserve might be extended to cover many expenditures not properly deductible from wartime income. Unless the limit on the reserve were placed so low as to create real hardship, it would exceed the needs of the majority of taxpayers. It is only natural that the taxpayer will develop a proprietary interest in his reserves. He would not be human if he did not seek to have the provisions broadened; he would be a superman who ranked very little below God and the angels if he were willing to see funds returned to wartime income and taxed at wartime rates.

The Hatch Plan

Under a plan proposed by Senator Hatch a reserve would be set up in the same way as under the specific reserve plan. But instead of attempting to charge particular post-war costs against this reserve, the entire reserve would be added to post-war income. In other words, an arbitrary percentage of wartime income (say, 15 to 20%) would be treated as post-war income, regardless of whether or not a firm was actually incurring reconversion costs or suffering a decline in income.

To the extent that this shift in income is matched by post-war costs or losses related to the war, the effect of the Hatch plan would be similar to the effect of the specific reserve plan. These post-war expenses would cancel the additional post-war income. However, to the extent shifts in income under this method exceeded or fell short of these costs and losses an inappropriate adjustment would result.

If we look at the carry-back provisions from the same standpoint, we see that they can shift up to 100% of two years' war income into the post-war period. This may look like sleight-of-hand; but it is actually the way the carry-back provisions can operate for firms with low post-war income or a deficit. Take notice, however, that they apply only when income is sharply reduced, or when losses are suffered.

Three major advantages have been claimed by the advocates of the Hatch plan; first, that it is administratively simple; second, that it grants the greatest benefits to firms facing the most serious reconversion problems; and third, that it provides cash with which to meet reconversion expenditures.

I cannot deny that this adjustment for reconversion costs is the simplest that could be made. However, it is not true, that the greatest benefits will go to firms suffering post-war losses. Those firms will be in as good a position under this method as under the carry-backs, only if their losses are less than 20% of the wartime income they earned in the period in which they set up the reserve. If their losses are more than 20%, the Hatch plan will leave the firms in a worse position than the carry-backs would leave them.

If post-war tax rates should be reduced, many firms not faced with reconversion problems would secure undeserved tax benefits from the Hatch plan. These benefits would take the form of a deduction from wartime income otherwise taxed at, say, 80% and the inclusion of this amount in post-war income taxed at, say 40%. Under these assumptions a 40 or 50% profit could, in effect, be earned on each dollar in the reserve. The firms benefiting would be those with high post-war income and least in need of generous tax treatment. To those who had, more would be given.

Upon analysis the Hatch plan, as compared with the carry-back plan, provides the least adequate adjustment for the firm suffering the most serious reconversion problems. It would make an adjustment similar to the carry-backs for firms facing moderate reconversion problems. To firms facing no reconversion problem and making high post-war profits, it would grant substantial windfalls, if tax rates are reduced. In substance the Hatch plan is a crude and haphazard application of the idea embodied in the specific reserve approach.

Unrestricted Reserve

Still another alternative to the carry-backs provides post-war reserves by allowing firms to deduct, say, 10 or 15% of their wartime income without any return of the funds to taxable income in the post-war years when they are used. This reserve plan is a plain, unvarnished method of reducing wartime taxes. Its advocates cannot urge this reserve upon the assumption that wartime income was in part illusory. Whether they say so or not, they predicate the need for the reserve upon the assumption that corporation taxes are too high to permit post-war expansion and growth, and the re-employment of returning veterans.

I do not believe that the facts support the charge that wartime corporation taxes have been too high for industry as a whole. It would be hard to prove that they have cut down industry's ability to finance necessary post-war outlays. In 1937 corporations had left less than $4 billion after paying $1¼ billion of taxes. In 1943 corporations will have left nearly $9.2 billion,—even after paying $13.5 billion of taxes. In 1944 corporate profits after taxes are expected to reach $9.9 billion, or three times the average annual profits after taxes in the period from 1936 through 1939. Moreover, it is estimated that even after paying taxes and dividends, American corporations will accumulate over $12 billion of undistributed profits for the three years 1941, 1942, and 1943.

The proponents of this unrestricted reserve plan are really asking the Government to subsidize a portion of industry's post-war expenses. They justify their attitude by dwelling upon the responsibility of Government for maintaining a high level of post-war employment. Yet deductible reserves do not appear to provide a proper instrument for the discharge of this responsibility, particularly if they would most benefit corporations which have reaped the greatest rewards from the war. If it is appropriate for the Government to subsidize private industry during the transition period, the firms which have profited least from the wartime expenditures of the Government would seem to have the better claim. Certainly it is doubtful whether the Government should encourage the post-war expansion of the very industries which have expanded most in wartime. Our peacetime requirements will call not for more shipyards and munition plants, but rather for more civilian goods,—for the kind of goods which have suffered sharp production cuts during the war years.

Conclusion

I have referred to industry this morning in the aggregate. In doing so I may have implied that industry presents a united front for reserves and against the carry-back provisions. Words are ticklish things that play tricks on those who use them as well as those who hear them. Such an inference could not be farther from the truth.

As we move from the general to the specific, it is plain to see that reserves and carry-backs affect different industries in different ways. Between the two, one industry's meat may be another industry's poison; and even among reserve plans, one industry's gain may far exceed another's.

Government might, therefore, sit on the sidelines and leave it to industry to settle its own internal warfare and bring forward its own solution. But since Government must bear the responsibility for a high level of post-war production and employment, it cannot be neutral on the question of reconversion costs. It cannot afford a hands-off policy. It must see to it that the best feasible settlement is secured—a settlement made in the public interest and not in the special interest of any one group within industry.

Whether we like it or not, Government (and by Government I mean the people) has become a partner in industry's reconversion costs and losses under the carry-back adjustments. In dollars and cents terms, we might say that Government will be the senior partner for wartime excess profits taxpayers with responsibility for 81% of their losses. We might also say that it will be at least an important junior partner of other income tax payers with the responsibility for sharing 40% of their losses. Let us consider just one example. A large producer of basic metal will secure $47 million in refunds from the Government if its net income for tax purposes in the reconversion period goes down to zero. This refund compares with an average net income after taxes from 1936 to 1939 of $45 million.

Government has always been interested in industry's profits, but now it is deeply concerned also with industry's losses. With Government sharing those losses, industry can maintain a high level of production and employment with a smaller stake. Therefore, labor will hold enormous odds against unemployment even in the face of a possible depression.

On the other hand, some of the costs of the reconversion period will be unrelated to the war period and unimportant in maintaining a high level of employment. It is, therefore, to the mutual interest of Government and industry to investigate the character of these reconversion outlays. It may be necessary to circumscribe their tax deductibility in order to prevent abuse. For the American people should not be asked to grant industry a blank check, even though it promises the most circumspect post-war behavior. Nor should the way be left open for anyone to deprive all industry of an important means of cushioning the jolts of the transition period.

Exchange Expels Yelin

The New York Stock Exchange announced on March 3 that Benjamin Yelin, a member, has been expelled, having been found "guilty of conduct inconsistent with just and equitable principles of trade."

The announcement of the action of the Exchange was made as follows by John A. Coleman, Chairman of the Board of Governors of the Exchange:

"A charge and specifications having been preferred against Benjamin Yelin, a member of the Exchange, under Section 6 of Article XIV of the Constitution, the charge and specifications were considered by the Board of Governors at a meeting on March 2, 1944.

"The charge against Mr. Yelin was based upon his allocation of transactions, subsequent to their execution and at times when the transactions appeared profitable, to an account in which he had an indirect interest and to one other account, such allocations having operated to the disadvantage of the firm of which he was a partner at the time.

"The Board, having found Mr. Yelin guilty of conduct inconsistent with just and equitable principles of trade, Mr. Yelin was expelled."

The Exchange points out that Section 6 of Article XIV reads as follows:

"A member or allied member who shall be adjudged guilty, by the affirmative vote of a majority of the Governors then in office, of a violation of the Constitution of the Exchange or of a violation of a rule adopted pursuant to the Constitution or of the violation of a resolution of the Board of Governors regulating the conduct or business of members or allied members or of conduct or proceeding inconsistent with just and equitable principles of trade may be suspended or expelled as the Board may determine."

In its announcement the Exchange also says:

"Benjamin Yelin was elected to membership in April, 1941, and, in December, 1941, became a partner of T. J. Beauchamp & Co., specialists and floor traders, which dissolved at the end of last year, since which time Mr. Yelin has been an individual member."

NYU Clinic On Wage, Salary Stabilization

Current problems arising from the administration of the Wage and Salary Stabilization Act are scheduled for discussion at two five-week clinics which opened at New York University on Feb. 29 for the benefit of local personnel directors and labor consultants; announcement of this was made on Feb. 26 by Prof. Paul A. McGhee, Acting Director of the University's Division of General Education. The clinics, which will be held Tuesday and Wednesday afternoons, will be conducted by Prof. Emanuel Stein, Acting Director of the University's Graduate Division for Training in Public Service. At each session of the clinic Professor Stein or some representative of the War Labor Board will take up some current situation or problem which needs clarification, or some ruling of the Board which needs interpretation. The balance of the period will be devoted to discussion and to answering questions presented by members of the group.

Admission to the clinics is restricted to members of the three Institutes on Wage and Salary Stabilization which were held at New York University last year.

Harley Lutz's Suggested Post-War Tax Program Subject Of Discussion

(Continued from page 987)

something else entirely. The former is undoubtedly bad; the latter is common sense. It is a necessary formula in order to prevent power-seekers from running wild and progressively gaining power in such cycles as to destroy all community of interest among our citizens. Progressive rates in the higher brackets do not injure a man nor destroy effort. An adequate flat rate would crucify the low-income man. Of course there must be a limit on the rates, within the actual and safe requirements of the nation fighting for its very existence. In peacetime or wartime, a man with too much power loses his perspective and his sense of social justice, just as surely as the man who is oppressed by the shearing of his powers and of his ability to gain a moderate existence.

Before the income-tax law was enacted in 1913, and while it was under discussion, I said that it was the only sensible and businesslike way to raise Federal funds. Since then I have made tax returns every year for myself, other individuals, fiduciaries, partnerships and corporations—and contrary to Mr. Lutz's opinion, I believe it was the beginning of America's real rise. Instead of agreeing that "no new large-scale mass production industry can arise in this country under the progressive tax system" (if by that statement Mr. Lutz means progressive rates as to unit income rather than progressive by years), I find that most of our large-scale mass production industry was born and has thrived under the system.

All new financing is not dependent by any means upon internal surpluses. The runaway greed for power that such "progressive taxation" arrests far outweighs the inequities created by such a tax. Really able men do not work for great wealth alone, and the slower pace of gain should spur them to work harder and faster instead of holding back.

The progressive rate income taxation was not oppressive except during the two world wars. If by such a procedure we can prevent the horrors reaching us that have descended on many European and other countries, then we are favored, indeed. I would feel like a coward and an ingrate if I griped about it in such a time as this.

Under Item 1 of the States tax discussion, the statement is made that "it is now a matter of history that the course of Government policy during those (WPA spending) years was not shaped with a view to the speediest absorption of workers into private jobs." Even if it is an election year, let's keep the record straight. During the latter months of that period I worked four months for the WPA, and I can say definitely that, from my own observation in this section at least, it was the policy of the Government to get men back into private industry as fast as possible. They made continuous and open efforts to do just that, and that is how I got back long before the final curtain. That isn't saying the operations were all they should have been—no Government-operated project ever was or ever will be, under a Democratic, Republican, or any other administration.

ALDEN A. POTTER

R. F. D. 3, Bethesda, Maryland

"That government is best which governs least," said Thomas Jefferson. The pseudo-liberalism of bureaucracy thinks this implies anarchy. Not so. What it does imply is the largest possible, and so fewest possible, geographic jurisdictions, exercising the fewest functions, compatible with the efficient operation of society under law and order.

A government controlled constitutionally by the wise Christian injunction to "render unto Caesar the things that are Caesar's" cannot have its sovereignty impaired by any limitation of its monetary or taxing powers. Accordingly our Constitution is explicitly not a state's rights document in this respect. It not only accords plenary power to the Federal Congress but it also explicity prohibits state governments from exercising any such powers as might affect monetary conditions. (Art. I, Sec. 10: No state shall coin money; emit bills of credit; make anything but gold and silver coin a tender in payment of debts). It clinches this definite centralization of financial controls by placing bankruptcy laws specifically under Federal jurisdiction. (Art. 1, Sec. 8: Congress shall have power to lay and collect taxes. . . .; To establish uniform laws on the subject of bankruptcies throughout the United States; To coin money, regulate the value thereof. . . .; To provide for the punishment of counterfeiting the securities and current coin of the United States. . . .; To make all laws which shall be necessary and proper for carrying into execution the foregoing powers).

War finance should have opened the eyes of this nation to the wisdom of this arrangement as against the nonsensical provincialism that certain academic scribes and political Pharisees are reading into the Constitution. No other democracy is burdened by such a fetish, though it did require a considerable rumpus to open Australian eyes and give their central government full control of taxation "for the duration." Nothing can be so fatal to freedom as failure of the central government sufficiently to match monetary outgo with taxation to assure adequate monetary control. Putting blinders on this inflation question exhibits financial illiteracy on the part of "public men who should know better than they apparently do" (specifically Mr. Willkie) which sadly needs the reproof which the "Chronicle's" "Financial Situation" column affords and supports by soundly differentiating between production of goods and production of money income through public debt.

It would seem that this financial blind spot is concealing the mesalliance between debt and money supply and so presenting us with false alternatives. Instead of tackling this very vital problem we find ourselves on the horns of a dilemma which that mesalliance presents. That is, we are forcing ourselves to choose between conducting an unregenerate, "free enterprise" system chronically characterized by the paradox of poverty in the midst of potential plenty with its unemployment and demand for farm relief and doles due to deflation, as against conducting a "planned," autocratic system chronically over-supplied with purchasing power and regimented accordingly in a futile effort to prevent the dire effects of the inflationary gap which it has taken a war to bring about in our "free" system. If we followed our Constitution plus Jefferson's proposal to prohibit public debt (our post-war squandermaniacs would prohibit us from being *without* public debt!), would we not plainly escape any such dilemma? It would seem to be clearly constitutional to eliminate debt and proceed as suggested by the Harvard Law Review (Jan. 1942, p. 479):

"While there are no historical precedents for delegating the power to fix Federal tax rates, it would seem that directions to increase the rates by specified percentages upon certain rises in a named price index would set up a sufficiently definite standard to be constitutional."

We could then readily realize all the objectives which Prof. Harley Lutz sets forth in your issue of Feb. 10, specifically a *small* post-war *public* budget as a way to stimulate *large* post-war *private* budgets.

What we are actually heading for is the false financial alternative of a totalitarian system of inflation. It works, undeniably, to escape the deflationary difficulties of our present "plutocratic capitalism," and too many "liberal" leaders are being blinded by this fact from seeing the true, constitutional alternative for establishing a *free* capitalism *without* a chronic trend to depression! A consideration of the broad aspects of Russian experience with the attempt to communize a money system and make of it a system of ration points, should give us pause. The severest sanctions proved effective only in creating anarchy, not in controlling prices. Russia's first attempt at regimenting inflation yielded a frightful famine. Swinging right back into another attempt, this time with more caution in dealing with food producers, the period of our deep depression saw Russian inflation proceeding under a multiple price system which amounted to legalizing black markets instead of trying to suppress them. What procedure finally enabled her to abandon the futilities of price fixing? Nothing more or less than deflation by a sweeping tax enforced by confiscation and reissue of money in a new and scarce form.

That is precisely what war, financed by public debt which pyramids purchasing power through bank deposits created by securities placed in bank portfolios, is about to bring before this U. S. Government. Since such procedure involves repudiation of the public debt (not involved in Russia) we are going to saddle ourselves first with an OPA experience that will end in disaster before we are finally compelled to resort to repudiation and monetary contraction.

Having done this, however, we have not solved the real problem, of equilibrium, any more than Russia has. Nor can we solve it until we shall cull out "financialism" from our "capitalism" and make it a sound private profit system by eliminating the anomaly of State banking laws and the ancient practice of fractional reserves, thus eliminating the possibility of developing an inflationary gap in privately extended bank "credit"—and also, incidentally, any deflationary gap! Financial exchanges must then occur through a service in clearing house operations for checking accounts that is as strictly public as the printing of paper money has been since private bank notes were eliminated as too much like counterfeiting.

No, it is not Jefferson; it is Hamilton and his debt philosophy that is outmoded today as we are pressed inexorably between the false alternatives in Hamiltonian finance so that we overlook the true freedom (not freedoms!) of Jefferson's consistent appeal for no public debt and a *laissez faire* policy as between Government and business. There is no other possible way for constitutionally rendering unto Caesar only those things that are Caesar's, to wit: taxes and money. Our Constitution is a bulwark of liberty precisely because it specifically eliminates State power over finance, and American institutions are being threatened precisely because that fact is being ignored. The people, not their State or local governments, are the locus of liberty. State government can and do infringe our civil liberties far more than the national Government ever can or will. Historically they are the very governments that have required persistent curbing by Sec. 10, Art. 1 and the Bill of Rights.

Incidentally, it hardly seems that Prof. Lutz can have had more than an academic contact with the processes of States rights in laying income taxes, or he would not so glibly assign serenity to a post-war tax program that attempts to simplify the situation by such an allocation of fields in taxation He is far sounder in condemning all income taxation (taxing "ability to pay") than he is in this idea of State powers. It would seem, indeed, that it might have occurred to some of our "liberals" that the income tax has signally failed to bring about a levelling of the distribution of wealth. Nothing in its history anywhere warrants the conclusion that the attempt at redistribution of wealth or income by taxation can bring about aught but defeat of its own ends.

ELISHA M. FRIEDMAN

Consulting Economist, New York City

I am thoroughly in sympathy with Prof. Harley L. Lutz's proposals. In fact, since, 1938 I have been working for the abolition of the capital gains tax, and prepared in 1942 a very exhaustive analysis on this subject. It so impressed the members of the Committees of the House and Senate that we may look forward to further improvement in the capital gains tax, if not its complete elimination, as Senator Taft suggested in "The Saturday Evening Post" of Dec. 11.

E. M. Friedman

As for the corporation income tax, I filed two briefs in 1942 and two in 1943 before the House and Senate Committees. The analysis apparently was so sound that, although I was working alone without the help of any organization, the proposal to abolish double taxation after the war has been favorably regarded by the Treasury, the National Resources Planning Board, and important members of the Committees of the House and Senate.

Professor Lutz integrates well the constructive proposals made on the subject of taxation by various students. He also proposes a method of balancing the budget which, in principle, is sound. I would add only one minor suggestion. The investor is the source of economic expansion and of employment. We should, therefore, study some method to encourage investment. We might think of shifting from a tax on income to a tax on expenditures. Under our high income-tax rates we prevent new creative business genius from building up a big business and giving employment. If we taxed personal expenditure only, or if we exempted reinvested income entirely or partly from taxation, we should go a long way toward solving the problem of unemployment. The idea is not new. It was put forth by the late Prof. Thomas S. Adams of Yale University, when adviser to the Treasury, and was actually incorporated in a Treasury report by Secretary Ogden Mills. A good study on this subject has been published recently by Prof. Irving Fisher.

A tax on expenditures instead of on income is a tax on consumption instead of on production. It embodies in a fiscal program the original American virtues of "plain living, high thinking, and hard work."

A. M. SAKOLSKI

City College, New York City

Professor Lutz's scheme of post-war division of tax sources between the Federal Government and the States is ideal on paper, but as a practical program it has many defects and would not work if put into operation. The main defect of the system is its neglect to take into consideration the sources and the uses of the taxable objects. Thus, Prof. Lutz would give over to the States the taxation of individual incomes. If this were done, it would lead to the greatest confusion and double taxation. In these days, individual incomes are derived largely from national sources, i.e., the sources of each individual's income is not limited by State lines, neither is the use of such income thus restricted. Each State in its efforts to obtain all the revenue it can, will levy its income taxes in such a way as to overlap on the jurisdiction of the same object of revenue of the other States, with the result that a citizen or resident of one State would be paying taxes on the same income to several States. And there is nothing more "destructive" in any system of taxes than this sort of double taxation! The State experiences with estate and inheritance taxes has proven this to be the case, and, despite the many decisions of the United States Supreme Court which has had the purpose of fixing the basis of State inheritance taxes the problem is still unsettled, and injustices and practical confiscation of estates still persist under the interpretation of the State laws.

A. M. Sakolski

Although I agree with Prof. Lutz's proposition that steps should be taken to curb Federal taxing power so as to leave certain clear-cut sources of revenue to the States, and thereby enable the States and local governments to carry out their governmental functions more adequately, (and thus not give an opportunity for Federal usurpation of local administration) I feel that in fiscal affairs, theory must give way to expediency and necessity. Because of the vast growth of Federal administrative activities arising out of the economic forces which have knit the nation into a close political union, the bulk of expenditures for governmental purposes is imposed on the Federal government, and sources of revenue must be found to cover the outlays. Under this condition, the Federal taxing powers must be expanded proportionately. If the tendency continues, it may be more desirable, from a practical standpoint, to concentrate most of the taxation in the hands of the Federal authorities, and have a plan of distribution of a portion of these taxes to the States. This scheme works fairly well in New York State, where the State government has increased and extended its taxes, but still limits severely the taxable resources of its communities. The State government, therefore, has found it advisable to apportion certain of its revenues to the municipalities.

HON. C. A. BOTTOLFSEN

Governor of Idaho

I have given the article, "Post-War Tax Program," a careful reading and I believe Dr. Lutz has advanced some ideas worthy of consideration in his article.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 990)

recovered practically all its losses while the industrials have either recovered about 5% or have done nothing. In the first week of January, when the industrials got up to 138.65, the recovery from the extreme lows amounted to about 55% of the previous decline. This leaves that group about 45% more to go for it to stand up alongside the rails.

* * *

A continuance of such a wide divergence—i.e., industrials to rails—is not without its significance. For disregarding the news potential, such a wide gap to the experienced means warning—trouble ahead. The immediate clue as to when this trouble can be expected is frequently found in the volume. Given an average trading day of 750,000 shares, the first step-up to about a 1,200,000 day would be the signal for the direction.

* * *

From recent and present signs the next direction should be down. But, as mentioned above, the effect of propulsive news has not been included. Yet, even the market potential of news can be gauged to some extent.

* * *

As this is being written the industrials are approximately 137, with the news front being silent. Should the market suddenly begin bulging to about 139-40 and break through the upper level on volume, you can assume that what news develops will be good news and that the market, having re-established an uptrend, will continue to move in the direction of the break-through.

Should the market continue present action then the 134 industrial figure becomes important to watch. As in the case of an advance, volume is a valuable adjunct to watch for. In the latter case, however, announced news, assuming it comes simultaneously with a down move, may actually seem good. But if the 134 level is broken, on volume, then disregard general news interpretations and follow the market.

* * *

Applying the above to specific stocks mentioned here before, the advice on buying still goes. The purchase levels approximate the 135 industrial level; the critical points, the 134 figure. It is one of the prime reasons why this column warns against chasing stocks on strong days.

Specifically these stocks continue as follows:

* * *

American Car & Foundry, buy between 33 and 34; stop 33. J. I. Case, buy at 32; stop at 31. Kroger, buy at 32; stop 31. United Air Lines, buy between 23 and 24; stop at 22.

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.]

DIVIDEND NOTICES

SOUTHERN RAILWAY COMPANY

New York, February 29, 1944.

A dividend of Two Dollars ($2.00) per share on 1,298,200 shares of Common Stock of Southern Railway Company, without par value, has today been declared, out of the surplus of net profits of the Company for the fiscal year ended December 31, 1943, payable on Saturday, April 1, 1944, to stockholders of record at the close of business Saturday, March 11, 1944.

Checks in payment of this dividend will be mailed to all stockholders of record at the addresses as they appear on the books of the Company unless otherwise instructed in writing.

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

FINANCIAL NOTICE

MIDLAND VALLEY RAILROAD COMPANY

Interest Payable April 1, 1944 and Oct. 1, 1944
on
ADJUSTMENT MORTGAGE SERIES "A" AND "B" BONDS

Philadelphia, Pa.
February 29, 1944

The Board of Directors has ascertained, determined and declared from the earnings of the year ended December 31, 1943, 4% interest on the Series "A" Adjustment Mortgage Bonds, and 4% interest on the Series "B" Adjustment Mortgage Bonds, 2% payable April 1, 1944 and 2% payable October 1, 1944, as provided in Section 4 of the Supplemental Indenture dated April 1, 1943.

On and after the interest payment dates given, the Fidelity-Philadelphia Trust Company, Philadelphia, Pa., will pay the following amounts for coupons surrendered:

Series "A" Bonds—Coupon No. 1—April 1, 1944—$20. on $1,000. and $10. on $500. Bonds; Coupon No. 2—October 1, 1944—$20. on $1,000. and $10. on $500. Bonds.

Series "B" Bonds—Coupon No. 1—April 1, 1944—$20. on $1,000. and $10. on $500. Bonds; Coupon No. 2—October 1, 1944—$20. on $1,000. and $10. on $500. Bonds.

C. JARED INGERSOLL,
CHAIRMAN OF THE BOARD.

Attractive Situations

Common stock of Merchants Distilling Corporation and Standard Silica Corporation offer interesting possibilities according to memoranda issued by Faroll Brothers, 208 South La Salle Street, Chicago, Ill., members of the New York Stock Exchange and other principal exchanges. Copies of these memoranda may be had from the firm upon request.

DIVIDEND NOTICES

CANCO AMERICAN CAN COMPANY

PREFERRED STOCK

On February 1, 1944, a quarterly dividend of one and three-quarters per cent was declared on the Preferred Stock of this Company, payable April 1, 1944, to Stockholders of record at the close of business March 16, 1944. Transfer Books will remain open. Checks will be mailed.

R. A. BURGER, *Secretary.*

DU PONT E. I. DU PONT DE NEMOURS & COMPANY

WILMINGTON, DELAWARE: *February 21, 1944*

The Board of Directors has declared this day a dividend of $1.12½ a share on the outstanding Preferred Stock, payable April 25, 1944, to stockholders of record at the close of business on April 10, 1944; also $1.25 a share, as the first "interim" dividend for 1944, on the outstanding Common Stock, payable March 14, 1944, to stockholders of record at the close of business on February 28, 1944.

W. F. RASKOB, *Secretary*

EATON & HOWARD
BALANCED FUND

The Trustees have declared a dividend of 20 cents per share payable March 25, 1944 to shareholders of record at the close of business March 17, 1944.

March 9, 1944 24 Federal St., Boston

MARGAY OIL CORPORATION
DIVIDEND NO. 56

The Board of Directors of the MARGAY OIL CORPORATION has this day declared a dividend of twenty-five cents a share on the outstanding stock of the corporation of the issue of 160,000 shares provided by amendment to the certificate of incorporation of April 27, 1926, payable April 10, 1944, to stockholders of record at the close of business March 20, 1944.

E. D. OLDENBURG, Treasurer.

Tulsa, Okla[illegible]

New York & Honduras Rosario Mining Company

120 Broadway, New York, N. Y.

March 8, 1944.

DIVIDEND NO. 366

The Board of Directors of this Company, at a meeting held this day, declared an interim dividend for the first quarter of 1944, of Sixty-five Cents ($0.65) a share on the outstanding capital stock of this Company, payable on March 25th, 1944, to stockholders of record at the close of business on March 15th, 1944.

WILLIAM C. LANGLEY, Treasurer.

DIVIDEND NOTICES

The Borden Company

ANNUAL MEETING

The annual meeting of stockholders will be held on Wednesday, April 19, 1944, at eleven o'clock A.M. (Eastern War Time) at 43 Park Avenue, Flemington, Hunterdon County, New Jersey.

Only stockholders of record at the close of business on Tuesday, March 21, 1944, will be entitled to vote at said meeting, notwithstanding any subsequent transfers of stock.

The stock transfer books will not be closed.

The Borden Company
WALTER H. REBMAN, *Secretary*

COLUMBIA GAS & ELECTRIC CORPORATION

The Board of Directors has declared this day the following dividends:

Common Stock
No. 40, 10¢ per share
payable on April 3, 1944, to holders of record at close of business March 11, 1944.

Cumulative 6% Preferred Stock, Series A
No. 70, quarterly, $1.50 per share

Cumulative Preferred Stock, 5% Series
No. 60, quarterly, $1.25 per share

5% Cumulative Preference Stock
No. 49, quarterly, $1.25 per share
payable on May 15, 1944, to holders of record at close of business April 20, 1944.

DALE PARKER
March 2, 1944 *Secretary*

OFFICE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
CHICAGO ILLINOIS

The Board of Directors of Louisville Gas and Electric Company (Delaware) at a meeting held on March 3, 1944, declared a quarterly dividend of thirty-seven and one-half cents (37½c) per share on the Class A Common Stock of the Company, for the quarter ending February 29, 1944, payable by check March 25, 1944, to stockholders of record as of the close of business March 15, 1944.

At the same meeting a dividend of twenty-five cents (25c) per share was declared on the Class B Common Stock of the Company, for the quarter ending February 29, 1944, payable by check March 25, 1944, to stockholders of record as of the close of business March 15, 1944.

G. W. KNOUREK, Treasurer.

Labor-Management Participate In War Output Exhibit In Washington

Labor and management teamwork for war production were hailed in Washington at an exposition under sponsorship of the War Production Board opening with four special evening previews starting Feb. 27, it was announced by WPB. Donald M. Nelson, WPB Chairman, invited Government, military, war agency, diplomatic, industry and labor officials to advance showings of the first National Labor-Management Production Exposition, seconded by Jesse H. Jones, Secretary of Commerce, host to the exposition in the Department of Commerce Auditorium, 14th Street between E Street and Constitution Avenue. From Friday, March 3, through Saturday, March 11, the exposition was arranged to be open free to the public from 10 a.m. to 10 p.m. daily including Sunday.

Movies, dioramas and dramatic exhibits at this war output show will illustrate how labor and management are cooperating in more than 4,000 war plants to keep supplies rolling to battle lines on land and sea.

Labor-management committees of 72 plants are participating as exhibitors in the exposition, arranged through WPB's War Production Drive, of which T. K. Quinn is Director-General.

In his invitation to the four previews—designed to afford ranking Government personnel a glimpse of the production front in action—Mr. Nelson said:

"As a sign of the powerful drive which the nation is making to increase war production in 1944, outstanding war plants are cooperating with the Government in presenting the National Labor-Management Exposition. The methods and results of industrial teamwork vividly displayed at the exposition are splendid evidence of the determined effort of American labor and industry in backing America's fighting forces."

WPB officials described the purpose of this war output show as intended to focus attention on the need for achieving 20% more production in 1944, and the part labor-management committees are playing and will continue to play in helping to meet this goal.

They also emphasized the opportunity given by the occasion for paying tribute to the production committees that have saved millions of man-hours and greatly accelerated output of war supplies. Many of the myriad items of equipment will be shown, and the manner in which some of it is used in warfare.

In addition to exhibits by WPB and the Department of Commerce, several Government agencies also have displays at the exposition. These will show the assistance offered to labor-management committees through WPB's War Production Drive. The agencies are the War, Navy and Treasury Departments, Maritime Commission, War Manpower Commission, Office of Civilian Defense, Public Health Service, War Food Administration, National Housing Agency and the Office of War Information.

The exposition was planned to tell graphically the story of sustained output due to the united attack by workers and management on production problems, WPB said. Examples of ingenious labor-saving and safety suggestions received by the thousands from workers were displayed in this view behind the scenes of American industry at war.

Numerous labor organizations, American Federation of Labor, Congress of Industrial Organizations and independent, are represented on many of the committees that are exhibiting.

AMERICAN LOCOMOTIVE COMPANY

30 Church Street Alco **New York 8, N. Y.**

PREFERRED DIVIDEND NO. 143

There has been declared, for the quarter year ending March 31, 1944, a dividend of one dollar seventy five cents ($1.75) per share upon the shares of this Company's Preferred Stock (authorized by the Certificate of Consolidation of American Locomotive Company, American Locomotive Sales Corporation and Transamerican Construction Company filed in the Office of the Secretary of State of the State of New York on September 3, 1943) issued and outstanding, payable on April 1, 1944, as to shares thereof held of record at the close of business on March 17, 1944, to the holders of record thereof at that time, and payable as to all of said shares which shall not be held of record at the close of business on March 17, 1944, to those who shall first become the holders of record thereof on the date on which they shall become such holders of record or on April 1, 1944, whichever shall be the later date.

COMMON DIVIDEND NO. 72

There has been declared a dividend of twenty five cents (25¢) per share upon the shares of this Company's Common Stock issued and outstanding, payable on April 1, 1944, as to shares thereof held of record at the close of business on March 17, 1944, to the holders of record thereof at that time, and payable as to all of said shares which shall not be held of record at the close of business on March 17, 1944, to those who shall first become the holders of record thereof by reason of the surrender by them of (a) certificates expressed to represent shares of the Preferred Stock of this Company that were outstanding immediately prior to the consolidation and merger of this Company, American Locomotive Sales Corporation, a New York corporation, and Transamerican Construction Company, a Delaware corporation, which was effected on September 3, 1943 or (b) scrip certificates in respect of Common Stock of this Company on the date on which they shall become such holders of record or on April 1, 1944, whichever shall be the later date.

Transfer books will not be closed. Dividend checks will be mailed by the Bankers Trust Company on March 31, 1944.

February 24, 1944 CARL A. SUNDBERG, *Secretary*

Calendar Of New Security Flotations

OFFERINGS

ABBOTT LABORATORIES

Abbott Laboratories has filed a registration statement for 94,439 common shares, without par value.

Address—Fourteenth Street and Sheridan Road, North Chicago, Ill.

Business—Engaged in the manufacture, distribution and sale of pharamaceutical, medicinal, chemical, biological and vitamin products.

Underwriting—The names of the underwriters and the percentages of the unsubscribed common shares to be purchased by each of them, are as follows: A. G. Becker & Co., Inc., 50%; F. S. Moseley & Co., and Shields & Co., 25% each, all firms of Chicago.

Offering—The 94,439 shares are being offered by the company to the holders of its common shares, for subscription at $45 a share, at the rate of one share for each eight common shares held of record at the close of business on Feb. 17, 1944. Subscription warrants will be exerciseable beginning Feb. 18, 1944, will be transferable and will expire at 3 p.m. on March 1, 1944.

Proceeds—Will be available for general corporate purposes pending specific allocation of such funds. Some of the funds may be used to carry additional receivables and inventories, to pay current liabilities, and to increase bank balances. Some of the funds may be used at some future time to provide for expansion of the company's manufacturing facilities. One of the purposes of this financing is to provide the company with funds with which to meet post-war opportunities which may present themselves for the expansion of the company's business.

Registration Statement No. 2-5296. Form S-1. (1-31-44).

Registration statement effective 5:30 p.m. EWT on Feb. 16, 1944.

More than 97% of the 94,439 shares of common stock was subscribed for by stockholders. The remaining 2,262 shares were distributed by the underwriting group.

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.

WEDNESDAY, MARCH 15

HART, SCHAFFNER & MARX

Hart, Schaffner & Marx has filed a registration statement with the Securities and Exchange Commission for 120,000 shares of common stock, par value $10 per share. Of shares registered a number to be later specified, all issued and outstanding, are to be sold for certain stockholders.

Address—36 South Franklin Street, Chicago 6, Ill.

Business—Consists principally of the manufacture and sale at wholesale of the better grades of men's suits overcoats and topcoats, including, in recent years, military uniforms, and, to a small extent, women's suits and coats.

Underwriting—Blyth & Co., Inc., heads the group of underwriters, the names of others to be filed by amendment.

Offering — The presently outstanding common stock is to be changed from $20 par value to $10 par value and 2½ shares of new stock issued for each present share, which will increase outstanding common stock from 142,313 shares to 355,782½ shares. A portion of the new shares are to be acquired by the underwriters from certain stockholders and offered to the public at a price to be set by amendment. The shares being sold are a portion of the holdings of certain members of the Hart, Schaffner and Marx families principally.

Proceeds—The proceeds from sale of the stock go to the selling stockholders. Price to selling stockholders is to be named by amendment.

Registration Statement No. 2-5309. Form A-2. (2-25-44).

THURSDAY, MARCH 16

STATE BOND AND MORTGAGE CO.

State Bond and Mortgage Co. has registered accumulative savings certificates Series 1207-A $1,000,000, and accumulative savings certificates Series 1217-A $4,000,000.

Address—26½ North Minnesota Street, New Ulm, Minn.

Business — Since its incorporation in 1914, the company has been actively and continuously engaged in the business of issuing and selling face amount certificates. Investment company.

Underwriting—Will be sold by the company's own sales organization.

Offering—Offering price of Series 1207-A is 94.08 to 96.60 and of Series 1217-A 83.30 to 85.68.

Proceeds—For investment.

Registration Statement No. 2-5310. Form A-2. (2-26-44).

WEDNESDAY, MARCH 22

UNIVERSAL PICTURES CO., INC.

Universal Pictures Co., Inc., filed a registration statement for $7,500,000 3¾% sinking fund debentures, due March 1, 1959.

Address—1250 Sixth Avenue, New York City, and Universal City, Cal.

Business—Engaged in the production of motion pictures.

Underwriting—Dillon, Read & Co., head the group of underwriters. Names of others will be supplied by amendment.

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

Proceeds—Net proceeds will be applied to the prepayment, on or about March 18, 1944, of $5,035,000 principal amount of secured notes outstanding and to the redemption at 102 on or about April 18, 1944, of $1,983,000 face amount of the company's ten-year 5% convertible debentures, due April 1, 1950. Any remainder of net proceeds will be added to the general funds of the company.

Registration Statement No. 2-5311. Form A-2. (3-3-44).

In the Armed Forces

The Boston Securities Traders Association has reported that the following members are now in the armed forces:

P. Warren Donovan, Lt. Nicholas Lamont, Gilbert M. Lothrop, Lt. Arthur D. Noble, Arthur H. Reilly, Robert S. Weeks, Jr.

A total of 44 members of the Association are now in the service.

DATES OF OFFERING UNDETERMINED

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

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).

Amendment filed March 1, 1944, to defer effective date.

AMERICAN REALTY CO.

American Realty Co. has filed a registration statement relating to the offering for the extension of first mortgage serial notes of Housam Realty Co., secured by a first mortgage deed of trust on the Ranelagh Apartments, 5707 McPherson Avenue, St. Louis, Mo., in the aggregate principal amount of $240,750.

Address—5707 McPherson Avenue, St. Louis, Mo.

Business—Apartment building. American Realty Co. was incorporated July 21, 1943, to acquire and own the equity in the Ranelagh Apartments subject to the first mortgage deed of trust, securing the outstanding and unpaid mortgage serial notes of the par value of $267,000 which, by the plan of reorganization, are to be reduced by 10% to $240,750 of par value, and on outstanding second deed of trust on which there is an unpaid balance of $40,500.

Underwriting—None.

Offering—Purpose of present offering to the noteholders is to reduce the principal amount of all the notes outstanding by 10%, leaving, after such reduction of principal, an aggregate first mortgage indebtedness of $240,750.

Registration Statement No. 2-5282. Form S-1. (12-30-43.)

Registration statement withdrawn Feb. 22, 1944.

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 March 2, 1944, to defer effective date.

BONWIT TELLER, INC.

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

Address—721 Fifth Avenue, New York City.

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

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

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

Proceeds—Proceeds will go to the selling stockholders.

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

Amendment to defer effective date filed March 6, 1944.

BUTTES OILFIELDS, INC.

Buttes Oilfields, Inc., has filed a registration statement for 306,305 shares of class A common stock, par $1 per share.

Address—912 Syndicate Building, 1440 Broadway, Oakland, Cal.

Business—Organized to drill and develop certain properties held under a community oil, gas and mineral lease.

Underwriting—None named.

Offering—The company plans to reorganize its capital structure and put it virtually, if not wholly, on a common stock basis. The exchange features of the offering are limited to holders of the corporation's outstanding 6% preferred stock and to holders of its 8% unsecured notes. The offering for cash is limited to stockholders of record as of July 15, 1943. If fully subscribed, cash proceeds from the issue will be $150,000.

Proceeds—Cash proceeds will be disbursed as follows: liquidation of general indebtedness, $40,000; operating capital, $5,000; general cash reserve, $60,000; reserve for property acquisitions, etc., $45,000. Price per unit for securities to be offered for cash is $1.60, with no underwriting discounts and commissions.

Registration Statement No. 2-5268. Form S-1. (12-7-43.) Statement originally filed in San Francisco.

Amendment filed Feb. 19, 1944, to defer effective date.

CERTAIN-TEED PRODUCTS CORPORATION

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

Address—120 South LaSalle Street, Chicago, Ill.

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

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

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

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

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

Amendment filed Feb. 22, 1944, to defer effective date.

DIANA STORES CORP.

Diana Stores Corp. has registered 80,000 shares of common stock, par value $1 per share.

Address—519 Eighth Avenue, New York City.

Business—Operates a chain of 26 retail stores in six southeastern states in which it sells women's and misses' popular priced wearing apparel, coats, suits, lingerie, hosiery, hangbags, etc.

Underwriting—Van Alstyne, Noel & Co., New York, are named principal underwriter. Other names will be supplied by amendment.

Offering—Price to the public is $7 per share, with net cash proceeds to the company of $480,800 exclusive of a total of $2,000 to be received by the company from the proceeds of the sale to the underwriters at ten cents per warrant share, of warrants entitling the holders to purchase at $7 per share an aggregate of 20,000 shares of common stock.

Proceeds—Will be added to the working capital of the company and be available for general corporate purposes, especially the opening of additional stores.

Registration Statement No. 2-5300. Form S-2. (2-3-44).

METALES DE LA VICTORIA, S. A.

Metales de la Victoria, S. A. has filed a registration statement for 1,000,000 common shares and production notes in the aggregate sum of $500,000, lawful money of the United States of America.

Address—406 Valley National Building, Tucson, Ariz.

Business—Organized under the laws of Mexico on Oct. 23, 1942, for the purpose of engaging in the business of acquiring, exploring, developing and operating mining properties in Mexico, and the milling and marketing of ores and concentrates therefrom.

Underwriting—Offering will be made direct to the public by the company, and to brokers and dealers for their own accounts or as selling agents of the company.

Offering—Offering consists of 50,000 units, a unit consisting of a production note in the face amount of $10 and 20 shares of common stock, price per unit $10, lawful money of the United States of America.

Proceeds—For development, purchase of equipment, etc.

Registration Statement No. 2-5151. Form S-3 (6-11-43).

Amendment of Sept. 24, 1943 indicates offering data should have been amended to read: 7% series A production notes, $150,000, common stock 1 centavo par value, $300,000 to be offered in units of $10 principal amount of notes and 20 shs. of common stock (or 15,000 units) at $10 per unit, for an aggregate offering price of $150,000. 7% series B production notes $100,000 and common stock $200,000 to be offered in units of $10 of notes and 20 shares of stock (or 10,000 units) at $10 per unit for an aggregate of $100,000.

Registration statement effective 5:30 p.m. EWT on Nov. 3, 1943.

MICHIGAN CONSOLIDATED GAS CO.

Michigan Consolidated Gas Co. has filed a registration statement for $38,000,000 first mortgage bonds, 3½% series due 1968, and 40,000 shares 4¾% cumulative preferred stock, par $100 per share.

Address—415 Clifford St., Detroit, Mich.

Business—Engaged in the natural and manufactured gas business in Michigan.

Underwriting—Securities are to be offered for sale at competitive bidding and names of underwriters will be supplied by amendment.

Offering—Prices to the public will be supplied by post-effective amendment.

Proceeds—Company intends to use the proceeds from the sale of the bonds and the preferred stock together with a portion of the proceeds from the sale of additional shares of common stock, to redeem on or before Jan. 20, 1944, the entire issue of first mortgage bonds, 4% series due 1963, outstanding in the face amount of $36,000,000; to redeem the entire issue of 4% serial notes, due Aug. 1, 1944-48, outstanding in the face amount of $4,150,000, and to redeem on March 1, 1944, at $110 per share, the entire issue of its 6% preferred stock, par $100 per share, of which 20,000 shares are outstanding.

Registration Statement No. 2-5252. Form S-1. (11-13-43).

Amendment filed Jan. 22, 1944, to defer effective date.

Registration statement effective under notice of deficiency 5:30 p.m. EWT on Feb. 10, 1944.

NETHERLANDS HOTEL CORP. AND ARTHUR FELS BOND & MORTGAGE CO.

Netherlands Hotel Corp. and Arthur Fels Bond & Mortgage Co. have registered $564,000 10-year income bonds, bearing interest at the rate of not exceeding 3% per annum.

Address—15 West Tenth Street, Kansas City, Mo.

Business—Apartment building.

Underwriting — Arthur Fels Bond & Mortgage Co., Kansas City, Mo., is named agent to make exchange.

Offering—As soon as possible after effective date of registration statement.

Purpose—For exchange of new bonds for the $564,000 face amount of the present bonds outstanding.

Registration Statement No. 2-5288. Form S-1. (1-8-44.)

Amendment filed Jan. 24, 1944, to defer effective date.

NORTHWEST AIRLINES, INC.

Northwest Airlines, Inc., has filed a registration statement for 139,460 shares of common stock, without par value, of which 117,460 shares will be offered to the company's present common stockholders and the balance to be issued under options.

Address—1885 University Avenue, St. Paul 4, Minn.

Business—Engaged in air transportation with respect to persons, property and mail, and in the performance of contracts with the United States in connection with the prosecution of the war.

Underwriting — Auchincloss, Parker & Redpath head the underwriting group. Others will be named by amendment.

Offering—Holders of record at a date in January, to be named, of the company's common stock will be given pro rata rights to subscribe to an aggregate of 117,460 additional shares of common stock, in the ratio of one share for each two shares then held, at a price to be named by amendment. The subscription warrants will expire at 3 p.m. on Jan. 15, 1944. The underwriting group will purchase the unsubscribed shares and offer them to the public at a price to be named by amendment.

Proceeds—The entire net proceeds will be available for general corporate purposes pending specific application of such funds, and it is expected they will be invested temporarily in securities of the United States Government. It is considered desirable that the company at this time provide itself with funds with which to meet its future responsibilities and opportunities. It is expected funds will be used for the acquisition of additional flying, communications and other equipment, the construction of hangars, the purchase of machinery and other facilities in connection with its present routes and such new routes as may hereafter be acquired or participated in by the company. It is probable, although not certain, that additional flying and other equipment may become available for commercial operations before the termination of the war. As additional flying and other equipment becomes available, the company must be in a position promptly to place orders sufficient for its needs. In carrying out the program, the company may find it necessary to provide additional funds through the sale of additional securities, bank borrowings, the issuance of equipment trust certificates, or other financing, although the company has no present plans for any such other financing.

Registration Statement No. 2-5279. Form A-2. (12-23-43.)

Amendment filed March 3, 1944, to defer effective date.

OIL VENTURES CORPORATION

Oil Ventures Corporation has registered 3,000 shares of Class A capital stock, without par value, fully paid and non-assessable.

Address—19-21 Dover Green, Dover, Del.

Business—Organized under the laws of Delaware on April 27, 1943, for the purpose of engaging either alone or with others in any phase of the oil business.

Offering—Price to the public is $100 per share.

Underwriting—Tellier & Co., New York, is principal underwriter.

Proceeds—To be applied and used for any of the proper corporate purposes as its board of directors may determine. Statement says it is the purpose and objective of the management to be free at all times to take advantage of any condition or set of circumstances which, in its opinion, offers opportunity for profit to the corporation.

Registration Statement No. 2-5155. Form S-2. (6-18-43).

Registration statement effective but apparently defective 5:30 p.m. EWT. on July 15, 1943.

Registration statement withdrawn Jan. 6, 1944.

OKLAHOMA NATURAL GAS CO.

Oklahoma Natural Gas Co. has registered $18,000,000 first mortgage bonds series due April 1, 1961, and 180,000 shares of preferred stock, Series A, cumulative, par value $50 per share.

Address — 624 South Boston Avenue, Tulsa, Okla.

Business—Operating public utility engaged in producing, purchasing and distributing natural gas.

Underwriting—Names to be supplied by post-effective amendment.

Offering—The bonds and new preferred stock are to be offered for sale subject to the competitive bidding requirements of the Commission. The successful bidder will name interest rate on the bonds and dividend rate on the preferred stock. Offering prices of both bonds and stock will be supplied by post-effective amendment.

Proceeds—Net proceeds, together with such additional amounts up to $6,500,000 as may be required, and obtained from the proceeds of a new bank loan will be applied to redemption purposes as follows: $16,500,000 face amount of first mortgage bonds, Series B, 3¾%, due Aug. 1, 1955, at 104½ and $3,678,000 face amount of first mortgage bonds, Series C 3% due April 1, 1956, at 104¼, total $21,076,815; payment of $3,500,000 bank loan; redemption of 58,000 shares of $5.50 convertible prior preferred stock at $110 per share or $6,380,000 and redemption of 91,055 shares of $3 preferred stock, $50 par, at $55 per share or $5,008,025, grand total $35,964,840. The amounts required for such purposes will be reduced to the extent the $5.50 convertible prior preferred is converted into common stock before the redemption date. If no conversions of the $5.50 convertible prior preferred are made additional sums, other than those provided by the new securities and new bank loan, will be required from the company's general funds and will be available for the purpose.

Registration Statement No. 2-5302. Form S-1. (2-7-44).

Amendment filed Feb. 23, 1944, to defer effective date.

PACIFIC MUTUAL LIFE INSURANCE CO. OF CALIFORNIA

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

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

Business—Life insurance.

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

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

Amendment filed Feb. 23, 1943, to defer effective date.

PUBLIC SERVICE CO. OF OKLAHOMA

Public Service Co. of Oklahoma has filed a registration statement for $1,500,000 5% preferred stock, cumulative, par $100 per share, and $6,600,000 first mortgage bonds, Series A, 3¼%, due Feb. 1, 1971.

Address—600 South Main Street, Tulsa, Okla.

Business—Engaged principally in generating, purchasing, selling electric energy and also natural gas and selling water.

Underwriting—None involved in issue of stock which is for exchange purposes. Bonds will be offered for sale at competitive bidding and names of underwriters will be supplied by amendment.

Offering—The company is offering to the holders of 24,255 publicly held shares of $6 preferred, without par value, of Southwestern Light & Power Co., principal subsidiary of Oklahoma, the right to exchange, on a share for share basis, 15,000 of such shares of Southwestern for a like number of 5% preferred shares of Oklahoma. Subscriptions to be reduced pro rata in case the holders of more than 15,000 shares of Southwestern accept the exchange offer. Middle West Corp. has agreed to purchase from Oklahoma at $100 per share and accrued dividends, 2,500 of said 15,000 shares, less such number of shares thereof in excess of 2,500 shares as may be subscribed for pursuant to the exchange offer, and American Public Service Co. has agreed to purchase from Oklahoma, at $100 per share and accrued dividends, 10,000 shares of said 15,000 shares of 5% preferred, less such number of shares thereof in excess of 5,000 shares as may be subscribed for pursuant to the exchange offer. No underwriting commissions will be paid by the company in connection with the exchange offer. Offering price of bonds will be filed after the result of competitive bidding by the filing of a post-effective amendment.

Proceeds—Pursuant to authorization in December, 1943, by the Securities & Exchange Commission, Oklahoma will, upon the dissolution of Southwestern, principal holding company of Oklahoma, acquire assets of Southwestern subject to the liabilities of Southwestern at date of acquisition. Oklahoma will acquire the properties of the subsidiary subject to $6,648,000 face amount of the subsidiary's first mortgage bonds, Series A, 3¾%, due Dec. 1, 1969. The net proceeds, to be received by Oklahoma from the sale of the bonds of Series A registered, together with general funds of the company, are to be applied to the redemption, at 105%, of such bonds of subsidiary.

Registration Statement No. 2-5275. Form A-2. (12-21-43.)

Registration statement effective 5:30 p.m., EWT, on Jan. 10, 1944.

PUBLIC SERVICE CORP. OF TEXAS

Public Service Corp. of Texas has filed a registration statement for $800,000 5% 25-year first mortgage bonds.

Address—Burk Burnett Building, Fort Worth, Texas.

Business—Public utility corporation.

Underwriting—Keystone Pipe & Supply Co., Butler, Pa., is named underwriter, parent of registrant.

Offering—There will be no principal underwriter, but the bonds received by the Keystone Pipe & Supply Co., parent of registrant, will be offered to holders of its preferred stock in exchange for same. The basis of exchange is to be $100 par of the bonds for $100 par value of preferred stock. The underwriter is not bound to take all the securities registered. The underwriter is the owner, however, of 24,096 shares of the preferred stock of the registrant and has agreed to accept at par the bonds registered in exchange for registrant's preferred stock which it owns.

Purpose—The securities are to be offered by the registrant in exchange for its outstanding preferred stock and by the underwriter (Keystone Pipe & Supply Co.) in exchange for its outstanding preferred stock. The basis in each case is one $100 par value in bonds for $100 par of preferred stock. The balance of the preferred stock of the registrant outstanding in the amount of $5,875 will be called in by the registrant and retired.

Registration Statement No. 2-5274. Form S-1. (12-21-43.)

Amendment filed Feb. 25, 1944, to defer effective date.

SOUTHERN OPERATORS, INC.

Southern Operators, Inc., has registered $42,750 common stock.

Address—110 E. 42nd Street, New York City.

Business—The registrant has done no business. The business which the registrant intends to do is to engage in the purchase, sale and management of land and real property and interests therein, both as principal and agent.

Underwriting—There are to be no underwriters.

Offering—It is intended to sell the securities at par or as near par as can be obtained and the total proceeds are to go to the registrant.

Proceeds—For working capital.

Registration Statement No. 2-5286. Form S-2. (12-31-43.)

Amendment filed Jan. 19, 1944, to defer effective date.

Registration statement withdrawn Feb. 4, 1944.

THE SOUTH COAST CORPORATION

The South Coast Corporation has filed a registration statement for $1,500,000 first mortgage 5% bonds due Dec. 31, 1955.

Address—Carondelet Building, New Orleans, La.

Business—Consists primarily of the cultivation of sugar cane and the manufacture and sale of products and by-products resulting from the processing of sugar cane, including raw and refined sugars, syrups, black strap molasses and bagasse.

Underwriting—To be named by amendment.

Offering—To be named by amendment.

Proceeds—Will be applied to the redemption, at the principal amount thereof plus annual interest, of the $998,405 in principal amount of general mortgage 15-year 6% income bonds, due Sept. 1, 1950, and balance added to working capital and may be applied to the reduction of current bank loans and the purchase of supplies and raw materials.

Registration Statement No. 2-5291. Form S-1. (1-21-43.)

Amendment filed Feb. 25, 1944, to defer effective date.

TIMES-PICAYUNE PUBLISHING CO.

Eleven trustees have filed a registration statement with the Commission for voting trust certificates for 28,000 shares of the capital stock of the Times-Picayune Publishing Co., par value $100 per share.

Address—Of corporation, 615 North Street, New Orleans, La.

Business—Newspaper publisher.

Underwriting—None named.

Offering—Date of proposed offering of voting trust certificates is Dec. 27, 1943.

Purpose—To establish a voting trust agreement to be dated Dec. 27, 1943, and run to Dec. 26, 1953, with the right to extend agreement for an additional 10 years by a majority vote of the total number of shares deposited under the voting trust agreement.

Registration Statement No. 2-5266. Form F-1. (12-7-43.)

Registration statement effective 5:30 p.m. EWT on Feb. 18, 1944.

UNION LIGHT, HEAT AND POWER COMPANY

Union Light, Heat and Power Co. registered 25,000 shares $100 par common stock

Address—4th & Main St., Cincinnati Ohio

Business — Operating electric utility company

Underwriter — Columbia Gas & Electric Corp.

Offering—Stockholders will receive offer to subscribe to 25/94ths of one common share in units of 5/94ths of a share for each 5/94ths of a share held at $5.3[illegible] for each unit. On a share basis, stockholders may subscribe to 5 new shares for each share held at $100.016 per share Substantially all outstanding stock is held by Columbia Gas & Electric Corp.

Proceeds—To repay current debt and $2,835,000 first mortgage bonds held by parent and associated companies, and for construction costs

Registration Statement No. 2-4379. Form A-2. (3-30-40)

Registration statement withdrawn Jan. 29, 1944.

UNITED GAS CORPORATION

United Gas Corp. registered $75,000,000 first mortgage and collateral trust 3¼% bonds due 1958

Address—2 Rector Street, New York City

Business—Production and sale of natural gas; part of Electric Bond and Share System

Underwriters—None

Offering Terms—Bonds will be sold to institutional investors, whose names will be supplied by amendment, at 99.34%

Proceeds—To redeem $28,850,000 United Gas Public Service 6% Debentures due 1953; to pay 6% demand note of $25,925,000 to Electric Bond and Share; to repay $2,000,000 open account debt to E. B. & S.; and to purchase from United Gas Pipe Line Co., $6,000,000 of its 1st & Coll. 4% bonds due 1961. Balance will be used in part to reimburse treasury for capital expenditures and possibly to pay accumulated dividends of $9,502,490 on companys $7 preferred stock

Registration Statement No. 2-4760, Form A-2 (5-15-41)

United Gas Corp. filed amendment with SEC on Feb. 21, 1942, stating that it had been unable to further extend the purchase agreements with 14 insurance companies covering the proposed private sale to such insurance companies of $75,000,000 of the company's first mortgage and collateral trust 3¼% bonds, due 1959. This amendment states: "These purchase agreements expired on Feb. 16, 1942. The corporation intends to continue negotiations to the end that its bonds shall be either sold privately, by renewal of the aforesaid agreements or otherwise, or offered to the public as circumstances shall dictate in order to obtain the best possible price."

Amendment filed March 2, 1944, to defer effective date.

UNIVERSAL PICTURES COMPANY, INC.

Universal Pictures Company, Inc., has registered 234,500 shares of common stock, par value $1 per share, and warrants for the purchase of 125,000 shares (voting trust certificates) at $10 per share, expiring April 1, 1956. See registration statement below.

Address—1250 Sixth Avenue, New York City and Universal City, Cal.

Business—Engaged in the production of motion pictures and their distribution through subsidiary companies and licensees.

Underwriting—There are no principal underwriters.

Offering—Voting trust certificates for the shares are to be issued as stock purchase warrants are exercised. Of such warrants 109,500 have been issued, and 125,000 are to be issued to seven officers or employees of the company. The purchase price with respect to 232,000 shares is $10 per share, and with respect to 2,500 shares is $9.50 a share if the shares are issued on or before Dec. 15, 1943, and if issued subsequent thereto and on or before Dec. 15, 1944, the price will be $10 per share.

Proceeds—Net proceeds from the sale of common stock as represented by voting trust certificates as stock purchase warrants are exercised from time to time will be added to the working capital of the company and will be used for general corporate purposes.

Registration Statement No. 2-5229. Form A-2. (10-14-43).

Registration statement effective 5:30 p.m., EWT, on Jan. 11, 1944.

(This list is incomplete this week)

Proposed Changes In New York Stock Transfers Tax Law Designed To Stimulate Local Markets

Two bills are now pending in the New York Legislature to amend the State Stock Transfer Tax Law. One is the Wick's-Archinal Bill, (Assembly Int. No. 1399, Senate Int. No. 1052) which would reduce the tax rate on securities selling under $5.00 from the present rate of three cents to one cent a share, and on securities selling for $5.00 but not more than $10.00, the rate would be two cents instead of the present rate of three cents per share. The ostensible purpose of the lower tax rates (which include both the normal tax and the emergency tax), is to enable New Yorkers in the security business better to compete in the field of low priced stocks with dealers outside of the state. Already a number of investment trusts and similar organizations have located in New Jersey, Delaware and other states in order to escape the New York transfer taxes, and it is expected that these will be encouraged to again settle in New York if the lower rates go into effect.

The other bill also aims to improve the competitive position of New York securities dealers.

This is known as the Bewley-Hollowell Bill (Senate Int. No. 899, Assembly Int. No. 1176). It would add a new subdivision to Sections 270 and 270-a of the State Tax Law, which would provide that the sections shall not be construed to impose a tax upon a mere delivery, against payment or receipt within New York State, of shares or certificates to complete a sale, which, except for such delivery was made entirely outside the State. The present law, as interpreted by the State Tax Commission, imposes the tax when securities are shipped into New York against delivery receipt, but does not impose the tax, if the securities are shipped with draft attached for delivery against payment of the draft. The passage of this amendment would thus remove one of the sources of dispute between New Yorkers and those located in other states regarding liability for payment of the tax.

"Our Reporter On Governments"

By JOHN T. CHIPPENDALE, JR.

The refunding of maturing or callable notes and bonds by the Treasury in the amount of $4,730,000,000 comes at a time when conditions at home and abroad are favorable to such an operation. . . . The Fourth War Loan Drive has just been successfully concluded and since the banks were given only a limited participation in the drive, they have been able to increase their holdings in the refundable obligations and are the largest holders of these issues. . . . To that extent the conversion operation will be largely concerned with the commercial banks and the note issue offered in exchange for the refundable securities is especially attractive to them. . . . During 1944, Government notes and bonds amounting to $6,685,000,000 mature or become callable, so that when the current refunding is completed the Treasury has only $1,955,000,000 of this type of security to be taken care of later in the year, aside from the bills and certificates, which will be exchanged for similar obligations. . . .

The following securities are to be refunded by the Treasury:

Direct Government Obligations

$515,000,000	1% Treasury notes, due March 15, 1944
1,519,000,000	3¼% Treasury bonds, called for payment April 15, 1944
416,000,000	¾% Treasury notes, due June 15, 1944
Total $2,450,000,000	

Guaranteed Obligations

$95,000,000	3¼% Federal Farm Mortgage Corporation bonds, called for payment March 15, 1944
571,000,000	1% Reconstruction Finance Corporation notes, Series W, called for payment April 15, 1944
779,000,000	3% Home Owners Loan Corporation bonds, Series A, called for payment May 1, 1944
835,000,000	3% Federal Farm Mortgage Corporation bonds, called for payment May 15, 1944
Total $2,280,000,000	

The securities to be offered in exchange for these obligations are:

1½% Treasury notes, due Sept. 15, 1948 (unrestricted as to exchanges by either institutions or individuals)
2¼% Treasury bonds, due 1956-1959
2½% Treasury bonds, due 1965-1960 (these bonds are not eligible for purchase by commercial banks, but are available to all other institutions and individuals)

"RIGHTS" BACK

The Treasury in this refunding has again resorted to the use of "rights," which had not been employed for some time, and this pattern will no doubt be used for future operations. . . . These refunding proposals are a sample of what can be expected on a much larger scale when the country returns to more normal conditions. . . .

All of the securities to be retired in this refunding, with the exception of $571,000,000 of Reconstruction Finance Corporation notes due April 15, are wholly or partially tax-free obligations, which means that the Treasury will benefit through their replacement with taxable securities. . . . By the end of the year practically all of the wholly tax-free notes will have been retired, leaving only $718,000,000 of the Series "A" ¾% notes due March 15, 1945. . . . The partially tax-free obligations, likewise, will be further reduced during 1944, to the extent of $4,265,000,000, leaving $22,947,000,000 of these securities outstanding. . . . Due to the retirement of this type of obligation the market for partially tax-exempt securities is expected to continue strong. . . . The Federal Farm Mortgage Corporation's bonds will be entirely eliminated as will the last of the publicly held Reconstruction Finance Corporation's notes through this refunding operation. . . . Of the Government-guaranteed debt there will remain only $755,000,000 of Home Owners Loan Corporation bonds and $412,000,000 of Commodity Credit Corporation notes, both callable next year. . . .

Because of their large deposits and the declining capital ratio it is important that the banks maintain a highly liquid position to meet any condition that may develop. . . . This, together with the fact that they are the largest holders of the refundable issues, indicates a favorable reception for the 1½% notes due Sept. 15, 1948, which already command a modest premium. . . . The when-issued quotations are 100 5/32 bid, 100 6/32 asked. . . . Based upon current market prices for comparable issues, a premium of from 8/32 to 12/32 above the issue price, for these notes, would not seem to be out of line, when the market has had time to more fully evaluate them. . . .

Approximately $500,000,000 of the called issues are held by the Federal Reserve and Government agencies. . . . The former is quite likely to exchange along with the banks into the 1½% notes since liquidity is a major consideration here. . . .

LARGER RETURN

The longer-term obligations offer to others than banks an opportunity to obtain a larger return than they would get in the note issue, and to the extent that the 2¼% and 2½% bonds are taken by the holders of the called issues, the Treasury will have substantially extended its maturity schedule and will make less pressing the refunding in nearer-term years. . . . The amount of these bonds taken by non-bank holders will tend to broaden the market for these obligations, which have been restricted because the commercial banks have been excluded from ownership except to a limited extent of their savings deposits. . . . Government agencies and trust funds holdings of the called issues may be expected to be converted into the bond issues. . . . It is indicated that at least 90% of the $4,730,000,000 of maturing or called securities will be exchanged for the new issues. . . .

GOVERNMENT BOND MARKET ACTION

Following the announcement of the terms of the refunding, all parts of the Government bond market firmed and trading actively increased, with the longer-term partially tax-exempt obligations in good demand. . . . Banks that are in the excess profits tax brackets were reported to have been the buyers of the partially tax-exempt securities. . . . These bonds are still attractive for institutions to whom the tax feature is more important than a lengthening of the maturity and the large premium involved. . . . Banks that are not likely to be in the excess tax brackets are still confining their purchases to taxable obligations which, in many instances, give about as good a return as the partially tax-exempt bonds and do not involve as large a premium. . . . An example of this is evident in a comparison between the taxable 2½% bonds of 1956-58 at about 103.21 to give a tax-free yield of 1.29% and the partially tax-free 2⅞% bonds due 1955-60 at 112.19, to yield 1.36% on a tax-free basis. . . .

Inquiries coming into the market indicate that the Treasury withdrawals from the war loan account will have a temporizing effect upon the market, since the banks will have to make some adjustments in their portfolio, to meet the larger reserve requirements. . . .

Annual Meeting Of Swiss Bank Corp.

Swiss Bank Corporation New York Agency has received notice that at the 72nd Annual Meeting held in Basle, Switzerland, attended by shareholders of Swiss Bank Corporation representing 143,311 shares, approval was given to the distribution of a dividend of 4%, as well as to the yearly accounts, including a balance of 3,841,942 Swiss francs to be carried forward. Elected as new members of the Board were Paul Renggli of Bienne, Chairman of The Societe Generale de l'Horlogerie Suisse S. A., and Henry Wachter of Winterthur, General Manager of Volkart Bros.

The meeting also accepted the resignation of Dr. Max Staehelin from the chairmanship and elected him Vice-Chairman. Dr. Rodolphe Speich (formerly second Vice-Chairman and General Manager) was elected Chairman of the Board, and Maurice Goley, President of the General Management, as Managing Director.

V. B. Rush Is Now With Harrison & Austin, Inc.

(Special to The Financial Chronicle)

SOUTH BEND, IND.—Vincent B. Rush has become associated with Harrison & Austin, Inc., City National Bank Building. Mr. Rush was formerly in the investment business on the Pacific Coast, where he was connected with Franklin Wulff & Co., Inc.; Wm. H. Mann & Co.; Empire Securities Corporation, and Paul J. Marache & Co. In the past he was Pacific Coast manager for Selected Shares Corporation.

INDEX