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What's Ahead?

Today it's production, more production—and that is the only order of business until we have won this war; then, tomorrow, it most certainly will be distribution. Our private enterprise system must adopt an entirely new concept as it looks ahead to the problem of distribution. In the past, we employed just that number of people required to make the products we could sell. Tomorrow, we must sell our products in sufficient volume to keep gainfully employed every worker to whom we are obligated—and the sales organizations of American business must be responsible for such performance—they must succeed in distributing, as the production men have succeeded in producing.

James A. McLain

This is the big challenge ahead of us. It is the major problem of postwar days — and its solution

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In This Issue

Special material and items of interest with reference to dealer activities in the State of Ohio appears on page 1210.

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Inflation---The Psychological Approach

By DR. MELCHIOR PALYI, Chicago

The adage that "inflation is a mental state," expresses in a flippant fashion the truth that there is no mechanical relationship between the increase in the amount of money and the level to which prices may rise, no law that would tie them together in terms of definable or predictable ratios, or in timing.

Briefly, the link that connects the printing press with the bread basket is "psychological." Prices rise if and when the excessive volume of money is disbursed. And it is disbursed if and when the public, or part of it, is convinced that its liquid holdings are excessive — that prices will rise. This is obvious; but the elusiveness common in arguments on the "psychological" level invites more or less subtle reasonings to prove that inflation need not occur in the presence or absence of this or that element, which is supposedly relevant to mass-attitude. Such arguments, typical of every inflationary scene, merely confuse the psychological and the mechanical; they serve to assure the gullible, after the reasonings of a purely quantitative nature have been exhausted. Pseudo-psychology is as good a method of "kidding" oneself, as is the pseudo-mathematical approach to monetary problems. The two "methods" are of about the same age, too.

Dr. Melchior Palyi

Why We "Can't Have" Inflation

Quite a few such "psychological" reasons are current to con-

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Post-War Prospects And Problems

By PROF. WM. B. BAILEY*
Economist, Travelers Insurance Co., Hartford

Prof. Bailey Holds We Will Escape An Inflationary Rise In The Cost Of Living Because Of Our Tremendous Productive Capacity. Sees Danger Of Inflation Existing For One Or Two Years After End Of War. Thinks It Likely That General Price Level Will Be At Least 25% Higher Than It Was Before We Entered War.

Most of you, I think, are more interested in what we may expect in the postwar era than you are in the immediate present. You are pretty well aware of the opportunities to write new business that exist today. You know there's plenty of money in circulation and that men are quite willing to spend it for the insurance they need. Your problems are not so much where to find business, but how to get out and solicit that business or how to find the help you need to handle that business after it's written.

Prof. Wm. B. Bailey

I think it is safe to say that there will continue to be plenty of money in circulation, some of which can easily be diverted into insurance, as long as the war lasts. And I think that you will continue to have to wrestle with the war-created problems of taxes, transportation difficulties, lack of help and lack of time for the duration.

But what's likely to happen after the war ends? That's the question that seems to interest most business men today. Are we likely to see a wave of depression? Will the problem of unemployment cause the Government to invade fields now dominated by

*An address made by Mr. Bailey, a former Professor of Economics at Yale University, before the twenty-fourth annual sales congress of the Life Underwriters Association held on March 9th at the Hotel Pennsylvania, New York City.

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The Rising Tide of Railroad Credit

By ARTHUR C. KNIES*
Partner—Vilas & Hickey

What a contrast to a year ago! At that time we were admonished to "take it easy" and "not be so bold." Our prophecies on the forthcoming Supreme Court decision upholding priorities to the full and the change in public psychology regarding the rails were not considered as "conservative." The attempts to deflate the balloon of "insurance company liquidation" and hazard the guess that 1943 would witness large institutional rail investment purchases were taken with much skepticism, to say the least. Who are the buyers of Erie and Wabash First 4s now? Trust accounts largely—being forced to come back into the field only a few years after "We'll never buy a rail again!" The next step is the banks' own portfolios.

Arthur C. Knies

Let's take a minute and quickly review some of the skeletons of public fancy—probably "infancy" is a better word—that 1943 put to rest.

Probably the first accolade should be to the roads themselves. "You can't keep a good

*An address made by Mr. Knies before the Central States Group, Investment Bankers Association of America, at the Palmer House, Chicago, Ill., March 16, 1944.

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Foreign Trade And Currency Stabilization Problems Discussed

Assistant Secretary Of Treasury Says Proposed International Stabilization Fund And International Bank For Reconstruction Development Would Foster Foreign Trade And Productive Investment Between Member Countries—International Bank Would Not Compete, But Assist Private Investment, He Says

Herbert E. Gaston, Assistant Secretary of the Treasury, speaking at a luncheon meeting of the Citizens Conference on International Economic Union at the Hotel Statler, Washington, D. C., on March 4th said "that the woe and the disaster of war are so great that we ought not to add to them the peril of an unplanned peace, or armistice between wars, as destructive as the war itself."

Herbert E. Gaston

"In planning it is usual to think of alternatives, and we have them on the international economic front. One would be economic isolationism, but it would be easy to show that it isn't a workable alternative. We don't exactly know what was the degree of isolation on this continent prior to 1942; but we do know that isolationism has not been the rule since then. Nor could it have been.

"Probably no political unit on earth is so well fitted for economic isolation as the United States of America, so nearly equipped to supply all its own wants; but to accomplish it we should need a police force of unimaginable size, and the result would be an economic revolution internally. It is of course quite true that America is her own best customer, both for the present and the future, and that foreign trade accounts for but a small fraction of our business. But that small fraction has been built or has grown into the fabric and tissue of our economy. We couldn't cut it out without serious damage and

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Post-War Taxes

Outstanding among domestic post-war problems is that of taxation and the extent to which it can be reduced without jeopardy to Government revenue while maintaining a healthy free enterprise economy.

(1) Proposed 25% Limitation

There is a movement gaining momentum to secure an amendment to the Federal Constitution concerning taxes on incomes (both corporate and individual), inheritances and gifts. This proposed amendment would be the 22nd and would repeal the 16th Amendment, originally introduced in 1909 and made effective in 1913. It provides that the power of Congress to impose such taxes shall be limited to a maximum rate of 25%, except that in the case of war limitation could be suspended by a three-fourths vote of each house of Congress.

Two ways of amending the Federal Constitution are provided by Article V. One is by the adoption by Congress by a two-thirds vote of both Houses of a resolution proposing an amendment and the ratification of the amendment by three-fourths of the States.

By the second method the action is initiated in the State Legislatures. If the Legislatures of two-thirds of the States adopt a resolution requesting Congress to submit the proposed amendment to the States, Congress must comply, and if the amendment thereafter is ratified by three-fourths of the States it becomes law.

Action by Fourteen States

The proposed 22nd Amendment has been following the second method since the movement began in 1939. Legislatures of eight States in their 1943 sessions passed

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Foster And Burghart With Hicks & Price

(Special to The Financial Chronicle)

CHICAGO, ILL. — Robert K. Foster and William J. Burghart have become associated with Hicks & Price, 231 South La Salle St., members of the New York and Chicago Stock Exchanges and other leading exchanges. Mr. Burghart was formerly with Mitchell, Hutchins & Co. Mr. Foster was with Shields & Co., Hirsch, Lilienthal & Co., Glore, Forgan & Co. and Brown Harriman & Co. in Chicago.

Warren A. Ripley Killed In South Pacific

Private First Class Warren A. Ripley of the United States Marine Corps, lost his life in the Southwest Pacific in service with the Marine Corps, according to official word received March 16 by his parents, Mr. and Mrs. Joseph P. Ripley of Smithtown, Long Island, and 277 Park Avenue, New York City. Pvt. Ripley was 22 years old.

A graduate of Dublin School and a student at Bard College, Columbia University, he left to volunteer for enlistment in the Marine Corps in August, 1942, after which he trained at Parris Island, S. C. and New River, N. C. In the fall of 1943, he was transferred to active duty in the Southwest Pacific.

Surviving, besides his parents, is his brother, Lieutenant (j. g.) John C. Ripley, USNR, who is on active duty with the naval air force.

Private Ripley's father is Chairman of Harriman Ripley & Co., Incorporated, and Chairman of the Board of Cramp Shipbuilding Co.

Boston & Maine Preferreds Under Priced

Price, McNeal & Co. have issued a memorandum on the Boston & Maine Railroad Co. in which they discuss the remarkable financial improvement that has taken place in the affairs of that railroad and the sort of plan the railroad might adopt to simplify its capital structure in view of the fact that it is understood that some such plan is in the making.

Copies of this memorandum, in which the opinion is expressed that the Boston & Maine prior preference and first preferred stocks, at current prices are very much under priced, may be had on request from Price, McNeal & Co., 165 Broadway, New York 6, N. Y.

Pizzini And Tipton Become Members Of N. Y. Dealers Ass'n

At a meeting of the Board of Governors held on March 15, 1944, B. Winthrop Pizzini of B. W. Pizzini & Co., Inc. and Chester H. Tipton of C. H. Tipton Securities Corp., were elected to the membership of the Association. Also, the membership of Robert Strauss of Strauss Bros. was transferred to Abraham Strauss, and the admission of Fred J. Herrmann as a partner of Kurt Werner & Co. was approved.

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NOTE—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

More On International Bimetallism

By A. M. SAKOLSKI, City College, New York

Proposals for international bimetallism, along with numerous other monetary schemes, are again coming to the fore. They bring back memories of the monetary controversies of the final quarter of the last century. Mr. Francis H. Brownell, Chairman of the American Smelting and Refining Company last September issued a pamphlet (reprinted in the "Chronicle," Sept. 30, 1943) strongly urging its adoption. More recently, a pamphlet of similar nature, entitled, "The Place of Silver in Monetary Reconstruction," by Humfrey Michell, Professor of Political Economy, McMuster University, Hamilton, Ontario, issued by the Monetary Standards Inquiry, set forth boldly the alleged advantages of a plan of universal bimetallism. And the President of the Swiss Republic, in an address to his countrymen is reported to have suggested a scheme of bimetallism as a remery for the evils of international monetary instability.

A. M. Sakolski

These proposals, however, have not as yet called forth much serious comment. Because of this, however, it need not be expected that the movement will not gain momentum, since the pressure to again "do something for silver," may, as in the past, become a serious and disturbing political issue.

Professor Michell lays down four proposals for an international bimetallic standard: (1) a fixed universal mint or legal ratio of silver to gold, agreed upon and put into effect "with free convertibil-

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SEC And NASD Failure To Revoke "5% Rule" Alarming

Need For Curtailment Of Powers Of Administrative Bodies

Five months have elapsed since the National Association of Securities Dealers first promulgated its "5% spread philosophy."

In that interim a mounting tide of opposition to that rule has blazed throughout the field of security dealers.

Brokers and dealers are justly indignant because of several startling grievances stemming from this "philosophy."

Here are some of these grievances. The "5% spread philosophy":

1. Was the product of entrapment, resulting from findings of the NASD Board of Governors, based on a so-called "survey" which was neither authorized by its membership nor complete.

2. Was illegally passed by the said Board in violation of the NASD Constitution and By-laws which provide that action on rules shall be taken by vote of the membership. This rule was not submitted to the franchise of the members.

3. Was snidely characterized by the Board as an interpretation of an existing rule, rather than as a rule in and of itself, which it actually is, such designation being intended to evade the power of visitation and review which the SEC may exercise over the rules of NASD under the Maloney Act, and under the provisions of the Constitution and By-laws of the NASD.

4. Represents a twice delegated legislative power, the exercise of which is altogether questionable. Thus Congress has given certain law making powers to the Securities and Exchange Commission, which in turn has delegated some of them to the National Association of Securities Dealers. May a quasi-private organization legislate for the public?

5. Is an unwarranted and illegal attempt to modify, by

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Congress Must Encourage Venture Capital Out Of Hiding: Folger

President Of IBA, Urging Lower Taxes On Risk Money And Modification Of Securities Acts, Says 50 Billion Idle Dollars Are Immobilized Through Fear

By J. CLIFFORD FOLGER*

We've traveled a long distance since 1929. When trouble piled up in the early thirties, everyone went broke except the Government. People owed for everything, including the shirts on their backs. But what about today? Now, they've got their bills all paid and have more money in the bank than they know what to do with. Their primary interest is buying government bonds and winning the war, but at the same time they are building up the largest private investment reserve we've ever known. This reserve is the greatest postwar recovery force in the world. It's really remarkable that we don't hear more about these idle dollars. Tables are completely turned. The Government credit is straining with the war effort. Individuals hard pressed a few years ago now have more than $50 billions in their sock waiting to be put to work.

John Clifford Folger

If there were 10 to 15 million men unwilling or unable to go to work there would be leaders galore. The right answer answer would be given at every soap box. The problem would be conspicuous. There would be speakers and advocates—a hue and cry

*An address by Mr. Folger, of Folger, Nolan & Co., Washington, D. C., President of the Investment Bankers Association of America, before the Ninth Annual Conference of the Central States Group of the Association in Chicago on March 16, 1944.

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Peltason, Tenenbaum To Be A Partnership

(Special to The Financial Chronicle)

ST. LOUIS, MO. — Peltason, Tenenbaum, Inc., 320 No. Fourth Street, will change the firm name to Peltason, Tenenbaum Company and become a partnership on April 1. Partners are Paul E. Peltason, Ruth M. Peltason, Harry Tenenbaum, Bernice Tenenbaum, Herbert J. Klein, and Richard A. Steinmetz, all of whom were previously connected with the corporation.

Current Problems And Their Effect On Post-War Municipal Financing

Noted Municipal Bond Counsel Says Needed Improvements Will Require Outlay Of Between $2 and $3 Billions—Predicts Wider Use Of Revenue Bond As Many Localities Will Not Be Able To Incur Additional General Obligations Debt Due To Exhaustion Of Borrowing Capacity, Etc.

By DAVID M. WOOD*

We are, today, one day nearer the end of the war. I do not make that remark to intimate that the end of the war is close at hand, but merely to emphasize the fact that sooner or later this war will come to an end and the States and municipalities of the country will be confronted with many new problems. One of the most pressing of these problems will be to provide for the public works, the construction of which has been deferred since Dec. 7, 1941, and at the same time to make many additional improvements, which changed conditions will make necessary, almost immediately upon the termination of the war. The volume of public works, which the States and municipalities will have to undertake at that time, will undoubtedly be the greatest in our history. The States and municipalities, moreover, will be subjected to a great deal of pressure to undertake public works, which may not be so necessary, in order to aid in providing employment for discharged servicemen. I believe that the latter type of public works should not be undertaken unless the economic situation makes their construction imperative.

David M. Wood

It seems to be the current fashion to assume that peace will be a calamity, and that at the close of the war we will be confronted with the greatest emergency we have yet faced. The idea that peace will be something terrible is a new idea, but in view of the many other weird ideas, which, in recent years, have captivated the minds of men in this topsy-turvy world, perhaps we should not be surprised to find a widespread

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*An address delivered at Municipal Forum of the Middle States Group, Investment Bankers Association of America, in Chicago on March 16, 1944. Mr. Wood is senior partner of the New York municipal law firm of Wood, Hoffman, King & Dawson.

What 200 Leading Stocks Will Do By Best And Worst Post-War Estimates

The Value Line staff has estimated the post-war sales and earnings per share of common stock of 200 leading companies under three different national income assumptions:

1. A national income of $135 billion (an optimistic assumption, since it implies almost full employment of the available working force of the United States).

2. A national income of $120 billion (which is moderately optimistic, in that it assumes that all but about six million of our working forces of 57 millions will be employed after the war).

3. A national income of $100 billion (a pessimistic assumption, since it implied unemployed of 11 million of the available working force of 57 millions. In 1932, by comparison, there were 13 million unemployed in this country).

In a special introductory offer, four consecutive weekly editions of the whole Value Line Survey are offered at only $5. Subscribers will receive Ratings and Reports on all the 200 leading common stocks (including 1944 earnings estimates and post-war earnings estimates under three national income assumptions); two Fortnightly Commentaries; a Report on the Value Line's Supervised Account; a Report on 37 Value Line Special Situations. Because of the fee for one month's service is well below the $85 annual rate, this offer is restricted to those who have not already had a one month trial within a year.

Write to The Value Line, 347 Madison Avenue, New York City.

SEC Rules That Justice Department Has Right To Intervene In Pub. Serv. of Ind. Underwriting Case

The Security and Exchange Commission on March 16 dismissed the request of the National Association of Securities Dealers that the Department of Justice be denied intervention in the hearings relating to the action of the Association in fining certain dealers for violation of the price stabilization agreement in the Public Service Company of Indiana bond offering.

Last December the Justice Department was granted the right to intervene by the Commission, and since then it has filed a brief contending that, since the price stabilization clause in the underwriting agreement was a violation of the Sherman Anti-Trust Act, the NASD was without power to punish its members for violation of this agreement.

The NASD objected to the Justice Department's intervention on the ground that it had not been served with a copy of the petition to intervene in the proceedings. It claimed that the Department could not appear as an interested party because it had no interest within the meaning of the Commission's rules of practice. In addition, NASD said that the Commission's rule did not apply in this case, because the proceeding was instituted under the Maloney Act and not under the general powers of the Commission.

In denying the NASD petition, the Commission said the argument pertaining to the Maloney Act was invalid since the act had been passed as an amendment to the Securities and Exchange Act and was made an integral and indivisible part of the whole statute.

The Commission stated that the kind and degree of interest required for intervention under its rules must be governed by the particular circumstances of the case. In this instance, the Commission said that any interest great enough to arouse the attention of the Federal body was sufficient.

Under regulations adopted by the Securities and Exchange Commission, security underwriters, though prohibited from marking up prices to facilitate offerings or rigidly "pegging" market prices in aid of an offering, were permitted to fix the price at which syndicate participants could offer the securities to the public, so as to maintain an orderly market during the continuance of the offering. The regulation required, however, that all purchasers must be given notice of the stabilization operation, and, furthermore, a provision is made for the inclusion of the notice on the prospectus of the offering.

In stating its decision, dismissing the petition of the NASD to refuse intervention by the Justice Department, the Commission stated that "we may have to decide whether and to what extent the securities business in general, and transactions by NASD members in particular, are subject to the prohibitions of the Sherman Act, or the large body of case law pertaining to interstate commerce.

"It seems apparent to us," continues the Commission, "that the Department of Justice, as a public agency charged with enforcing the anti-trust laws, has a real and substantial interest in seeing that we are fully advised on the construction of the laws it enforces and in presenting its views as to the impact of Section 15a (of the Securities Exchange Act) upon those laws."

The oral argument on the case, with the Department expected to participate, will be heard on March 29 at 10 a.m. at headquarters of the Commission in Philadelphia.

Paine, Webber Co. To Admit Four Partners

Paine, Webber, Jackson & Curtis, members of the New York Stock Exchange and other leading national exchanges, will admit to partnership on April 1st, D. W. Chamberlin, John W. Corrington, Robert W. MacArthur and William Wegner.

Mr. Chamberlin has been associated with the firm as a resident manager in the Cleveland office, Union Commerce Building; Mr. Corrington is manager of the grain department of the Chicago office, 209 South La Salle Street; Mr. MacArthur is connected with the statistical department of the Boston office, 24 Federal Street, specializing in bonds; Mr. Wegner is a resident manager of the Milwaukee office, 605 North Broadway.

Rolland Barnum With Merrill Lynch Firm

(Special to The Financial Chronicle)

MILWAUKEE, WIS.—Rolland A. Barnum has become associated with Merrill Lynch, Pierce, Fenner & Beane, 710 North Water St. Mr. Barnum has recently been with the office of the Alien Property Custodian. Prior thereto he was an officer of Bell & Farrell of Madison, Wis., and was with the Central Wisconsin Trust Co.

Now a Corporation

M. A. Schapiro & Co. is now doing business as a corporation under the firm name of M. A. Schapiro & Co., Inc. Offices are located at 1 Wall St., New York City.

Dillon, Read Syndicate Offer Debenture Issue

One of the few public offerings of motion picture securities to be undertaken in several years is being made today by Dillon, Read & Co. and associates in the form of $7,500,000 Universal Pictures Co., Inc., 3¾% sinking fund debentures due March 1, 1959, at a price of 99% and accrued interest. Proceeds from the sale of the issue will be applied to the payment of $5,018,000 principal amount of secured notes and the redemption at 102% of 5% convertible debentures, of which $2,000,000 principal amount were outstanding on Oct. 30, 1943, the balance of the proceeds to be added to working capital. To the extent that the 5% convertible debentures are presented for conversion, the cash required for the redemption of such securities will be reduced and the balance to be added to working capital will be correspondingly increased.

The debentures, which at the time of their issuance will constitute the sole funded debt of the company, are redeemable at any time as a whole or in part, at prices ranging from 102% until March 1, 1947, to 100% in the last six months prior to maturity, and at 100% through the operation of a sinking fund. The sinking fund is calculated to provide, by Sept. 1, 1958, for the retirement of all the debentures except a maximum of $375,000 principal amount payable at maturity.

Extend Mexico Loan

Mexican and United States officials on Mar. 2 signed an agreement authorizing extension by the Export-Import Bank of a $10,000,000 credit to the Mexican Petroleum Co. for construction of a high octane gasoline refinery at Atzcapotzalco, Mexico. Associated Press advices from Washington Mar. 2 reporting this added:

"The loan was extended to finance purchases in this country of equipment and supplies required in construction of the refinery.

"The loan agreement was negotiated with the cooperation and assistance of the United States Petroleum Administration for War and contains an option available to any agency of this Government to purchase certain quantities of high octane gasoline and other petroleum products up to Aug. 1, 1950."

Four Anti-Inflationary Factors

In reviewing the economic situation of 1943, Stephen M. Foster, Economic Advisor of the New York Life Insurance Company holds that "the United States appears to have made a real advance in the attempt to combat inflationary tendencies." He lists four corrective factors which have worked both to increase the volume of available civilian supplies and to decrease civilian demand, thereby creating anti-inflationary forces. The first of these is the volume of goods and services available for purchase and consumption. The production was actually greater in 1943 than in 1939, and was due to the fact that "American business rolled up its sleeves and went into action, and, as a result, the supply of goods and services available to civilians has been greater than originally anticipated."

Stephen Foster

The imposition of wage ceilings has been a second important anti-inflationary factor. "If there had been no restraint on wage and salary increases, individual income payments might have risen to a point where their inflationary effect could not have been compensated for by other anti-inflationary factors." The imposition of higher taxes and the tendency of the people to save more are the two remaining factors which counteract the trend toward inflation. "In 1939, the public put money aside into savings of one kind or another only to the amount of about six billion dollars a year. In 1943, however, government authorities estimate the total volume of all forms of savings to be close to thirty-four billion." Mr. Foster holds that war bond purchases and increasing amounts of life insurance are among the chief forms of public savings that help to combat inflation.

SEC Suspends Bond & Goodwin From NASD

Action Deprives Firm Of Privilege Of Obtaining Discounts From NASD Members For 30 Days But Otherwise They May Conduct Business As Usual

Bond & Goodwin, Inc., were suspended by the Securities and Exchange Commission from the National Association of Securities Dealers, Inc., for a 30-day period beginning March 24. At the same time the Commission discontinued proceedings for the revocation of the dealer-broker registration of the firm.

The Commission charged that the firm, through Maurice A. Davis, a salesman in its New York office, committed fraudulent practices in connection with the purchase of bonds of the Pacific-Atlantic Steamship Co. for its parent, States Steamship Co., Portland, Ore., between 1937 and 1940.

On the basis of a voluminous record taken in the case, the SEC held that Davis had subjected Bond & Goodwin to the duties of an agent for States Steamship in effecting the program of bond purchases and had agreed to restrict its compensation, in which he shared equally with the firm, to a stipulated commission of ½ point above cost or, in certain cases, 1 point.

The Commission charged that Davis repeatedly misrepresented the cost of the securities and quoted to States Steamship Co. prices which were greatly in excess of those at which Bond & Goodwin, Inc., bought the bonds, with the result that the firm received secret profits substantially in excess of the stipulated compensation.

William A. Smart, President of Bond & Goodwin, Inc., said that "our records indicated that our salesman was dealing on a principal basis in all transactions. The order of the Commission is indeed a surprise."

John P. Grimes Now With Bear, Stearns

(Special to The Financial Chronicle)

CHICAGO, ILL. — John P. Grimes has become associated with Bear, Stearns & Co., 135 So. La Salle Street. Mr. Grimes was formerly with Kidder, Peabody & Co., Goldman, Sachs & Co. and Fred W. Fairman & 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.

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.

L. H. Mitchell in Buffalo

BUFFALO, N. Y.—Lawrence H. Mitchell is engaging in a securities business from offices in the Genesee Building.

OUR REPORTER'S REPORT

The investment market has demonstrated quite forcefully during the past week the pressure of funds seeking employment. In fact the response to several sizeable offerings has been such as to encourage bankers to look forward to favorable reception for the two large public utility offerings which are scheduled to reach market early next week.

Most interesting, from a standpoint of funds involved, since it called for an outlay of some $32,000,000 by investors, was the marketing of a block of 704,121 shares of Chesapeake & Ohio Railway common stock for the account of the Alleghany Corporation.

Brought out as a secondary operation by an investment banking group this huge block of equity securities moved into the hands of investors within less than an hour of the opening of the books.

Not far behind for performance and results came the offering of 120,000 shares of common stock of Hart, Schaffner & Marx, clothiers. The response here was equally gratifying from a standpoint of demand.

And to top things off it develops that the 60,000 share block of Fruehauf Trailer Co., 4½% convertible preferred stock, brought out at 103½ late last week, evidently fell considerable short of filling investor demand. At any rate that issue is currently selling around 105 in the over-the-counter market.

Universal Pictures 3¾s

Public offering of $7,500,000 Universal Pictures Co. 3¾% sinking fund debentures is being made today by a banking group. Issue constitutes the company's only funded debt.

Proceeds would be applied to the retirement of $5,207,562 of secured notes, including premium, and the redemption of $1,893,000, convertible debenture 5s, due April 1, 1950, at a total cost of $2,022,660.

Breathing Easier

Bankers apparently were able to prevail upon officials of Oklahoma Natural Gas Co. relative to the advisability of setting a date for receiving bids which would not conflict with that fixed by the Michigan Consolidated Gas Co.

At any rate, whereas it had been indicated that both companies would ask for bids as of the same day, March 27, next Monday, the Oklahoma company has selected the following day for the reception of bids for its projected issues.

Under the circumstances distributors who might otherwise find themselves in the winning groups for both issues will have a day at least in which to clear away their share of the first issue to reach market.

Michigan Consolidated Gas

From a last minute check up in investment banking circles, it looks now as though there will be only two groups in the field for the $38,000,000 of first mortgage 3½% series bonds and 40,000 shares of 4¾% cumulative preferred stock of the Michigan Consolidated Gas Co.

But evidently the competition will be keen, none-the-less since it is now indicated that the line of demarcation will once more be clear as between middle western and eastern banking houses.

Those who have the feel of the market are satisfied that the undertaking is likely to prove a fast one. They make only one reservation, to wit, that the issues be "priced right."

Oklahoma Natural Gas

The projected sale of $18,000,000 of new first mortgage bonds and 180,000 shares of new preferred stock by the aforementioned company appears destined to bring out rather lively competition.

Four groups are known to have been formed to go after this business and quite naturally there will be plenty of calculation in buyers' offices between now and the time for submission of bids on Tuesday.

Thus, all told, next week promises the best run of business for the investment banking fraternity in a month or more.

Public Utility Securities

Associated Gas & Electric

The public utilities division of the SEC on November 27 recommended to the Commission approval of the reorganization plan submitted June 14th by Trustees of AGECORP and AGECO. Only minor modifications and reservations were attached to the staff report. Committees representing some of the numerous bondholders' groups objected to the plan, but due to its careful preparation by the Associated trustees (in consultation with many of the interests involved) it appears unlikely that these objections will carry sufficient weight with the Commission to result in the plan being scrapped. The recent strength in system securities appears to reflect Wall Street hopes that the Commission will give the plan its O. K. in the not distant future. The Federal District Court must also pass upon the plan, but the past record in the case appears to indicate that no wide difference in views between the Commission and the Court is apt to develop.

Completion of the plan would of course consummate only one step in the over-all program faced by the trustees. They have been anxious, doubtless, to hold the system together as long as possible during the period of heavy wartime taxation. In 1942, the filing of a consolidated tax return (instead of separate returns for the individual operating companies) permitted a saving of $3,400,000 and the trustees were hopeful of realizing $4,500,000 more if they were allowed to deduct unpaid interest on debt securities of AGECO and AGECORP held by the public. A heavy loss was also claimed by Associated Electric Company on its investment in Manila Gas, in the Philippines.

Obviously, questions relating to Federal taxes are by far the most important subject of research for any student of the Associated Gas system. However, disregarding these intricate tax problems, and using the consolidated system income account in the 17th report of the trustees of AGECORP, 1943 net income was $10,386,923. A footnote states that "deficiencies in earned surplus, specific orders of regulatory bodies, cash requirements, and arrearages in dividends on preferred stocks, etc., of certain subsidiary companies and the exercise of prudent business judgment by the directors of the subsidiary companies, are responsible for the fact that the major portion of consolidated income is not currently available to the AGECORP trustees." During 1943, AGECORP trustees "drew down" only $1,106,055 income from subsidiaries although they realized $2,776,456 from the sale of miscellaneous investments, debt payments, etc. Cash was largely used to pay off the remaining $3,790,335 loan from the Guaranty Trust, which will aid in the reorgnization.

The proposed "surviving" company will have a relatively small debt—about $15-20 million—and 7,500,000 shares of new common stock. While tax questions make it extremely difficult to gauge normal earning power, this may be estimated at around $10,000,000 after all interest charges, or $1.33 a share. Since the system is not accruing any excess profits taxes there will be no savings resulting from repeal of that tax in the post-war period, but there might be substantial interest savings from refunding operations. The bond refunding of the Florida companies was not reflected in the 1943 figures, and the Carolina refunding was only partially reflected. Savings in operating costs resulting from the various mergers and system streamlining may also improve earnings in future years.

The AGECORP 4s of 1978 are currently around 33. They would receive 30 shares of stock per $1,000 bond in the reorganization, making the equivalent price of the stock 10, or about seven-and-a-half times estimated share earnings. This would seem to discount fairly well consummation of the present plan. Further appreciation possibilities would seem to depend on completion of the NYPANJ simplification program, recapitalization of GENGAS, clarification of the tax picture, and sale or distribution of sufficient system assets to satisfy geographic integration requirements.

R. M. Horner & Co. Admits Eisenhut and French

Walter H. Eisenhut and Henry P. French have been admitted to partnership in R. M. Horner & Co., 30 Broad Street, New York City. Both have been associated with the firm for some time. In the past Mr. French was with Amott, Baker & Co. and Mr. Eisenhut was an officer of George R. Cooley & Co., Inc.

Report Pact Between Turkey And Germany

Istanbul, Turkey, Associated Press accounts March 20, stated that a new German-Turkish commercial treaty has been concluded that, according to the best information here, calls for an exchange amounting to 14,000,000 Turkish liras. The advices added that "under the agreement Germany will send medicine and industrial materials to Turkey in exchange for $3,870,000 worth of fish, $775,000 worth of tobacco and other products."

The foregoing is from the New York "Times" of March 21 which, in commenting on the advices, said:

"Washington officials expressed belief that the new Turkish-German trade treaty represented only a renewal of the trade agreement concluded several years ago and renewed every year.

"They said that in their opinion it represented no change in Turkish policy.

"Turkey, declared eligible for American lend-lease some time ago, has not yet concluded the mutual-aid agreement under consideration.

"In the meantime this country had been delivering lend-lease arms and munitions through the British and the Middle East to the Turks, but the flow was reported halted recently."

Head Of NASD Says Majority Of Investment Dealers Laud 5% Mark-Up Policy

Fails To Say In View Of This Opinion Why Association Declines To Submit Rule To Membership For Vote

Ralph Chapman, partner of the investment firm of Farwell, Chapman & Co., Chicago, and chairman of the Board of the National Association of Securities Dealers, speaking at the meeting of the Investment Bankers Association's Central States Group in Chicago on March 16th stated that the so-called 5% Mark-Up policy promulgated by the NASD last October has been "accepted as a forward step by a very large majority of the organization's members." He added, "A small segment of our business is still opposed, and, while I don't doubt the sincerity of some of them, many of them are misguided or misinformed, and some are just unwilling to be convinced of the soundness of this policy."

Mr. Chapman said that he thought the investment industry was making the best contribution it could to post-war plans by following a program of "intelligent self-regulation."

C. Edmund Fay With Baker, Weeks, Harden

Baker, Weeks & Harden, 52 Wall Street, New York City, members of the New York Stock Exchange, announce that C. Edmund Fay is now associated with them in their investment department. Mr. Fay was formerly manager of the retail sales department of Clinton Gilbert & Co.

Railroad Securities

Rail common stocks have been attracting an increasing speculative interest in the past few weeks. Except for a few instances affected by particular circumstances or news (such as Gulf, Mobile & Ohio and Alleghany), the price gains have not been spectacular, however. Many rail analysts see the recent steady strength as an indication that this group is at long last coming into its own, and consider that materially higher prices are in prospect before the year is over, if not in the immediate future.

The stocks of the marginal carriers have never given any considerable weight to war earnings nor to the more important consideration of the permanent financial benefits that have stemmed therefrom. Also, it is being pointed out that if general business is going to remain at high levels for a number of years after the war is over (a conclusion implicit in the market evaluation of the majority of industrial shares) the end of the period of substantial earnings for the carriers is certainly not yet in sight.

Some interesting comparisons may be made between the present price levels of leading railroad stocks and their 1938 market status, in the light of the intervening basic improvement in finances and credit standings of the roads. The following tabulation shows, in columns 1 and 2, the highs of 1938 and the closing prices of last week for representative issues. Column 3 shows, roughly, the increased equity of the stocks in the period 1939-1943, inclusive, measured by aggregate net earnings less dividends paid. Actually the equity in most cases has increased even more substantially than this as a portion of earnings has been used to purchase outstanding bonds at discounts for retirement. The last column shows the reduction in fixed charges between 1938 and 1943, based on actual accruals in the two years. This figure does not show the full improvement in earning power as the 1943 charges do not reflect the entire annual interest saving on bonds retired in that year.

	1938 High	Recent Market	Increased Equity	Reduction in Charges
Atchison	44⅞	68¾	$47.00	$0.87
Atlantic Coast Line	30	39½	59.37	0.66
Chesapeake & Ohio	38½	47¼	5.63	0.28
Great Northern	30⅝	32⅛	27.25	0.71
New York Central	21¾	19⅝	22.36	0.61
Northern Pacific	14½	16⅞	19.86	0.11
Louisville & Nashville	57½	90	34.40	0.63
Pennsylvania	24½	29¾	14.59	0.33
Southern Railway	23⅜	25¾	55.87	1.46
Southern Pacific	22⅛	31¼	48.06	0.95

The year 1938 was one of extreme pessimism towards the entire railroad industry, and from an earnings standpoint one of the worst in history. Nevertheless, with few exceptions the stocks listed above are not materially higher today than they were at the highs of 1938. One, New York Central, is actually selling below the 1938 high and three others are selling only about two points above the 1938 highs. Five of the ten stocks are selling at less than the mere increase in equity since 1938, even if the stocks were worth nothing at that time. Only two, Chesapeake & Ohio and Louisville & Nashville, are selling above the 1938 highs plus the intervening increase in equity.

In addition to the increased equity, the market apparently has preferred so far to ignore the basic credit improvement inherent in systematic reductions in fixed charges. Moreover, regardless of the duration of the war, and even if one adopts a pessimistic attitude towards general business in the immediate post-war period, there can be no question but that there will be a further increase in equity and reduction in charges in 1944 at least. As a final consideration, it is notable that only three of the roads listed were paying dividends in 1938, while all are paying dividends now. The three that were paying in 1938 have all increased their rates of distributions. With this background, it is difficult to arrive at any conclusion other than that a sustained upward movement of rail equities is in prospect. Obviously it is warranted and long overdue.

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 and also circulars on U. S. Radiator Corp., Jonas & Naumburg Corp., Fashion Park, Inc., and Oklahoma-Texas Trust, which are available to dealers only, may be had upon request from T. J. Feibleman & Co.

Reorganizat'n Potentialities

McLaughlin, Baird & Reuss, 1 Wall St., New York City, members of the New York Stock Exchange, have prepared an interesting circular discussing the reorganization potentialities for selected securities of the Missouri Pacific System. Copies of this circular may be had upon request from McLaughlin, Baird & Reuss.

Real Estate Appraisal Lectures At N. Y. U.

A series of 12 weekly evening lectures and discussions on the appraisal of real estate for mortgage lending institutions will be given by the Division of General Education of New York University in cooperation with the New York Metropolitan District Chapter of the American Institute of Real Estate Appraisers beginning April 5.

The lectures have been planned by S. Edward Kazdin, Chairman of the New York Chapter's Committee on Education, and Prof. Paul A. McGhee, Acting Director of the University's Division of General Education, in cooperation with an advisory committee consisting of Philip A. Benson, President of the Dime Savings Bank of Brooklyn; William S. Norton, Comptroller of the Metropolitan Life Insurance Co.; and Earl B. Schwulst, First Vice-President of the Bowery Savings Bank of New York.

The list of experts who will participate as lecturers and discussion leaders in the course consists of Curt C. Mack, director of the underwriting division of the Federal Housing Administration; H. Martin Tenney, Assistant Vice-President of the Connecticut Mutual Life Insurance Co.; Frank D. Hall, chief appraiser of the Equitable Life Assurance Society; Robert H. Armstrong of Armstrong & Armstrong; William MacRossie, President of Ladd & Nichols, Inc.; John C. Tredwell, President of F. A. Tredwell & Co., Inc.; Dr. Homer Hoyt, director of economic studies of the Regional Plan Association; L'Huillier S. Sheaff, Vice-President of Cushman & Wakefield, Inc.; Maurice R. Spear, President of Spear & Co.; and Felix M. Davis, supervisor of conventional mortgages of the Mutual Life Insurance Company.

Topics to be discussed in the lectures include the economics of city land valuation, rates of capitalization, causes of neighborhood deterioration, and problems in appraising single family dwellings, apartment houses, office buildings, loft buildings and retail store properties.

The purpose of these lecture-discussions, according to Mr. Kazdin is "to foster improvement in appraisal practices in the hope that a review of the experiences of the building boom of the late 20s, as well as the lessons to be learned from the recent depression in real estate values, will make a substantial contribution toward better practice in mortgage lending and will more clearly define the responsibilities of the appraiser as a part of the general risk taking function.

"This course of lectures" he said "is designed to give the appraiser an opportunity to discuss the problems created by the war economy as well as the problems he will have to face in the post-war era with a revival in private building construction," Mr. Kazdin announced.

Real Estate Securities

By JOHN WEST

Holiday for Landlords is indicated by refusal of the New York State Legislature to enact any ceiling for rents of commercial buildings. . . . Lack of space indicates higher rents for downtown New York City office buildings. . . . Prices of most of the office building bonds made new highs this week.

* * *

Hotel Earning Statements continue good. . . . 870 Seventh Avenue (Park Central) published year-end earnings before interest on the bonds of $516,930, compared with $229,081 the previous year. Interest requirement is $182,484. . . . . Victoria Hotel showed a net after income taxes of $181,579 compared with $79,930 in 1942 and $24,015 in 1941. There are only 4,019 shares of stock outstanding and no funded debt. . . . Savoy-Plaza Hotel announced that after all expenses, taxes and insurance and first mortgage interest, there has been earned in the 7½ months ending March 15, 1944, $543,162 compared with $96,905 for the similar period in 1943. The management stated that should relative earnings continue through the remaining 4½ months of this fiscal year, bondholders should receive a minimum return of $85 per bond Oct. 1, 1944.

* * *

An order has been signed permitting the Continental Bank & Trust Co. to distribute 15 points per $1,000 bond on account of principal to the bondholders of the Hearst-Brisbane issue. . . . Bank has approximately $780,000 in cash belonging to the bondholders of this $4,000,000 issue, which represents a first mortgage on the 36-story Warwick Hotel and several office buildings on 57th Street. The hotel alone is said to be earning over 4% on the bond issue. . . . Payment will reduce cost of bonds to price that compares very favorably with other hotel issues.

* * *

Anticipation of extra interest payments in addition to fixed interest rates on Broadway Barclay Office Building, Dorset Hotel and London Terrace Apartments have moved up their bond markets. . . . Extra interest payments on the Broadway Barclay and Dorset Hotel would mean automatic sinking fund operations.

* * *

Several reorganizations are drawing to a conclusion and should be completed in the following order: Harriman Building, Textile Building and 61 Broadway. The Bondholders' Committee on the latter issue has just announced that all parties to the reorganization, save the Securities and Exchange Commission, appear to be in agreement. New bonds on the Harriman Building are being printed and plan of the Textile will be mailed to bondholders this week.

* * *

Wall & Beaver Street 1st mortgage certificates on the 25-story office building at 67 Wall Street, currently selling at 45% and yielding 8.88% based on latest interest payments, would appear to be in a preferred position should the war suddenly end. The tenancy contains no Government leases.

* * *

If the Governor of New York signs the continuation of the New York State Moratorium Act just passed by the New York State Legislature, it will increase the mandatory amortization on open mortgages from 1% to 2%. . . . . Certificates of the Title Guaranty & Trust Co., Lawyers Mortgage Co., Lawyers Title Co., and New York Title Co. should benefit, inasmuch as many of these issues represent first mortgages running open on which 1% amortization is now being paid.

* * *

Attention of large interests in real estate securities is evidenced in the recent announcement that the Atlas Corp. had purchased $1,060,000 first mortgage bonds of the Sherry Netherland Hotel (Sherneth Corp.) during 1943. These bonds are currently selling at 41%. . . . You may recall our suggestion of these bonds on Oct. 8, 1942, when they were selling at 11% and again on April 8, 1943, when they were selling at 20%.

Situation Attractive

Herzog & Co., 170 Broadway, New York City, have prepared a memorandum on Bartgis Bros., which the firm feels offers an interesting situation at the present time. Copies of this interesting memorandum may be had upon request from Herzog & Co.

F. I. du Pont To Admit

Francis I. du Pont & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, will admit John J. Neff to partnership in the firm shortly. Mr. Neff will act as alternate on the floor of the Exchange for George A. Whiteside.

Sen. Tydings Warns Of Danger Facing Nation From Mounting Debt

Unless the nation's mounting debt is curbed after the war this country faces another period of unemployment, economic distress and suffering, Senator Tydings told members of the Hibernian Society of Baltimore at its 141st annual St. Patrick's Day dinner at the Emerson Hotel on March 17. The Baltimore "Sun" in thus indicating Mr. Tyding's warning, further reported him as saying:

In the decade from 1930 to 1940, the Senator asserted, the nation accumulated a debt of $27,000,000,000, of which $13,000,000,000 was used for "routine" functions of government. When the war is over, said the Senator, a debt of $300,000,000,000 can be expected.

This huge debt, coupled with the fact that 20,000,000 persons in all probability will be laid off from employment, the Senator continued, will in itself become a grave problem for the country.

If "pressure groups" continue to look to the "magic Treasury" in Washington with success, and "we continue to live on the future; if the increase in the debt goes on, there will be no confidence in the stability of the Government and that will mean unemployment, economic distress and suffering," the Senator said.

He recalled that he is sponsor of a proposed constitutional amendment that would prohibit Congress from appropriating money without levying the taxes to provide the funds, except in periods of grave emergency.

By next June, according to the Senator, "two thirds of the total assets of all the banks in the country will be invested in Government securities." As of today, he said, $15,000,000,000 of the cash reserves of life insurance companies have been invested in Government securities.

"Unless our national debt is put on a sound basis," he said, "the life accumulations of savings bank depositors and the investments of insurance policyholders are threatened."

Other speakers included Governor O'Conor, Michael J. Manley, President of the Bar Association of Baltimore; Bernard J. Flynn, United States Attorney, and former Mayor Jackson. Greetings were extended to the Hibernians by representatives of the St. Andrew's Society, the German Society of Baltimore, the St. David's Society and St. George's Society.

"Local Notes"

The Bankers Bond Co., Inc., Kentucky Home Life Building, Louisville, Ky., are distributing the current issue of their "Local Notes" containing interesting data on issues which the firm believes offer particularly interesting possibilities at the present time. Copies of "Local Notes" may be had from The Bankers Bond Co. upon request.

Situations Attractive

Eastern Corporation common and warrants and Muskogee Company common and preferred, offer attractive possibilities, according to memoranda prepared by Buckley Bros., 1529 Walnut St., Philadelphia, Pa., members of the New York and Philadelphia Stock Exchanges. Copies of these memoranda may be obtained from the firm upon request.

Midland Of Interest

Midland Utilities debenture 6s of 1938 and bonds and certificates of deposit offer an interesting situation according to a memorandum being distributed by Gilbert J. Postley & Co., 29 Broadway, New York City. Copies of this memorandum discussing the situation in detail may be had from the firm upon request.

Tomorrow's Markets Walter Whyte Says—

Recent market activity featured by inside selling and public buying—Expect minor dip followed by rally to last week's highs—Broad market outlook not good.

By WALTER WHYTE

If there is anything more pleasant than an advancing market it is to be right on top of it with a fistfull of the right stocks. For nothing is such a morale builder as profits, not to mention its effect on the brokerage account. Besides, a man with profits, even paper ones, can sit back in the customer's room and sound off pontifically on almost any subject, even if he doesn't know anything about it, and still draw an attentive audience. This same feeling of grandeur and well being unfortunately breeds within in the seeds of reaction.

* * *

Confidence is a nice thing to have—but not in the market. Markets have a nasty habit of lulling you to sleep and wham — turning around and socking the bejimmies out of you. And usually this socking process follows closely on the heels of overconfidence.

* * *

A few weeks ago when the Dow averages were holding to the 135-6 range, the subject of the stock market was usually mentioned with a doleful shake of the head. Stocks were going lower, lots lower, and to buy them was the height of foolishness. Despite the general feeling, this column persisted in recommending a list of stocks at specific prices. Now that the averages penetrated the upper resistance levels on a nice volume step-up, the general feeling has changed completely. No longer do you hear about how low stocks are going but how high. With one fell swoop all the uncertainties of the war and politics have been swept away

(Continued on page 1218)

Statistical Ass'n To Hold Meeting

The Taxation and Price Division of the New York Chapter of the American Statistical Association announces a dinner meting on March 30th, 1944 at 6 p. m. at the Town Hall Club, 123 West 43rd Street, New York City.

The topic of the meeting, over which Rufus Tucker will preside, will be "How Much Inflation?" Speakers scheduled are Lewis Haney of New York University; Lincoln Fairley, United Auto & Aircraft Workers; Leo Cherne, Research Institute of America; Robert Sayre, Conference Board.

Members of the Program Committee are: W. W. Cumberland, C. Barton Cummings, J. Gebhart, F. L. Hayford, A. Hettinger, C. J. Lange, E. G. Nelson, H. Roelse, F. E. Richter, B. B. Smith, A. Temple, and H. Slade.

Cost of the dinner is $2.50 if paid by March 27th, $3.00 thereafter. Orders should be sent to Helen Slade, District Representative, 400 East 57th Street, New York City.

Ohio Brevities

Stockholders of the National City Bank of Cleveland will gather at a special meeting a week from next Wednesday to vote on proposals by the board of directors to increase the bank's capital funds by $3,375,000 and reduce the par value of common stock from $20 to $16 a share.

Pres. Sidney B. Congdon, in a letter to the shareholders, stated the board proposed to sell 112,500 new shares at $30 a share and boost surplus from $5,625,000 to $9,000,000, equal to capital stock outstanding, and bringing total capital, surplus and undivided profits to $19,563,120 as of March 15. Issuance of the new stock would raise total shares to 562,500. The bank's reserves amount to $2,726,698.

The new stock will be offered shareholders of record Mar. 25 on the basis of one new share for each four shares of the old. Mr. Congdon said arrangements have been made with an underwriting group headed by Merrill, Turben & Co. of Cleveland, and Harriman Ripley & Co. of New York, to acquire stock not sold at $30 a share.

The letter said the reduction in par value of the shares and the increase in surplus would eliminate the necessity of transferring undivided profits to surplus and that the book value of each share would be unchanged.

"It would be the expectation of the board to continue dividends at the present annual rate of $1.40 a share. While, of course, no assurance can be given as to future dividends, earnings at the current rate amply cover dividend requirements," Congdon declared.

Deposits of the bank, largest national bank in Ohio, have climbed over $242,000,000 since Dec. 31, 1938.

* * *

W. A. Hiles, identified with Cleveland banking circles since 1919, is the new President of the Life Insurance Trust Council of Cleveland, an association of bank trust officers and general and associate general insurance agents. He is Assistant Vice-President of the Central National Bank of Cleveland, where he has been associated for ten years in the estates trust department.

F. L. Schweitzer of Mutual Benefit Life Insurance Co., was made Vice-President and Thoburn Mills, a Vice-President of National City Bank of Cleveland, Secretary. Treasurer is Warren H. Smith of Northwestern National Life Insurance Co.

(Continued on page 1212)

Ohio Municipal Bondholders Seen Protected Against "Surprise" Optional Redemption Clause

Having in mind court decisions of the past year or so, notably in the States of Arizona and Texas, which held that certain municipal bonds originating in those States were subject to redemption in advance of maturity, although the instruments had for many years been bought and sold on a non-callable basis, J. A. White & Co., Cincinnati, decided to secure some authoritative opinions as to the possibility of such a development in the case of Ohio municipal bonds. In response to their request, the bond house has been favored with the views of the two leading Ohio municipal bond attorneys, Messrs. Squire, Sanders & Dempsey of Cleveland, and Peck, Shaffer & Williams of Cincinnati.

Writing under date of March 17, last, the Cleveland law firm noted as follows:

"The decisions of these Western States are based upon a well recognized proposition of law that an act of the legislature under authority of which bonds are issued is an integral part of the bonds and any holder of such bonds is placed upon notice of the provisions of such legislation. This doctrine would be recognized in Ohio.

"Many States have a provision fixing a maximum maturity of bonds and providing substantially 'and shall be redeemable at the pleasure of the political subdivision at any time after ____ years.' The Supreme Courts of Texas and North Dakota, as an illustration, have held that this is an integral part of the bond and cannot be waived by the issuing political subdivision and is in effect although the bond itself is silent as to any callable provision. Other States, for example, Kentucky, North Carolina and Oklahoma, hold that such option may be exercised at the time bonds are issued and if the resolution of the issuing political subdivision and the bond itself do not call for early redemption the option has been exercised against such early redemption. The Supreme Court of Arizona has interpreted a power to refund 'whenever it can be done at a lower rate of interest' as making bonds callable, which is apparently an unwarranted extension of the above stated well recognized rule.

"The Ohio law contains no mandatory provision relative to callable bonds. Section 2293-6 of the General Code, which was part of the Uniform Bond Act, provides that 'A subdivision may issue bonds subject to call or redemption prior to maturity at not more than par' and goes on to provide that 'When a subdivision has issued bonds subject to call or redemption * * * the taxing authority * * * shall have power to refund such bonds at a lower rate of interest * * *'. This is clearly an optional power, the Uniform Bond Act clearly differentiating between the word 'may' and the word 'shall' in the various provisions thereof. We do not anticipate any likelihood of Ohio courts holding Ohio bonds callable unless the proceedings relative to their issuance provide for their being called.

"Section 2293-8 of the General Code, being part of the Uniform Bond Act, provides that the bonds themselves shall show on their face 'the resolution or ordinance under authority of which they are issued.' Such resolution or ordinance would therefore be a part of the bond and any holder would be placed upon notice of the provisions thereof and it is possible, although not at all likely, that some bonds might be issued without any reference to a call feature although the resolution or ordinance authorizing them provided that they should be callable. In such circumstances we would expect the courts to hold that the bonds were callable."

In a letter dated Feb. 24, 1944, the firm of Peck, Shaffer & Williams wrote as follows:

"We do not feel there is reason to fear that there will be any inclination on the part of the courts of Ohio to follow the decisions of other States in holding callable bonds of their municipalities which were previously considered not subject to call prior to maturity. . . .

"Furthermore, where the question of the right to call bonds has been raised, the courts of Ohio have not hesitated to protect the bondholder by construing the language of the bond form most strongly in favor of the holder and against the issuer, as witnessed by the recent case in Hamilton County where the bond stated on its face that it was callable on a certain date without reference to any later date, and the court held that the right of redemption should have been exercised on that particular day and since the bond form contained no provision for its exercise at a later date, unless it were called on the particular date specified, it could not be called prior to maturity. In view of the fact that the issue bore a high rate of interest and did not mature for another 20 years, the decision is an important one in that it demonstrates that our courts will not be influenced in such matters by expediency.

"Ohio always has been a conservative, farsighted State, and we feel certain that no opportunity to save a few dollars in interest will cause its courts to change a line of decisions which has been founded upon common sense as well as legal principles."

Ohio Municipal Comment

By J. A. WHITE

It's the same old story of rising prices and no supply. The Ohio municipal market, in company with the municipal market generally, is continuing the upward march of prices which began just before the turn of the year. The rise has not been startling, but it has been steady.

The White index of yield on 20 Ohio bonds has declined (with the yield, of course, moving inversely with the dollar price) from 1.42% on Dec. 15, 1943, to 1.34% at the middle of the current month. The strength in the market continues to be most noticeable in those bonds which still afford what at present is considered a "reasonable" return. Since the middle of last Decerber, the yield on the 10 lower grade bonds used in the White index has declined from 1.59% to 1.50%, while the yield on the 10 high grade bonds has declined only from 1.24% to 1.19%.

Floating Supply of Bonds Quite Limited

It has become monotonous to report that the supply of new Ohio issues is very low. Suffice it to say now that such supply is practically non-existent, and will likely be of little consequence until some of the larger subdivisions sell their annual refunding issues. What makes the problem more aggravated is the fact that today there are very few Ohio bonds in the hands of dealers. A recent canvass of dealer inventories disclosed that the Ohio bonds which dealers have on their shelves probably represents the lowest total in more than a year.

Recent sales of new issues would indicate that any good issue maturing up to ten years should sell at a worthwhile premium for a 1% coupon rate. Columbus sold a $75,000 limited tax issue due 1945-49 at 100.39 for 1s and Zanesville sold a $35,000 issue due 1949-53 at 100.52 for 1s. These prices are, of course, in keeping with the record low coupon rates at which new issues have been selling lately in other States.

Hudson Case Unlimiteds

Several years ago the Supreme Court of Ohio, in its well-known Hudson Case decision, held that bonds (not including, of course, purely revenue bonds) issued prior to Jan. 1, 1931 could be paid from taxes levied outside the 10-mill tax limitation for the reason the tax millage limitation in Ohio was not incorporated into the State Constitution until Jan. 1, 1931, and debts incurred prior to such date were not subject to such limitation on taxes to pay the debts.

Following this decision, the

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Edw. G. Taylor Opens Own Firm In Cincinnati

(Special to The Financial Chronicle)

CINCINNATI, OHIO—Edward G. Taylor has formed Edw. G. Taylor & Co. with offices at 111 East Fourth Street, to engage in a securities business.

Mr. Taylor in the past was an officer of Charles A. Hinsch & Co., Inc. Prior thereto he was manager of the municipal department for Ballinger & Co. and was in business for himself in Cincinnati.

Ohio Municipal Price Index

Date—	*	†	‡	§
Mar. 22, 1944	1.33%	1.48%	1.18%	.30%
Mar. 15	1.34	1.50	1.19	.31
Mar. 8	1.35	1.51	1.20	.31
Mar. 1	1.36	1.52	1.20	.32
Feb. 16	1.37	1.53	1.21	.32
Jan. 19	1.40	1.57	1.23	.34
Dec. 15, 1943	1.42	1.59	1.24	.35
Nov. 17	1.39	1.57	1.22	.35
Oct. 13	1.39	1.58	1.21	.37
Sep. 15	1.43	1.62	1.24	.38
Aug. 18	1.44	1.63	1.25	.38
July 15	1.50	1.68	1.32	.36
Mar. 16	1.76	1.97	1,55	.42
Jan. 1, 1943	1.83	2.01	1.65	.36
Jan. 1, 1942	1.92	2.13	1.70	.43
Jan. 1, 1941	1.88	2.14	1.62	.52
Jan. 1, 1940	2.30	2.58	2.01	.57
Jan. 1, 1939	2.78	3.33	2.24	1.09
Jan. 1, 1938	2.98	3.42	2.55	.87

Foregoing compiled by J. A. White, Cincinnati.

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

Post-War Prospects And Problems

(Continued from First Page)

private industry in its efforts to create jobs for returning soldiers and displaced war workers?

I'd like to say I make no pretense of being a prophet. I'm not a seventh son of a seventh son. All an economist can do is to take note of current trends and attempt to project those trends into the future. Sometimes a trend will make a fool of him by suddenly reversing itself. But certain trends are very persistent. Occasionally they may get pushed off their course, but they tend to swing back again and keep on going in the direction they are headed. The few observations that I'm going to make on the future are based on the study of certain current trends.

One of the trends that gives me the greatest encouragement today is the growing recognition on the part of American industry of the importance of providing employment in the post-war era and the definite plans that it is making toward that end.

It seems as though American industry has not adopted the doctrine of noblesse oblige. Noblesse oblige translated into everyday English means that wealth and power carry with them corresponding obligations which can be neglected, overlooked or sidestepped only at your own peril. Although noblesse oblige is a French expression, the principle has been more continuously recognized by the English aristocracy than by that of France. The English nobility have rarely allowed themselves to forget that if they were to survive as a ruling class they must provide employment for those who looked to them for support. As a consequence there are members of the English aristocracy whose families have held high positions since the days of William the Conqueror. The French aristocracy, on the other hand, were lured from their landed estates by the glittering glories of the Court at Versailles. They soon paid for the neglect of their responsibilities by losing their heads under the guillotine.

The corporation is a comparatively new development. As a matter of fact, the first law to legalize the limited liability stock company was passed in the State of Connecticut in 1837, just a little over a 100 years ago. Previous to that, corporations had been formed by royal decree or legislative grant; but Connecticut was the first State to make it legally possible to form a corporation without appealing to the King or to the legislature for a charter.

Corporations are like individuals in certain respects. It takes time for them to grow up; to realize their responsibilities. When individuals are young they are likely to grasp for their privileges and overlook their obligations. During the adolescence of our corporative age, many business organizations were inclined to follow the same course. They grasped for profits, but were inclined to overlook their obligations to those who made those profits possible; their employees and also their customers. When business fell off, they turned their employees into the street. When they enjoyed a monopoly, they forced their customers to pay all the traffic would bear.

Corporate business has now come of age. It is becoming as fully aware of its obligations to its employees and its customers as it is to its stockholders. And one of the things that causes me to be highly optimistic in regard to the post-war era, is the serious consideration that the leaders in every line of business are giving today to providing employment for our returned soldiers and displaced war workers in the post-war era.

Our business leaders recognize that high level employment in the years following the war is essential. They know that if private industry doesn't provide it, the Government will. And they know that if the Government has to find jobs for 12 or 15 million workers, it would have to invade fields now dominated by private industry to do it. They are determined that this shall not be necessary. They are willing to risk private capital to create new opportunities for employment. And, after having watched how American industry licked the problem of conversion to all-out war production in less than a year — a problem which took German industry six or eight years to solve—and how it is smothering our enemies in production of planes, tanks, ships and everything else that is needed to fight a war, I'm confident that it can lick this problem of high level employment in the post-war era. Our business leaders know the magnitude of the task lying before them; they are determined to do the job themselves—I feel sure that we can depend on them to get it done.

However, this problem of creating jobs for those who will need them after the war, is not one that can be solved by the big corporations alone. It is far too big for companies like General Electric and General Motors to handle alone. Just as today each one of us must help to combat inflation by investing the money we'd like to spend for luxuries in War Bonds, so in the period of reconstruction after the war, every individual, every corporation, both large and small, every village, town, city and State, must help to create jobs for our returning soldiers. As an individual you should start now to make up your list of post-war projects. Items on that list might include such things as the building of a new home, major repairs or alterations to your present home, the buying of a new automobile, quick freeze unit or heating plant. Be prepared to spend then the money that you've saved by not buying new things during the war. It may not be easy to do this. Once you get in the habit of making things do, it is hard to get out of it. We must curb our desires to spend money for non-essentials today when so much of our manpower and material is needed to win the war; but we must be prepared to spend freely when the war ends, or otherwise our own incomes may be imperiled by the business depression that would ensue.

However, I'm not advocating that you rush into the market to buy or build right after the war ends—if everyone else is trying to do the same thing. If at that time, the demand for the things you want is greater than the supply, be patient. Wait until it shows signs of slackening before you enter the market. By so doing, you'll probably get what you want at a lower price and you will be helping to prevent a post-war boom, and depression such as we experienced in 1919, 1920 and 1921. Don't allow yourself to be stampeded by speculative enthusiasm or fear. If everyone seems to be wanting new automobiles immediately after the war and prices for new cars are way up, don't feel that unless you join the rush you'll never be able to get one. Remember what happened to those people who, back in 1929 thought that there wouldn't be any American Telephone & Telegraph stock left for them unless they paid $300 a share for it—and how they felt a year or so later when they saw that stock kicking around at less than a third of that price. Be prepared to spend for the things you need—but plan to time your expenditures so that they will avoid the rush. By so doing, you'll get better value for your money and help your country to make a smooth readjustment from war to peace.

If private industry is able to solve the problem of providing a high level of employment after the war, this will banish certain other fears and worries that haunt us at this time. There will be no reason for the Government to step into new fields, if private industry is filling its obligation to its employees and customers in those fields in a satisfactory manner. If private industry is able to provide jobs for the returned soldiers and displaced war workers, there should be no serious depression in the years immediately following the war.

But what about the problem of inflation you may ask? Wouldn't that be intensified rather than solved by the creation of a lot of new jobs after the war?

There is danger of inflation and there will be until industry is fully reconverted to peace-time production. Whenever there is more money in the hands of the buying public than there are goods to match it, there is danger of an inflationary price rise.

But I'm not greatly worried by this. In the first place, the American public is handling its money in a very conservative manner. Do you remember the silk shirt craze in the last war? Thus far there's been nothing like that in this war. And looking over the entire American scene today, there is little evidence of any inflationary buying anywhere. The stock market is behaving itself in an exemplary manner. I can name you a number of rail stocks that are selling for less than they have earned in the past 18 months. I can remember a time when 20 times annual earnings was considered a conservative value for a stock. Real estate prices have moved up a bit, but there's nothing in any way comparable to the Florida boom. The people who are making big money today are handling that money in a very sensible manner. They are paying off their debts, reducing the mortgage on the family farm or home; they're buying War Bonds and Life Insurance; they're putting it in the savings banks and they're hiding it under the mattress. I'd rather see them putting it in War Bonds, Life Insurance or savings bank accounts than hoarding it in cash, but at least they're not throwing it around. The memory of 1931 and 1932 is still fresh in their minds. They have no desire to stand in a breadline or apply to the WPA—so they're saving that money in one way or another, so that they'll be able to withstand another siege of hard times. As long as that cautionary, conservative attitude persists, there's little danger of inflation. Some economists fear that when the war ends, this conservative attitude may vanish. I'm a bit more hopeful. I think that as long as an element of uncertainty exists, people are likely to hang on to their money. Just now, the elements of uncertainty are the duration of the war and the amount of their next year's taxes. When the war ends, but before our factories are converted to peace-time production, there will still remain uncertainty as to the continuity of their jobs. After reconversion is completed, that uncertainty will disappear, and people will probably begin to spend freely; but by that time production of consumers' goods will again be in full swing and production should be able to keep pace with demand.

Another reason why I think we will escape an inflationary rise in the cost of living is because American industry and agriculture has such a tremendous productive capacity. In the fall of 1942 many economists, looking ahead into 1943, were much worried about what might happen. They figured that after the demands of our armed forces had been met the supply of goods and services

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Post-War Prospects And Problems

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available for civilians would be approximately equal to that of the lowest depression year; 1932, certainly not over $60,000,000,000 worth, while there would be at least $100,000,000,000 in the hands of the buying public eagerly bidding for this limited supply. They underestimated two things: the productive capacity of American industry and agriculture and the self-restraint of the American people. As a matter of fact, the total value of civilian goods and services turned out by American industry, agriculture, transportation facilities and professional workers was close to $90,000,000,000—about 50% more than they believed to be possible, considering that at the same time these same agencies were turning out about $90,000,000,000 of war materials and services. Also, as I pointed out before, Americans refused to spend their money like drunken sailors. As we people in Hartford saw, they wouldn't pay $1 a foot for Christmas trees.

The productive capacity of this country is almost beyond our power to comprehend. Recently I saw a list of the 31 largest corporations in the United States, the companies having total assets of over $1,000,000,000. This list was headed by the Bell Telephone Co., with assets of over $6,000,000,000. It included The Travelers, here in Hartford. The total value of the total assets of these 31 companies was approximately $66,000,000,000. Do you realize that in 1943 alone American productive enterprise turned out in war materials and services alone a product that was worth almost 50% more than the total assets of our 31 largest corporations? And in addition to this it turned out about $90,000,000,000 worth of civilian goods and service.

There's always danger of inflation whenever the national income far exceeds the value of consumers' goods that can be produced to meet this income. This danger will continue to exist for the duration and for one to two years after the end of the war. But war-time controls are likely to be kept in force as long as the danger lasts, and also, the American public is saving a large percentage of its war-time earnings, and is likely to continue to do so as long as uncertainty exists as to the duration of its war-time jobs. For these reasons I think our chances of escaping an inflationary boom and its disastrous collapse are much better during and following this war than they were after the first World War or the Civil War.

It is my guess that we will see less bickering between government and business in the post-war years than we saw during the decade of the thirties. Business now recognizes the justification of a reasonable amount of government regulations. It realizes that it probably cannot handle alone the entire problem of providing employment during the period of transition and some program of public works is likely to be necessary. On the other hand, business has done such a splendid job of providing and transporting the munitions and supplies needed to win the war that it has won the admiration of the people as a whole. For example, compare the public attitude toward the railroads today with that existing 10 or 20 years ago. Well, an old political axiom is: never attack anything that stands high in public esteem. It will build resentment rather than votes. I don't predict that business and government will get along like a honeymooning couple in the post-war years. I do think, however, that the chances are they will get along much better than they did in the 10 years preceding Pearl Harbor, particularly if private industry does a good job in solving the post-war employment problem.

I think it is very likely that the general price level will be at least 25% higher than it was before we entered the war. That means that men will need at least 25% more life insurance if their families are to enjoy the same living standards that they wanted them to have before the war. The rise in the price level was one of the factors responsible for the large volume of new life insurance produced during the decade of the twenties. This same factor seems likely to favorably influence life production in the years following this war. Life insurance sold to the soldiers during the last war stimulated their interest in additional life insurance after they returned to civilian life. The national service life insurance, sold to 10,000,000 or 12,000,000 men in military service in this war, should help to arouse the desire for more adequate protection when these men return to peacetime jobs.

I don't expect any millennium in the post-war era. We're going to have plenty to worry about as we always have. However, I do feel that winning the war is not going to be hopping out of the frying pan into the fire. It should mean something better than exchanging one set of problems and worries for another equally bad or worse. It should offer new and greater opportunities, now horizons and plenty of new gadgets to play with. As a matter of fact, the post-war age will be as good as we make it—and the encouraging thing is that thousands of business leaders are planning and preparing to make it good.

Attractive Situation

The Home Insurance Company offers attractive possibilities according to a descriptive circular issued by Butler-Huff & Co. of California, 210 West Seventh Street, Los Angeles, Calif. Copies of this interesting circular, and an interesting table containing more 1943 insurance figures, may be had from the firm upon request.

Professor Cassel Warns Against Protectionism

Writing in the March 6th issue of "Svenska Dagbladet," Professor Gustav Cassel, celebrated Swedish economist, draws attention to the growing international tendency toward protectionism. Underlining the fact that the United States and Great Britain have not solved the problem of an international currency, Professor Cassel finds the prospects dark for reaching a general settlement of trade problems. The policy of Secretary of State Cordell Hull would be of tremendous value to the international economic system, but the writer does not find any guarantees that his program will be applied.

The control of foreign exchange, or "valuta," which at any moment may arbitrarily check the free movements of the world trade, has infinitely more harmful consequences than import duties, declares Professor Cassel, and then he adds that "it seems obvious that we must expect such restrictions in the future. In fact, sheer power politics will most likely determine the regulation of international trade."

M. J. Meehan To Admit

Thomas A. Portway will shortly become a partner in M. J. Meehan & Co., 30 Broad Street, New York City, members of the New York and Chicago Stock Exchanges.

Ohio Brevities

(Continued from page 1210)

Between 75 and 100 members of District 10 of the National Association of Securities Dealers attended a meeting in Cleveland at which problems of the securities industry were discussed, Peter Ball of Ball, Coons & Co., Governor from District 10, announced. The district takes in all of Ohio and northern Kentucky.

Among those present were Ralph Chapman, National Chairman of NASD, and Wallace Fulton of Philadelphia, Executive Director.

Others attending included Neil Ransick of Charles A. Hinsch & Co. of Cincinnati, District Chairman, and the following committee members: Theodore Thoburn of Hayden, Miller & Co.; Edward Parsons Jr. of Wm. J. Mericka & Co., Inc.; Ford Weber of Ford R. Weber & Co. of Toledo, and John E. Joseph of John E. Joseph & Co. of Cincinnati.

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Otis & Co. was in the account of Chase National Bank which was awarded $8,330,000 State of New York Housing bonds on a bid of 100.359 for 1.30s, maturing Mar. 1, 1946 to 1994. Bonds were reoffered at 0.40% to a dollar basis of 97½. Otis & Co. was the only Ohio house in the account.

* * *

Cleveland Graphite Bronze Co., the world's largest producer of lined bearings and bushings, this week is celebrating its 25th milestone and with the four men who founded the company still at its helm.

Now a big cog in the nation's war machine, the company in the past quarter century has grown from 20 employees and no working capital to one of America's finest plants, employing 7,000 men and women and housing the greatest concentration of engineering and production skill ever applied to the bearing industry.

To mark the occasion, newsmen and magazine writers were taken on a tour of the spacious new plant last week, the first time they have had a chance to view operations going full blast on war production.

The founders and top executives of the company are Ben F. Hopkins, President; J. J. McIntyre, Senior Vice-President; James L. Myers, Executive Vice-President in general charge of operations, and Carl W. Johnson, Vice-President in charge of sales. John V. O. Palm, born on a farm in Sweden, is Vice-President in charge of engineering and research.

The company announced that net sales in 1943 exceeded the $49,000,000 mark or double those of 1942.

* * *

Cleve H. Pomeroy, Secretary and Treasurer of National Malleable & Steel Castings Co., has moved up to the Vice-Presidency. He has been with the company since 1920.

The Business Man's Bookshelf

Beloved Scientist—A biography of Elihu Thomson—David O. Woodbury — Whittlesey House — McGraw Hill Building, New York 18, N. Y.—cloth—$3.50.

Council of the Corporation of Foreign Bondholders 70th Annual Report—Williams, Lea & Co., Clifton House, Worship St., London, E. C. 2, England—paper.

Financial Problems of a Fixed Income Group in War Time, The—W. H. Steiner, Chairman of the Department of Economics, Brooklyn College, Brooklyn, N. Y.—paper.

Home Front, The (How Country Banks Can Meet Government-Subsidized Competition, Build Business, and Win Farmer Goodwill) — Commission on Country Bank Operations, American Bankers Association, 22 East 40th St., New York 16, N. Y.—paper.

Household Furnishings (A Survey of the Industry)—E. W. Axe & Co., Inc., 730 Fifth Ave., New York 19, N. Y.—paper.

International Conciliation for March, 1944— (The United Nations, The British Commonwealth, and the United States; Speech of Lord Halifax at Toronto; Speech of W. L. Mackenzie King at Ottawa; Report of Vyacheslav M. Molotov to Supreme Soviet of the U. S. S. R.; and Text of Soviet Autonomy Decrees) — Carnegie Endowment for International Peace, 405 West 117th St., New York 27, N. Y.—paper—5¢ per copy (25¢ per year)

Ohio, An Empire Within An Empire—Ohio Development and Publicity Commission, Columbus, Ohio—cloth.

Place of Silver In Monetary Reconstruction—H. Michell, Professor of Political Economy, McMaster University, Hamilton, Ont., Canada—The Monetary Standards Inquiry, 408 Graybar Building, New York 17, N. Y.—paper—first copy free of charge; additional copies 10 cents each.

Power Industry and the Public Interest, The—A Summary of the Results of a Survey of the Relations Between the Government and the Electric Power Industry — The Twentieth Century Fund, 330 West 42nd St., New York 18, N. Y.—cloth—$2.00.

Smaller Nations in World's Economic Life, The—V. Raud—P. S. King and Staples, Limited, 14 Great Smith St., Westminster, London S. W. 1, England—paper—2 shillings (net).

War and Post-War Adjustment Policies—Bernard M. Baruch and John M. Hancock—American Council on Public Affairs, 2153 Florida Ave., N. W., Washington, D. C.—paper.

Canadian Securities

By BRUCE WILLIAMS

Close observers of the Canadian political picture have discerned a definite swing in the past few months in favor of the present Liberal Government. The previous apparent strong upsurge of the C. C. F. throughout the country is proving largely illusory.

To some extent outsiders were deceived by the publicity deliberately given to the movement by its political opponents, who apparently led a definite campaign to arouse the electorate, and in so doing exaggerated the challenge of the left-wing group. Furthermore, it has to be taken into consideration that a large proportion of the votes cast for the C. C. F. in the Ontario provincial elections were of the protest variety against the Mackensie King government which, in a Federal election, in a choice between two evils, would go to the Liberals or Progessive Conservatives.

There is now a feeling of quiet confidence in government circles, and from all over the country, especially in the Western provinces, where it was felt that the C. C. F. strength was greatest, there are now clear indications that this party is losing ground.

The waning influence of the C. C. F. brand of socialism in the West is largely a result of the present almost unparalleled prosperity of the Prairie farmers. It is estimated that following the increase in the basic initial price of wheat to $1.25 per bushel, the wheat income alone of the Western farmers is likely to be more than $100 millions in excess of that of 1943, during which year Western farm mortgage debt was reduced by 14%.

In the East, the Ontario electorate has lost its apathy and the results of the provincial elections are not likely to be repeated in a Federal election. The C. C. F. has never made much headway in the Maritime provinces, and the great Catholic province of Quebec is a solid bulwark against the infiltration of extreme radical ideas. In the forthcoming elections, it is believed that the government will stand on its record of solid achievement during the war, and will possibly steal some of the C. C. F. thunder in the meantime.

In the financial field, recent provincial annual statements make very satisfactory reading. During the financial year ending March 31, Ontario achieved a surplus of $8,638,877 and was able to effect its greatest debt reduction in history; net debt was decreased by $12,072,721, and the gross debt by $37,508,575. Similarly, Nova Scotia announced a surplus of $2,915,729, also the largest in history and the seventh in 11 years.

In the securities market, the tone remained good but activity was on a reduced scale. Interest was mainly centered on the outstanding issues of the City of Montreal and the long 4½s were in demand at 104. Operations in connection with the debt reorganization plan proceeded satisfactorily and it should not be long before the whole matter is definitely concluded.

In this case the optimism frequently expressed in this column has been fully justified but constructive action in the Alberta debt situation is still lacking. However, as previously stated, there is little doubt that the successful solution of the Montreal situation will bring the Alberta default into sharp relief and should hasten negotiations in this case. At any rate, the market seemed to reflect this opinion and the 4½s were bid at 83½ after their recent decline to 81½.

Otherwise, the market was quiet but there was still a persistent demand for the shorter term issues. Canadian Pacific perpetuals also continued in demand and were bid at 95. It appears that it will not be long before this issue will be the only remaining general market obligation of this railroad payable in U. S. dollars. There was some activity in the internal issues but the "free" Canadian dollar declined to 10 11/16% discount.

With regard to the future course of the market in general, we are now approaching another Victory Loan period. This should lead to a certain deceleration of activity, but with interest in this country in Canadian securities constantly broadening, and the imminent exhaustion of the supply from Canada, there is no reason to expect anything beyond a certain levelling off of prices. In connection with the supply factor, it is interesting to note that last year set a new record for the volume of sales of securities from Canada at $172 millions as against $105½ millions in 1942.

Montreal's Credit Position Restored

Sale of $54,886,500 Serial Bonds Assures Debt Reorganization

The successful sale in Canada by a large syndicate of banks and dealers headed by Dominion Securities Corp., Ltd. and L. G. Beaubien & Co., Ltd. of $48,433,500 of series "A" serial bonds payable in Canadian currency and the private placement in the United States of $6,453,000 serial bonds payable in United States currency assures the success of the entire financial reorganization of Montreal. The United States payment bonds were placed by a syndicate headed by Harriman Ripley & Co., Inc. and The Dominion Securities Corp.

The series "A" bonds mature annually on Nov. 1, 1944-1953 inclusive in amounts varying from $5,320,000 to $5,877,000. The coupons range from 2¼% on the shortest bonds to 3¼% on those maturing in 1953. All of the bonds, both in Canada and in the United States, are being sold at 100.

The proceeds from the sale of these bonds will be used to pay off bank loans and past-due City of Montreal obligations including those which will mature up to and including May 15, 1944.

The sale of series "A" serial bonds is but a part of the comprehensive plan for the complete reorganization of the finances of the City. Norman S. Taber & Co., municipal financial consultants of New York City, were consulted in connection with the preparation of the plan of financial reorganization. The plan has been passed by the City Council, ratified by the Legislature of the Province of Québec, and is now to be submitted for the approval of the City's creditors. Sixty days must elapse after the notice of the plan is given to creditors and unless one third of the creditors object during that period, the plan becomes final and is binding on both the City and its creditors.

In addition to the series "A" bonds which have been sold, the City will offer to existing bondholders $164,958,555 of serial bonds maturing annually from Nov. 1, 1953 to Nov. 1, 1975 inclusive, in exchange for their present holdings. The new bonds will in every instance bear the same rate of interest as the bonds for which they are exchanged up to the old maturity, and interest at rates ranging from 3¼% to 3¾% from the date of the old maturity to the date to which each particular maturity has been extended. The average extension is 12.65 years for the entire issue.

Mutual Funds

A friend of ours who is of the old school when it comes to investment literature once wrote that he was waiting for the day when some enterprising investment company sponsor would come out with an illustrated prospectus. "That I want to see!" were his concluding words.

The new prospectus on **Selected American Shares** is not illustrated—unless the symbol on the front and back covers can be considered "illustrations"—but it does have a touch of color on it. And this, to our way of thinking, is a vast improvement over the horribly dull-looking prospectuses which have come to be accepted as standard in the field.

Here is one place where the SEC could be constructive in the matter of "sales literature." If the Commission is anxious to have the investor read the prospectus before he buys, it would do well to encourage sponsors in the preparation of more inviting official sales documents. We think the new Selected American Shares prospectus is a start in the right direction.

* * *

Last week we carried a note on the proposed refunding of the $10,000,000 of outstanding 4% debentures of **Affiliated Fund.** We can now report that the refunding has been approved by stockholders and it is expected that the present bonds will be called as of May 1, 1944.

The current issue of **Lord, Abbett's Abstracts** carries a chart record of the market performance of **American Business Shares** since the Dow-Jones Industrial Average made its high in July of last year. Although the average has not yet recovered to that high point of 145.82, American Business Shares (adjusted for capital gains dividend) is now selling at $3.86 as compared with $3.77 at the time the Dow-Jones Industrial Average made its 1943 high.

"This performance," concludes the bulletin, "reflects careful, balanced selection, with diversification over common stocks, preferred stocks and bonds, with no undue concentration in any one industry."

* * *

"What Kind of Investment Result Do You Want?" is the title of the current issue of **Keystone Corp.'s Keynotes.**

"The first logical step in any investment program," states Keynotes, "is to determine the major investment purpose and then to select the appropriate classes of securities which can get the desired result." Keynotes then summarizes the four major investment purposes as follows:

1. **Reserves**—For relative stability of capital with modest return.
2. **Income**—For a moderate to generous rate of return which may be depended upon.
3. **Income and Growth**—For regular income, although in varying amounts depending on conditions, with the possibility of capital growth during periods of rising prices.
4. **Growth**—For maximum appreciation in a rising market.

The bulletin gives data on the various Keystone Custodian funds indicating which funds are appropriate for the various investment purposes.

* * *

National Securities & Research Corp. has published a little folder entitled, "To Those Who Manage Investment Portfolios." It is addressed to corporations, associations, institutions, trusts, schools, colleges, religious and fraternal organizations. While the frank purpose of the folder is to encourage such investment portfolio managers to consider the offerings of National Securities & Research Corp., mutual funds as a group are recommended for consideration. Such efforts by individual sponsors to create understanding and goodwill for the industry should be highly effective, revealing as they do an unbiased and fair-minded attitude even with respect to the offerings of competitors.

The current issue of **Investment Timing** contains an article headed "Post-War Taxes?" in which many of the faults of our present tax system are pointed out and suggested remedies are given. In conclusion, the folder states: "For the American free enterprise system to function to its greatest efficiency after the war certain tax reforms will be necessary. . . .

"Corporate executives and individual investors can aid to bring about these tax reforms by making

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Inflation---The Psychological Approach

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vince us that we cannot have inflation, because our situation is "different" from others. The Germans lost a war, and had to transfer reparations, which, incidentally, they did not "transfer" the French parliamentary system was corrupt, and much of their country had been devastated; in Italy, the syndicalists and fascists played havoc with the political set-up, etc. Much comfort seems to be derived from the fact, too, that foreign trade is of lesser importance to this country than to most others. There are, of course, special circumstances present in each and every case. But each time, the reason price inflation takes place is the preceding and continuing monetary inflation. Whether purchasing power is being poured out on account of reparation payments or on behalf of lend-lease; for the benefit of reconstruction problems abroad or of public works at home; to finance war or to finance revolution, or what have you, is as irrelevant to its effect as the cause of a death is to the estate tax on the fortune of the deceased. What matters is the amount of money that has been and will be created, without an equivalent rise in the flow of goods at the consumers' disposal.

More effective, or more insidious, are arguments of this kind: that price inflations are not threatening so long as the country has a large gold reserve; or so long as it maintains its exchanges at gold par (and its money "stays at home"); or so long as it maintains "effective" price controls. The underlying assumption in each case is that it is not the vast volume of money per se that upsets the equilibrium of the markets. The unbalanced situation arises only if and when some external circumstance brings about a buyers' panic. All we have to do then, is to control those external circumstances. The burden of the inflation problem is thus shifted from the consideration of supply-demand forces to that of administrative powers: to the maintenance of a large gold reserve, to the stabilization of exchange rates, and to price controls.

Gold Reserve And Price Inflation

The least valid of all such "psychological" arguments is the one which uses the size of the gold reserve as a means to convey the impression that no danger of price inflation exists or needs to exist. In reality, the significance of the gold reserve, psychological or otherwise, is two-fold: to limit the amount of available purchasing power at home; and to protect the value of the currency abroad. In a paper inflation, the first function is gone with the wind. As to the second, it is valid only so far as it creates the **presumption** that a country with a large gold reserve is likely to be able to maintain the gold-content of its currency unit. What matters, however, in this respect, is not the absolute volume of gold on hand, but the relative one: in relation to the potential demand for international payments.

At the time the United States went off the gold standard in 1933, its gold reserve of some $4.5 billions was the largest of the world, but the loss of a bare quarter-billion, due to the withdrawal of foreign funds and to the flight of American money into foreign currencies, drove the Administration into panicky measures. At that time, the total "current liabilities" of the nation—that is, the foreign and American owned money that could be withdrawn on short notice—consisting of bank deposits and of cash in circulation, was covered by gold in the ratio of about 9%. Presently, the huge gold reserve of almost $22 billions represents only about 12% of the total "quick liabilities" of the country (including the short-term government bonds outside the banks and those redeemable on short notice). If we proceed with a deficit of about $60 billions per annum, most of which takes the form of legal tender and bank deposits, or short-term paper, the gold coverage of the national purchasing power volume will soon be as low as it was in 1933. The same problem of maintaining the exchange rates at par may arise as it did then, even if the gold reserve remains untouched.

But will it remain untouched? We have lost since Pearl Harbor over $1 billion of gold. After the war, our position will be very strong on the international markets, indeed, but comparatively few outlets for exports — other than Latin America, India, etc.— will be open unless financed by short and long credits, or by lend-lease. The balance between paid-for imports and largely unpaid-for exports is not likely to net gold, and with the revival of tourist traffic substantial gold losses may be in the offing. What is more, very little of our outstanding credits can be mobilized while our total indebtedness to foreign countries is estimated lately as high as $13 billions (not counting the earmarked gold) of which at least $5 billions are "hot money" that might be promptly withdrawn. On top of it, the vast expansion of currency at home, coupled with severe taxation and the prospect of rising prices, is likely to invite American capitalists to seek foreign investments and "hedging" outlets. All of which adds up to the prospect that after the war our gold reserve may decline substantially while the monetary volume is bound to be much larger than now, and may continue to rise further.

Exchange Stability vs. Inflation

What, then, of the prospects of exchange-stability? Presently, the U. S. dollar sells in the open markets of the world at a 45 to 55% discount, indicating a depreciation against gold approximately equal to that under which the mark labored at the time of the armistice. At that time, the Germans knew as much about it as Americans know now about the actual "gold content" of their money. Of course, this decline may be corrected by an early return to the free export of gold, that is **de facto** suspended by the method of freezing foreign claims. But how long can the convertibility into gold (for export) be maintained under such post-war conditions as outlined above?

Nor is it even correct that the depreciation or devaluation of the dollar has to precede the rise of prices. Historically, decline of the currency's purchasing power at home often precedes the decay of its value on the foreign exchange markets. Theoretically, the two symptoms—rising prices and rising foreign exchange rates—are correlate; the one may be the cause as well as the consequence of the other. From the psychological angle, rising prices create the expectation of currency depreciation, just as the latter brings about the anticipation of the former.

Of course, a nominal gold parity can be maintained by foreign exchange regulations: by "freezing" the dollar in relation to other currencies. This is the German system of the 1930's that has been widely adopted during this war. Regulated foreign exchanges amount to concealing the actual depreciation, driving it into black markets, and presaging a future devaluation. They eliminate, for awhile, panicky fluctuations which could be eliminated anyway (by open-market operations in gold, etc.). But the price to be paid for regulating foreign exchanges consists of the necessity of putting everything that may affect them into strait-jackets: exports and imports, capital movements and even tourist traffic. Freezing foreign exchange transactions is temporarily "helpful" to a debtor country that uses the technique instead of an open default on foreign obligations; or to a creditor country to stop lending abroad. But in either case, it spells the ruin of international trade and credit, and presupposes a managed economy at home.

Regimentation vs. Inflation

The final word of every approach that pretends to combat inflation by "psychology" is regimentation. Indeed, the only way to stabilize a price level in the midst of, or after, a saturnalia of governmental spending, and to keep the public from converting the paper proceeds into real goods, is by not permitting the consumer to freely consume and business to invest. Consumption and business investment have to be strictly regulated so as to keep the demand within the potentialities of supply. **All "psychological" cures of inflation amount to curing by strait-jackets.**

Let's be clear about the underlying fundamentals. The average American will command three or four, or maybe five and six times more purchasing power — currency, and paper readily convertible, at face value, into currency —than he used to possess. Unless a price inflation is permitted to run amuck, due to the disbursement of excess purchasing power (over and above the disbursement of currently earned incomes), one of three policies, or their combination, has to be adopted:

(a) **Deflation** of the excessive volume of purchasing power by **default** on the promise to redeem at par;

(b) Absorption of the same excessive volume **by taxation;**

(c) **Reduction of its velocity of circulation** by persuading or forcing the owner to restrain from spending—the "psychological" approach.

The Meaning of Price Control

Few people believe that persuasion would work under **Post-war** conditions: that the appeal to patriotism, or even the offer of much higher interest rates, could keep the consumer from spending, and business from investing, when a vast accumulation of purchasing power will coincide with a similar accumulation of unsatisfied demand for durable goods. The medicine of European doctors is: to force self-restraint down the throats of individuals and corporations. They may keep their money, provided they don't buy more than what the authorities permit. The way to accomplish this is **rationing,** which in turn permits control of prices. This is the way most belligerent governments actually plan to dispose of their post-war inflation-worries: by letting the consumer keep his money, but keeping him from spending it. The same "solution" is being propagandized by American economists who get their cue from German, Russian, or English intellectual headquarters. They claim that since price control "works" (allegedly) in war-time, there is no reason why it shouldn't be enforced in peace-time; and they assume that people will regard their money as "good" even if it cannot buy, provided the loss of its purchasing power is due to administrative constraint and not to rising prices.

The answer is briefly, that—

1. Rationing and price control are so far only successful under war-time conditions when the consumer is willing to cooperate for patriotic reasons—when his economic motivation is dulled, so to speak;

2. Even in war, their success is temporary and limited. "Luxury" goods skyrocket even in Russia and in Germany, and black markets develop everywhere;

3. Post-war enforcement would necessitate an over-all control of economic activities, and a vast bureaucratic set-up, scarcely compatible with American standards of individual freedom;

4. The physical impossibility to enforce an all-round price control necessitates the use of subsidies, direct and indirect, which in turn add to the volume of purchasing power and enhance the upward pressure on the price level, making control more and more difficult;

5. Especially so, in view of the fact that an inflated monetary volume combined with price control means that the broad masses will feel secure in the possession of their vastly increased purchasing power. The psychological consequence is more spending.

6. Lastly, under those conditions, "full employment" is likely to prevail, with the consequent shortage of labor; if so, wages are bound to rise, in turn raising costs and prices.

Psychology of Inflation

The psychology of inflation has little to do with foreign exchanges and still less with gold reserves. Rising exchange rates and declining gold reserves may stimulate the buying spree; their absence does not hold it up. Price control and rationing tend to accomplish the opposite of their aim. What makes the consumer disgorge his liquid holdings and induces him to accept higher prices —the change in attitude from the hoarding propensity to the preference for spending—is a matter of economic reason, not of administrative tricks.

The average American — man, woman and child—will have this year an income of $1,100 or more, as against less than half as much five years ago. By the end of the year, he or she will have in "liquid" asests (cash, deposits and other paper at its cash surrender value) at least $1,500, or about three times more than what used to be in prosperous times the per capita liquid holdings in this country. An over-all prohibition to stop the use of comparatively high incomes and of disproportionately high savings, will create misgivings and fears rather than confidence; the attempt to enforce it by a policeman in front of every retail shop and another one behind every consumer is bound to bring about chaotic market conditions.

What determines, under such circumstances, the consumers' and investors' attitude is their expectation: that their incomes will or will not stay high, and rise further. If they expect the maintenance of the same or similar incomes, the incentive to reduce current saving and raise current spending is bound to prevail. Unless the American people have changed their "psychology" to such an extent as to become primarily interested in counting dollars rather than in enjoying things which dollars buy, it is most unlikely that either the saving of 35 to 40% of the national income, as last year, or the hoarding of the already accumulated "liquidity" should continue much longer.

Nor is it necessary that all people should act simultaneously and in the same fashion. A substantial fraction of the population dishoarding its liquid reserves can start the ball rolling. Once it rolls, once prices start to rise, without the excuse of war-time shortages and without the inhibitions of war-time restraint, the dishoarding is bound to progress in a cumulative fashion.

For all practical purposes, it makes little or no difference in what form the cash holdings are being accumulated; in which way we classify them (as Professor Schlichter does) as hot, warm, and cold savings; nor even does their distribution among savers matter. Few people ignore the real status of their "liquidity" because a greater or smaller part of it is in one cash form or another. What part of one's savings is hot or warm or cold, to use this new academic jargon, depends on temporary preferences, and is irrelevant to the problem. They may all turn "hot," as soon as the disbursement of a minor part has started raising prices, which in turn causes more income-inflation and more dishoarding of savings. It is this vicious circle from excess spending to rising prices to more spending, etc., that constitutes the psychological essense of a runaway inflation. It can be prevented only by stopping its material and psychological source: the expectation of a continued monetary inflation.

The CHRONICLE invites comments on the views expressed by Dr. Palyi, 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.

Ohio Municipal Comment

(Continued from page 1210)

city of Columbus, along with many other subdivisions in Ohio, prepared its budget to levy outside tax limitations for bonds issued prior to Jan. 1, 1931. A taxpayer brought suit to enjoin the levy of such taxes outside the tax limitation. The Supreme Court, following the same reasoning as in the Hudson case, upheld the city of Columbus.

Certain cities in Ohio, however, have operated under their own individual charters which specify a particular tax limitation for the particular city. In some cases these charters, with their respective tax limitations, were adopted prior to Jan. 1, 1931. The city of Akron adopted a charter on Nov. 6, 1928, with a tax limitation of 7.5 mills. This year Akron officials have prepared a budget with the intention of levying outside this 7.5 limitation for all bonds issued prior to Jan. 1, 1931, under the terms of the Hudson and Columbus cases.

A taxpayer's suit has been filed in the Supreme Court to test the right of the city to levy outside the charter limit of 7.5 mills for unvoted bonds issued subsequent to Nov. 6, 1928, the date the charter limitation was adopted. It will be interesting to know the reasoning of the court on this question, though it would seem that, since the charter was of course adopted by a vote of the people of the city, a decision in favor of the taxpayer in this case would not be contrary to the reasoning expressed in the Hudson and Columbus cases.

Customers Brokers To Hear On Market After German Collapse

The Association of Customers' Brokers will hold a meeting in the Board of Governors' Room of the New York Stock Exchange at 3:45 p.m. on Tuesday, March 28. The topic is "The Outlook for the Stock Market Following the German Collapse." The speaker will be Mr. Lewis Shellbach, of Standard & Poor's Corp.

Dillman Joining Cgo. Journal Of Commerce

The Investment Bankers Association of America announced on March 18 that David Dillman, Educational Director of the Association since 1936, had resigned effective April 1. Mr. Dillman is to become Managing Editor of the "Chicago Journal of Commerce." He was on the staff of that paper from 1924, when he was graduated from Northwestern University, until 1932, serving in various capacities, including that of financial editor and assistant editor. He was later staff economist of "Business Week" magazine.

Establish Reserve Purchasing Power For Consumers Goods After The War: Wachtel

President Of Calvert Distillers Corporation Declares That Government and Industry Must Act Now To Siphon Off Enough Money To Provide A Cushion to Prevent Inflation

To keep faith with our men and women on the fighting fronts, and to assure a strong home front, definite steps must be taken now to absorb excess purchasing power to prevent inflation and to provide a reserve of purchasing power for buying consumer goods after the war, according to W. W. Wachtel, President of Calvert Distillers Corporation who spoke at the meeting of the Newspaper Representatives Association of New York at the Hotel Lexington, March 9.


W. W. Wachtel

Pointing out that the widespread purchase of war bonds will not only help to win the war but "to win the peace," as well, he said: "When the conversion from wartime to peacetime economy takes place, the ones who will most need a backlog of savings will be the people in the lower income brackets."

With the 1943 national income reaching approximately 143 billion dollars, with consumer goods and services available absorbing 89½ billion dollars and Federal and State taxes absorbing another 25 billion, Mr. Wachtel declared that the remaining gap of roughly 30 billion between consumer income and expenditures is likely to spiral prices upward unless the situation is effectively handled. He pointed to the conditions in the postwar era of 1920, with $18 shirts, $25 shoes and 25 cent sugar, as dangers to our economic structure which must not be permitted to develop in the period ahead.

Citing the "home front" challenge, the president of the Calvert Corporation asserted that government and industry, working in complete harmony as to objectives, must act now to "siphon off enough money for a cushion to prevent inflation and accumulate reserve purchasing power to enable business to set up reserves out of current earnings to meet postwar problems to plan now for conversion of war plants for the production of peacetime consumer goods and to provide maximum re-employment in private industry."

Mr. Wachtel frankly conceded that free enterprise is under criticism, that our age-old system is being challenged, and that unless the challenge is met courageously and intelligently, those who advocate changing the way under which our country has grown and prospered will have argument for a change.

As regards postwar opportunities for consumer production and employment, Mr. Wachtel quoted official and industry surveys showing consumers will have over 100 billion dollars available immediately after the close of hostilities with which to buy 2,600,000 automobiles, 1,266,000 washing machines, 1,750,000 refrigerators and 1,000,000 homes, with all the furniture, furnishings, radios, stoves and utensils that would go into these homes.

Mr. Wachtel said in part:

"Whatever one may think of some of the details of the overall program of our Goveranment, we cannot quarrel with its present objective; namely, to prevent inflation and to avoid the mistakes of the previous postwar period. Following World War I, our shelves bulged with heavy inventories, prices got out of hand and reached fantastic figures, and little provision had been made for a reserve of purchasing power. The result was that we had difficulty in getting back to peacetime operation and in finding jobs for those who returned from the front.

"After the war has been won, it is equally important that we win the peace. When the men come back from the front, it will be the job of business leaders to see that they are employed. This can be done if we end the war with inventories bare of peacetime needs, with prices under control so that there is no severe recession in values, and with money saved up on the part of the many instead of on the part of only the few.

"After the war, dealers' sales rooms will be bare of automobiles, refrigerators, radios, electrical appliances, household furnishings, furniture, clothing and other necessities of life. The need for these commodities will be great. Newly-married soldiers will want to establish their own homes. Everybody who has gone without during the war will be in the market for consumer goods. If we have a reserve of purchasing power, we have a right to forecast prosperity following the war. Furthermore, we face the necessity for aiding in rebuilding the rest of the world. It is easy to see why some economists think that, if we plan properly and wisely, we can have an era of prosperity for a generation. Industry will be able to employ men returning from the front; we should have a peacetime boom such as this country has never seen."

Guy Cordon Succeeds Late Senator McNary

On March 13 Guy Cordon of Roseburg, Ore., a Republican attorney, took the oath as United States Senator, succeeding the late Charles L. McNary, whose death on Feb. 25 was noted in our issue of March 9, page 1024.

Mr. Cordon, who will serve until the November election, was named to the post by Gov. Snell on March 4, who renounced his own aspirations to the office, it was stated in Portland, Ore. Advices to the New York "Times," stated that it had been generally expected that Gov. Snell would either resign and accept appointment to the Senate or would seek the Republican nomination in May. From the same advices we quote:

"Mr. Cordon is well known in the Capital, having represented the Interstate Association of Public Land Councils, comprising 11 Western States, and the Association of Oregon Counties before many governmental departments and Congressional committees. He is considered an expert in tax matters and has served as adviser to the Governor on revenue measures. He has worked with the Oregon delegation in Congress since 1926 on public land matters. . . .

"He is past President of the Oregon District Attorneys' Association and past Oregon State Commander of the American Legion."

Bank and Insurance Stocks

This Week—Bank Stocks

By E. A. Van Deusen

Two weeks ago this column presented the five year earnings record of seventeen leading New York City banks, covering the period 1939 to 1943 inclusive. This week a similar record is shown for twenty leading commercial banks in cities other than New York. Wherever possible, operating earnings as reported by each bank have been used, in other cases "indicated earnings" as calculated from the balance sheets are shown. Lack of uniformity among the banks in the reporting of operating results renders strict comparisons impossible, nevertheless the figures presented may be considered as being generally comparable, and furthermore, they have been obtained from sources believed to be reliable.

As in the case of the New York City banks, the general trend of earnings over the past five years, despite taxes and higher operating costs, has been upward. Capitalization changes have been made in some banks, such as Continental Illinois and First National of Chicago, as shown in the foot-notes. In the case of First National of Pittsburgh, the stock was split five for one in 1943, and earnings have been adjusted back to 1939 to reflect this split-up. In the last column of the tabulation the current dividend rate is shown, which, in all instances, it will be observed, is well within the earnings figures. In some cases dividend coverage by reported net operating earnings appears extraordinary, such as in the case of Cleveland Trust and Fidelity-Philadelphia Trust.

NET OPERATING EARNINGS PER SHARE
(Except as noted)

	1939	1940	1941	1942	1943	Current Dividend
Baltimore						
*First National	$3.11	$3.01	$3.32	$3.04	$5.43	$2.50
Boston						
*First National	2.45	2.66	2.30	2.38	2.90	2.00
*National Shawmut	1.06	1.07	1.06	1.03	1.31	1.00
Chicago						
‡Continental Illinois	5.99	10.76	10.12	8.39	8.45	4.00
†First National	16.27	20.28	21.74	22.16	15.27	11.50
*Harris Trust & Savings	20.59	21.75	24.02	23.15	25.42	12.00
*Northern Trust	30.23	30.41	30.80	32.05	35.27	18.00
Cleveland						
Cleveland Trust	24.51	22.07	14.63	23.85	27.50	3.50
National City	2.17	1.91	2.12	2.35	3.03	1.20
Los Angeles						
Sec. First National	6.01	5.30	5.95	5.68	5.76	2.60
Philadelphia						
Corn Exchange	3.66	3.71	4.08	4.21	4.92	2.00
Fidelity-Philadelphia	20.60	20.11	23.76	22.02	28.17	8.00
Girard Trust	3.58	3.76	4.35	4.31	5.44	3.00
Pennsylvania Company	2.18	2.39	2.19	2.23	2.56	1.60
Philadelphia National	8.30	8.29	8.02	6.50	8.39	5.00
Pittsburgh						
First National	3.18	3.07	3.75	2.04	2.19	1.60
St. Louis						
First National	2.62	1.95	2.26	1.82	3.03	2.20
San Francisco						
American Trust	3.65	4.15	4.05	4.89	6.45	1.60
Bank of America	5.69	5.70	5.44	4.79	5.56	2.40
*Wells Fargo	13.97	14.35	14.52	16.22	15.84	13.00

*Indicated earnings. †30,000 shares 1939-1942; 50,000 in 1943. ‡1,500,000 shares 1939-1942; 1,800,000 in 1943.

There has not only been a substantial growth in the earnings of the banks, but also in capital funds, as represented by the book-value per share of stock. In Table II the book-values as of December 31, 1939 and December 31, 1943

(Continued on page 1217)

Forrestal To Address Bond Club Of New York

Hon. James V. Forrestal, Under Secretary of the Navy, will address a luncheon meeting of the Bond Club of New York to be held on April 3 at the Bankers Club, Richard de La Chapelle, President of the club announced.

Bankers Securs. Corp. Elects Charles J. Green

PHILADELPHIA, PA.—Albert M. Greenfield, Chairman of the Board of Bankers Securities Corporation, 1315 Walnut Street, announces the election of Charles J. Green as Assistant Secretary and Assistant Treasurer of the Corporation.

The Rising Tide Of Railroad Credit

(Continued from First Page)

man down." This, by inference, puts to rest "The Decadent Theory" that held forth for so long. The airplane and "What's gonna happen after the war" fears have given way to sober enlightenment that there is a real place for the rails in our transportation field of the future. The trucks and ships will get a word later, but, they too, have been stricken off the dangerous list. Also, the inland waterways, under Government subsidy—built up on the pretext of being necessary in war—are not a factor since this war has seen a shifting to the rails of traffic because in this emergency the tonnage has had to move by rails for greater speed.

The record made by the rails in handling business is simply astounding! Certainly, that old wheeze about "inefficiency" has been buried very, very deep. Just a minute here!

In 1943 the railroads did twice the ton miles of 1919 with 600,000 fewer freight cars and 22,000 fewer locomotives. There were also 13,000 fewer passenger cars in 1943 when passenger miles increased to 85,000,000,000, as against 46,000,000,000 plus in 1919. But most amazing is the fact that all this business was done with 550,000 fewer employees!

Last Fall the National City Bank Review gave a very interesting summary of how it was done, and I think it's worth repeating, because we had been trying to tell the same story for months, except we didn't hit on the simple method. Here it is!

"Germany's Propaganda Minister, in his memorable broadcast of a year-and-a-half ago, bases his prediction of an American transportation breakdown on the fact that we had half a million fewer freight cars going into World War II than we had in World War I. What Herr Goebbels, along with many others, failed to understand, was how the improvement in railway plant and equipment over the last 20 years, plus the more intensive utilization of that equipment, had transformed the 1,800,000 cars of 1942 into the equivalent of more than double that number. This discussion may be concluded with a brief presentation of the picture in terms of freight cars—a presentation which shows that while Herr Goebbels' figures were correct, his conclusions were fantastically wrong.

In round figures, the number of freight cars available in 1918 was 2,400,000; in 1942, 1,800,000.

But the 1942 cars had an average capacity 25% greater than those of 1918. This raises their aggregate capacity in terms of 1918 cars, to 2,250,000.

Moreover, the modern freight car is loaded 10% nearer to capacity than that of World War I. This raises the figure again, this time to 2,475,000.

But, what is even more important, the average freight car today is moved 50% faster, with less terminal and loading and unloading delays. In other words, it makes three round trips for every two made by its 1918 predecessor. Which is simply another way of saying that, instead of boasting but 1,800,000 freight cars (1918 type and efficiency) the railroads, at the beginning of the second World War actually had, for all practical purposes, 3,712,000."

Can anyone believe that the rails will slip back to their lackadaisical methods of the middle thirties, evidenced by lack of interest on the part of the Louisville & Nashville and Southern to the Monon, of the Canadian Pacific to the Soo, or even within the larger roads themselves, where "seniority" and "conformity" was fighting an "entrenching battle"? I certainly don't! Rather, the rejuvenation of railroad management and the aggressiveness displayed in this period will carry on into the future.

A year ago, at this conference, I had the good fortune to deliver a very prophetic talk entitled "The Dawn of a New Day in Railroad Security Valuations." At that time we spoke of the importance of public psychology in markets and, of course, at that time the public were still, for the most part, antagonistic to rails. We predicted though, as has happened so many times before, this psychology would change to accept the rails.

You well remember the talk during the late thirties regarding the unknown quantity represented by railroad liens. The Bankruptcy Act itself had been conceived on compromise theory lines, and the difficulty of getting interest payments on even the best of our defaulted liens, while the properties were being rehabilitated, had the effect of causing our primary buying spots, namely, insurance companies, banks and trust accounts, to avoid railroad securities for their needs.

A year ago we were very concerned about the forthcoming Supreme Court decision. In our opinion, the future of railroad securities as investments depended on the "right" decision.

Based on our faith in good railroad liens, we predicted a year ago, also, that the Supreme Court would absolutely uphold the priorities. Of incalculable importance in the acceptance of railroad securities was the clear-cut Supreme Court decision of last March upholding priorities. Even after the decision came out, the general regard and respect for **good** railroad liens had sunk to such a low level—practically nonexistent—that we were amazed that during 1943, subsequent to the decision, the green light to purchase securities of quality had been so overlooked by the backbone of our investing market. This possibly was due to the fact that there was a real lack of parallel in other industries. However, with the crying need for income and appreciation, it still does not fully excuse the people who should have had a clear understanding of the message conveyed by the Supreme Court decision.

In a very simple exposition, a few figures seem pertinent, but bear in mind that the investment rise in the better quality bonds has been on the basis of permanent investment, and the Supreme Court decision mentioned before is in a large way responsible for the comeback. But go back to 1932. At the beginning of that year the railroad industry had a net working capital (adjusted to present forms) of only $148,000,000. The debt was $11,830,000,000, so that the net working capital on the debt showed only about 1¼%, with lean earnings and short-term debt ahead! Subsequently, at the end of 1933 and 1934, the net working capital had declined to an average of only $24,000,000. That's thinner than the butcher cuts baloney.

The situation today is so completely changed that the comparison staggers one. As of Nov. 30, 1943, the net working capital had increased to $1,784,000,000. If the reorganizations were completed, we would have a debt of less than $8,000,000,000, and this **figure** should be reduced still further during 1944, despite the fact that many railroads may decide not to continue their debt reduction programs so heavily as has been the case.

At any rate, the figure of $8,000,000,000 of debt is good enough for our calculations, and the net working capital to debt would be in the ratio of 22%, that's almost 18 times 1932. I don't think you have to go any further than that to build up a case, but just to complete the cycle, railroad debt to investment in 1932 was about 45%, whereas on the basis of $8,000,000,000 it would be about 30%. Certainly, the industry is not going to be overcapitalized on any basis such as this (especially when you consider the better plant today).

The railroads still have tremendous tax advantages. You saw two months ago what happened to Delaware & Hudson when they sold one mine and saved themselves $2,700,000 in taxes (not exact, but good enough for our purposes). This undoubtedly will be magnified many times. The railroads are huge corporations and they have, as a rule, a number of subsidiary corporations, which in many cases had lain dormant all during the depression. Practically speaking, the book values are fictitious, and I think during the course of this year you will be amazed many times by the sales of properties and the corresponding cash increases, but, more important, the much larger amounts of taxes saved on the sales.

Likewise, the railroads have other tax and financial advantages. A few years ago, the only extra cash that came in was in the excess of depreciation over equipment maturities, and this averaged about $135,000,000. Depreciation was the means whereby a number of railroads during the thirties managed to stay solvent. Today, in addition to excess depreciation of equipment ($90,000,000), we have wartime amortization, which reduces earnings by about $145,000,000 (December rate of $200,000,000) a year and saves the taxes to that extent. As a rule, this will run out, in 1946 and 1947, but the equipment that will be fully depreciated by that time will be good for many years to come. Also, beginning in 1943, the railroads started to make depreciation charges on certain items of way and structures. This will run pretty close to $105,000,000, which is also a very sizable figure.

The net result of all this is that, whereas the cash coming in in years prior to 1940 was a comparatively small sum, the figure today is much larger (over $350,000,000). I would not worry either about wage costs. I do not mean to be flippant about this but I do not believe it has a place in this year's calculations. If any of you read our green booklet of last September on the "Railroads in Peace-Time" you may remember that we said that since the last war there had been a definite trend towards transportation rates based on out-of-pocket costs and in this field, in our opinion, the railroads had every natural advantage.

In my opinion, the trucking menace will not be a "scare" factor as in the past. The truck lines are hard put today to make both ends meet, and many truckers are running at 100% operating ratio. According to the ICC 57th Annual Report to Congress, the trucking industry in 1942 had an operating ratio of 94.24%. (In 1943 the truck ratio of expenses to gross before taxes was probably close to 96%). Since 1942, the large discounts formerly obtainable on oil, gas and tires have gone by the boards, **but the increase in wages** given by the railroads bodes ill for trucking wage costs with their slim margins in the future. We think free coordination of rails and trucks will come in the after-war period.

The same wage squeeze is applicable to the coast and intercoast steamships. Even prior to the war emergency a number of coastal companies, such as the Clyde-Mallory Steamship Company, suspended operations, due primarily to the heavy wage costs, and despite the surplus of ships after the war, I believe strongly that boat rates will be much higher comparatively as against rail rates than was the case. Furthermore, it will be a long time before they come back, because of the extensive repairs necessary after their war-time beatings, and probably the lack of materials obtainable for some time.

It was quite clear to us, along about Dec. 1, that the markets were in a long-term uptrend. As a guide, also, using both junior solvent bonds and defaults, we found that under cover of plain acknowledgement of the facts, the rails were building a platform to take a big jump.

Let me show you what two groups did. Tracing two groups (one junior solvents and the other defaults) through three "peace" markets—the first in May-June, 1942, the second the "Mussolini" market of last July, and the third the "sure" peace market of last November, we found every reason for encouragement. Incidentally, there is less optimism over an early peace than at any time since the war started. Maybe it will come when we least expect it. We certainly hope so.

At any rate, what we saw led us to believe that "peace" was not likely to cause a breakdown in rail values. Progress was the order of the day, despite all the loose talk to the contrary. In the solvent field our list hit a high of 63.74% in the Spring of 1942 and declined 14.1% in the May-June selloff. By June 1, 1943 (the high to that point) the market had risen to 74.89, and then declined 7.2% (only half of the previous break despite the higher level). In November, from approximately the same former high, it broke only 4.1%. In each case the "break" was about half as severe as the former one. Now, these bonds are around the 84.40 level, or 20.6 points higher than in 1942 (a gain of 32.4%).

In defaults, there's a strikingly close parallel. The 1942 selloff amounted to 27% from a price of only 26.04. The July, 1943, "break" was 14% (almost half the former one) from a price of 45, and the November decline averaged 11% from a slightly higher plateau.

Notice also, that each percentage loss in the defaults was just about twice as severe as the solvents.

The answer was clear to us that the trend was definitely upwards.

The leverage in the rails just can't help permanenty improving their structures. This is the year of acceptance!

All in all, now it is "credit" that is the topic of chief discussion. What else but "credit" has caused the tremendous lifting in prices since March 1, 1943? At that time we had bonds like Southern Pacific refundings at 81½, Baltimore & Ohio 1st 4s at 68, B. Q. generals at 92½, B. Q. 4½s, at 73, Pere Marquette 5s at 80, Nickelplate 4½s at 69¼, Louisville & Nashville refunding 3¾s at 87, Southern Railway 5s at 97, Illinois Central refunding 4s at 55, North Western 1sts at 80, Wabash 1st 4s at 89, also Delaware & Hudson refundings at 61, Atlantic Coast Line 4½s at 66, all selling 8 to 26 points lower than today.

Defaults like St. Paul golds were 24; Missouri Pacific 5s, 43; Rock Island refundings, 24; New Haven "converts," 43; Western Pacific 5s, 41; St. Paul General 4½s, 49.

In the defaults, the present prices, likewise, reflect to a large extent the new credit ratings. Earnings, of course, have played a large part in this picture, but we had seen peak earnings in 1942, and yet prices were very low.

What else caused the strength in rails through January and February, while industrials were off? How does any skeptic (or for that matter, anybody else) explain the non-arresting rise in railroad securities since December?—especially in the face of the recent large wage award and the widespread talk of much lower earnings.

Certainly, the wage increase talk put a dent in the market every time it bobbed up last year at a much lower price level, yet despite some bearish forecasts by certain agencies when the settlement was made the market moved ahead in unprecedented fashion. Industrial stocks had given a very poor performance, to a large extent because of the tax impost, but, here again, railroad securities have moved forward in spite of increased regular tax accruals likely this year.

While on the subject of Vanishing American Hysteria, why has the market moved so precipitately upwards in spite of the sky-plastered publicity about a Spring invasion? What's happened to the "What's gonna happeners?"

There seems only one real answer—a return of credit. True, despite taxes (which may have some surprising offsets) we still will see large earnings, but if there were not a solid foundation of genuine belief in the ability of the roads to survive in the future you would not have witnessed insurance company, trust, savings bank and bank buying.

The answer must be credit! In the opinion of many **qualified** analysts (who, incidentally, do their own thinking) the credit of many roads is likely to be restored to its former ranking.

These discerning and realistic people know that mile for mile the railroads are better now then they ever have been, and investors are getting an overflowing measure of investment value for every dollar they put in. But more about this later.

Well, to return to the market. In the face of an ever-decreasing supply of good mortgage bonds, these institutions come into the market and relieve the public and the uninformed of the "cream" of the railroad field at low prices. This creates buying power which, in some cases, comes back into the market. However, the persistent lifting in values in the underlying field also is reflected in lower quality bonds and finally in stocks.

What's going to happen to our defaults as they complete reorganization? The insurance companies will take the firsts, the investors may keep the incomes, and the stocks may be sold, or even held if they cost "nothing." The point is that the cumulative effects of money-making in the market extends throughout the whole allied list of railroad securities.

While on the subject, the action of railroad stocks also nestles in nicely with credit. In 1942, Southern Pacific, for instance, earned $21.28, yet the stock didn't sell above 18½. In 1943, it earned $15.47, yet sold up to 30½. Starting in 1944, the stock has already sold as high as in 1943, despite the prediction for lower earnings. The answer is that, if Southern Pacific's credit is accepted as being a good one, the stock will sell much higher on much lower earnings. You can find parallels all through the stock list.

Assuming, therefore, that credit is on the mend and will be universally acknowledged in the case of many roads, it is impossible to say how long the market will keep ascending. It's like Moran and Mack's old question, "How high is up?"

A more definite answer would be, **"If railroad credit turns out to be real, prices are still very low!"** The only barrier would be the "social standing" of each carrier superimposed on the quality of each divisional bond.

Therefore, despite the gasps of amazement over the railroad security performances, it is my belief that if "credit" is only half real as a factor, prices will still go higher.

There is a tremendous business lesson to all this that you should not miss. Practically in one year you have had the business experience of twenty. The lesson of the last year should be invaluable to you. You have learned that the public's fancy does change either way, and you have witnessed the experience of seeing the securities of a whole industry go from the depths of non-acceptance to popular demand. You saw the industry decline for a period of 10 or 12 years, and in a couple of years saw it come a long way back the trail. I trust the lesson is not lost.

Well, we are almost finished with the introduction. But—don't forget consolidations. They're ahead for the future. Not this year or 1945, but they are on the way. You're going to have all the roads at least on speaking terms with one another, whereas in 1930, for instance, you had the Union Pacifics way up in the air and the Seaboards, Norfolk Southerns, Central Georgias, etc., down in the dumps. Consolidation was out of the question, but consolidation will be a future factor. Lest you forget—consolidations make big markets.

Isn't it nice to get up in the morning in daylight? It's the same way with the rails. After 10 years of darkness we see light in the sky again. Each passing day brings more sunshine. All our hopes for a complete turn-around in the rails seem to be reaching fulfillment. Naturally, we were happy during 1941-42 and '43 about the results attained in defaults, but, nevertheless, there was something big lacking.

Without a real and genuine demand steadily emanating from our institutions, banks and similar buyers, we never could have expected the market to go beyond certain definite limits.

Now, I feel like a man rescued after a number of days from a mine cave-in. The sunlight sort of blinds me, even though I know I'm not dreaming.

Does anyone have an answer that does adequate justice to the enigmatic upward surge of railroad securities at a time when they seemingly were wearing out their time with the approach of the war's end?

I have given a lot of thought to this question and, for what you may consider it worth, I wish to present the only explanation that adds up to anything. In one word, the answer is "credit"—that's the final word, but as part of this heading we should also insert the word—"confidence."

Confidence in the ability of the railroads to get their share of business in the post-war period, because the outstanding performance now being given is coming to be more and more appreciated. In a long war the best transportation system wins and that is what we've got in the railroads. The inference is clear, then, that the industry is not decadent. That's the first step in the "confidence and credit" cycle.

If, then, the industry in the future will function as it has in the past, the next conclusion would be that under certain debt conditions "credit" or "investment caliber" might be stamped or attached to various systems and liens according to the degree of safety. It will still be up to the investor to be careful in his selections, however.

More and more, many investors are coming to the conclusion that "credit" is definitely and surely coming back to many railroads.

There is no need to enlarge on these few thoughts—you either accept them or reject them. At any rate, what I have touched on is the only plausible conclusion that I have come to regarding the recent outstanding railroad security performances.

This is the thought I would leave with you.

Mutual Funds

(Continued from page 1213)

their views known to their Federal and State legislators. . . ."

(Full text of article appears in this issue, starting on page 1202.)

* * *

In the current issue of **The New York Letter, Hugh W. Long and Co.** presents "The Case for Optimism." It is a well presented case and takes the robust note: "We doubt that X-day (the day of Germany's defeat) will catch American industry with its plants down."

Investors Mutual reports net assets at a new high on March 14, when the fund passed the $30,000,000 mark. As Mr. Earl B. Crabb, Chairman of the Board of Directors, points out, the fund was inaugurated Jan. 18, 1940, with an original investment of $100,000 by Investors Syndicate, investment manager and principal underwriter.

A new folder on **General Bond Shares** has been mailed to dealers by **Distributors Group.** "Generous Income from Seasoned Investments" is the title of the folder which points out that "Most of the old familiar and time-tested ways of obtaining a stable income of 5% or more are no longer available to investors." The field of investment which affords this type of income today is narrowed down to selected corporation bonds of the type held by General Bond Shares.

* * *

Massachusetts Distributors current issue of **Brevits** discusses the propriety of a trustee investing trust funds in the shares of an open-end investment fund.

"It has been suggested," states the memorandum, "that a trustee cannot delegate the management of his trust pro tanto to persons over whom he has no control. This argument, if pursued to a logical conclusion, would prevent investments in stocks of any corporations because any such investment would involve a delegation of authority as to the management of the investment to the directors." The article then cites the opinion of Mayo A. Shattuck, one of the the best-known authorities on trustee practice.

"It can be argued, with a good deal of force, that a trustee delegates no more of his authority in purchasing shares of . . . open-end investment companies than he delegates when he purchases, for example, the shares of a bank stock or insurance stock, or even of a stock like DuPont, whose earnings are dependent, in part at least, upon the earnings of another great industrial company. It can also be said that the management charge is no more open to objection than the salary account of a . . . public utility holding company, or the compensation which a trustee often pays to an expert in one or another of the fields of human enterprise —such fields, for example, as law, accounting (and) engineering. . . ."

Investment Literature

A. W. Smith & Co.—A new prospectus on **General Investors Trust.** . . . **Calvin Bullock**—the March issue of **Perspective,** containing an analysis of Automobiles: Post-War Outlook. . . . **Lord, Abbett**—A revised portfolio folder on **Union Common Stock Fund "B."** . . . **Selected Investments Co.**—A recent issue of **Selections,** discussing the improved tax position of investment companies under the Federal Revenue Act of 1943. Also a memorandum showing the current diversification of **Selected American Shares. . . . National Securities & Research Corp.**—A revised folder on **National Preferred Stock Series** and a new issue of the leaflet, "A Check from Invested Capital Every Month of the Year." . . . **Hare's Ltd.**—A leaflet discussing "The Upward Trend of Bank Earnings."

Bank And Insurance Stocks

(Continued from page 1215)

are shown, also the approximate current market prices.

BOOK VALUE PER SHARE

	Dec. 31, 1939	Dec. 31, 1943	Approximate Curr. Market
Baltimore			
First National	$26.75	$30.55	$59
Boston			
First National	41.11	43.35	51½
National Shawmut	38.63	39.09	26⅜
Chicago			
*Continental Illinois	63.39	72.45	95¼
†First National	229.84	186.38	234
Harris Trust & Savings	290.62	337.96	397
Northern Trust	450.76	507.27	615
Cleveland			
Cleveland Trust	137.57	184.45	160
National City	31.46	36.14	33½
Los Angeles			
Security First National	35.42	45.83	54¼
Philadelphia			
Corn Exchange	60.51	63.10	52½
Fidelity Philadelphia Trust	307.72	315.16	220
Girard Trust	36.46	40.34	50
Pennsylvania Company	27.30	27.60	38
Philadelphia National	60.42	70.97	113
Pittsburgh			
First National	41.55	46.72	40½
St. Louis			
First National	31.99	35.38	45
San Francisco			
American Trust	45.02	50.35	47¾
Bank of America	29.21	32.25	50¼
Wells Fargo	197.27	206.20	305

*1,500,000 shares in 1939; 1,800,000 in 1943. †30,000 shares in 1939; 50,000 in 1943.

As in the case of New York City banks, these banks also have experienced tremendous expansion in their deposits and in their holdings of United States Government bonds. Their ratios of deposits to capital funds have increased, in many instances, to abnormally high figures. The average ratio of the 20 banks as of December 31, 1939 was 12.8, and as of December 31, 1943, 18.3. The most conservative ratios are those of Fidelity-Philadelphia Trust Co., viz: 6.5 in 1939 and 7.4 in 1943. The highest ratios are those of Northern Trust Co. of Chicago, viz: 27.4 in 1939 and 34.1 in 1943. The greatest change in ratio was experienced by Cleveland Trust whose ratio doubled from 11.1 in 1939 to 22.7 in 1943.

Now Empire Steel Corp.

The name of Empire Sheet and Tin Plate Co. has been changed to Empire Steel Corporation, according to announcement by James M. Hill, President. The company discontinued tin plate production several years ago and Mr. Hill pointed out the new name more accurately describes the nature of the company's business.

He also announced that the par value of the common capital stock was changed from no par value to $10 par.

Post-War Taxes

(Continued from page 1202)

the resolution, bringing the total which have thus acted to fourteen. These States, and the order of their adoption, are as follows:

Wyoming
Rhode Island
Mississippi
Iowa
Maine
Massachusetts
Michigan
Indiana
Arkansas
Delaware
Pennsylvania
Illinois
Wisconsin
Alabama

The resolution is now, or soon will be, before the Legislatures in New York, Kentucky, South Carolina, Louisiana and New Jersey, where it recently passed in the Senate and awaits House action.

Those advocating the measure hope for favorable action by these five States in regular session and also by half a dozen States which are expected to hold special sessions. If a majority of States can thus been listed in 1944, perhaps Congress, impressed by this show of strength and without waiting for the compulsory action of 32 States, would voluntarily submit the amendment to all the States for final ratification when they are in session in 1945.

The movement is being strongly supported by the Committee for Constitutional Government, 205 East 42nd Street, New York, and by the Western Tax Council, 30 North La Salle Street, Chicago.

Effect on National Revenue

Probably a natural question is: would such a restriction as the proposed amendment on the taxing power of Congress jeopardize the Federal Government's future revenue? As individual income taxes provide a major proportion of the Federal income an answer may be supplied in examining the returns for a normal year. In 1940, for example, an aggregate of income before taxes of only $1.685 billions was earned by individuals who paid more than 25% of their income in taxes. Their total income tax was $707 millions, and under a 25% tax ceiling it would have been $421 millions, indicating a theoretical loss in revenue of only $286 millions, the largest for any year of the period from 1920 to 1940, inclusive.

The maximum individual rate was lowered from 76% to 25% by three tax reductions after the first World War, and at each downward step more revenue was produced.

The Point of Diminishing Returns

Excessively high tax rates on incomes, it is maintained, are self-defeating so far as the obtaining of revenue is concerned, and there is a point of diminishing returns beyond which the revenue produced is less rather than greater. President Wilson in his 1918 message to Congress said:

"The Congress might well consider whether the higher rates of income and profits taxes can in peacetime be effectively productive of revenue, and whether they may not, on the contrary, be destructive of business activity and productive of waste and inefficiency. There is a point at which, in peacetime, high rates of income and profits taxes discourage energy, remove the incentive to new enterprise, encourage extravagant expenditures, and produce industrial stagnation with consequent unemployment and other attendant evils."

Double Taxation

Another greatly needed reform is the ending of double taxation of corporate income. This consists in the present system of an income tax on corporate earnings at the source, paid by the corporation, and another tax on the same earnings, paid by the individuals receiving them in the form of dividends. Bond interest is deductible as an expense and hence is not subject to corporate tax.

There is mounting objection to this system of double taxation, first on the ground that it is not equitable. Professor Sumner H. Slichter of Harvard University last week made the succinct comment:

"Income derived from giving jobs is taxed twice, whereas income derived from holding jobs or lending capital is taxed only once. By various devices severe penalties are placed upon anyone who presumes to make a living by bearing the brunt of economic risks."

Aside from violating the principle of equity and justice, however, the system has other adverse effects: financing by corporations through bond rather than stock issues is artificially favored, encouraging top-heavy corporate financial structures; as individual proprietorships and partnerships are not subject to double taxation, the corporate form of business operation is discriminated against; purchase of stocks for investment by wealthy investors is discouraged, greatly curtailing the market for corporate equities; and reasonable dividend distributions are discouraged by influential shareholders subject to heavy double taxation.

Active in the movement to eliminate double taxation is the Investors Fairplay League, 175 Fifth Avenue, New York, headed by B. C. Forbes, who says:

"Double taxation does not remotely conform with 'ability to pay,' since the humblest widow who has her money invested in a corporation stock has had deducted from her income exactly the same rate as the richest stockholder in the company."

Suggested Remedies

Great Britain has dealt with this problem by making the normal tax the same for both individuals and corporations. The corporation has the alternative of paying the 50% normal tax on all its income and distributing tax-free dividends (the recipients remaining liable for surtax), or paying no normal tax on that portion of its earnings distributed in dividends, which are subject to normal and surtax in shareholders' hands.

Opinions differ as to the proper remedy in this country. One remedy suggested is a Revenue Act amendment providing that dividend income be exempt from personal normal and surtax up to 40%, the total rate paid by corporations on income other than excess profits. Another is a provision that corporate taxes should be abolished on the distributed portion of earnings, so that corporate income would be taxed only once, either as part of stockholders' income, or as a levy on reinvested earnings.

Congress in the 1942 Revenue Act recognized the necessity for eliminating double taxation of regulated investment companies' distributed income and realized profits by making them non-taxable to the companies.

Capital Gains Taxes

Another tax peculiar to this country (Britain has none) is the capital gains tax, the elimination of which would remove another factor discouraging the employment of venture capital. The individual or enterprise, in a simple case, takes all the loss and keeps only part of the profit.

This tax in reality is not an income tax, but a capital levy, contingent entirely upon the taxpayer's disposing of a capital asset at a profit. It has hindered and reduced capital investments and discouraged those with profits from realizing them, and has produced disappointing returns to the Treasury (only $12 millions in 1940).

Extending far beyond the securities markets, it hits every business man who makes a capital investment of any kind. Its chilling effect is as great on the price of real estate as it is on securities. Failing its complete repeal, the holding period should be abolished and the rate of tax sharply reduced to encourage taking capital gains. Emil Schram, President of the New York Stock Exchange, has been active in presenting many practical reasons for this reform.

Excess Profits Taxes

With the termination of the war opinion is almost unanimous that the excess profits tax will be repealed since, as its name implies, it is a tax originally intended solely for abnormal profits due to war conditions.

Perhaps this tax can be regarded as not an entirely unmixed evil since the law also includes the provisions for the two-year carry back and carry over of unused excess profits tax credits and of net operating losses. If post-war earnings of a corporation decline below the pre-war level or if operations become unprofitable, the effect of the refund of part of wartime excess profits taxes may prove actually to turn a sizable loss in the immediate post-war years into a satisfactory profit, enough to maintain payrolls and dividend payments despite losses from current operations. An extension of the carry back and carry over period from two to five years is advocated as being fairer to corporations with widely fluctuating earnings, as it would in effect tax average earnings.

Capital Stock and Declared Value Excess Profits Taxes

A movement has been initiated in Congress for the repeal of the capital stock and declared value excess profits taxes; these measures are more conspicuous as nuisances than revenue producers, an objectionable feature being the enforced necessity for guessing at figures in declarations to avoid subsequent taxes. Elimination of these taxes would have saved corporations an estimated amount of over $250,000,000 in taxes in 1942.

Conclusion

For the American free enterprise system to function to its greatest efficiency after the war certain tax reforms will be necessary. Some elements now tending in this direction are the proposed 22nd Amendment limiting to a rate of 25% taxes on incomes, inheritances and gifts, already approved in 14 States, and the growing movement to eliminate double taxation of corporate income, the capital gains tax, the excess profits tax, and the capital stock and declared value excess profits taxes.

Corporate executives and individual investors can aid to bring about these tax reforms by making their views known to their Federal and State legislators. A solution of the tax problems as mentioned herein will be a great incentive to business and the individual initiative so necessary for our post-war economy.—From "Investment Timing" of March 16 issued by the Economics & Investment Department of the National Securities & Research Corporation, New York City.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 1208)

and everything is nice and cheerful. The public, acting on the assumption that nothing succeeds like success, is right in there buying stock after stock at advancing prices.

* * *

While the public is bidding for them it might be interesting to step back to see who is doing all the selling. Of course, there is switching going on by the investment trusts. But in at least one group, the oils, it's not switching. The largest oil holders in the country have been liquidating their old stock holdings for weeks. It doesn't show itself on weak days, but on strong days it stands out like a black eye at a pink tea.

* * *

Current talk has it that a reaction is out of the question because of two elements: Cash buying and more liberal interpretation of Government toward business. Taking the latter first, there is no evidence of such liberality. Yes, you have a rebellious Congress off on a vote-getting spree. But it's antics do more harm than good. So far as cash buying is concerned all you have to do is ask some of the leading houses how their debits stand. A reliable source informs me that debits are now back to where they were July, 1943, when the market was at 146 and a high fraction. Less than two months later, the market was down to about 130. Reducing debits to a percentage, last July they were at 100. Today, with the averages about 141 (five points under the July tops), debits are at 99.0.

* * *

The whole thing adds up to the conclusion that the market is presently engaged in making a broad top. This doesn't mean that a reaction will start right away. On the contrary, a setback of about two points can easily be followed by another rally to last week's highs. But, looking at the entire picture, this looks hardly like the time to do any buying.

* * *

For the speculator who can move fast enough to take advantage of a minor and a rally on which to get out on, the following stocks and prices recommend themselves: American Car & Fdry., 36, stop 35; American Loco., 16, stop 15; Bendix, 35, stop 34; J. I. Case, 36, stop 34; Electric Auto-Lite, 39, stop 37; National Lead, 20, stop 19; United Aircraft, 28, stop 27; U. S. Steel, 50, stop 49, and Youngstown Sheet & Tube, 37, stop 35.

You may still be holding American Steel Founders; if you are, then the stop is now raised to 26.

* * *

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.]

Interesting Situation

Steady and substantial growth in earnings of the "Utility Group" have increased the speculative attraction of both the Prior Lien and Plain Preferred stocks of New England Public Service Company according to a detailed circular on the situation prepared by Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange and other leading national exchanges. Copies of this interesting circular may be had from Ira Haupt & Co. upon request.

Alleghany Corporation is also attractive from a speculative viewpoint, a recent circular issued by the firm indicates. Copies of this also may be had upon request.

N. Y. Analysts To Hear

On Friday, March 24, at the regular meeting of the New York Society of Security Analysts, Inc., there will be a round table discussion of the market outlook for holding company and special situation securities. Leader will be E. Ralph Sterling of Merrill Lynch, Pierce, Fenner & Beane.

On Monday, March 27, the Society will hear Joseph Stagg Lawrence, Vice-President of the Empire Trust Company, on "Taxation—Today's Burden, Tomorrow's Prospects."

Meetings are held at 56 Broad Street, New York City, at 12:30 p.m.

Foreign Trade And Currency Stabilization Problems Discussed

(Continued from page 1202)

peril to our economic health.

"So long as we need and want products of other lands we shall have foreign trade, and no set of restrictions will entirely choke it off. There seems to be no good reason to choke it off, but on the other hand a good many reasons why we should encourage it.

"There are reasons of immediate and obvious self-interest. We need to buy and we need to sell. We need to buy products that we don't grow, make or dig. In spite of progress in synthetics we shall probably want to go back to heavy imports of crude rubber. We shall have to continue to get our tin from abroad and to make the high-speed and specialty steels that modern industry and transport demand we shall have to import 40 different commodities from more than 50 countries. We need asbestos, nitrates, chrome ore, flax fiber and various kinds of wools. These are basic materials for manufacture, but the list is long when we get into the field of consumer wants with such items as coffee and tea, tropic fruits and nuts, and a great variety of food products. We want also, though we may not need them so badly, cheeses from Holland, china from Great Britain and Sweden, linen from Ireland, laces from Belgium, watches from Switzerland, and no doubt again rare wines and objects of art, beauty and utility from France. We want rugs and other textiles from the near and the Far East and works of art and handicraft from the remotest mountains and valleys and deserts of all the continents.

"These things we would not give up without a wrench to our economy and our mode of living, nor could we give up our exports without difficulties probably just as serious.

"Although normally we sell abroad less than 10% of our output of movable goods, that 10% is vitally important. The significance of the foreign markets must be judged, not on the basis of the magnitude alone, but in terms of the crucial position of the foreign market in certain industries and the indirect effects that loss of these markets would have on other industries. The tobacco leaf industry in 1938, for example, exported 57% of its total production, the cotton industry 43%, and the aircraft industry 62%. The foreign market is also very large for machinery, petroleum, autos, iron and steel, chemicals and wheat, to mention only a few of the most important.

"Exports, too, will assume an added importance for us in the immediate post-war years. This country will be faced with the job of reconverting from war to peace-time production. Since the process of manufacturing a steel ingot is the same whether it is to be fashioned into a tank or a locomotive, the conversion problem will be considerably lighter if the industries producing capital goods can expect a continuing market for their output. It may be expected that for a considerable time other countries of the world will need urgently the machine tools and capital equipment that this country will be in an excellent position to provide.

"Considerations of direct and obvious self-interest thus dictate for us a policy of trying to open up and to keep open to the maximum degree the channels of foreign trade after the war. We can profit by exporting our special skills and products and by importing the special skills and products of other countries. But there are other less obvious and direct advantages that are in the long run probably even more important. Few other countries are as nearly self-contained economically as we. For most of them the life of their populations on any decent level of subsistence depends on the ability to export and to import. This is as true of countries with a high organization of industry as of countries which are mainly sources of minerals and agricultural products. It is true of Great Britain, of Sweden, of Brazil. As to some countries the export of services such as shipping means the difference between depression and prosperity. For many of these countries the United States is the major market, and they also constitute important markets for us.

"One of the most striking facts about the modern world is its increasing economic interdependence. One of the by-products of that interdependence is that prosperity can be exported and so can depressions. If we trade with other lands we are to a considerable degree subject to economic influences at work in them. We have a stake in world prosperity, in a general high level of well-being. We have an economic stake, and also a political one, for economic pressures may and do produce political explosions. If we mean to avoid other world wars on the heels of this one we must lose no time in building the economic foundations that will make continuing world peace possible.

"Some people have such great faith in the automatic mechanisms of economic life as to believe that no planned overt action is needed for the restoration of international trade, that the world will go back to the happy position of some blessed year in the past if only left to the devices of the individual business man. Hopes such as these ignore completely the experience so painfully acquired during the decades between the two wars. Those years taught us that no nation can avoid assuming some responsibility for the economic life and trade of its citizens. We can choose the economic warfare of the 1930's, when the nations of the world undertook to handle world trade and currency problems independently, or we can benefit by this experience and lay our plans for solutions which do not so clearly lead to decreasing trade and lower standards of living.

"From the high tariff policies of the late boom years until the outbreak of the present conflict, the major countries were engaged in practices which seriously diminished the volume of world commerce and prosperity. Politically, we were officially at peace during these years, but economic warfare was being waged continuously. Although no single country was wholly to blame, all were shortsighted. Nations attempted to achieve economic recovery at each other's expense. By means of quotas, tariffs, exchange controls, and competitive depreciation of currencies, countries undertook to export unemployment. These measures provided temporary relief until the countries discriminated against followed suit. The volume of world trade declined rapidly and all suffered.

"Competitive exchange depreciation is an evil which snowballs. The actions of specific countries and groups of countries in cutting the value of their currencies—actions which often could not be avoided without help which was not obtainable—created pressures on other countries to do the same. Exchange dealers, understanding the incentive to further depreciation, were encouraged to speculate and thus contributed to the flights from specific currencies which were developing because of the growing monetary instability. The whole pattern of exchange relationships, so slowly reconstructed after the last war, was endangered, and the situation became one of serious monetary disorder.

"In addition, another development took place which further diminished the volume of world commerce. Nations, if they are to buy abroad, must pay for their purchases in one of three ways: with gold and foreign exchange, or with money obtained by selling their own products in foreign countries, or with money obtained by borrowing. Since no country is able or willing to permit a gold outflow indefinitely and the depression had considerably decreased the opportunities of selling abroad, foreign loans and credits were very important in determining the level of world trade.

"After 1928, however, this last avenue for the acquisition of foreign exchange was virtually closed. The attraction of our own stock market for the investment funds of American and foreign investors was one of the reasons for the pre-depression decline. Unsettled political conditions and the depression were responsible for the reluctance of investors in subsequent years. The result was a further decline in the export markets of all nations.

"Thus the problems we shall have to face after the war are not merely those created by the war itself, but in large part they are the heritage of the years of depression and economic warfare which preceded it. We shall face a world disorganized, exhausted and in many areas devastated by war. The occupied areas and those which have been the battlefields will require economic assistance on a tremendous scale. UNRRA, the international relief organization, will provide for the most urgent needs, but relief will hardly be sufficient in view of the devastation of Europe and the thoroughness with which the occupied nations have been plundered of machinery and other capital equipment. Immediate positive action will be necessary to prevent economic stagnation and the social and political unrest which would follow upon it.

"For some years after the war few countries will have the surplus commodities which can be used to pay for imports. Until such time as these nations can again make use of their full productive capacity, extensive international credits must be provided. We may reasonably expect that the required volume of short-term capital will be made available by th ecommercial banks and trading houses. Industrialists and foreign traders are already making plans to resume their usual exports and to extend generous credits to their customers. It is also likely that there will be a rapid resumption of direct investments in industrial enterprises abroad in the form of subsidiaries and branch plants.

"In addition, the world normally counts on a considerable volume of long-term credits to bring about a large and balanced international trade. As much as one-fourth of the exports of the large industrial countries has been paid for in ordinary times with funds provided through foreign investment. In the post-war period, long-term credits will also be required for reconstruction, for reconversion to peace-time production, and for the development of economically backward areas.

"For many reasons it is unlikely that private investors will provide an adequate supply of long-term capital. In view of the losses suffered on foreign securities and the restrictions imposed on the withdrawal of earnings in the last decade before the war, private investors may reasonably exercise considerable caution. The uncertain business conditions which will undoubtedly prevail for a number of years will also serve to discourage long-term lending.

"Only with some assistance, therefore, can private investors be expected to satisfy the unprecedented capital requirements of the post-war world. An institution is needed which can encourage private investors and share their risks. To meet this need the United Nations have begun discussions which look forward to the establishment of an international agency designed to facilitate the extension of long-term credits. A tentative plan for a Bank for Reconstruction and Development has been formulated by the technical staffs of the Treasury and other departments and agencies of this Government.

"The proposed bank would be a permanent inter-governmental institution designed to encourage and aid international investment through the usual investment channels. It is intended to make no loans or investments which can be made by private investors on reasonable terms. In those cases in which borrowers could not secure loans for productive purposes without aid, the bank would guarantee the loans made by private investors. Where market conditions made it difficult to secure all of the funds from private investors, the bank might participate in loans made through the customary channels. It might also supplement the private capital market by making loans itself if capital for productive purposes was otherwise not obtainable. In all of its operations the bank would lay great stress on the productivity of the project to be financed. While the bank would be interested in seeing adequate capital made available for productive purposes, it would encourage only sound loans on which the borrower would be able to pay interest and principal.

"The existence and operations of the proposed investment bank would be a powerful stimulus to the revival of private international lending and trade. It would not, however, do the whole job alone. If private enterprise is to take hold quickly, investors and traders must confidently expect the restoration of stability and balance and a greater degree of freedom in international economic relations. There must be explicit assurance that the monetary collapse which followed the last war in many countries will not be permitted, and secondly, that the restrictions which hampered trade and the withdrawal of earnings will be abandoned as quickly as posible.

"To accomplish these purposes another international agency is currently under discussion by the technicians of the United Nations. In this case the proposal is for a permanent International Stabilization Fund designed to prevent undesirable currency fluctuations. The Fund would also have as a major function the removal of the monetary restrictions on trade which developed during the depression and the war.

"Both functions are extremely important. Monetary stability does not mean that exchange rates will be pegged for all time with no fluctuations permitted, but rather that exchange rates must move only when essential to establish orderly and stable patterns in accordance with changes in the basic economic relationships. The Fund would require that member countries define their currencies in gold and agree not to change these relationships, except to a very moderate degree, unless the change had been approved by the Fund. In turn, the Fund would help member countries maintain the value of their currencies. Member countries would also be prevented from engaging in competitive currency depreciation and from imposing exchange restrictions, except for the purpose of controlling undesirable capital movements.

"Both the bank and the fund would have no other purpose than to help create conditions under which the flow of foreign trade and productive investment between member countries would be fostered. To the extent that we succeed in creating an environment conducive to a high level of commerce, the interests of all nations will be served. Both projects are now in the area of technical discussion. To set them up will require international agreement, and of course legislation which will put the full weight of our Government behind them.

"The problems involved are international in scope. Our experience in the years between the two wars, when countries attempted to deal with these questions independently, must convince us that only through effective international cooperation can they be solved."

What's Ahead?

(Continued from First Page)

will provide for reconversion of our productive power from war material to normal consumer goods; will provide for the elimination of mass unemployment; will provide for the restoration of our standards of living, and even higher ones; will provide freedom of choice for the individual—freedom of choice which is a necessary freedom for Americans—and elbow room for every citizen to develop and achieve the economic, social, religious and even political objectives which are his desire.

It is my studied conviction that the future of our private enterprise system in postwar days—indeed, the very liberty for which we are fighting—will depend upon the ability of American business in the days ahead to match, and to match fully, production with distribution.

A high level of business activity is practically assured for the next five years. The early postwar years will be far better than any previous peacetime year in our history. This is insured by two factors—on the one hand, a tremendous accumulation of potential buying power represented by accumulated liquid assets which at the end of the war will be in excess of 100 billions, and on the other hand, a pent-up, deferred demand for goods far beyond anything we have experienced in this country.—James A. McLain, President of the Guardian Life Insurance Co. of America of this city in an address before the 24th annual sales congress of the Life Underwriters Association of New York.

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; Long Bell Lumber Co.; Great American Industries; Mid-Continent Airlines; Richardson; Hartford Empire Co.; Massachusetts Power & Light $2 preferred; Majestic Radio; Magnavox Corp.; Brockway Motors.

Associated Gas & Electric Situation Interesting

The current situation in Associated Gas & Electric Corporation (in reorganization) offers interesting possibilities according to an analysis prepared by the New York Hanseatic Corporation, 120 Broadway, New York City. Copies of this interesting discussion may be had upon request from the New York Hanseatic Corporation.

The Securities Salesman's Corner

A Valuable Record System

Proper account management is the basis for building a successful retail securities business. Experienced counsel, based upon years of study of economic facts, their interpretation; individual industries, their separate functions in the vast business life of the nation; political trends and their effect upon security values; timing of purchase and disposal of individual securities; analysis of various corporate entities and their securities—all these things and more, are necessary if investors are to receive the service to which they are entitled.

Successful security dealers perform these services for their clients. Although they are today being denied any value which some of our bureaucratic regulatory bodies are wont to place upon their services, in connection with the sales or purchases which they make for and with their clients, the denial of this fact still does not change the reality of the situation.

Such being the case, it is desirable to set up a simple system of record keeping somewhat like that currently in use by progressive physicians. Possibly you have had the experience of visiting your doctor's office, and while you are answering his questions for the first time you have noticed that he has pulled a card out of his file, and while you are talking he is making notes. Each visit thereafter he pulls out your case history, dates the time of the interview and records the new facts which you have told him. At all times he has before him what he calls a "case history."

This same simple record can serve a securities dealer or salesman's purposes very well. Every time a conversation with a client leads to an important decision, either to buy, sell or **hold** a certain security it should be noted on a card record. It is human for clients to forget. Many times the only thing they think they remember is something that could easily be refuted if the date and the facts of the interview were placed before them. Sometimes it is necessary to justify past recommendations. By having all the facts and the circumstances, as well as the reasons for taking a certain position regarding the client's holdings, placed before one in black and white, the wheres and whys of past performance can be clearly indicated.

Another reason for keeping these records is for the dealer's own protection. Today the securities dealers of this country must consider themselves in a unique position among all business enterprises in this land. In the securities business, unlike any other, the philosophy of let the "seller beware" is the code under which he is FORCED BY BUREAUCRATIC USURPATION OF LEGAL POWER to operate his business.

Some day this may be changed. Until that time it is a good idea to keep records. The written word is a much more stable and lasting reference than memory, should the need for a review of the facts ever arise.

Interesting Realty Issue

R. H. Johnson & Co., 64 Wall St., New York City, have issued an interesting study of Hotels Statler Co., Inc., which offers interesting possibilities at current levels the firm believes. Copies may be had upon request from R. H. Johnson & Co.

Du Mont Lab. Attractive

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

SEC And NASD Failure To Revoke "5% Rule" Alarming

(Continued from page 1203)

arbitrary and bureaucratic action, the trade practices and customs long prevalent in the security field.

6. Is a betrayal of NASD membership by unnecessary, destructive and non-beneficial policing action, foisted upon these members who pay the dues and assessments which support and make possible NASD activities. And

7. Was and is a wholly non-American and undemocratic doctrine, since its direct effect is to place ceilings on spreads between purchase and sales prices, where no emergency exists.

The above list is by no means all inclusive. Who will say that it is not imposing?

Five months have passed and the mounting tide of anger, like "Old Man River," keeps on rolling along.

It was hoped that the NASD Board of Governors, realizing it had made a grave mistake, would, with courageous humility, acknowledge the error and cancel the action. Such courage is the by-product of intellectual honesty, and up to this writing, no evidence of it has been shown. Perhaps there is still room for hope. We would like to be the first to acknowledge the reversal when such action is taken, and pass the congratulations along.

Yes, the Board of the NASD is slow to its opportunity. Having acted ill advisedly, to be moderate, it lacks the foresight to rescind such action.

How about the SEC? What is causing its inertia? Will it stand idly by, and see many dealers destroyed by an illegally imposed rule which undermines the very foundations of "our way of life"? After all, the SEC is papa and mentor to NASD. The parent is setting a poor example.

Under the Maloney Act and the Constitution and By-laws of the NASD no rule of this organization can be effective without the approval, express or implied, of the SEC. Why hasn't the SEC disapproved the "5% rule" long before this? Why hasn't it acted on the petition of the New York Security Dealers Association and revoked the rule?

These two policemen work out of the same precinct.

NASD is the only association to register with the SEC under the Maloney Act, the first born. Methods have been, and are being devised, policies formed, and strategy mapped. Is it too much to suggest the possibility that parent and child have been working in close cahoots, that perhaps the "NASD 5% spread" had the unofficial blessing of SEC even before the Board of Governors started "philosophizing"? Of course we don't know, but it sounds plausible. However, there should be no need for conjecture on this point. Surely the Executive Director of the NASD can advise us what conferences, if any, its accredited representatives had with SEC officials. If such conferences took place, who participated? Was any written minutes kept? Are these minutes available? Were any commitments made by either the SEC or NASD? If so, what were those commitments?

Speak up, Mr. Wallace Fulton. Your members have a right to know the answers. All security dealers have a right to know the answers.

Since when has it become "cricket" to permit the continuance of a most grievous condition such as that created by the "5% rule"?

How much longer are Business Conduct Committees going to keep imposing penalties on members under a dishonest "philosophy" when the Board of Governors of the NASD is the body which deserves penalizing?

SEC inaction is likely to procure for it a well deserved curtailment of its powers.

There is pending in Congress the Boren Bill (H. R. 1502). Amongst other relief, it seeks to amend the Securities and Exchange Act of 1934, by eliminating therefrom the sentence which reads:

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

Legislative delegation of power to administrative bodies has proved a great evil. The Boren Bill is finding strong support in the securities field.

The SEC and the NASD need sharp curtailment of their powers so that in the future, no "5% spread" scandal will again be possible.

To the Securities and Exchange Commission, and to the National Association of Securities Dealers, we say, act promptly, act now. Revoke the "5% rule". Act, or be acted against.

Congress Must Encourage Venture Capital Out Of Hiding: Folger

(Continued from page 1203)

from one end of the country to the other. Now idle dollars are different from idle people. They don't make speeches. They don't parade the streets. When they are afraid to work, they simply stay home under the bed. It's an odd thing about dollars—they don't always act the way their owners talk. Yet what a man does with his own hard-earned cash is the best evidence of what he is really thinking. We're hearing more talk and having less action about venture capital than ever before in history.

In the old days a fellow scraped up a few dollars—his wife helped him out — he borrowed some money from his father-in-law and went into business. In the last 10 or 15 years people haven't talked about going into business. They just want an annuity. Everyone desires a mortgage on Uncle Sam. Few want to bet on themselves or on the business future of this country. That is what the silent idle dollars would say if they could talk. They are just plain scared and don't know what to do. Who is going to carry the flag for 50 billion idle dollars that ought to go to work? Can the bankers lead? Only partially. To begin with, they are not molders of public opinion. Bankers, and especially investment bankers, should remember they never represent a pressure group. There are six or seven hundred members of the IBA for the whole country. They cannot win emotional battles. We must win by getting good marks at school. We must never forget the story about Private John Allen, a Confederate veteran running for office in Mississippi. His opponent was a Confederate General. In his campaign speeches Private Allen would say nice things about the General opposing him, adding that he thought all generals should vote for his opponent, but that he wanted all privates to vote for him. Private Allen was always elected. If you are thinking about politics, never forget that story about Private John Allen.

How about the Government? Can it provide the leadership? That question suggests the name of my home city of Washington. All talk finally gets back there sooner or later. I'm inclined to think these idle dollars may find some helpful friends under the Capitol dome. I wouldn't say there were rumblings, but certainly there are murmurings in Congress about the importance of encouraging venture capital. It is to the Congress we must look for lower taxes on risk money rather than on capital which plays safe under the bed. It is to Congress that we must look for some modification of the Securities Acts. These acts have served a most useful purpose. They have thrown the light of day on many situations. But wouldn't it be a good idea after 10 years to take a fresh look at the picture to see if there are any bottlenecks?

How about the Executive branches of the Government? Can leadership come from that source? It is difficult to appreciate how deeply the Executive branch has invaded the banking field in the last 15 years. There are lots of good bankers in Washington, but most of them are working for the Government. You might just make a list of the departments and agencies which are loaning Government money. Banking personnel hasn't diminished — it has just shifted. These public bankers would be less than human if they desired their power and field restricted. What I hope is they will realize that times and styles have changed. Ten or 15 years ago the people were hard up and the Government was flush. Now the Government is hard up and the people are flush. It is time to reverse the trend in banking.

Is there enough capital in the investment banking business to do the job ahead? Some say not. Their suggestion is that we go to that unfailing granary, that magic pitcher always filled with milk, to wit: the Government, and there get whatever capital seems appropriate. The measure of such aid remains undefined. I presume the more a man needed, the more he would get. That seems a fair basis. It will be recalled that the RFC became a preferred stockholder in many commercial banks. If such aid is proferred to private investment firms—which to my mind are of a different category—I don't know how many in this room or in our business would make application for such aid. Possibly some of you have already applied for the job of allocating the money.

In my opinion, the real answer lies elsewhere. Not that I am being selfish about it or that I would make an effort to keep the Government out of a nice, easy sure-fire business like investment banking—a business which is foolproof and has no headaches—a veritable bed of roses just waiting for Uncle Sam. I am thinking of what would happen under competitive bidding. We are having enough trouble with this innovation as it is. Suppose the Government were putting up the ante for every competitive bid? I could foresee some very spirited bidding and some high-priced securities for the investor or for Uncle Sam to put in his portfolio.

What would have happened had the Government been a capital partner in the investment banking business of the '20s? I wasn't in the business then so I wouldn't know, but it seems there was enough commotion then without any added participation.

As I view it, there is no lack of private capital to operate our business. If some bottlenecks can be removed—if a line can be fairly drawn between regulation and harassment—then the business will attract all the personnel and capital it needs.

The Government is already doing most of the borrowing and a good share of the lending. Now if it acquires part-ownership of the private investment business—the circle will be complete. It will borrow all the money, it will lend all the money. It will buy all the securities—in which event there will be no more need for winter meetings in Chicago. What a pity!

Let's approach the suggestion from another angle. Would Government aid encourage decentralization? The point I make is that investment banking is already more decentralized than almost any other line. Mind you, I am for decentralization and the small dealer. First of all, most of the 600-odd firms of our association are relatively small. I really think we are the small business men everyone is worrying about—if they only knew it. I wonder if we fully realize it ourselves. Now there weren't many generals in Private John Allen's army and there aren't many generals in our army any more. We are mostly privates and we've worked out a pretty well-decentralized system of distributing securities if it could be allowed to function. I think we should say only the nicest things about the few remaining Confederate generals. I don't think it is wicked for Marshall Field to have a bigger store in Chicago than our store out in Pullman, Wash. Neither do I think it unfair for Macy's to have a bigger store in New York than we have in Washington, D. C. What I like to see and what I think is happening is that every storekeeper in our business is having a pretty good chance at the customers in his own home town. We are the only line that has reversed the chain-store trend. People are going to their home-town shop to buy securities.

Now I paid my respects to competitive bidding and private placement while in Philadelphia last week. The development of those two activities must surely astonish their sponsors. Private placement, intended to permit a firm to sell a few bonds quickly without letting people know the sheriff was at the door, has become the practice of the elite and the sophisticated. The little investor and the little dealer are not invited to the party. Competitive bidding was intended as an entertainment for the masses, but the masses can't get within gunshot of that good old American institution, the auction block. The new pastime seems to have been taken over by the big fellows so that the small investor and the small dealer can't even hear the auctioneer, much less see what is going on.

Turning away for the moment from private placement and competitive bidding, I hope some day we may turn away from those diversions permanently. Your attention is redirected to the pattern of investments for the post-war period. How shall we describe the great reservoir of investment capital? Maybe we shouldn't refer to idle dollars as capital. They really don't belong just to capitalists. They belong to everyone. Private savings may be the better words. In Washington we have the Department of Agriculture to help fight the farmers' battles and the Labor Department is intended to help labor. Some might say it would be a fine thing to have some agency which was heart and soul for private savings. But we don't need another Bureau. Doesn't our hope lie instead in Congress? Isn't it that body which must carry the flag for 50 billion idle dollars?

Where does the investment banker fit in? Well, he keeps the store where the 50-billion-dollar investor is going to look for merchandise. We must see to it that he gets good, sound merchandise. If we measure up to our responsibilities, we may do the most satisfactory business we have ever known.

More On International Bimetallism

(Continued from page 1203)

ity of one metal with another," (2) the free circulation of gold and silver coins, and the redemption of all bank notes "for gold and silver at a fixed proportion of the two metals"; (3) all silver coins to have 925 parts fine in 1,000, and given unlimited legal tender value; and (4) unlimited free coinage of gold and silver.

If these proposals were put into effect, Prof. Michell states, there "is no doubt that international bimetallism would work," and that "this has never been denied by those who have studied it." Certainly here we have a bold, almost rash, statement; one that is not proven by facts or experiment. There still is, and long has been, widespread and persistent doubt that it will work! Many prominent economists, both living and dead, have denied that it will work. I need only refer to the late Sir Robert Giffen in his, "The Case Against Bimetallism" (p. 37), and the writings of other prominent English economists such as Stanley Jevons and Walter Bagehot. More recent writers have had little occasion to express their views on the subject, since until recently few serious proposals of the kind have been made during the present century.

But, aside from all this, Prof. Michell's proposals, in my opinion, contain serious errors of fact and principle. He really has a mistaken idea of bimetallism. Contrary to his assumption, bimetallism does not and never has implied the "free convertibility of one metal with another." No nation or group of nations, no government or combinations of governments have ever agreed, under a system of bimetallism, to exchange continuously one metal for another at a fixed ratio of weight. Any variation of the market ratio from the mint ratio would soon render such an agreement or undertaking impossible of execution. Bimetallism merely means that two metals or two coins are legal tender at a fixed ratio of weight, and that lawful currency, such as treasury notes, bank notes and the like, may be redeemed in either of the metals, at the option of the party responsible for the redemption.

Professor Michell's second proposal smacks of joint-metallism or symmetallism (as the erstwhile loquacious, but now taciturn Father Coughlin, along with earlier writers, called it). Joint-metallism is not bimetallism. Since ancient times, when coins were minted from a combination of metals, there has never been any widespread proposal to institute a joint-metallic standard or hardly any serious suggestion to experiment with it.

The gist of Prof. Michell's argument is that once a mint ratio of the two metals is universally established or agreed upon, the market ration must conform to it, and "all danger of a breakdown of the system is gone. . . . The moment the same ratio is fixed everywhere arbitrage operations become impossible, or unprofitable and cease."

The fallacy of this point of view is that it assumes that the prices of the two metals, as commodities, can be fixed, and that one commodity can be exchanged for nothing else than the other commodity, thus making it impossible that there should be a variation from the legal fiat. Such, however, is not the case. The function of gold is not merely to buy silver, and silver's use is not merely to be exchanged for gold. If the price of wheat were fixed by international agreement at double the price of corn, it would not mean that a bushel of wheat would not be exchanged for other commodities in a ratio higher or lower than two bushels of corn. Gold and silver, like wheat and corn, are commodities. Each may be produced in varying quantities at different times, and the demands for each may also vary relatively. If a vast new supply of gold would be suddenly produced, without a corresponding increase in the supply of silver, holders of silver would not exchange their metal for gold at the old ratio, and there is no necessity that they should do so, since silver, as a commodity, could be exchanged for other commodities without the loss of exchange value due to the vast new supplies of gold. The fact that the value ratio of silver to gold has declined during the last 75 years from 15 to 1 to about 100 to 1 has been due very largely to the vast increase in the supplies of silver. It became cheaper compared to gold because it was produced cheaper and in much larger quantities. Could it be assumed that if, in 1870, all nations agreed to maintain a ratio of silver to gold at 15 to 1, and maintained that agreement until this day, that the price or value of silver would not have fallen?

The sources of supply of gold and silver are independent of each other. The relative amounts of each metal produced have varied substantially from time to time and these variations have been reflected in the changes in their relative market values. Today, silver is largely a by-product of copper smelting and refining. Unless the value of silver rises sharply, the volume of its supply will depend on the amount of copper mined and smelted, and not on the changes in the demand, or even in the value of silver itself. Under such circumstances, how is it possible for any government or group of governments to maintain a fixed value ratio of silver and gold, without absorbing vast quantities of the cheaper metal, which would remain "sterilized" in their tills, and, at the same time, cause a complete withdrawal from their coffers of the more highly prized metal?

Professor Michell reiterates the common error of most bimetallists. He predicts that international bimetallism will relieve the world of the monetary evils due to recurring shortages of gold in different countries. If we learn anything from monetary history, (including that of our own country) it is this: Bimetallism in the long run does not increase the monetary supply. Whenever one metal varies in market price from the mint ratio to only a very slight degree from the other, Gresham's law begins to operate. The coins composed of the under-valued metal gradually, and sometimes even rapidly, disappear from circulation.

Alexander Hamilton urged the establishment of bimetallism in the United States because, as he stated, there existed an extreme shortage of metallic currency, and he thought that by fixing a mint ratio at or near the market ratio at the time, both gold and silver coins would circulate and be used in effecting exchanges. It was not long, however, when gold practically disappeared from circulation, and the nation still suffered, and continued to suffer under bimetallism from a scarcity of specie money. When in 1873, bimetallism was practically abandoned in the United States, there was no perceptible change in the quantity of specie money available, and little public notice was taken of the change in the monetary system. The Demonetization of Silver Act simply established by a law what was already an accomplished fact.

Insurance Stocks Interesting

Aetna Casualty & Surety Company; Agricultural Insurance Co.; American Alliance Insurance Company; American Re-Insurance Company; Fire Association of Philadelphia; Seaboard Surety Company; Standard Accident Insurance Company; and United States Guarantee Company offer interesting possibilities at the present time, according to detailed memoranda on the situations prepared by Mackubin, Legg & Company, 22 Light Street, Baltimore, Md., members of the New York and Baltimore Stock Exchanges. Copies of these memoranda may be had upon request from the Insurance Stocks Department of the firm.

Growth Possibilities

Consolidated Gas Utilities Corporation offers attractive possibilities as a growth stock according to a detailed circular on the situation issued by Hicks & Price, 231 South La Salle St., Chicago, Ill., members of the New York and Chicago Stock Exchanges, and other exchanges. Copies of this interesting circular may be had from the firm upon request.

Attractive Situation

Empire Steel Corporation offers attractive possibilities according to a detailed memorandum being distributed by Hill, Thompson & Co., Inc., 120 Broadway, New York City. Copies of this interesting memorandum may be had upon request from Hill, Thompson & Co., Inc.

Current Problems And Their Effect On Post-War Municipal Financing

(Continued from page 1204)

fear of peace. You will recall how we were going to borrow our way back to solvency. How we were going to restore prosperity by destroying wealth — by plowing under cotton and corn and killing the little pigs, and the way we were going to raise prices by buying the world's gold supply, at an artificial price, and then burying it in the ground. This peace emergency doesn't get me greatly excited, but then we have had so many emergencies in the last ten years that perhaps my capacity for excitement has become somewhat exhausted.

While I believe that the States and municipalities can contribute to the readjustment, which will be necessary at the close of the war, by undertaking the needed public improvements; those which normally would have been undertaken during the war period and those which will be essential at that time, I do not believe that the economic situation in this country will be at all improved by the States and municipalities proceeding to borrow their way into bankruptcy. The amount of necessary public works, which the States and municipalities will have to undertake in the immediate post-war period, will require the expenditure of between two and three billion dollars. When you consider that the normal long-term borrowing of States and municipalities, prior to the war, was approximately one billion dollars annually, you can appreciate that there will be plenty of municipal bonds to market almost as soon as the war is over.

Many problems will arise in marketing and servicing of these securities. Let us, first, consider some of the problems involved in the issuing of these bonds. Most municipal bonds, which have been issued in the past, are secured by taxes levied upon real estate, and to a very minor degree by taxes upon personal property. The laws of most States limit the amount of indebtedness, which the municipalities can incur, to a percentage of the assessed valuation of their taxable property. In many instances, it will be found that the municipalities have already borrowed up to or at least approaching their debt limits, and, unless the debt limits are raised, many municipalities will not be able to issue very many general obligation bonds to finance post-war improvements. Raising these debt limits, in some States, will be difficult because many of them are constitutional limits, and to change them would require constitutional amendments. Moreover, real estate in the municipalities throughout the entire country is already so heavily burdened that there will undoubtedly be resistance to the issuance of additional bonds imposing still further tax burdens upon real estate. The result of this combination of circumstances will be an effort to find some source of revenue for the servicing of the bonds other than real estate taxes. I believe this will stimulate the financing of as many of the post-war projects as possible through the medium of revenue bonds.

Revenue bonds have proven to be a very effective means of financing certain types of public improvements, and when they are properly set up and the projects are economically sound, these bonds enjoy a very good market. There are, however, many types of projects which produce a revenue but are not entirely self-sustaining. Airports are a typical example. Probably very few airports now or in the near future can be expected to produce sufficient annual net revenue to pay the principal and interest of the capital investment. Nevertheless, revenue bonds might still be made use of to aid in financing such enterprises. One way in which it might be done would be for the municipality to issue general obligation bonds to defray that portion of the cost of the enterprise which could not be carried by its revenues. The revenues, over the amount necessary for the payment of the principal and interest of the revenue bonds issued to establish the enterprise, might be pledged to the servicing of the general obligation bonds, so that as time went on and the revenues increased, the entire debt might be serviced by these revenues, and tax levies for the payment of the general obligation bonds discontinued or at least substantially reduced. Such a program might well be followed by a municipality which, because of debt limitations or limitations on the tax rate, might find it impossible to issue general obligation bonds to defray the entire cost of the enterprise. Another expedient which might be resorted to, which has some judicial support, is for the municipality to bear the annual maintenance expenses of the project so that all of its revenues will be available for debt service. No doubt in many jurisdictions it would be necessary to obtain the approval of the Supreme Court of this device, but a strong argument could be made to sustain it. For instance, if a bridge were constructed by a municipality it would unquestionably have the right to levy taxes to maintain it, and no court would regard the obligation to pay the annual maintenance charges as a debt subject to State or constitutional debt limits. Is the situation altered because the municipality charges a toll for the use of the bridge and covenants that these tolls shall be applied in liquidation of revenue bonds which had been issued to defray the cost of its construction? At least one court has held that it is not, and has held that the arrangement does not involve the creation of municipal debt. There are other devices which might be resorted to, some of which have received express judicial approval; such as leasing to a municipality or county, at an annual rental, projects constructed by an authority through the issuance of revenue bonds.

The feasibility of these revenue bond projects, however, in most instances, will depend upon the tax exempt status of the bonds which will be issued to finance them. Unless the interest on these bonds is exempt from Federal taxation, their sale, in the great majority of cases, will be impracticable. The consensus among experts on revenue bond financing is that Federal taxation of the income derived from State and municipal bonds will increase the rate of interest on such bonds upwards of 1¼% annually. In the majority of cases this will mean that practically all the net revenues of a revenue-producing project will be absorbed in interest charges, leaving little or nothing for the payment of principal. That will compel the abandonment of many a revenue bond project which could otherwise be financed.

If I am correct in my belief that a large amount of post-war financing of the States and the municipalities will be effected through the issuance of revenue bonds, and particularly through the issuance of authority bonds, then this question of tax exemption will profoundly affect the post-war financing of the States and of their municipalities. You are all familiar with the fact that Congress has repeatedly rejected the Treasury Department's request that it amend the Revenue Act so as to subject State and municipal bonds to taxation, and that, being thwarted in its effort to secure such legislation from Congress, it has caused to be instituted the now famous "Port Authority Case." The Treasury Department has levied taxes upon the income derived from bonds of the Port of New York Authority and of the Triborough Bridge Authority on the theory that, while Congress has exempted from such taxation income derived from bonds of political subdivisions, neither of these organizations is a political subdivision of the States which created them. The United States Tax Court, recently, rendered a decision in that case and held both organization were political subdivisions within the meaning of the Revenue Act. I understand that the Department of Justice will take an appeal from that ruling to the United States Circuit Court of Appeals. The loser in the Court of Appeals will, no doubt, attempt to carry the case to the Supreme Court of the United States, but if the Court of Appeals should sustain the Tax Court it is quite possible that the Supreme Court of the United States may refuse to issue a writ of certiorari to bring the case before it for review. The constitutional question not being involved in the Tax Court's decision, the Supreme Court might not regard the decision as one of nation-wide importance, and might, for that reason, refuse to review the decisions of the courts below. That would mean that the decision of the Court of Appeals, affirming the decision of the Tax Court, would be the final decision in the case.

In the Tax Court the attorneys for the Port Authority and for the Triborough Bridge Authority contended that Congress possesses no constitutional power to levy taxes upon income derived from Port Authority or Triborough Bridge Authority Bonds, on the ground that such taxation would impose an unconstitutional burden upon the sovereign States of New York and New Jersey. Thousands of pages of testimony were taken regarding the fact of such burden and the extent of the burden, but the United States Tax Court did not pass upon the constitutional question and made no finding of fact regarding the burden which such taxation would throw upon the States, because, having decided that Congress did not impose any taxes upon the income derived from the bonds, there was no reason for discussing the constitutional question. It would seem, therefore, that if the decision of the Tax Court is reversed by the Appellate Courts, it will be necessary to remand the case to the Tax Court for findings upon the fact of the burden placed upon the States by such taxation and the extent of the burden. The Appellate Courts could hardly indulge in their habit of asserting judicial knowledge of such facts, based upon unsupported opinions of text writers and monographs prepared by college boys, when such a voluminous amount of evidence upon the subject was presented in the trial court. Therefore, I think it most likely that you will have to live with the Port Authority Case for upwards of two years more, during which such time, I hope, the post-war period will have begun.

In order to finance their share of the cost of post-war enterprises, the State governments will probably turn to various forms of excise taxes, including the sales tax, and also income taxes. When the States begin to consider these sources of revenues, however, they will find that they are already pretty well pre-empted by the Federal Government. Before very long everyone is going to be confronted with the stubborn fact, which has been pretty much overlooked in the past, that all taxes, Federal, State and municipal, are paid from the same source—the income of the citizen. If the Federal Government appropriates so much of the income of the citizen that he has little or nothing left after the payment of his living expenses, there will be no revenues to service the State and municipal functions, to say nothing of the servicing of their indebtedness. The very ability of the States and municipalities to function as autonomous entities will be seriously jeopardized.

Some of the States are already greatly concerned about this. I picked up "The Bond Buyer", of February 5, and discovered, to my astonishment, that 15 States have already adopted resolutions calling upon Congress to submit a constitutional amendment which would limit the power of the Federal Government to impose income taxes to a maximum rate of 25% except in time of war when the limitation may be temporarily suspended by a three-fourths vote of each House of Congress. In addition to the States which have adopted the resolution the Senate of the State of New York has passed the resolution unanimously, the Senate of Ohio has passed it with but five opposing votes, and just the other day it was adopted by the New Jersey Senate. The movement does not seem to be a sectional movement, for the States, which have adopted it, are scattered throughout the country, including States which are predominately Democratic in their politics as well as those which are predominately Republican. You may be interested in the names of the States which have already adopted the resolution. They are Wyoming, Rhode Island, Mississippi, Iowa, Maine, Massachusetts, Michigan, Indiana, Arkansas, Delaware, Pennsylvania, Illinois, Wisconsin, Alabama and Texas.

I am unable to inform you whether the resolution is pending in any other States, as I have no part in the movement designed to secure this amendment and know very little about it, but it is apparent that it is a movement of great significance which seems to have a very popular appeal, and it is one which, obviously, will have repercussions in the field of the State and municipal financing.

You may ask how the Constitution of the United States can be amended in this way. It is not the customary way in which the Constitution has been amended, but it is a method which is provided for by Article V of the Constitution. That article provides for two methods of amending the Constitution. One is by the adoption of the amendment by two-thirds of each House of Congress and its ratification by the legislature of three-fourths of the States or by conventions held in three-fourths of the States. The other method (which is the method apparently being made use of to secure the adoption of the amendment under discussion), provides for calling of a convention by Congress for the proposing of amendments upon the application of the legislatures of two-thirds of the several States, and the subsequent ratification of the amendments by three-fourths of the States. Accordingly, if two-thirds of the States adopt a resolution calling upon Congress to call a convention for the purpose of proposing the tax limit amendment, Congress will be required to call the convention and the amendment proposed by the convention will have to be submitted to the States for ratification or rejection.

Another matter, which has in the past bedeviled the municipal securities market, has been the persistent effort of the Securities and Exchange Commission to regulate it, in spite of the fact that Congress has on several occasions denied it such authority. There is a bill now pending in Congress known as the Boren Bill, the purpose of which is to make clear once and for all that the SEC has no regulatory jurisdiction over the State and municipal bond market. That bill, together with many other bills proposing to amend the Federal securities legislation, has been pending in committee for a considerable time. Possibly before we get to the post-war period Congress will get around to its enactment and the post-war municipal bond market will be relieved of that threat. The bill has been endorsed by State legislatures by a great many counties and municipalities, and by organizations of public officials, and I am informed that it has very strong support in Congress.

A subject which, recently, has been giving the security dealers considerable concern, is the attitude of the Department of Justice regarding syndicate agreements. The Department intervened in a proceeding pending in the Securities and Exchange Commission and filed a brief in which it takes the position that certain types of syndicate agreements, which have long been customary in the field of corporate financing, violate the Sherman Anti-Trust Act. I do not believe, however, that the municipal bond fraternity need be much concerned about it. What the Department seems to be aiming at are agreements which require others than the original owners of the bonds to maintain prices for securities fixed by the syndicate. The features of private corporation syndicate agreements, which seem to be objected to by the Department of Justice, do not appear in syndicate agreements with reference to the purchase and sale of State and municipal securities. A least I have never seen any syndicate agreement relating to State and municipal bonds which included any of these restrictive covenants. Unlike many corporate syndicate agreements, the members of a municipal syndicate are really joint venturers. They do not severally contract with the municipality to purchase particular bonds of the issue offered for sale. They purchase all the bonds from the public body jointly. They do not contract with the public agency that the bonds will not be offered to the public below a fixed price. The members of the syndicate do not own any particular bonds of the issue which they have purchased, but all have an undivided interest in all of the bonds. This is true even of the so-called Western or divided liability syndicates. At least it is true of all such syndicate agreements that I have seen. In those accounts there is no division of the ownership of the bonds among the members of the syndicate. They own each bond jointly. Their liability to the issuer is a joint liability. They have by their agreement merely put a limit upon their respective liabilities to each other. In no other respect does the Western account differ from an Eastern account. When a member of a municipal syndicate, or the syndicate itself, sells bonds, no contract is made with the purchaser requiring him to maintain the syndicate price or any price. The only price agreement involved in a municipal bond syndicate is the agreement among the members of the syndicate themselves, the joint owners of the bonds, as to the price at which they will offer the bonds to the public. I know of nothing in such an agreement which violates the Sherman Anti-Trust Act, nor have I seen anything which leads me to the belief that the Department of Justice has a contrary opinion. I thing this is one problem with which the dealers in State and municipal securities will not have to struggle in the post-war world.

There probably will be many other problems arising out of the post-war financing of States and municipalities which we cannot now foresee, but I have no doubt we will be able to cope with them successfully. The solution of all of these problems lies in the productive capacity of the American people, the like of which the world has never before seen. If the astounding energy of the American people is released for the production of peace-time goods, all of these problems will vanish like the morning mist. And they are going to be released. How? Why mankind, from time immemorial, has used the same method.

Herodotus tells of one instance which occurred several hundred years before Christ. The Milesians, a small Greek State, found their affairs in very bad shape. Not knowing how to remedy the situation themselves, they called upon the Parians, a neighboring State, whose people had some reputation for good sense, to come in and advise them. The Parians appointed a commission who merely traveled around the territory of the Milesians and whenever they found a farm which was well kept up they inquired the name of its owner and noted his name on a tablet. Their sole recommendation to the Milesians was to put the government in the hands of the men whose names they had noted on the tablet, on the principle that those men, who had well managed their own affairs, could be trusted to well manage the affairs of the State. The Milesians took their advice and, according to Herodotus, shortly thereafter attained the peak of their prosperity. I recommend the same procedure to the American people.

Result Of Treasury Bill Offerings

The Secretary of the Treasury announced on March 20 that the tenders for $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated March 23 and to mature June 22, 1944, which were offered on March 17, were opened at the Federal Reserve Banks on March 20.

The details of this issue are as follows:

Total applied for, $2,116,736,000.

Total accepted, $1,001,105,000 (includes $63,966,000 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.

(41% of the amount bid for at the low price was accepted.)

There was a maturity of a similar issue of bills on March 23 in the amount of $1,005,549,000.

With respect to the previous week's offering of $1,000,000,000, or thereabouts, of 91-day Treasury bills to be dated March 16 and to mature June 15, 1944, which were offered on March 10, were opened at the Federal Reserve Banks on March 13.

The details of this issue are as follows:

Total applied for, $2,094,959,000.

Total accepted, $1,016,034,000 (includes $64,950,000 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.

(41% of the amount bid for at the low price was accepted.)

There was a maturity of a similar issue of bills on March 16 in the amount of $1,100,180,000.

Calendar Of New Security Flotations

OFFERINGS

DIANA STORES CORP.—80,000 shares of common stock (par $1). Proceeds for working capital. Price to public $7 per share. Filed Feb. 3, 1944. Details in "Chronicle," March 16, 1944.

Offered March 22, 1944 at $7 per share by Van Alstyne, Noel & Co., Childs, Jeffries & Thorndike Co., Reich & Co. and R. H. Johnson & Co.

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.

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.

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.

Registration Statement No. 2-5309. Form A-2. (2-25-44).

Hart, Schaffner & Marx March 13 filed an amendment to its registration statement correcting the amount of stock to be offered to 120,500 shares and naming the underwriters who will be Blyth & Co., Inc.; A. G. Becker & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane; Central Republic Co. (Inc.); McDonald-Coolidge & Co.; Hallgarten & Co.; Hemphill, Noyes & Co.; Johnston, Lemon & Co.; Kebbon, McCormick & Co.; Newburger & Hano; Shuman, Agnew & Co.; Sutro & Co., and Whiting, Weeks & Stubbs, Inc.

Offered—March 21 by Blyth & Co., Inc., A. G. Becker & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane at $25¾ per share.

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.

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).

Amendment filed March 20, 1944, listing underwriters as follows: Dillon, Read & Co., $1,000,000; Bear, Stearns & Co., $150,000; A. G. Becker & Co., Inc., $250,000; Blyth & Co., Inc., $550,000; Alex. Brown & Sons, $150,000; First Boston Corp., $650,000; Graham, Parsons & Co., $200,000; Hayden, Stone & Co., $150,000; Hemphill, Noyes & Co., $350,000; Hornblower & Weeks, $150,000; W. E. Hutton & Co., $350,000; Kidder, Peabody & Co., $550,000; W. C. Langley & Co., $300,000; Laurence M. Marks & Co., $300,000; Merrill, Turben & Co., $150,000; Maynard H. Murch & Co., $100,000; Paine, Webber, Jackson & Curtis, $150,000; Riter & Co., $200,000; L. F. Rothschild & Co., $100,000; Shields & Co., $500,000; Stein Bros. & Boyce, $150,000; Tucker, Anthony & Co., $300,000; G. H. Walker & Co., $350,000; Dean Witter & Co., $200,000 and Yarnall & Co., $200.000.

Offered March 23 by above underwriters at a price of 99.

WARE SHOALS MANUFACTURING CO.

Ware Shoals Manufacturing Co. has registered 10,000 shares of 5% cumulative preferred stock, par $100 per share.

Address—Ware Shoals, South Carolina.

Business — Manufacturing, finishing and fabricating of cotton goods.

Underwriting — Names of underwriters and number of shares to be purchased by each follow: H. T. Mills, Greenville, S. C., 3,000; A. M. Law & Co., Spartansburg, S. C., 3,000; Citizens Trust Co., Greenwood, S. C., 1,000; Courts & Co., Greenville, S. C., 750; G. H. Crawford & Co., Inc., Columbia, S. C., 750; Vivian M. Manning, Greenville, S. C., 750; Alester G. Furman Co., Greenville, S. C., 500, and Frost, Read & Co., Inc., Charleston, S. C., 250.

Offering—The company offers the right to purchase preferred stock to holders of common stock who have not waived such right, on the basis of one share of preferred for each five shares of common. Such waivers have been requested by the management to enable the company to arrange for the underwriting of the entire issue on a more satisfactory basis than would otherwise be possible. Offering price $100 per share.

Proceeds—Purpose of issue is to effect the retirement of the 9,725 shares of 7% preferred stock presently outstanding.

Registration Statement No. 2-5303. Form S-1. (2-8-44).

Registration statement effective 4:30 p.m. EWT on March 2, 1944.

Offered (subject to stockholders' rights) by above named underwriters at $100 per share.

NEW FILINGS

List of issues whose registration statements were filed less than twenty days ago, grouped according to dates on which registration statements will in normal course become effective, unless accelerated at the discretion of the SEC.

SUNDAY, APRIL 2

ELLIOTT COMPANY

Elliott Company filed a registration statement for 50,000 shares of 5½% cumulative convertible preferred stock, par $50, and such number of shares of common stock, par value $10, as shall at any time be required for issuance upon conversion of 5½% cumulative convertible preferred stock.

Address—Jeannette, Pa.

Business—Manufactures steam turbines, electric generators and motors and other equipment used principally in the production of power.

Underwriting—F. Eberstadt & Co., New York, is named as the underwriter.

Offering—Price to the public of the preferred stock will be named by amendment.

Proceeds—Net proceeds from sale of the 50,000 shares of preferred which are estimated at $2,354,000 will be applied to the redemption of all preferred stock, $100 par, presently outstanding, at par plus accrued dividends from April 1, 1944, to date fixed for redemption, requiring approximately $1,149,000, and the balance of $1,205,000 for additional working capital.

Registration Statement No. 2-5315. Form S-2. (3-14-44).

ATLANTIC CITY ELECTRIC CO.

Atlantic City Electric Co., (subsidiary of American Gas & Electric Co.,) filed an amendment on March 14, 1944, to original registration statement (No. 2-4941) which registers 55,000 shares of cumulative preferred stock (par $100). The stock is to be sold at competitive bidding pursuant to the Commission's competitive bidding Rule U-50, with the successful bidder naming the dividend rate.

Net proceeds from sale of new preferred, together with treasury funds, will be used to redeem 26,283 shares of old $6 preferred stock now in the hands of public at redemption price of $120 per share, and the purchase for cancellation of 30,592 shares of the old $6 preferred from its parent, American Gas & Electric Co., for $3,059,200, being the cost of the shares to American Gas & Electric. The total cost is placed at $6,213,160 exclusive of accrued dividends which will be paid by the company out of general funds.

MONDAY, APRIL 3

MINNEAPOLIS-HONEYWELL REGULATOR CO.

Minneapolis-Honeywell Regulator Co. has filed a registration statement for 30,000 shares of 4% cumulative preferred stock, Series D, par value $100 a share.

Address—2747 Fourth Avenue South, Minneapolis, Minn.

Business — Pre-war business consisted principally in the manufacture and sale of various types of temperature controlling and heat regulating devices. War conditions have resulted in major changes in the nature and scope of the company's operations and war production has very greatly increased the volume of the company's output.

Underwriting — The underwriters and amounts underwritten are Union Securities Corp., N. Y., 24,000 shares; Piper, Jaffray & Hopwood, Minneapolis, 3,500 shares, and Alex. Brown & Sons, Baltimore, 2,500 shares.

Offering—Price to the public will be supplied by amendment.

Proceeds—For general corporate purposes. In the judgment of the management the provision of additional capital at this time is advisable to assist in carrying the increased inventories and expense incident to its greatly increased volume of business and to provide for the company's future requirements, particularly with respect to conversion of its plants to normal production and possible increased volume of peacetime sales.

Registration Statement No. 2-5316. Form A-2. (3-15-44).

TUESDAY, APRIL 4

LOUISIANA POWER & LIGHT CO.

Louisiana Power & Light Co., filed a registration statement for $17,000,000 first mortgage bonds due April 1, 1974.

Address—142 Delaronde Street, New Orleans, La.

Business—Public utility company operating in state of Louisiana, and is a subsidiary of Electric Power & Light Corp. and Electric Bond & Share Co.

Underwriting—The bonds will be offered for sale at competitive bidding under the Commission's competitive bidding Rule U-50. Interest rate will be named by the successful bidder. Names of the underwriters will be filed by post-effective amendment.

Offering—Price to the public will be supplied by post-effective amendment.

Proceeds—The proceeds from the sale of bonds, together with such additional treasury cash as may be required, will be used to redeem, at 102½, company's first mortgage gold bonds, 5% series due 1957, of which $17,500,000 principal amount were outstanding on Dec. 31, 1943.

Registration Statement No. 2-5317. Form S-1. (3-16-44).

SPRAGUE WARNER-KENNY CORPORATION

Sprague Warner-Kenny Corporation has registered 15,000 shares of 6% cumulative preferred stock, $100 par value.

Address—32 South Street, Baltimore, Md.

Business—The company and its subsidiary, Western Grocer Co., conduct a general wholesale grocery business and, in connection therewith, manufacture a broad line of food products which are distributed through their respective sales organizations.

Underwriting—A. C. Allyn & Co., Inc., Chicago, heads the list of underwriters, with the names of others to be supplied by amendment.

Offering—Of the 15,000 shares offered, 8,649 will be initially offered to holders of Western Grocer Co. 7% preferred stock, $100 par, of which 8,649 shares are issued and outstanding, under a plan of exchange pursuant to which the company will offer for each share of 7% preferred stock of Western Grocer, one share of 6% cumulative preferred stock of the company, together with an amount in cash equal to the excess of the amount of unpaid dividends accrued on Western Grocer 7% preferred to the date of delivery over the amount of accrued dividends to said date on the share of preferred stock of the company issued in exchange therefor. The underwriters have agreed to purchase, or to find purchasers for the 6,351 shares not offered for exchange together with such portion of the 8,649 shares as to which such offer of exchange is not accepted. Offering price to the public is given at $100 per share, plus accrued dividends from April 1, 1944, to date of delivery.

Proceeds—Proceeds will be used for the acquisition of a maximum of 8,649 shares of Western Grocer 7% preferred in exchange of shares and $575,000 will be applied to retirement of 5,750 shares of 6% cumulative preferred of Sprague at $100 per share.

Company also plans to issue $3,250,000 face amount of installment promissory notes and use proceeds as additional working capital.

Registration Statement No. 2-5318. Form S-1. (3-16-44).

WEDNESDAY, APRIL 5

ALLIS-CHALMERS MANUFACTURING CO.

Allis-Chalmers Manufacturing Co. has registered 296,015 shares of cumulative convertible preferred stock, par $100 per share. The dividend rate, conversion rate into common, unless previously redeemed, and the call price of preferred will be filed by amendment.

Address—1126 S. 70th Street, West Allis, Wisconsin.

Business—Before the outbreak of the war in 1939 the company was engaged in the manufacture of a widely diversified line of agricultural, electrical and industrial machinery and equipment. Since the entry of the United States into war, civilian business has been subordinate to the manufacture of war material, although a substantial amount of the company's peace-time products have been adapted to war use.

Underwriting—Blyth & Co., Inc., New York, are the principal underwriters, with names of others to be filed by amendment.

Offering—The 296,015 shares of new cumulative convertible preferred are being offered for subscription to common stockholders at the rate of one share of preferred for each six shares of common. The subscription price is to be fixed by amendment, with warrants to be issued to stockholders of record March 31 and to expire April 12.

Proceeds—Of the net proceeds the company will apply $15,600,000 to the redemption and payment of all of its outstanding 15-year 4% convertible sinking fund debentures due Sept. 1, 1952, at 104. The balance of the proceeds will be added to company's working capital for war purposes and to place it in a position to carry additional inventories and additional notes and accounts receivable for anticipated post-war business, particularly in the farm implement, road machinery and tractor field. Some portion of the proceeds may ultimately be employed in extending and reconverting the company's production facilities for peace-time business.

Registration Statement No. 2-5319. Form S-1. (3-17-44).

THURSDAY, APRIL 6

KEYSTONE CUSTODIAN FUNDS, INC.

Keystone Custodian Funds, Inc., has registered 100,000 shares of investment trust-full certificates of participation, Series S-3.

Address — 50 Congress Street, Boston, Mass.

Business—Investment trust.

Underwriting—Keystone Custodian Funds, Inc., is named sponsor.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5320. Form C-1. (3-18-44).

CHAMPION PAPER & FIBRE COMPANY

Champion Paper & Fibre Co. has registered 25,507 shares of 6% cumulative preferred stock, $100 par value.

Address—Hamilton, Ohio.

Business—Company is one of the largest domestic manufacturers of the types of paper known in the trade as white papers and book papers.

Underwriting—The underwriters and the shares purchased are as follows: Goldman, Sachs & Co., 12,753 shares and W. E. Hutton & Co., 12,754, both firms located at New York City.

Offering—Price to the public will be filed by amendment.

Proceeds — Will be added to working capital in the first instance, but it is anticipated they may be used for capital expenditures when circumstances permit.

Registration Statement No. 2-5321. Form S-1. (3-18-44).

SATURDAY, APRIL 8

ARIZONA EDISON CO., INC.

Arizona Edison Co., Inc. has filed a registration statement for $2,500,000 1st mtge. bonds, 3½% series due 1974 and 4,500 shares of $5 cumulative preferred stock (no par).

Address—830 Title and Trust Building, Phoenix, Ariz.

Business—Principal business of the company is the generation and purchase of electricity, the purchase of gas, the pumping of water and the sale of these services to areas in southern Arizona.

Underwriting—Coffin & Burr, Inc., Boston, is named principal underwriter with names of others to be supplied by amendment.

Offering—Prices of the bonds and preferred stock to the public will be supplied by amendment.

Proceeds — Contemporaneously with the sale of these securities, the company will sell to a single purchaser $750,000 of serial notes. Company will use the net proceeds from this financing, together with other funds of the company, to redeem all the outstanding first mortgage 4% bonds, Series C (all $2,538,000 of which are owned by the Equitable Life Assurance Society of the United States), all the outstanding second mortgage 6% income bonds, Series A and second mortgage 5% income bonds, Series B.

Registration Statement No. 2-5322. Form S-1. (3-20-44).

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, PA.—100,000 shares capital stock (par $5), to be offered to stockholders of record March 10 at $11 per share in ratio of one new share for each share held. Rights expire about April 20, 1944. Proceeds for working capital. Filed Feb. 18, 1944. Details in "Chronicle," March 9, 1944.

BEN-HUR PRODUCTS, INC. — $300,000 5% convertible debentures, series of 1943, due Feb. 1, 1951 and 11,400 prior preferred shares (for purpose of conversion). Proceeds to retire bank loans and working capital. Pacific Co. of Calif. and Wyeth & Co. named underwriters. Filed Dec. 20, 1943. Details in "Chronicle," March 9, 1944.

CERTAIN-TEED PRODUCTS CORP.—$6,737,300 4% cumulative income debentures due Oct. 31, 1973 and 134,746 shares common (par $1) and certificates of deposit for 67,373 shares 6% prior preferred stock. Holders of preferred stock offered $100 of income debentures and two common shares in exchange for each preferred share. Company plans to issue 208,466 additional common shares, to be offered to present common stockholders on 1 for 3 basis, at a price to be announced. Company further plans to sell $5,500,000 new (interest not to exceed 4½%) senior debentures and use proceeds, with other funds, to redeem outstanding $7,100,000 5½% S. F. debentures series A. Paul H. Davis & Co., Chicago, named principal underwriter or dealer manager to effect exchanges. Filed Oct. 27, 1943. Details in "Chronicle," March 16, 1944.

MICHIGAN CONSOLIDATED GAS CO.—$38,000,000 first mortgage 3½s, series due 1968 and 40,000 shares 4¾% cumulative preferred stock (par $100). Proceeds for refunding. To be sold through competitive bidding. Filed Nov. 13, 1943. Effective Feb. 10, 1944. Details in "Chronicle," March 16, 1944.

NORTHWEST AIRLINES, INC.—139,460 shares of common stock (no par) registered, of which 117,460 shares will be offered to common stockholders in ratio of one for each two held. Proceeds for general corporate purposes. Unsubscribed shares underwritten by Auchincloss, Parker & Redpath. Filed Dec. 23, 1943. Details in "Chronicle," March 16, 1944.

OKLAHOMA NATURAL GAS CO.—$18,000,000 first mortgage bonds due April 1, 1961 and 180,000 preferred shares, series A cumulative (par $50). Proceeds for refunding. Bids for bonds and preferred stock will be accepted at company's office, 90 Broad Street, New York City, before 12 noon EWT March 28. Coupon rate and dividend rate to be specified in the bids. Filed Feb. 7, 1944. Details in "Chronicle," March 16, 1944.

PUBLIC SERVICE CO. OF OKLA.—$1,500,000 5% cumulative preferred stock (par $100) and $6,600,000 first mortgage bonds, series A 3½% due Feb. 1, 1971. Stock is for exchange of $6 preferred of Southwestern Light & Power Co. (subsidiary) on share for share basis. Bonds will be offered for sale at competitive bidding. Registration effective Jan. 10, 1944. Filed Dec. 21, 1943. Details in "Chronicle," March 16, 1944.

SOUTH COAST CORP.—$1,500,000 first mortgage 5% bonds due Dec. 31, 1955. Proceeds to redeem $998,405 general mortgage income 6s and for working capital. Paul H. Davis & Co. principal underwriter. Filed Jan. 24, 1944.

VIRGINIA ELECTRIC & POWER CO.—$24,500,000 first and refunding mortgage bonds, series D 3½% due April 1, 1974 and 305,192 shares of $5 dividend preferred stock to be issued in connection with merger of Virginia Public Service Co. into Virginia Electric & Power Co. When merger becomes effective each share of V. P. S. 7% preferred and V. P. S. 6% preferred (including accrued dividends) will be converted into 1⅛ shares of new preferred and in addition each share of V. P. S. 7% preferred will receive $5.50 in cash. V. P. S. common will be converted with V. E. & P. Co. common. Each share of V. E. & P. Co. old preferred will be converted into one share of new preferred and will receive cash for accrued dividends to merger date. V. E. & P. Co. common will remain outstanding. Bonds will be offered at sale through competitive bidding. Filed Feb. 28, 1944. Details in "Chronicle," March 16, 1944.

"Our Reporter On Governments"

By DONALD MacKINNON

"I know that the Germans have a bomb, rocket-propelled, that has our research men going gray. . . . This was the bomb that has our research men going gray. This was the bomb ROMA.

"Our combat generals think the German Army is as strong as ever. They may be wrong, but, after all, their opinion, based on experience, seems worth considering. They don't think that we can lose this war, but they don't see yet how we can win it. Neither do I. Once we really take Italy and have air bases in Northern Italy the real job of invading Germany will come. The great air invasion of the past few months has been the prelude. I can't forget what General Montgomery said: 'The war has finally begun.' I think he is right. The preliminaries are over. The actors The actors have learned their lines. . . . The dress rehearsal have learned their lines. The dress rehearsal has been held. The orchestra has played the overture. The play is about to begin. The curtain rises.

"New York, December, 1942."

So wrote War Correspondent Quentin Reynolds upon his return from, among other spots, Russia, the Far East and the Mediterranean sector, in his latest eye-opener, "THE CURTAIN RISES." . . . (Published by Random House—$2.75.) . . . If you are one of those who believes that our wars are practically over, the reading of this book may shock you out of your complacency. . . .

One ranking American general has expressed the opinion that our conflict with Germany may be over "early in 1945." . . . This statement is at variance with the ideas prevalent during the early part of this year—that our operations in the European theatre might be over by the middle of 1944. . . . One unidentified contemporary has succinctly said "the war is over—all over but the fighting." . . .

WAR'S END AND PRICES

A great deal has been said, and may still be said, regarding the question of the time involved in the winning of our two wars, and the resultant effect upon the prices of the several types of outstanding Government obligations. . . . No one person, nor any one group of individuals, can possibly measure the net effect of factors which materialize suddenly and unexpectedly. . . . For example, the newspapers of Saturday, March 18, under a Washington date line, carried the news that the House Ways and Means Committee on Friday announced a plan for making tax figuring and tax paying simpler after Jan. 1, 1945. . . . In essence, the present normal tax of 6% would be eliminated and absorbed in surtax. . . . The 3% Victory tax, imposed upon annual gross incomes in excess of $624, would be done away with and a new 3% normal tax substituted for it. . . . The new tax apparently would apply on each taxpayer's net income exceeding $500. . . .

While this proposal is interpreted to apply only to individuals, the Street evidently believes that this move may possibly be but the forerunner of an attempt to consolidate the normal tax into a single surtax as applied to corporations. . . .

MARKET ACTION

At any rate, as far as the market is concerned, this news was ignored on Saturday morning, but most of the partially exempt issues moved off anywhere from 3/32s to 8/32s during Monday's trading session. . . . At this writing (3-21-44), the 2⅞s and the 2¾s 1965/60 are bid 111.31 and 111.21, respectively—off 18/32s and 19/32s from 1944's high bids. . . . In July of 1943 a rumor pertaining to the possibility of the elimination of the tax-exempt privilege enjoyed by certain Government obligations caused the market in such bonds to move off approximately three-quarters of a point. . . . Thereafter the market performed rather erratically and finally, by early October, regained approximately one-half point of its earlier losses. . . . It is worth remembering that the rally which followed the decline was initiated largely by a statement from Secretary Morgenthau which reassured interested investors that partially exempts would continue to retain their privileges. . . .

It may be some time before the House Ways and Means Committee proposal will go to the Senate. . . . It is impossible to appraise market performances of partially exempt obligations until one knows what will be the final decision of the House and the Senate. . . .

Obviously, as far as cororation taxes are concerned, if the normal tax is to be absorbed into a single surtax, the prices of now outstanding partially exempts will decline. . . .

It is just as obvious that following a decline based upon such an assumption, if no changes are made in present corporation taxes, the market will undoubtedly advance as rapidly as it declined. . . .

EXCHANGE RESULTS

Secretary Morgenthau announced on March 20 the final results of the recent exchange offering and the allotment figures. . . . Of the $4,730,000,000 outstanding securities of these issues, $3,910,800,000, or about 83%, were exchanged as follows:

Description and Title—			Outstanding	Amount Exchange	To be Paid Off in Cash
U. S. Treasury	1s	3-15-44	$515,000,000	$482,635,900	$32,364,100
U. S. Treasury	3¼s	4-15-44	1,519,000,000	1,221,079,700	297,920,300
U. S. Treasury	¾s	6-15-44	416,000,000	269,194,300	146,805,700
F. F. M. C.	3¼s	3-15-44	95,000,000	75,904,300	19,095,700
F. F. M. C.	3s	5-15-44	835,000,000	700,246,550	134,753,450
R. F. C.	1s	4-15-44	571,000,000	559,220,000	11,780,000
H. O. L. C.	3s	5- 1-44	779,000,000	602,519,250	176,480,750

Inasmuch as $819,200,000 of these obligations will be paid off in cash, it would appear logical to assume that at least part of this cash will find its way back into the Government market, and because certain holders are giving up fully exempt or partially exempt income they might wish to invest in fully or partially exempt obligations as cash is available for investment. . . . Investors accepted $74,545,500 2½s, 1970/65; $93,048,500 of the 2¼s, 1959/56, and $3,910,-800,000 of the 1½s, 9-15-48. Current bids on the three issues are: 2½s, 100.5; the 2¼s, 100.3; the 1½s, 100.6 plus. . . .

PAST EXCHANGES

For no particular reason, we recall a Treasury exchange offering which was made about March 6, 1939. Holders of $1,266,000,000 of June 2⅛% notes of 1939 were offered an exchange into the 1⅛s of December, 1943, at 101, the 2½s, 1952/50, at 102½, or the 2¾s, 1965/60, at 102⅜. . . . The value of the "Rights" involved averaged about 1 point 20/32s. . . . As a result of this offering, the issues involved moved up materially to their high of about 108.16 in June of 1939, only to decline to a low of approximately 99.8 in September as Germany invaded Poland and as war was declared by England and France on Germany on 9-3-39. . . . There was one other interesting refunding operation on Oct. 8, 1941. . . . This involved the exchange of the December 1¼s, 1941, into the 2½s, 1972/67, which issue was also offered for cash. . . . The "Rights" closed on Oct. 8 at 102.14, the new bonds were traded as high as 103.16 the following morning. . . . With the reopening of the 2½s, 1972/67, at 100 for cash on Dec. 4, 1941, and following Dec. 7 the market on this issue declined and has been subjected to some rather rough treatment since that time. . . .

However, we believe that the present price of the 2½s, 1972/67, at approximately 100.15 offers attractive income of 2.47% before taxes and net income of 1.48% after 24% normal and 16% surtax to any commercial banks willing to assume a long-term position.

Shields & Co. Will Admit B. F. Toole

Bernard F. Toole, Sr. will be admitted to partnership in Shields & Co., 44 Wall Street, New York City, members of the New York Stock Exchange and other exchanges. Mr. Toole will acquire the New York Stock Exchange membership of James F. Crowley, a partner in Shields & Co.

Appreciation Possibilities

Arnhold and S. Bleichroeder, Inc., 30 Broad Street, New York City, have prepared an interesting descriptive list of preferred shares which the firm believes offer definite appreciation possibilities; in addition some convertible preferred shares with appreciation chances are also discussed. Copies of the circular the firm is distributing may be had upon request from Arnhold and S. Bleichroeder, Inc.

Situation Looks Good

The current situation in Houston Oil Company of Texas offers interesting possibilities according to a comparative study prepared by Edward D. Jones & Co. of the consolidated earnings figures of the Houston Oil Company of Texas and Houston Pipe Line Company for the past six years. Copies of this study may be had upon request from Edward D. Jones & Co., 300 North Fourth Street, St. Louis, Mo., members of the New York and St. Louis Stock Exchanges, and other leading national exchanges.

Interesting Income And Appreciation Possibilities

The 5% cumulative income debentures due 2032 of New Orleans Great Northern Railway Company offer interesting income and price appreciation possibilities as a result of company buying and/94 payments against the large interest arrears, or both, according to a detailed circular on the situation prepared by G. A. Saxton & Co. ,Inc., 70 Pine Street, New York City. Copies of the circular may be had upon request from G. A. Saxton & Co., Inc.

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