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How Much Inflation?

Economist Sees Enormously Inflated Price of Labor Adjusted Only By Commodity Price Rise—Feels Foreigners May Cash In Dollar Balances And Bond Holdings If Tendency Of Prices To Rise Continues, Particularly If Accompanied By Any Signs Of A Devaluation Trend

By LEWIS H. HANEY*

Professor of Economics, New York University
Author Of "Value and Distribution"

The chief point in defining inflation, I think, is to understand that it most emphatically is **not** a rise in prices—or at least commodity prices.

Lewis H. Haney

Prices can rise without any inflation. Naturally, they rise in cases of shortage or in cases of rapidly increasing demand for goods. Certainly anyone who saw commodity prices decline through the inflationary period of 1928-29 could not define inflation in terms of

*An address made by Dr. Haney on March 30, 1944, at a dinner meeting of the Taxation and Price Division of the New York chapter of the American Statistical Association held at the Town Hall Club, New York City.

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Statistical Director Sees Inflationary Tendencies Rising, Despite Rationing And Price Controls—Estimates Excess Purchasing Power At About $43 Billions—Holds That If Attempts To Liberalize Wage Stabilization Are Successful, A Fostering Of A Price Spiral Will Result

By R. A. SAYRE*

Director, Division of Labor Statistics, National Industrial Conference Board

The subject assigned for this evening, "How Much Inflation?" is a most provocative one—seeming to ask, on the one hand, how far have we gone on the inflation road; and, on the other, how far do we still have to go? While anything I have to say represents my own views, and as such does not necessarily reflect the views of The Conference Board, I shall adhere to Conference Board tradition and not forecast.

R. A. Sayre

Of course, we are having inflation if mounting prices are an indication. It is interesting, therefore, to make some appraisal of where we stand. The position of the cost of living and wages (in which I have a particular interest), and their relation to each other, are important and af-

*Address made at the meeting of the Taxation and Price Division of the New York Chapter of the American Statistical Association at the Town Hall Club, New York, March 30, 1944.

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Price Control During The Reconversion Period

DR. IVAN WRIGHT

Professor of Economics, Brooklyn College
Executive Secretary Economists' Committee On Reconversion Problems

Maintenance of a measure of price control appears likely during the reconversion period, regardless of the party in power. Continuance of some controls over commodity prices has been advocated not only in the Baruch-Hancock report and by the Truman Committee, but also by industrialists and retailers.

Price controls can play an important role during the reconversion period to protect both consumers and producers. Demand for many consumer goods during that period will far outrun the supply because of the existing great backlog of deferred purchases and the time that will be required to resume capacity production. If all price controls were to be removed, as happened after

Dr. Ivan Wright

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A Post-War Tax Program

By ALVIN H. HANSEN*

In discussing a post-war tax program—Federal, State, and local—it would seem desirable first of all to consider the probable magnitude of post-war governmental budgets and the role they will play in the functioning of the economy.

I believe it to be true that the prevailing view among economists and fiscal authorities in England, the Scandinavian countries, Canada, and the United States is that the Government budget should, on its expenditure side (and, as far as feasible on the tax side) serve as a compensatory device to offset fluctuations in the private sector of the economy.

Alvin H. Hansen

A high sense of social responsibility and prudence in public finance demands that Government expenditures, taxation, and borrowing be managed so as to promote economic stability and high levels of income and employment. Fiscal policy is, of course, only one of many measures which can contribute to this end. Labor relations, and wage and price policies are no less important. Moreover, we must work incessantly to achieve efficiency in Government administration. True economy does not mean blind slashing of expenditures; it does mean efficient use of public funds, careful administration to eliminate waste, and thorough planning so that public expenditures may be made on useful and productive projects of a character which will increase the efficiency and well-

*Dr. Hansen is special adviser to the Board of Governors of the Federal Reserve System, and Professor of Economics, Harvard University.—Editor.

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In This Issue

Special material and items of interest with reference to dealer activities in the State of Pennsylvania starts on page 1410.

General index on page 1424

Taxation---Today's Burden, Tomorrow's Prospect

Bank Official Holds There Is Considerable Evidence To Show That Corporate And High Income Individual Taxes Are Up To Or Beyond Point Of Maximum Return To The Government—Disturbed At Reluctance To Permit Business To Accumulate Proper Reserves And A Surplus Of Earnings In Period Of High Activity—Observes That Consumer And Low Income Groups Here Are Treated Far More Gently By The Tax Gatherer Than In Canada And England

By JOSEPH STAGG LAWRENCE*
Vice-President, Empire Trust Company

This is a serious subject. In order to outline the problem, it will be necessary to use some figures. These figures will show that there is considerable misinformation regarding the degree to which citizens and corporations in this country are currently taxed. This is due partly to the fact that figures commonly used relate to the years 1941 or 1942 and are not current. In view of the fact that the tax burden has increased very rapidly, the omission of the current period in making such comparisons distorts the picture.

Jos. Stagg Lawrence

Other countries, such as Canada and England, with which comparisons are made, have been in the war 2½ years longer than the U. S. Their taxes had already reached maximum levels when comparison was made with American taxes in process of drastic upward adjustment. The tax figures used are total taxes, that is, Federal, State and local taxes. The totals for Canada and Great Britain are likewise the sum of central and local government taxes.

*An address delivered by Mr. Lawrence before a luncheon meeting of the New York Society of Security Analysts held in New York City on March 27, 1944.

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Russians Adjourn Monetary Talks

A Russian monetary delegation has concluded two months of technical conferences with Treasury experts on plans for post-war currency stabilization, it was reported in Associated Press accounts from Washington on April 4, which also stated that it is expected that decisions will be reached soon on plans for an international monetary conference in this country. From these advices, as given in the New York "Journal of Commerce" we also quote:

Nikolai S. Chechulin headed the Russian delegation, which is now drafting its report to the Kremlin.

"It was learned at the Treasury today that a further U. S.-British get-together on the stabilization problem, expected to result in agreement on a joint American-British plan,, is impending.

"A Treasury spokesman said the Russians might request one more session after receiving a reply to their report to Moscow, and indicated that, with those meetings over, the basis would be laid for the proposed general international conference.

An earlier reference to the planned conference appeared in our issue of March 9, page 998.

New Laird Co. Partner

Laird & Co., members of the New York Stock Exchange, will admit E. Carroll Stollenwerck to limited partnership in the firm, effective April 13. Mr. Stollenwerck will make his headquarters at the firm's New York office at 61 Broadway.

Paine, Webber Firm Admits Four Partners

Four new partners have been admitted into Paine, Webber, Jackson & Curtis, members of the New York Stock Exchange, effective April 1. They are: Robert W. MacArthur, with headquarters in the firm's Boston office at 24 Federal Street; John W. Corrington, in the Chicago office at 209 South La Salle Street; D. W. Chamberlin, in Cleveland (Union Commerce Building), and William Wegner, in Milwaukee (605 North Broadway).

Mr. MacArthur started with the firm's Boston office in 1926 as assistant in the bond statistical department. Since then, his activities have been broadened to include almost all phases of the brokerage and investment banking business.

Mr. Corrington, a graduate of the University of Illinois and also the Harvard Graduate School of Business Administration, has been active in Chicago financial circles since 1924. He joined the present firm in 1932.

Mr. Chamberlin, a member of the Cleveland Chamber of Commerce, has been resident manager of the firm's office in that city since 1929.

Mr. Wegner became associated with the firm in 1907. His connection with the firm has been uninterrupted except for a period of military service during the last war. Since 1939 he has been co-manager of the Milwaukee office.

Admission of these four new partners was previously reported in the Chronicle of March 23.

L. G. Hunt In Dept. Of Harriman Ripley

Leonard G. Hunt has become associated with the Corporate Buying Department of Harriman Ripley, Inc., 63 Wall Street, New York City. Mr. Hunt was formerly connected with the armor plate division of Standard Steel Spring Co., and prior thereto was active in the investment banking business. He is a graduate of the University of Illinois where he specialized in industrial administration.

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Other Publications
Bank and Quotation Record—Mth. $20 yr.
Monthly Earnings Record—Mth...$20 yr.

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

A Proposed Spending Tax

By PROFESSOR IRVING FISHER*

Professor Fisher Advocates Taxation Of Only That Part Of Income Which Is Spent And Not The Other Part Which Is Saved—Urges Abolition Of All Taxes On Corporations Except Nominal One—Sees Sales Of Government Securities To Banks Creating "Invisible Greenbacks."

I am of the opinion that where a law is economically sound it will in general be simple from a legal standpoint; and as I have followed the problems it seems to me that this applies in the present case. I believe that our tax laws are economically unsound; and it is because of the fact they are economically unsound that you have these legal tangles that have been discussed tonight. That is why we find, in counting up the words in our legislation and in our judicial decisions in the law courts which theoretically you lawyers need to know in order to know all about our income taxes in the United States, the volume of words amounts to 30 million. You would have to read the New Testament 200 times in order to cover the same ground. That stands for legal difficulties, legis-

Prof. Irving Fisher

*An address made in New York City on March 23, 1944, by Dr. Fisher before the Federal Bar Tax Law Institute under the auspices of the Federal Bar Associations of New York, New Jersey and Connecticut. Dr. Fisher is Professor Emeritus, Yale University.

(Continued on page 1422)

Current Results Of Poll On 5% Mark-Up Policy

On March 16, 1944, Ralph Chapman, Chairman of the Board of the National Association of Securities Dealers, addressed the Central States Group of the Investment Bankers Association at Chicago. Speaking of the 5% mark-up policy promulgated by the National Association of Securities Dealers last October, he said that the policy had been "accepted as a forward step by a large majority of the organization members." He added, "a small segment of our business is still opposed, and, while I do not 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."

Less than a week later, on March 22, 1944, Albert E. Van Court, Chairman of District No. 2 (California) of the NASD, circularized the NASD membership of that district and said in his letter:

> "Your Chairman and Secretary have recently returned from meetings in New York at which there were present Chairmen and Secretaries of the 14 districts into which the Association is divided. The Governors' letter, dated Oct. 25, 1943, outlining the mark-up philosophy of the majority of the Association's membership, was discussed in much detail and it appeared from these discussions that it had the universal approval of a large majority of the members of the Association throughout each of the 48 States of the Union."

We were considerably intrigued by both these statements. We wondered why, if these assertions were true, the NASD did not submit the "5% spread philosophy" to the franchise of its membership. Why, if there was such widespread approval, did the Board of Governors violate the

(Continued on page 1419)

Congress Must Decide: Baruch

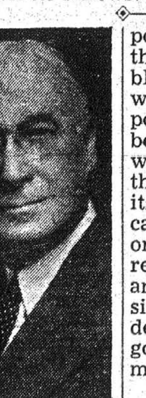
Final decisions on the recommendations contained in the Baruch-Hancock war and post-war adjustment report are subject to the judgment of Congress, it was stated by Bernard M. Baruch, in a letter addressed to the Editor of the "Chronicle" under date of March 21 last, the full text of which follows:

"It was with great satisfaction that I noted the generous amount of space given in your publication of Feb. 24th, to the details of our report on war and post-war adjustments.

"Your most exhaustive analysis of the report, coupled with your sane reasoning regarding a desire for cooperation between the Executive and Congress, is appreciated by me as one of the sponsors.

"You rightfully emphasize, and doubtless in the interest of humanity, what should be apparent to anyone who has given the report only a casual study—that is, that Congress is in no way hobbled. It is still a free agent to deal with the report as it feels disposed. It may sound the policy to be followed. In the legislation which must be enacted to make the report effective, it can impose its own views and restraints. It can modify anything we have recommended. In short, there is no reason for our lawmakers to take an uppish attitude. Let them consider the report on its merits and decide to what extent they will go along with Mr. Hancock and myself.

"With appreciation, I am
"Sincerely yours,
"BERNARD M. BARUCH."



Bernard M. Baruch

D. H. Ellis To Admit

Raymond F. Juechter will become a partner in D. H. Ellis & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, on April 13.

Handy Record Book For Investors And Traders

The Handy Record Book Co. has prepared the Handy Record for investors and traders with the "automatic" long and short term indicator, showing at a glance exactly what securities holdings are, what they cost, when each item becomes "long term." Designed as a time- and work-saver, it helps make income tax determinations easier. It has a durable cloth-bound cover and fits a coat-pocket or safe-deposit box. Copies are $1.00 postpaid and may be obtained from the Handy Record Book Co., 656 Broadway, New York City.

Opposes Recap Plan Of United Gas Corporation

Louis Lober, of Lober Brothers & Co., 30 Broad Street, New York City, members of the New York Stock Exchange, has prepared a memorandum outlining his reasons for opposing the "inequitable distribution of new common stock as contemplated in the proposed plan of United Gas Corporation dated March 1, 1944." Copies of this memonrandum, which also contains Mr. Lober's suggestions as to a distribution of stock, more equitable, in his opinion, may be had from Lober Brothers & Co. upon request.

OUR REPORTER'S REPORT

After several weeks of literally "carrying coals to Newcastle," the investment banking fraternity appeared content to take time out for a reappraisal of the general situation.

Ever since the close of the Fourth War Loan Drive there has been, according to some in the business, a great deal of time and energy spent in the forming of groups to bid for prospective new issues.

It is true that several sizable offerings and a goodly smattering of smaller ones have reached market in the interval, but by and large, as this observer sees it, underwriters have been engaged chiefly in organizing groups, or so it now seems, for "probabilities and possibilities."

Well, the process, it develops, finally reached the stage where things began to get a bit confused and some firms began to wonder just where they stood if this potential issue or that one should materialize.

For the time being at least, there seems to have developed a lull in such activity, and presumably something in the way of recapitulation is underway to set the record straight where such action may have become necessary.

Meanwhile bankers are confident that further good business will come into the market before the road is cleared once more for the Treasury's next drive.

Celanese Preferred Next

The next major undertaking on the new issue calendar is that of the Celanese Corp. of America, involving 350,000 shares of no par value $4.50 first preferred stock, having a stated value of $100 a share and 139,622 shares of additional no par common stock.

That offering is now regarded as tentatively scheduled for the early part of next week, probably Monday. Present common shareholders will be offered the right to subscribe for the new junior shares in the ratio of one share for each ten shares now held.

Of the overall proceeds $23,662,290 will be applied to the redemption of 164,818 shares of 7% cumulative prior preferred and 37,710 shares of 5% cumulative prior preferred not outstanding. The balance would be applied to funds for use in financing a program of plant expansion.

Consolidated Cigar

The Street was looking forward to public offering, either today or tomorrow, of 40,000 shares of cumulative preferred stock, without par value, of the Consolidated Cigar Corp.

Among dealers discussion indicated the offering price would be somewhere around 97½.

Proceeds would be used to finance the retirement of the company's 38,162 shares of outstanding 6½% cumulative prior preferred stock at $105 a share and accrued dividends.

Definitely on Schedule

Two public utility undertakings are looked upon as quite definitely on schedule for sale through competitive bidding within the next fortnight.

The first involves 55,000 shares of preferred of Atlantic City Electric Co., on which bids will be due next Monday with the bidder to set the dividend rate.

Second and larger issue is that of Louisiana Power & Light Co., involving $17,000,000 first mortgage, 30-year bonds upon which the bidder will name the coupon rate. Bids here are now tentatively scheduled for April 18.

Others in Sight

Several other issues were in registration with the Securities and Exchange Commission, but with nothing at the moment to indicate when bids will be sought.

These include Virginia Electric & Power Co.'s $24,500,000 of first and refunding bonds, series D 3½% due in 1974, together with 305,192 shares of $5 preferred stock to be sold as an outgrowth of projected acquisition of Virginia Public Service Co.

Meanwhile Public Service Co. of Oklahoma has in registration $6,600,000 first mortgage series A 3½s and $1,500,000 of 5% cumulative preferred, the latter to be exchanged for $6 preferred of Southwestern Light & Power, a subsidiary, on a pro rata basis.

Coburn & Middlebrook Opening NY Office

Coburn & Middlebrook, 49 Pearl Street, Hartford, Conn., are opening a New York office at 1 Wall Street. The firm acts as dealers in Connecticut and New York bank, insurance and industrial stocks and bonds and municipal, railroad and public utility stocks.

Borg-Warner Attractive

Van Alstyne, Noel & Co., 52 Wall Street, New York City, members of the New York Stock Exchange, have prepared a comprehensive analysis of the Borg-Warner Corporation in respect to their Automotive Products and Household Equipment. Copies of this analysis containing the reasons why Van Alstyne, Noel & Co. believes this situation offers excellent post-war possibilities may be had from the firm upon request.

Bulolo Interesting

Goodbody & Co., 115 Broadway, New York City, members of the New York Stock Exchange and other leading national exchanges, have prepared an interesting circular on Bulolo Gold Dredging. Copies of this circular may be had upon request from Goodbody & Co.

Gerald F. Kane Now With Luckhurst & Co.

Gerald F. Kane has joined the Trading Department of Luckhurst & Co., 60 Broad Street, New York City. Mr. Kane was formerly with J. Arthur Warner & Co., Peter P. McDermott & Co., and W. F. Thompson & Co.

"Our Reporter On Governments"

By E. P. TEE

The details of the Fifth War Loan are now on the record and they make pleasant reading. . . . The campaign that gets under way June 12 and will run to July 8 should see the $16,000,000,000 goal reached and possibly surpassed by a comfortable margin. . . .

The Treasury has taken a realistic approach to this offering, profiting by the experience of the past and at the same time not sacrificing its major objective—which is the siphoning off of excess funds in the hands of the public. . . .

Setting the goal for individual subscriptions at $6,000,000,000 in the face of only $5,300,000,000, such orders in January and February is a demonstration of fortitude that deserves applause. . . . It means that there is to be increased efforts to reach the "little investors." . . . Although the amount of saving and investment by such people is small individually, the aggregate is tremendous. . . .

To reach these millions is a tough job, but the Treasury plans to go at it stronger than ever, if the new objective means anything. . . . This calls for more individual solicitation, more volunteer workers, more advertising and publicity and a more closely-knit organization. . . .

But the War Finance Committees and their workers now have experience and "know-how" and at the same time larger numbers of people are becoming accustomed to buying Governments. . . .

Reaching the $6,000,000,000 goal will be a real chore, however, which means that it deserves the fullest efforts of every one. The funds are available, but they must be pried loose. . . .

OTHER ISSUES ATTRACTIVE

As for the $10,000,000,000 quota for other non-banking investors, this is as good as raised and on the Treasury's books. . . . The Treasury has taken a realistic approach that warrants such optimism. . . .

First, it has announced its "basket" of issues over two full months ahead of the drive opening—the longest advance notice ever given. This will allow the large investors plenty of time to arrange portfolios to accommodate the new drive issues and at the same time permit the accumulation of cash resources from other sources between now and June 26, so that corporations, savings banks and insurance companies on that date should be well loaded with funds. . . .

More important still is the expansion of appeal by the Treasury for the drive issues among the large investors. . . . This has been accomplished by inclusion of a 1¼% note issue, and by making three issues eligible for open market purchase by the commercial banks. . . .

This is a change in the right direction from the January drive, when every issue was ineligible, except the certificates and special subscriptions to cover savings deposits not in excess of $200,000. The same formula applies this time with respect to savings deposits, but the commercial banks can also buy the 1¼% notes, 2% bonds and certificates after the drive is over—which means in the open market. . . .

The commercial banks are the biggest single factor in the Government bond market and making the drive issues eligible for investment, after the campaign is over, assues a good, broad market for these securities, and hence a solid demand from the large buyers during the drive period. . . .

While the banks can be kept from direct Treasury purchases during the drive, they cannot be restrained from open market acquisitions. During the Fourth Loan period they took about $2,800,000,000 out of the market and last October about $1,700,000,000. They will undoubtedly find many of the Fifth War Loan issues attractive. . . .

NEW NOTES

The 1¼% note issue of 1947 appears slated to lead the Fifth War Loan in point of popularity. . . . This two years and eight months paper is a highly desirable security that will appeal particularly to the large corporations and the commercial banks. . . . The latter will be active in the open market once the drive is over. . . .

For the corporations the new 1¼s net a slightly better return than the series C Savings Notes and will doubtless be bought in place of the latter. . . . Corporations apparently have enough of the Savings Notes for use in payment of taxes as indicated by the turn-ins last month, which aggregated only $300,000,000 more than a year ago despite the larger dollar volume outstanding. . . .

For the commercial banks, the new note is a natural. . . . First, it has a fixed maturity. . . . Of more importance is the fact that the maturity schedule of the Treasury is pretty thin for 1947, with only two small, partially exempt issues reaching first call date and the $2,700,000,000 note issue sold last September coming due. . . .

BANK POLICY

The banks will probably use this occasion to catch the premium of 24/32nds on the 1½% notes due Dec. 15, 1946, and the 16/32nds premium on the 1½% notes of Sept. 15, 1947. . . . Reinvestment of the proceeds of such sales in the new March 15, 1947, note is to be expected. . . .

Don't look for any big premium on this note issue, dealers say. . . . It is priced right on the market, and unless the whole list moves to a higher level is not expected to do much, although it should be an active trader. . . .

Those who discount the likelihood of a premium point to the yield on the December, 1946, note of 1.20% and that of the September, 1947, note of 1.32%. . . . The difference is 12 basis points and the new issue maturity falls one-third the way between or for about a 1.24% yield. . . . This leaves little room for any premium. . . . Broad distribution and an active demand may change that, however. . . .

CERTIFICATES

The certificates are to be dated June 26 and will mature June 1, 1945, which means that the issue is just short of a year. . . . This will add to the normal attractiveness of this paper. . . .

The Government bond market this week reflected the general satisfaction with the Treasury's program. Dealers reported an active demand, following the lethargy of the past 10 days with certificates especially sought. . . . The 2¼% of 1959/56 sold in the Fourth War Loan drive reached their best price since issuance. . . . The tax-exempts also were better. . . . While the intermediate 2% were strong. . . .

All in all, the Treasury's announcement has cleared the atmosphere of rumors and speculation and presented dealers and the big buyers with ample time to make the shifts needed to insure a heavy subscription.

STANY Rail Forum To Be Held April 14th

The first of a series of open forums, covering problems relating to securities and sponsored by The Security Traders Association of New York, Inc., for its members and guests, will be held on April 14, at 4:30 p.m. at the New York Curb Exchange, Board of Governors Room, according to Richard F. Abbe, General Chairman of the Committee. William Pflugfelder, of Pflugfelder, Bampton & Rust, Chairman of the Railroad Forum, will be in charge of the first meeting at which Arthur Knies of Vilas & Hickey, will be the principal speaker and will discuss current events and their possible effect on the future price of railroad securities.

Other members of the Committee and the Forums of which they have charge are: Public Utility—Chairman Harry Arnold, of Paine, Webber, Jackson & Curtis— Industrial—Chairman Thomas Larkin, of Goodbody & Co.; General Topics — Chairman John Kassebaum, of Ingalls & Snyder.

Guido Hoelz Now With Security Adjustment

BROOKLYN, N. Y.—Security Adjustment Corp., 16 Court St., announces that Guido Hoelz has become associated with them as economist in charge of research. He was formerly with the New York Trust Co. in the estate and trust accounting department, and for 11 years was with the savings and life insurance departments in the East New York Savings Bank.

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; Massachusetts Power & Light $2 preferred; Majestic Radio; Magnavox Corp.; Brockway Motors; Consolidated Dearborn; National Airlines; Chicago and Southern Airlines; American Export Airlines.

Public Utility Securities

The Public Power Issue In The Northwest

Washington agencies are still interested in the extension of publicly-owned power resources, although the war has slowed down their activities somewhat. TVA is apparently having its wings clipped somewhat by Congress, and the move to expand public power has shifted from the south to the northwest, where hundreds of millions of dollars have already been expended to exploit hydro-electric power at Bonneville and Grand Coulee. Congress sometime ago was asked to appropriate $150,000,000 to finance the acquisition of private utility companies in Washington and Oregon, in order to provide further distributing facilities for Federal power and tie it in with existing systems. But Congress has thus far refused to enact the Bone Bill, just as it has refused to cooperate in the move for a huge power development at Niagara (connected with the St. Lawrence Seaway Project).

A number of local "PUDS" or Public Utility Districts have been formed in the State of Washington (probably with Federal encouragement) with the avowed object of purchasing portions of the plant of Puget Sound Power & Light Company, one of the principal operating companies in that region. A number of these districts have brought condemnation proceedings against Puget Sound with respect to local parts of the property which they wished to acquire, but the juries which heard these cases have "awarded" the company property valuations substantially in excess of those which the PUDS desired or could finance. Thus as President McLaughlin of Puget Sound has phrased it, "PUDS are duds". In general the juries have held that the local properties could only be purchased at reproduction cost less depreciation, and that the company should also be compensated for other system loss (severence damages).

There is also another facet to the public power issue in the State. In the City of Seattle the electric business is shared by the Municipal lighting plant and the Puget Sound plant. The company's franchise expires in 1952, and the Seattle Council recently indicated that it planned at that time to take over the company's plant. Obviously, the present members of the Council may no longer be in power eight years from now, so that this statement did not carry much legal weight.

More recently the Bonneville Power Administrator wrote to the directors of Puget Sound stating that the "PUDS", the City of Seattle and Bonneville are jointly interested in acquiring all the electric properties of Puget Sound, and that the Administrator would arrange for a purchase at $90,000,000. This price would be equivalent to about $10 per share on the common stock, and the announcement naturally had a disturbing effect on the market price of the stock which a short time ago sold above 13 and is currently around 12. In 1943 $2.21 a share was earned on the stock, and dividends are being paid at the indicated annual rate of $1.20, so that a price of 10 would reflect only about four-and-a-half times the earnings, and a yield of 12%—figures considerably out of line with comparable figures for other utility equity stocks.

President McLaughlin of Puget Sound in a press release has stated, "I cannot see that the Bonneville Administrator's letter constitutes a firm bid with cash available for the acquisition of the company's electric properties. On the contrary, it appears to be a mere exploration of the receptivity of the company to a firm bid when and if one can be procured at some indefinite time in the future." It also appears unlikely that the directors of Puget Sound would agree to any sale of the company's electric properties at an amount as low as $90,000,000. The company's plant is now carried on the books at about $106,000,000, which amount reflects a substantial write-down. Original cost of the property, less depreciation, is around $98,000,000 net, excluding intangibles.

The trend of public sentiment in the State of Washington is considered to be against extension of public ownership. However, the popular vote next November on so-called "Referendum No. 25," which would empower the PUDS to combine for action, will furnish a test of such sentiment.

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.

Personnel Items

(Special to The Financial Chronicle)

ATLANTA, GA. — **Richard A. Denny, H. L. Morris,** and **Homer Thompson** are with **Courts & Co.,** 11 Marietta Street.

(Special to The Financial Chronicle)

BOSTON, MASS.—**Theodore J. Vaitses** has become associated with **W. H. Bell & Co., Inc.,** 49 Federal Street. Mr. Vaitses was previously with Raymond & Co.

(Special to The Financial Chronicle)

BOSTON, MASS. — **Joseph W. Galligan** is now connected with **Carver & Co., Inc.,** 75 Federal Street. Mr. Galligan in the past was with Hunnewell & Co. and Wrenn Bros. & Co.

(Special to The Financial Chronicle)

BOSTON, MASS.—**John Burnham** is with **Laidlaw & Company,** 110 Franklin Street.

(Special to The Financial Chronicle)

BOSTON, MASS. — **Charles R. Bell** and **Joseph A. Drago** are affiliated with **Trust Funds, Inc.,** 80 Broad Street.

(Special to The Financial Chronicle)

BRIDGEPORT, CONN. — **John Bruce MacGregor Toombs** has become associated with **A. M. Kidder & Co.,** 940 Broad Street. Mr. Toombs was formerly manager of A. M. Kidder & Co.'s Meriden office. Recently he has been engaged in war work.

(Special to The Financial Chronicle)

CHICAGO, ILL.—**Emery B. Curtis** is now with **J. S. Bache & Co.,** 135 South La Salle Street. Mr. Emory has recently been with the U. S. Government. In the past he was with Milbank Corporation and Farroll Brothers.

(Special to The Financial Chronicle)

CHICAGO, ILL. — **Harold E. Lawton** has joined the staff of **H. Hentz & Co.,** 120 South La Salle Street. Mr. Lawton formerly was with Hallgarten & Co.

(Special to The Financial Chronicle)

KANSAS CITY, MO.—**John P. Cox,** previously with B. C. Christopher & Co., is now with **Prescott, Wright, Snider Company,** 916 Baltimore Avenue.

(Special to The Financial Chronicle)

ST. LOUIS, MO.—**Albert Tucker** has been added to the staff of **I. M. Simon & Co.,** 315 North Fourth Street.

(Special to The Financial Chronicle)

SEATTLE, WASH. — **Walter C. Fisher** has become associated with **Hartley Rogers & Co.,** 1411 Fourth Avenue Building.

(Special to The Financial Chronicle)

SEATTLE, WASH.—**William H. Fix** is now affiliated with **Hughbanks, Inc.,** Dexter Horton Building.

(Special to The Financial Chronicle)

SOUTH BEND, IND.—**Mildred M. Fritz** has joined the staff of **Ferron R. Davis,** 112 West Jefferson Street.

Situations Attractive

Central Illinois Electric and Gas, Philadelphia Transportation Corp. and Western Light and Telephone 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.

Fashion Park Attractive

A detailed study of Fashion Park, Inc., is contained in a special circular prepared by Simons, Linburn & Co., 25 Broad St., New York. Copies of this interesting study may be had from the firm upon request.

E. F. Hutton & Co. Has 40th Anniversary

On Saturday, April 1, Edward F. Hutton celebrated the foundation 40 years ago of the New York Stock Exchange firm which has borne his name since 1904. From the original partnership founded by Mr. Hutton and George A. Ellis, Jr. with 20 employees, E. F. Hutton & Co. has developed into one of the country's largest brokerage houses with approximately 700 employees, and with 15 branches in California and the Southwest, in addition to its New York offices and numerous correspondents both here and abroad. Mr. Hutton still retains his interest in the firm.

The firm's main office is located at 61 Broadway, New York City.

Trends In Financial Policies Of Oil Producing Cos.

Pitman and Company, Inc., Alamo National Building, San Antonio, Texas, have issued a most interesting discussion of "New Trends in Financial Policies of Oil Producing Companies." Copies of this discussion and information on the situation in General Crude Oil, which offers interesting "long pull" possibilities, the firm believes, may be had upon request from Pitman and Company.

Railroad Securities

The consistent strength in the good grade rail bond market in recent weeks, and the persistent institutional demand for this type of security to bolster portfolio yields, has brought to the fore the possibility of some important refunding operations before the year is out. The general financial background gives promise that this strength in quality issues will be sustained for an indefinite time to come and will readily support such refunding operations. With Governments assuming an ever increasing importance in institutional portfolios there is no place to turn other than to the rail list for compensating income to support the over-all yield.

One of the most logical refundings being talked of as a possibility is that of Louisville & Nashville. Influenced both by the general market strength and by improvement in its own basic position, the road's long term junior mortgage 3¾s have recently pushed above par. This represents a new all-time high—prior to this year the high since issuance in 1936 had been 98¾. With the low coupon junior bonds at a premium it is generally felt that the company should have little difficulty at this time in finally ridding itself of the other series of the same mortgage carrying interest rates of 4% to 5%.

This is particularly true inasmuch as the lien position of the mortgage could be improved materially in any comprehensive refunding. Such an operation would presumably also involve elimination of the two series of the Unified Mortgage, maturing in 1950 and 1960, with the 1st & refunding bonds then succeeding to a first lien on the roughly 2,000 miles of line covered. Unfortunately none of the other divisional liens are callable and only $9,835,000 of the $59,880,000 total matures over the near term, 1945 and 1946.

The two series of the Unified Mortgage are outstanding in the amount of about $40,000,000 and the 1st & Refunding 4s, 4½s, and 5s in the amount of about $54,000,000. Call premiums are of little moment as they represent a tax deduction and the company is in the excess profits tax brackets. With its strong finances and still favorable earnings prospects the road would presumably be able to refund all of this debt with a new issue of no more than $80,000,000. Last year the company reduced its non-equipment debt by roundly $11,000,000 and should be able to readily reduce it by $14,000,000 in 1944.

Louisville & Nashville's fixed charges have now been reduced to an annual level of around $8,400,000. Through any such refunding as outlined above it should be able to cut this at least by another $1,200,000 to $7,200,000. This would represent a reduction of some $3,400,000, or nearly one-third, from the level at the outset of the depression decade. Even on the basis of its old charges the road sustained a deficit in only one year of the depression, 1932. The prospective new charges would have been covered 1.30 times even on the basis of reported earnings in that extreme depression year. In fact, even the present fixed charges would have been covered by a nominal margin in 1932.

Without making any adjustment for taxes, the reduction in charges already effected is equivalent to $1.88 a share on the capital stock and this would be increased to $2.90 a share on a refunding such as appears entirely feasible. Moreover, any comprehensive refunding would presumably provide for the continuing future systematic reduction in funded debt. Although the Louisville & Nashville stock has advanced fairly substantially since the end of last year, the rail men still consider it attractive as an investment medium with a liberal income return (dividends of $7.00 a share have been paid in recent years and only once since the beginning of the century—1933—has the company failed to pay a dividend) and prospects for substantial price enhancement from recent levels. On a more speculative basis participation in the improvement in L. & N.'s status is being recommended through Atlantic Coast Line. For each share of its own stock outstanding Coast Line owns 0.72 shares of L. & N.

J. S. Bache Co. Opens Second Boston Office

BOSTON, MASS.—J. S. Bache & Co., members New York Stock Exchange, (announce the opening of an uptown branch office in Boston in the Park Square Building. This new office will be under the management of Thomas A. Ashley.

Carrere & Co. To Admit

James T. Whipple will become a partner in Carrere & Co., 65 Broadway, New York City, members of the New York Stock Exchange as of April 15.

Public National Attractive

Stock of the Public National Bank and Trust Company of New York offers interesting possibilities for investment, according to a memorandum issued by C. E. Unterberg & Company, 61 Broadway, New York City. Copies of this memorandum outlining the situation may be had upon request from C. E. Unterberg & Co.

Peltason, Tenenbaum Partnership Formed

ST. LOUIS, MO.—The announcement is made of the formation of a partnership, Peltason, Tenenbaum Co., Landreth Building, to conduct an investment business, and of the withdrawal from business of Peltason, Tenenbaum, Inc., as of April 1, 1944.

Formation of the partnership of Peltason, Tenenbaum Co. was previously reported in the "Chronicle" of March 23.

Nongard An Officer Of A. A. Bennett Co.

CHICAGO, ILL.—A. A. Bennett & Co., Incorporated, 105 South La Salle Street, anonunce that Conrad P. Nongard has become a member of their firm as vice-president and director. Mr. Nongard, for the past 23 years, has been associated with the Harris Trust & Savings Bank of Chicago, in an executive capacity.

Panama Bond Holders' Exchange Opportunity

Holders of Republic of Panama 35-year 5% external secured sinking fund gold bonds, series A, dated May 15, 1928, and due May 15, 1963, are being notified by Jose A. Sosa, J., Minister of Finance and Treasury of the Republic of Panama, that through filing a revised prospectus with the Securities and Exchange Commission there has been made available again to holders of the remaining undeposited bonds the opportunity to exchange these bonds for stamped 3¼% bonds due Dec. 1, 1994. Copies of the revised prospectus may be obtained from Bank of The Manhattan Company, depositary, 40 Wall Street.

Real Estate Securities

By JOHN WEST

$731,726 Sinking Fund For Garment Center Capitol Bonds

Securities Selling At Very Large Discount Despite Interest Requirement Being Earned Almost 4½ Times

One of the largest real estate bond sinking fund operations of recent years will take place on the 28th of this month by the trustee of the Garment Center Capitol General Mortgage 3% bonds issues. Money available for the purchase of bonds has been announced as amounting to $731,726.25, of which $487,720.21 has been set aside for the purchase of series A bonds and $244,006.04 for series B bonds.

The indenture of the bond issue provides that out of funds available for sinking fund, two-thirds shall be allocated for retirement of series A bonds and one-third for the series B bonds. Except as to application of sinking fund, both series of bonds are equal in all respects and neither issue is preferred over the other.

This large sinking fund will in all probabilities substantially reduce both issues, inasmuch as the bonds are currently selling at considerable discounts. This fact, together with generous coverage of interest requirement, gives the bonds a measure of attraction despite their junior lien position.

Compared to 3% fixed interest requirement on the bonds, earnings have been as follows: 1943—13.22%; 1942—10.49%; 1941—6.51%; 1940—7.57%, and 1939—9.23%. Interest increases ¼ of 1% as each $1,000,000 bonds are retired until 4% is reached, which rate then prevails until maturity July, 1951.

Outstanding bonds amount to $7,198,400 (reduced from $7,500,000) divided into $3,452,000 series A bonds and $3,846,400 series B bonds. Prior in lien to the bonds are first mortgages of $4,935,500 (reduced from $6,635,000). Details of these mortgages are included in description of properties securing the bonds, which follows:

The bonds are a direct obligation of the company and are secured by a general mortgage (subject to prior liens mentioned above) on its properties. Called the Garment Center Capitol because of their prominence and importance in New York's Garment Center, two of the properties securing the bonds are located on the southwest and northwest corners of West 37th Street and Seventh Avenue known as 492-498 Seventh Avenue and 500-506 Seventh Avenue. The south building is built on a plat 98.9 feet by 225 feet, contains 24 stories and is 257 feet high. The north building is built on a plot 74.8 feet by 275 feet, contains 27 stories and is 295 feet high. Both buildings were completed in 1921.

Prior in lien to the bonds is a first mortgage on these buildings held by the Equitable Life Assurance Society, amounting to $2,315,000 (originally $3,615,000), due quarterly March 18, etc., to June 18, 1947, at the rate of $123,000 per annum.

Additional security for the bonds is the 43-story Navarre Building adjoining the other properties on the southwest corner of West 38th Street and Seventh Avenue, 555 feet high and completed in 1930. This building is known as 508-12 Seventh Avenue and 200-210 West 38th Street and is constructed on a plot 122.10 feet by 116.9 feet. Prior in lien to the bonds on this building is a first mortgage held by the Mutual Life Insurance Company amounting to $2,120,000 (reduced from $3,020,000) at 4% interest with amortization of $100,000 per annum. This mortgage is due February, 1945.

The vastness of the properties is illustrated by the fact that the combined rentable area of the three buildings is said to be approximately 2,300,000 square feet. Total income for the year ended December, 1943, amounted to $2,446,639. First mortgages were reduced during the year by principal payments of $223,000. Interest paid on the first mortgages amounted to $216,105.69 and on the bonds issues $215,952—taxes alone amounted to $536,195.86, of which $137,536.15 had to be paid in income taxes because of large earnings. Yet, after these expenses plus all other expenses of operation including administrative salaries, there still remained a profit in the operation of the properties of $378,915.94.

Year-end balance sheet showed current assets consisting mainly of cash and Government bonds, $979,772.32, against current liabilities of $245,569.11.

The $731,726 made available for sinking fund should reduce the funded debt considerably. At the present time, including first mortgages and the bond issues, it amounts to $12,133,900, compared with the 1943-44 assessed value of $12,880,000 for the property. However, actually because of the large discount at which the bonds may be purchased, it is possible to buy into the property at a much more favorable comparison with assessed value.

An added feature is that the A bonds carry with them stock representing an equal share in approximately 34% of the ownership of the property, the B bonds approximately 39% of the ownership—the balance of the ownership is vested in a C stock belonging to the former equity owners of the property. Out of a directorship which controls the property, the A stock elects five members, the B stock three members and the C stock one member—a total board of nine members.

Prospective Rail Prices

Pflugfelder, Bampton & Rust, 61 Broadway, New York City, members of the New York Stock Exchange, have issued an interesting discussion of the prospective prices of the new railroad second mortgage income bonds. Copies of the circular containing the discussion may be had from the firm upon written request.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market gives indications of making a base—Rally with leaders in forefront now likely — Long-term outlook still poor—Short-term possibilities seem good

The reaction this column had warned against finally came to pass. True, the setback didn't go off so much in percentage. But to the average holder of stocks who became that way at the recent highs, percentages don't mean much. All he knows is that a stock he bought at say 52 is now selling at 47. Of course, five points is nothing to lose sleep about. That's a platitude you can hear almost any day. I have been stuck with five-point losses. I know they are something to worry about.

* * *

Anyway, the market's down and the cheer leaders of the late lamented advance have taken to the foxholes. The prophets of doom are now out, with warnings about how much lower prices will go before any reversal will take place.

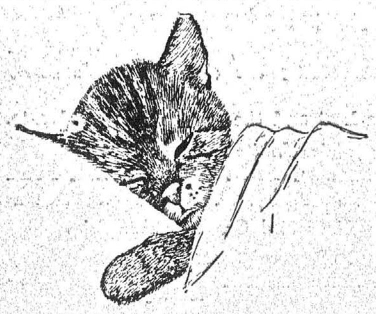
* * *

Whether the bears or the bulls are right is a matter time will disclose. So far as this column is concerned, the market is on the verge of another rally. It is even possible it may be the best one of the recent lot. Certainly, some signs I haven't seen for so long are poking their heads above ground.

* * *

Ever since the market made a low of 105 in the Summer of 1942 and rallied to across 142, its progress was conspicuous by the absence of one thing—leader strength. All kinds of stocks went up. And some of them went up rather handsomely, too, but the blue chips, the so-called leaders, the General Electrics, Motors, and others in that class, just dribbled along. As the market went up some of the lead-

(Continued on page 1420)



The Chesapeake & Ohio Railway Company

SUMMARY OF 1943 OPERATIONS

In making its contribution to the military and industrial needs of the country during 1943, Chesapeake and Ohio broke all previous records for traffic handled. Operating revenues were at an all-time high, and, despite greatly increased costs, net earnings before taxes were greater than in any previous year of our history.

In fact, the story implicit in the figures is one of new high records in nearly all phases of operation except net income. Due to higher taxes, higher wages, and higher costs of material, Chesapeake and Ohio's 1943 earnings were almost two million dollars less than in 1942. Stockholders may regard this reduction in net earnings from 33 millions to 31 millions as a further contribution to the war, because federal taxes alone increased nearly ten million dollars above the total for 1942.

WHY CHESAPEAKE & OHIO WAS PREPARED

The additional traffic arising from the necessities of the war, on a railroad already one of the most heavily used in the country, could be handled only because private management had spent years building up and perfecting the physical plant, the skilled personnel, and the operating know-how which made it possible.

A substantial portion of the road's earnings has long been withheld from the stockholders and used to build up the property or to reduce debt. This process went on year after year with no thought of war, but it resulted in the C & O being prepared when the national crisis arose.

STABILITY OF INCOME

The greatest reason for C & O's ability to reinvest these earnings over the years, and to keep its properties in such fine condition, is the stability of the railroad's income. The Chesapeake and Ohio is one of the most fortunate of the country's railroad systems in that it serves the vital and stable bituminous coal industry, whose products are in demand in good times and bad.

This traffic works in two ways to the benefit of C & O stockholders. Not only does the railroad, along its own lines, serve great coal-consuming markets from the Great Lakes to the sea, but, through its connections, it has ready access to other great centers of population and industry. These ready markets, together with the perennial demand for coal, have produced a stability of income that is one of the C & O's most striking assets.

THE FUTURE

Reconversion to peacetime activities will obviously not present the major problem to the railroads that it will to many industries engaged in the manufacture of war equipment. Although in wartime our traffic load is stepped up and our problems are complicated by many extraordinary factors, the fact remains that transportation is our product in peace as well as in war. And moving heavy bulk freight in volume is the major part of our business.

If the post-war American economy bears a recognizable resemblance to the economy in which the Chesapeake & Ohio has developed and grown strong, we believe the stockholders are amply justified in having confidence and optimism in the future of the C & O.

SOURCES AND DISPOSITION OF INCOME

	1943	*1942*	*Increase or Decrease*
Our income came from the following sources:			
Revenues from hauling coal and coke freight	$114,460,373	$108,522,792	$ 5,937,581–I
Revenues from hauling other freight	64,667,766	55,447,407	9,220,359–I
Revenues from carrying passengers	21,669,414	11,493,584	10,175,830–I
Other transportation revenues	7,714,982	6,345,979	1,369,003–I
Rent from equipment used by others, less amounts paid to others	6,059,731	4,706,015	1,353,716–I
Dividends from stocks owned	849,084	677,993	171,091–I
Other income from non-railroad operations	1,046,360	1,138,116	91,756–D
Total	$216,467,710	$188,331,886	$28,135,824–I
We disposed of our income as follows:			
Wages	$ 70,754,903	$ 60,309,216	$10,445,687–I
Materials, supplies, and fuel	22,318,293	18,941,107	3,377,186–I
Railway tax accruals, other than federal income and excess profits taxes	11,634,007	10,744,696	889,311–I
Payments to contractors, associations, other companies, and individuals for services and expenses	3,647,585	2,528,111	1,119,474–I
Rentals and expenses paid for facilities used jointly with others, less amounts received from others	4,071,803	3,376,258	695,545–I
Interest on Funded Debt	7,296,452	7,492,937	196,485–D
Other Interest	51,639	515,568	463,929–D
Depreciation, amortization, and retirements	16,390,657	12,016,901	4,373,756–I
Total	$136,165,339	$115,924,794	$20,240,545–I
Net Income before federal income and excess profits taxes	$ 80,302,371	$ 72,407,092	$ 7,895,279–I
Federal income and excess profits taxes	48,943,691	39,253,655	9,690,036–I
Net Income	$ 31,358,680	$ 33,153,437	$ 1,794,757–D
Disposition of the Net Income was as follows:			
Appropriations for Sinking and Other Reserve Funds	$ 506,548	$ 512,086	$ 5,538–D
Dividends paid on Preference Stock Series A	457,581	610,055	152,474–D
Dividends paid on Common Stock	26,800,739	26,800,739	—
Balance remaining for other corporate purposes	3,593,812	5,230,557	1,636,745–D

1943 At a Glance

	1943	*1942*	*1941*
Operating Revenues (MILLIONS OF DOLLARS)	209	182	150
Operating Expenses (MILLIONS OF DOLLARS)	115	95	80
Operating Ratio	55.2%	52.5%	53.4%
Net Operating Revenue (MILLIONS OF DOLLARS)	93	86	70
Taxes (MILLIONS OF DOLLARS)	61	50	20
Net Income (MILLIONS OF DOLLARS)	31	33	45
Dividends (MILLIONS OF DOLLARS)	27	27	27
Revenue Ton Miles (MILLIONS)	27,548	25,556	22,550
Revenue Per Ton Miles (CENTS)	.65	.64	.62
Wages (MILLIONS OF DOLLARS)	71	60	49
Earnings Per Common Share (DOLLARS)	4.04	4.25	5.79
Taxes Per Common Share (DOLLARS)	7.92	6.53	2.57
Dividends Per Common Share (DOLLARS)	3.50	3.50	3.50
Times Fixed Charges Earned	5.24	5.11	6.72

The above are summary excerpts from our current Annual Report and are published only for the information of stockholders. Any stockholder failing to receive a copy of the Report will be furnished one on request to the Secretary, Terminal Tower, Cleveland, O.

Commonwealth Of Pennsylvania Turnpike—"The Super Highway"

By RUSSELL M. ERGOOD, JR.

One of the most outstanding engineering and construction achievements performed in this country in recent years is the Commonwealth of Pennsylvania Turnpike.

The Pennsylvania Turnpike—America's pioneer tunnel super highway—stretches 160 miles through the Appalachian Mountains, linking Harrisburg, the State Capital, with the great Pittsburgh industrial area.

Russell M. Ergood

The Turnpike is a modern four-lane concrete highway, with east-west traffic separated by a 10-foot center parkway. Width of each traffic lane is 12 feet. Throughout its length the highway consists of divided dual-lane roadways of 24-foot width, that is, one 24-foot lane each for east and west traffic. In the seven tunnels the roadway section reduces to two traffic lanes. The total length of these tunnels is approximately seven miles. Every device known to engineering has been included in construction of the tunnels to insure safety, comfort, and speed. Huge fans installed in the tunnel portal buildings will constantly guarantee an adequate supply of pure air. The Turnpike is built over a minimum 200-foot right of way, graded 78 feet wide in the open. A 10-foot shoulder is on each side of the open roadway. Because no other highway is permitted to cross the Turnpike at grade, it was necessary to build 160 overpasses and underpasses to carry cross roads over or under the Turnpike. To span streams and rivers along the way, 139 bridges were required, ranging from 6-foot culverts to a 600-foot viaduct. Most of the structures are of reinforced concrete, but structural steel also was used in a number of long spans.

The maximum grade on the Turnpike is 3%; that is, three feet of rise in every 100 feet. This is remarkable when considering the mountainous terrain through which the line passes. More than two-thirds of the Turnpike mileage—110 miles—is on tangent, that is, a straight line. The maximum curvature is six degrees with a radius of 995 feet. Allowing for ample sight distance, curves are provided with superelevation and spiral easement adding to the driving comfort and convenience of the motorist.

This modern super-highway has freed motorists from the natural barriers which confronted them when they formerly had to use the Lincoln and William Penn highways. In winter, late autumn and early spring, these roads are often covered with snow and ice and the motorist must constantly face the hazards of fog, rain and snow in the mountains. The trucking industry and the thousands of motorists who have used this highway have found its resultant benefits incalculable.

The Pennsylvania Turnpike has met one of the country's greatest needs—safe and rapid motor transportation through the Appalachian Mountains.

Seventy trucking companies interviewed by the Commission's traffic engineers agreed that substantive monetary savings result from the use of the Turnpike in the following particulars:

Safe operation at higher speeds in all kinds of weather.

Reduced fuel cost.

Reduced tire cost (because of lower grades and reduced braking effort).

Reduced maintenance cost (because of lower grades and reduced curves, with resulting lessening of strain on transmission, brakes and engine).

Utilization of lower-powered trucks for the same pay load and of increased pay load for present size of unit.

Saving of time, ranging from two to six hours per trip from Harrisburg to Pittsburgh.

Reduction of accidents with corresponding saving in insurance rates.

There has been a steady growth of commercial traffic on the Turnpike. Facts and figures reveal the steady use by large trucking companies. This certainly proves the economy of operation to the commercial trucker. The Turnpike has more than fulfilled the engineers' expectations of its importance in long-haul trucking.

The "super-highway" was opened to traffic only 14 months prior to Pearl Harbor, and it did not have time to create its normal complement of traffic before war restrictions were imposed. In spite of this handicap, it has succeeded in establishing substantive cash reserves to offset the temporary reduction in revenues. It takes about $200,000 per month to service current operating and maintenance expenses and interest. Revenues over the past 12 months have averaged about $150,000. The average monthly deficit of $50,000 created by war rationing is being met from the substantial interest reserve account. This interest reserve account now amounts to about $750,000. Assuming maintenance of revenues of past year, this fund could permit service of interest requirements for 15 months, or well into the summer of 1945. In addition, the trustee holds an insurance fund of over $200,000 for meeting unusual repairs to the highway. It is possible that during any extension of the war beyond the middle of 1945 this additional fund might prove available for meeting interest requirements.

In recent months there has been a definite uptrend in the Turnpike revenues. A comparison of revenues for the last six months of operation is set forth herewith:

	1943	1942	% of Change
September	$169,640	$200,105	—15.2
October	164,316	179,770	— 8.6
November	145,542	160,840	— 9.5
December	140,936	129,216	+ 9.0
	1944	1943	
January	132,408	120,652	+ 9.7
February	129,418	117,424	+10.2

Super-highways are the next step in America's progress. Post-war express highways connecting the large cities of the United States are provided for in a plan recently laid before Congress involving estimated annual expenditure of $750,000,000 for 20 years and are expected to be patterned along the line of Pennsylvania Turnpike Super-Highway. The safety and economy attending the use of this model super-highway since its opening in 1940 and its proven peace-time earning power have confirmed it as a sound pioneer pattern and have shown the basic necessity for nationwide building of such self-sustaining modern means of moving people and goods speedily, safely and economically.

Rationing during the war period has temporarily dimmed the splendid peace-time earning record of the Turnpike; but for investors able to visualize the potentials of post-war American travel, the following comments taken from a recent report of the Joint State Government Commission (of the Pennsylvania General Assembly) lend interesting assurance—particularly in view of the fact that Pennsylvania Turnpike reverts to the State upon the retirement of its debt:

"The Turnpike bonds are not direct obligations of the Commonwealth. Nevertheless, there seems to be a moral obligation which, in case of default, could not be ignored. These bonds, however, to date have been genuinely self-liquidating, and, presumably, will be redeemed without recourse to the Commonwealth."

Pennsylvania Brevities

In Pennsylvania investment circles there is something more than a suspicion that United Gas Improvement Co. is complying with the divestment orders of the Public Utility Holding Company Act with its tongue in its cheek.

True, its two largest holdings, the stocks of Philadelphia Electric Co. and Public Service Corp. of New Jersey, have been distributed and arrangements are complete for distributing Delaware Power & Light Co. common in May.

So far as is known, U. G. I. has no immediate plans for the sale of its remaining assets, although it is likely that casual negotiations may be under way in respect to Arizona Power Corp., Nashville Gas & Heating Co. and Manchester Gas Co.

It is regarded as significant that a nucleus of sound, nearby operating gas properties is being retained. These include Allentown-Bethlehem Gas Co., Consumers Gas Co. of Reading, Luzerne County Gas & Electric Co. and Lebanon Valley Gas Co. Moreover, the parent company is possessed of substantial cash holdings and, aside from a contemplated dividend of 10 cents per share expected to be voted in June, has given no indication of its disposition.

Pendulums usually swing both ways. Retaining a stout framework on which to build anew, and with ample reserves of cash, it is not improbable that U. G. I. may elect to sit through the present period of holding company unpopularity and await the development of a more tolerant regulatory philosophy.

Employes of Philadelphia Transportation Co. don't let any grass grow on the car tracks. Coincidentally with appearance of the company's annual statement, revealing new highs in passengers carried and in gross and net revenues, Local 234, Transport Workers Union, CIO, asked a general 15-cent per hour wage increase. The "gimme" letter sent to R. T. Senter, company president, included the following nobly phrased passage: "The Transport Workers Union is persuaded that the Philadelphia Transportation Co. system can make its most effective contribution to the nation's effort if the morale and efficiency of the employes are maintained at the highest possible level." It is requested that negotiations be started on April 7.

Gross revenues for 1943 were reported as $57,067,888, an increase of $7,871,090 over 1942. Operating expense, however, increased $5,484,183, and federal and state taxes were $116,784 higher. Fixed charges were $174,358 lower. Surplus at year end was $2,523,274, a net increase of $715,062.

According to its report, the company believes "that the high-water mark in wartime riding has been reached. Riding during the last month of the past year and thus far in 1944 dropped below the levels of the corresponding period of the previous year. This decrease is largely taking place during the non-rush hour periods of the day and on Sundays."

Securities of Pittsburgh Railways Co. system remain in firm demand at new high levels while developments in a voluntary plan of procedure are expected within the near term. It is understood that a study of relative values is being undertaken by a staff appointed for that purpose by the Philadelphia Company, traction company parent. Once a schedule of bid prices for the various publicly-held securities has been determined, security holders will be asked to join in a petition to the court to dismiss the present bankruptcy proceedings without reorganization. If the petition is granted, and subject to whatever further regulatory approval may be required, security holders will probably be offered the opportunity of selling their holdings to the Philadelphia Company at

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J. Walter Thompson Elects Vice-Presidents

The following members of the staff of the J. Walter Thompson Company have been elected Vice-Presidents: Paul Berdanier, Jr. and Arthur T. Blomquist of the Art Department, and Ruth Waldo of the Editorial Department, of the New York office at 420 Lexington Avenue; Fred W. Boulton of the Art Department, Harry Mitchell, Contact, and George Reeves of the Editorial Department, of the Chicago office, 410 North Michigan Avenue.

L. O. Lemon was elected Comptroller of the company.

Taxation---Today's Burden, Tomorrow's Prospect

(Continued from page 1402)

For the current fiscal year 1943-1944, total taxes in the U. S. slightly exceed one-half of total expenditures, i. e., about 51%. This is approximately the same as the Canadian proportion of total outlay raised by taxes and compares with the slightly larger percentage, namely 54%, raised in Great Britain. Considering the earlier impact of war upon Canada and Great Britain and the longer period over which they have raised their own taxes to present levels, this constitutes a remarkable fiscal achievement on the part of the United States.

TOTAL GOVERNMENT REVENUE AND EXPENDITURE
(In billion dollars)

	1943-44			1942-43		
	Total Taxes	Total Expenditure	Ratio taxes to Expenditure	Total Taxes	Total Expenditure	Ratio taxes to Expenditure
United States	$50.7	$98.9	51.2%	$32.2	$87.9	37.8%
United Kingdom	14.0	26.2	53.5	12.5	26.3	47.5
Canada	3.1	6.0	51.4	2.7	5.1	53.2

Note—The U. S. figures include social security and all local taxes but make no allowance for increases under 1944 legislation.

Testing the magnitude of these tax totals in terms of national income, we find that U. S. taxes today constitute 34% of the national income, in the case of Canada 36%, and for Great Britain 39%.

TAXES AND NATIONAL INCOME
(In billion dollars)

	Total Central and Non-Central Government Taxes	National Income	Per Cent Total taxes of National Income
United States	$50.7	$148.0	34.3%
United Kingdom	11.6	29.5	39.3
Canada	2.7	7.5	35.6

Canada and United Kingdom calendar year 1942.
United States July 1943-June 1944.

These figures do not tell the whole story. It is necessary to consider the incidence of taxation upon certain segments of our economy and compare this with the corresponding taxes in Great Britain and Canada. In the U. S., aggregate tax payments of corporations and individuals account for 74.1% of total revenue, in the United Kingdom 54.7%, and in Canada 60%. In other words, a much larger portion of our total revenue is raised through taxation that falls upon corporate enterprise and incomes in the higher brackets.

REVENUE SOURCES—U. S., UNITED KINGDOM AND CANADA 1943-44
(In million dollars)

	U.S.	%	United Kingdom	%	Canada	%
Total income and social security	$19,503.5	39.8	$5,305.9	38.3	$983.7	31.7
Corporate income and social security payable by employers	16,797.2	34.3	2,289.9	16.4	878.7	28.3
Sales, excise and customs	6,601.1	13.5	4,074.0	29.1	878.0	28.3
Property	4.471.7	9.1	856.0	6.1	246.4	8.0
Total	$49,039.2	100.0	$13,981.8	100.0	$3,106.4	100.0

Note—The U. S. figures have not been adjusted for the estimate of the Director of the Budget, Nov. 27, 1943, under which revenues are $1.7 billion greater than here stated.

This observation is further fortified by noting the amount of revenue obtained through sales, excise and customs taxes in the three countries. In the United States 13½% of total revenue is raised from these consumer sources, in the United Kingdom 29.1%, and in Canada 28.3%. The relative concentration of the tax burden on enterprise and the well-to-do is further illustrated by examining the tax payment of an individual with a $25,000 income and another individual with a $2,500 income. Assume that the man in the lower of these two brackets gets all of his income in the form of wages and that the man in the higher bracket gets $15,000 in salary, $5,000 in dividends and $5,000 as a capital gain. In this country, the average wage earner, i. e., with an income of $2,500, pays an effective tax of 11.8%; in England he pays 23½% of his income; in Canada 16%. Compared with workers in similar income groups in Canada and England, the American worker is clearly favored in his income tax.

Consider the taxpayer in the $25,000 bracket. In this country he pays an effective tax of 39.8%, in England 38.9%, and in Canada 41.2%. This American taxpayer is not favored compared to English and Canadian taxpayers in the same brackets, contrary to popular impression.

EFFECTIVE RATES ON SELECTED INCOMES U. S., UNITED KINGDOM AND CANADA

	U. S.	United Kingdom	Canada
$2,500 income non-refundable tax	$297	$587	$401
Ratio tax to income	11.8%	23.5%	16.0%
$25,000 income non-refundable tax	$9,926	$9,758	$10,279
Ratio tax to income	39.8%	38.9%	41.2%

Note—Individual is married without dependent. $2,500 income is all salary; $25,000 income; in salary, $15,000; capital gain, $5,000; dividends $5,000.

It seems reasonably clear from these figures that in a much shorter space of time we have succeeded in this country in pushing taxation of corporations and high income individuals up to and perhaps beyond the point of maximum return to the Government. In fact, there is considerable evidence to show that in the taxation of corporations and high personal incomes we have long since passed the point of diminishing returns. It is also equally clear that the consumer and low income recipient in this country are treated far more gently by the tax gatherer than are the same groups in Canada and England. Canada and Great Britain are authentic democracies certainly no less than the United States. Subject to honest democratic processes, they have seen fit to ask the great masses of their citizens to make a more substantial contribution to war costs than we have in this country. They have been intelligently considerate of organized enterprise. They realize apparently that post-war recovery and post-war employment must rest upon business with the financial power and the incentive to take risks. It is clear that they have taken to heart much more intelligently than have we Adam Smith's solemn injunction to conserve the patrimony of the State.

The reports of over-all corporate earnings seem to indicate that American business, in spite of very high taxes, is nevertheless making more money now than it has at any time in the past. This is partly an illusion fostered by official aggregate figures of income. In many instances the Treasury has denied for tax pur-

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Pennsylvania Brevities

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prices which necessarily would have to be mutually satisfactory. The services of Drexel & Co., Philadelphia bankers, have been obtained for the purpose of representing both the security holders and the company in forthcoming negotiations. This firm performed a similar service in respect to the recent successful reorganization of the Philadelphia transportation system.

In reference to the validity of long-standing guarantees, leases, contracts and agreements, with which the Pittsburgh system is studded, considerable significance is attached to a recent full-bench decision of the Common Pleas Court in the case of Monongahela Street Railway Co. v. Philadelphia Company. Monongahela was leased to Consolidated Traction Co. in 1902, and performance under the lease was guaranteed in every particular by Philadelphia Company. Since Pittsburgh Rys. Co. entered bankruptcy in 1938, the Philadelphia Company has paid Monongahela its specified annual rental under the terms of its guarantees but has not considered itself liable for Federal, State and municipal taxes.

The Court unanimously upheld the terms of the original contract which specifically included payment of "all taxes, charges, licenses or assessments now or hereafter lawfully imposed upon Monongahela on account of its corporate existence, its franchises, property, real or personal, cars, business, earnings, bonds, capital stock, dividends or profits, it being the intention that the rental provided shall be a net rental available to the stockholders of Monongahela."

The Court decided that was pretty plain English and meant exactly what it said.

An ambitious $350,000,000 program for the expansion and development of Philadelphia as soon as labor and materials become available has been outlined by Director of Public Works John H. Neeson. Governor Martin has announced a post-war improvement plan topped by a $500,000,000 road-building program. Philadelphia's Mayor Bernard Samuel has a six-point program for the local area including port development, airport and city portals, improvements to the water and sewer system, bettering approaches to the Delaware River Bridge and general construction. An elevated super-highway to extend over Delaware Ave. a distance of five and one half miles is among the projects planned.

To the above may be added the building deficiency, both industrial and residential, which has been accumulated due to wartime restrictions.

Much of the construction and rehabilitation noted above will fall within the activities of Warner Company, producers, manufacturers and distributors of sand, gravel, limestone and limestone products and central-mix concrete in the Trenton-Philadelphia-Wilmington area. The company's most interesting outstanding issue is the 7% preferred stock, par $50, at present carrying $28 per share in accrued, unpaid dividends.

In late 1942, company paid up three years' accrued interest on its mortgage bonds and extended the maturity from 1944 to 1951. Per share earnings, applicable to the first preferred, were $48.57 in 1941 and $37.65 in 1942. Annual report for 1943 has not yet been published, but results are expected to approximate those of the preceding year. An annual sinking fund of 33⅓% of net earnings is applied to debt reduction and a further fund of 5% is employed for retirement of this preferred issue. Reduction or elimination of preferred arrearages may be expected to receive early consideration.

Edgar Scott, Montgomery, Scott & Co., was re-elected President of the Philadelphia Stock Exchange at the March meeting. Governors elected were: William K. Barclay, Jr., Stein Bros. & Boyce; Harry C. Dackerman, Dackerman & Waber; John A. Murphy, Reynolds & Co.; George E. Snyder, Jr., Geo. E. Snyder & Co.; Albert J. Williams, Boening & Co.; Harold P. Woodcock, Woodcock, McLear & Co.; Spencer D. Wright, Wright, Wood & Co., and John W. Wynn, J. W. Sparks & Co.

The annual meeting of the Jacobs Aircraft Engine Co. has been changed from the first Tuesday in April to the first Tuesday in May by action of the board of directors.

W. Wallace Kellett, President Kellett Aircraft Corp., reports the placing of a $2,000,000 V-Loan providing for a line of credit to be used for war contracts and settlement of contract termination costs. Girard Trust Co., Philadelphia National Bank, Chase National Bank and Brooklyn Trust Co. participated.

On April 1, Grant Building, Pittsburgh, paid 6½% interest on its collateral trust 2½-5s, 1957, thus clearing accumulations and bringing fixed and contingent payments up to date. Operations are expected to remain at high levels for the duration and immediate post-war years. The sinking fund, consisting of 50% of annual earnings, is a favorable market factor.

The apotheosis of purchases and sales tickets is to be found in the forms recently adopted by a certain investment firm which endeavors to conform meticulously with all the expressed and implied shalts and shalt-nots dear to the heart of the S. E. C. Each ticket, over-shadowing the current Income Tax Return in complexity, contains no less than 90 items of information to be checked or blanks to be filled in. To the casual observer it is a veritable museum piece, but a terrific head-ache to busy traders who are called upon to write up 100 or more daily.

Bank and Insurance Stocks

This Week—Bank Stocks

By E. A. VAN DEUSEN

Leading New York City banks are giving a good account of themselves under conditions imposed by World War II, just as they did during World War I. It is of interest, therefore, to review and compare banking figures for the two periods in so far as significant comparisons are possible. Obviously, it is not possible to compile figures for identically the same group of banks for both periods, because many mergers and other changes have transpired during the intervening quarter century. However, it is possible to select two groups of 15 banks for each period which are closely enough alike to render significant a comparison of their respective aggregate figures.

Ten of the 15 banks are common to both World War I and World War II, as follows:—Bankers Trust, Bank of New York, Chase National, Chemical Bank and Trust, Corn Exchange Bank Trust, First National, Guaranty Trust, Irving Trust, National City Bank and United States Trust. The five banks which existed in the World War I period, but have since changed their indentities are:—Central Union Trust, Hanover National, Mechanics and Metals, National Bank of Commerce and National Park Bank. In substitution for these in the present period, the following five banks are used:—Bank of Manhattan, Central Hanover, Manufacturers Trust, New York Trust and Public National Bank.

Table I shows important aggregate figures for the 15 banks during the five year period of World War I, 1914 to 1918, inclusive, as follows:—

TABLE I

Year—	Deposits	Capital, Surplus & Undivided Profits	*Earnings	Dividends
1914	$1,728,589,000	$325,100,000	$18,866,000	$23,010,000
1915	2,904,915,000	340,995,000	38,968,000	23,070,000
1916	2,974,013,000	382,602,000	54,106,000	27,500,000
1917	3,744,816,000	389,474,000	33,092,000	30,608,000
1918	3,925,687,000	422,304,000	54,491,000	27,405,000

*Indicated earnings after reserves and adjustments.

Table II shows comparable figures for the 15 banks for the five year period of World War II, 1939 to 1943 inclusive, as follows:—

TABLE II

Year—	Deposits	Capital, Surplus & Undivided Profits	*Net Oper. Earnings	Dividends
1939	$14,215,285,000	$1,448,214,000	$83,328,000	$65,850,000
1940	17,348,843,000	1,473,465,000	86,154,000	65,850,000
1941	17,465,365,000	1,509,864,000	90,741,000	65,250,000
1942	20,856,613,000	1,538,833,000	96,020,000	61,150,000
1943	21,818,561,000	1,643,831,000	110,954,000	61,412,000

*Exclusive of security profits.

In comparing these two tabulations, we note certain similarities, and also striking differences. Deposits in both periods expanded substantially. From 1914 to 1918 they increased by $2,197,098,000 or 127%; from 1939 to 1943 they increased by a far greater amount, viz: $7,603,276,000, but percentagewise the gain was less, being only approximately 53%. The reason for this lower percentage is that the larger dollar increase is measured against a far higher volume of deposits in 1939 than obtained in 1914, viz: $14,215,285,000 compared with $1,728,589,000.

It will be recollected that at the start of World War I the National Debt was little more than $1,000,000,000, and that consequently the banks' holdings of Government bonds were relatively small, and similarly the banks' deposits. The financing of the war was participated in by the banks by means of loans to the Government through the purchase of Government securities, which were credited to the Government's deposit account, thus swelling the banks' deposits, as indicated in the tabulation. At the end of World War I the National Debt stood around $26,000,000,000.

World War II found the National Debt and the banking figures at a far higher level than obtained at the start of the first World War. Although the Debt was reduced year by year after 1919 to approximately $15,801,500,000 by 1931, in 1939 it had expanded to over $40,000,000,000, the highest in the history of our country up to that time. Because the commercial banks of the country had been called upon to assist in the Government's "deficit financing" of the so-called "New Deal" program, they entered World War II with large holdings of Government securities and thus, Government deposits. The 15 New York City banks on Dec. 31, 1939 reported their holdings of Government bonds and notes at $4,623,278,000 and total deposits at $14,215,285,000. In five years these figures have risen to $13,381,989,000 and $21,818,561,000 respectively. It is interesting to observe that their Government holdings expanded by $8,658,711,000 and their deposits by $7,603,276,000.

With regard to capital, surplus and undivided profits, during both five year periods they show quite substantial expansion, viz: $97,204,000 or 29.9% and $195,617,000 or 13.5%, respectively. The ratio of deposits to capital funds is strikingly different, however. In 1914 the ratio was 5.3, but it increased to 9.3 by 1918 as a result of war financing. In 1939 the ratio was 9.8, slightly above the 1918 figure, but by 1943 year-end it had increased to 13.3. This increase also came about through war financing.

Earnings and dividends of the 15 banks during World War II have thus far been approximately double those reported during World War I, but in relation to aggregate book-value, (capital, surplus and undivided profits) the rate of earnings is not as favorable. For instance, in 1918 indicated earnings before reserves and adjustments amounted to $54,491,000 or 12.9% on book-value; in 1943 net operating earnings plus security profits totaled $139,721,000 or 8.6% on book-value. Of course earnings as reported today are not strictly comparable with the "indicated earnings" of World War I period. The fact remains, though, that despite the higher leverage of deposits to capital funds that exists today, lower interest rates combined with higher taxes and costs mitigate against the banks' earning as high a return on earning assets as was possible 25 years ago. In 1918 the rate on commercial paper was 6% compared with less than 1% today; interest on the Public Debt was 4%, compared with fractionally below 2% currently; and interest on high grade corporates was 5% against approximately 3% today. Offsetting these disadvantages, however, it is well to bear in mind that the Banking Act of 1933 prohibited national and member banks from paying interest on demand deposits, which was formerly done, and since the demand deposits of New York City banks constitute more than 90% of their total deposits, this prohibition serves to reduce the banks' operating costs by a very appreciable amount.

The banks appear to be entering an era of large volume earning assets, consequently, despite low niterest rates, they should be able to hold net earnings at a high level. Currently, the earning assets of these 15 banks aggregate nearly $19,000,000,000, and are at the highest level in the history of American banking.

As regards post-war prospects, it is pertinent to bear in mind that approximately 72% of the "earning assets" of these 15 banks are represented by United States Government obligations. Furthermore, in view of the probability that our tremendous National Debt will never be completely retired and that its amortization will be a slow process, it seems clear that for many years these banks will experience little diminution in the aggregate volume of their Government holdings, and that their revenue from this source will be maintained at a high level for an indefinite period.

With regard to commercial loans, which generally are the most profitable of a bank's "Earning assets," these currently comprise less than 20% of "total earning assets." It seems certain, however, that they will increase substantially during the reconversion period and thereafter, in order to meet the needs of business and industry in an expanding economy.

Thus, the outlook for bank earnings during the remaining war years and indefinitely into the post-war era, appears most favorablle. If, furthermore, we concede the the possibility of some stiffening of interest rates despite Governmental control of the market, their favorable outlook is that much more enhanced.

Wyeth & Co. Forms New Partnership

Announcement is made of the formation of a new partnership to continue under the name of Wyeth & Co. General partners in the new firm will be Frank O. Maxwell; Wallace A. Marshall; William S. Wells; Thomas H. Heller; Oliver B. Scott, and Wilbur R. Wittich (New York).

The former firm of Wyeth & Co. has been dissolved and its assets transferred to the new firm as of March 31, 1944, according to the announcement. Harry B. Wyeth, Jr., the senior partner in that firm, is retiring from active participation in the investment business to assume the Presidency of Ben-Hur Products, Inc., large distributor of coffee, tea, spices, and other products.

The new firm will retain the operating personnel of the old firm. The same offices will be maintained at the present locations in Los Angeles, (647 South Spring Street), New York, (40 Wall Street), Pasadena, San Diego, Beverly Hills, and Long Beach. Membership will be continued in the Los Angeles Stock Exchange and direct private wire service between the New York and Los Angeles offices will be continued. All of the partners of the new firm have occupied key positions with the old firm and have had many years' experience in the securities business.

Wyeth & Co. is one of the leading financial houses in Southern California and is engaged actively in the underwriting and distributing of investment securities. Frank O. Maxwell is senior partner; Wallace A. Marshall, sales-manager; and William S. Wells, manager of the Institutional Department. Wilbur R. Wittich is manager of the New York office, Thomas F. Phair, manager of the Beverly Hills office, Wilber P. Larrabee, manager of the San Diego office, and William Cahoone, manager of the Long Beach office. Roger H. Pile is manager of the Analytical and Research Department, and Charles L. Holton is auditor.

N. Y. Analysts To Hear

On Monday, April 10, the New York Society of Security Analysts, Inc. will hear Ralph S. Damon, Vice-President of American Air Lines on the "Future of Air Transport."

On April 11, Dr. Charles Hodges of New York University, will speak on "The War Behind the War."

On April 12, Robert C. Enos, President of Standard Steel Spring, will be speaker.

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

Insurance Stocks Interesting

Mackubin, Legg & Company, 22 Light Street, Baltimore, Md., members of the New York and Baltimore Stock Exchanges, have just issued their compilation of "Comparative Data on Principal Fire and Casualty Insurance Stocks." Copies of this interesting tabulation in booklet form, and memoranda on Camden Fire Insurance Association, Hanover Fire Insurance Company, Hartford Steam Boiler Inspection & Insurance Company, New Hampshire Fire Insurance Company, North River Insurance Company, Pacific Indemnity Company, United States Fire Insurance Company, and Westchester Fire Insurance Company, may be had upon request from Mackubin, Legg & Co.

Taxation---Today's Burden, Tomorrow's Prospect

(Continued from page 1411)

poses substantial reserves which private management feels must be set aside to cover the cost of wartime industrial attrition. As a result, the official figure representing total corporate income is considerably higher than a total composed of actual reports of income made by American corporations.

This reluctance to permit American enterprise to realize reasonable profits at a time when plants are working at capacity is disturbing and may prove tragic. The profits which American corporations make are jack pot profits. They are high in periods of prosperity and low or non-existent in periods of depression. We know that in the years 1932, 1933 and 1934 American business in the aggregate showed a deficit. Nevertheless, it did continue to give employment to a mass of workers who were able to draw wages even though their employers in the aggregate were losing money. In order to survive the losses of hard times, business must be permitted to accumulate proper reserves and a surplus of earnings in periods of high activity. The government which denies this safeguard is unwittingly or by design writing the ultimate death warrant of its corporate entities.

The companies that are today engaged in war work are expending their corporate energy, the energy of their personnel and the life of their equipment in helping this country win a war. It is proper that their earnings should be kept within bounds. Nevertheless, a certain tolerance should be exercised by our tax authorities to permit these companies to earn a fair return today and accumulate reserves and earnings for the drastic transition from a war to a peace economy in the period beyond.

Such tolerance or indulgence, if you wish, might well become a sound statesmanlike investment on the part of the Government in post-war prosperity. Such considered wisdom, however, has apparently been lacking and there have been times when it seemed that our officials charged with tax policy have been more concerned in keeping profits down than in sustaining our economy and making it possible for private business to continue after the war is over.

I am happy to say that a change appears to be taking place in Washington. This is reflected dramatically in the refusal of the House and Senate to accept the Presidential veto of the last tax measure. The summary insistence on passage over the veto indicates a growing conviction on the part of responsible legislators that corporate enterprise in this country must be treated with a little more consideration than it has received in the last 10 or 12 years.

This favorable trend in tax thinking is also evident among those who have been counted as influential advisors to the Government. I have in mind recent statements of Professor Alvin H. Hansen of Harvard regarding appropriate post-war budgets. Prof. Hansen is regarded as a liberal in taxation, a word which to businessmen has acquired unfortunate connotations in recent years. It might, therefore, be expected that anything that Prof. Hansen might say on the subject of post-war budgets would incline toward the left. Prof. Hansen does not make the mistake of assuming that a budget could be considered and accepted today which might apply under any circumstances after the war. He has evolved four tentative post-war budgets to apply under varying circumstances. In the absence of an extreme boom or depression, he is thinking in terms of a 20 billion dollar Federal budget, a figure which excludes Social Security taxes and payments. He proposes to raise $5 billion of this total through liquor, tobacco and customs taxation. Of the remaining $15 billion, he would place $10 billion upon individuals and $5 billion upon corporations. He considers it much more important to maintain the operating and investment capacity of organized business than to preserve the incomes, particularly the higher incomes, of individuals. He believes that the disposition of wealthy people to make their income available as venture capital has been exaggerated. The excess profits tax, he urges, should be eliminated the moment war is over. A tax on capital gains has no place, in his opinion, in a sound budget. Compared to our present tax structure and the type of taxation that might be expected in the future from this administration, the proposals of Professor Hansen are reassuring. Needless to say, if he sells our responsible political leaders on the soundness of his budget proposals, it will constitute a bright prospect for American business.

I have cited at some length the views of the Harvard professor because it indicates the degree to which sane thinking in fiscal matters is asserting itself in this country.

Nat'l Bank Of Tulsa Stock Marketed

Public offering of 125,000 shares of common stock of National Bank of Tulsa, Okla., was made on April 5 in this and other principal market centers by a group headed by Merrill Lynch, Pierce, Fenner & Beane, which firm has been most active in encouraging the nationwide distribution of stocks of banks. The Tulsa bank's shares are being sold by Oklahoma Oil Management Corp., a subsidiary of Sinclair Oil Corp. The shares do not constitute the total holdings of Oklahoma Oil Management Corp., which will continue to be a substantial holder of the common stock of the bank. The announcement also says:

The banking group offered the stock to the public at a price of $21 per share, with a concession of $1 to dealers. In an announcement prior to the offering, Merrill, Lynch, Pierce, Fenner & Beane, said:

"As a preliminary to this sale of its stock to the nation's investors, the directors of the bank plan to retire the $600,000 of preferred stock remaining outstanding; to declare a dividend of 11 1/9% payable in common stock to its common stockholders, and to establish a $1 per share annual cash dividend rate on the 300,000 shares of common stock to be outstanding after payment of the stock dividend.

"The success of the proposed offering should contribute to the further development of a national market for good bank stocks, according to Merrill Lynch, who last year made stock offerings of the First National Bank of Portland and the U. S. National Bank of Portland, Oregon.

"With the growth taking place in Tulsa's population and a substantial industrial expansion being experienced by the city, total resources of the National Bank of Tulsa rose from about $40,000,000 at the end of 1933 to approximately $71,000,000 at the end of 1940. Growth since 1940 has been accelerated with the most recently published total resources more than 50% higher than at the end of 1940. At the end of 1943 resources were $109,508,244 and deposits were $100,687,222. Net profits in 1943 were $595,000 compared with $484,000 in 1942, equal to $2.04 per share and $1.67 per share, respectively, on the 300,000 shares to be outstanding. As at Dec. 31, 1942, surplus was $2,700,000 and undivided profits $2,572,214.

A. V. McCall Partner Of New York Law Firm

Ambrose V. McCall, formerly Assistant Attorney General in charge of the New York State Stock Fraud Bureau, has become a partner in the law firm of Garey, Desvernine & Garey, 63 Wall St., New York City, it was announced on April 1 in the New York "Herald Tribune" of April 2, which also had the following to say:

"Mr. McCall served with the Bureau from March, 1931 to Dec. 31, 1942. While in that office he conducted many important investigations, including the investigation of the New York Curb Exchange, the Atlas Tack investigation on the New York Stock Exchange and the McKesson & Robbins case, which resulted in the identification of F. Donald Coster as Philip Musica.

"He also initiated and conducted the investigation of Richard Whitney & Co., resulting in the conviction of Richard Whitney."

Mutual Funds

"These Things Seemed Important"

A friendly and appropriate title indeed is the above heading which **Selected Investments Co.**, sponsor of **Selected American Shares**, has adopted for its new weekly four-page "Digest" of economic developments. Judging by the first issue of this new publication, it is going to win a lot of friends among investment dealers and their clients who like to get important economic and financial developments in short, readable, "digest" form.

Here are just two significant items from Vol. 1, No. 1:

"Cheap Labor"

"At a time when both the AFL and CIO are trying to break the 'Little Steel' wage ceiling formula it is natural to ask again how American business can hope to compete with low-priced foreign labor.

"One good answer is provided by Pacific Gas & Electric Co. in its annual report. PG & E says: 'Expressed in terms of energy, a kilowatt-hour of electricity is equivalent to 10 man-hours of labor.' The company charged its commercial and industrial customers less than 1¢ per kilowatt-hour, and its agricultural power customers an average of 1⅓¢ last year.

"On that basis, a kilowatt man-day of 12 hours would cost only 1⅕¢ to 1⅗¢. Not even coolie labor could compete with such costs. With cheap power and efficient plants, American industry can still pay high wages for skilled labor and compete effectively in international markets."

"Individual Savings"

"The U. S. Department of Commerce's preliminary estimate of the 1943 savings by individuals, as indicated in the above chart, was $33,600,000,000. The Securities and Exchange Commission, by a different method of computation, arrives at an estimate of $37,700,000,000. Whichever figure one prefers, it far exceeds anything that has happened in the past, and seems apt to be duplicated this year, if the war continues.

"These huge savings are going into bank deposits, Government bonds, money, reduction of private debt, etc. They represent a great backlog of post-war buying power which will be available for the purchase of autos, homes, farm equipment, household equipment and other things for which production is now restricted or completely eliminated."

* * *

Keystone Corp. reports that combined assets of the 10 **Keystone Custodian Funds** have reached a new high of more than $78,500,000, an increase of 45% from the total of approximately $54,000,000 reported a year ago at this time.

Total net assets of Keystone series "K1" amounted to $8,832,297 on Feb. 29, 1944, compared with $6,757,216 six months earlier.

A recent issue of **Keystone** champions "A Single Tax for Corporate Earnings." The bulletin points out that in former years, when corporate and individual tax rates were low, the present system of taxing the corporation on its earnings and then taking those earnings again when they are received as dividends by the investor did not work too serious a hardship.

Under former tax rates this unsound practice of double taxation took less than one-fifth of the earnings. On an $18,000-a-year income from corporate dividends today, with a corporate tax rate that may well be 80% and an individual rate of 52%, the double taxation takes more than nine-tenths of the earnings.

* * *

"I'll Buy the Same Stocks Myself" is **not** a wise procedure for the investor who follows the published portfolio changes of investment companies. **Hugh W. Long & Co.** makes this point in the current issue of the **New York Letter.** Comments the Letter:

"The changes shown in these lists have usually been made several weeks or even several months before publication. They may represent anticipation of business developments or price movements which have taken place in the interim. And, finally, they must be considered not as individual transactions but in relation to the portfolios of which they are a part.

"An investment company may sell an oil stock, not because it dislikes that stock, but simply to reduce slightly its overall oil holdings. Oil stocks may still represent one of its largest investments. An investor who sold his only oil security, thinking he was following the judgment of the investment company, would have miscalculated badly."

The Letter also presents the dividend and price record of **Fundamental Investors** in both tabular and chart form. A $10,000 investment in this fund at its inception on Jan. 2, 1933, would have shown a total result on March 1, 1944, of $25,354.50, including dividends paid during the period.

* * *

National Securities & Research Corp. has mailed to affiliated dealers a sample "Supervisory Sheet" of the type developed by the Economics and Investment Department for the purpose of maintaining vigilant portfolio supervision of the various funds sponsored by that organization. This Supervisory Sheet is noteworthy for the many visual tests and checks which it affords on the security in question.

Another interesting mailing to come from National Securities & Research Corp. this week is a suggested letter for dealers to use (with the prospectus) in offering **National Preferred Stock Series** through the mails. This letter is recommended by the sponsor in either a "long" (two-page) or "short" (one-page) form. Even the one-page letter is considerably longer than is usually considered suitable for direct mail work. However, there is nothing cut-and-dried in the use of such material and perhaps the very length and conservative tone of this letter will add to its effectiveness.

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March 15, 1944, marked the 12th anniversary of **Boston Fund.** At the present time the assets of the fund amount to over $12,000,000 represented by some 708,000 shares outstanding in the hands of over 4,400 shareholders.

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The recently publicized investment known as "Dollar Averaging" is applied to **Affiliated Fund** in the current issue of **Lord, Abbett's Abstracts.** Starting with a

(Continued on page 1418)

Bill Proposes Alberta Provincial Bank

A bill for the formation of the Alberta Provincial Bank was introduced in the Alberta Legislature on March 20, it was indicated in Canadian Press advices from Edmonton appearing in the Toronto "Globe and Mail," which also stated:

"The bill provides for members of the Executive Council to become shareholders in the Alberta Provincial Bank, to the extent of $500,000, and to act as directors of the bank, exercising all powers and functions of directors, as required by the Bank Act.

"The bill also repeals the present Banking Powers Act, which was the basis of the Province's first application for a bank charter in 1940. A committee of the House of Commons at that time declared the bill 'unconstitutional.'"

Canadian Securities

By BRUCE WILLIAMS

The latest official figures relating to Canada's external trade emphasize once more the Dominion's growing status as a world creditor nation. During the first two months of this year, the value of this trade, exclusive of non-monetary gold, was $739,996,000 compared with $589,725,000 for the corresponding period in 1943.

For February alone the favorable balance was $90,897,000 as contrasted with $55,053,000 in February, 1943. It is interesting to note that Canada's present international trade volume is roughly equivalent to our own total for the immediate pre-war years.

One aspect of the Dominion's creditor position has given rise to a certain amount of controversy both here and in Canada. That is, the large proportion of the total that is represented by blocked sterling. Broadly speaking, any Canadian perturbation on this account can easily be dismissed. These currently frozen assets are part of Canada's favorable balance and can very well be converted into profitable sterling investments permitting further repatriation of Dominion debt to Britain, which has already been carried out to a considerable degree.

In answer to a recent thoughtless accusation that Canada is endeavoring to seek means of converting her frozen sterling into U. S. dollars and thereby to release such assets at the expense of this country, it can be stated that such an operation would be to our ultimate benefit.

Instead of Canada utilizing her favorable balance of trade in investment in Britain or by the purchase of British goods, if such surplus were converted into U. S. dollars, it would be immediately available for the purchase of goods in this country and would solve to some degree the vital post-war problem of finding markets for our war-expanded industrial production.

This leads us to a further thorny problem that should be tackled without further delay—the question of currency stabilization. The global schemes continue to meet with apathy almost everywhere and criticism from many quarters. The banking and commercial community throughout the world do not want to learn their business all over again in studying the mysteries of the bancor and the unitas. They understand and have faith in the long established currency media of gold, the dollar, and sterling, on which basis world commerce has effectively worked and prospered. The other currencies have always revolved around these orbits and can do so again.

Therefore, it is clear that if we wish to enter the post-war period fully prepared to reestablish and expand international trade, the only practical approach to the problem is the preliminary stabilization of the dollar and sterling on the basis of gold.

As frequently suggested the apparently insuperable problem of arriving at a working parity of the pound in relationship to the U. S. dollar can be solved by first restoring the Canadian dollar to parity with the U. S. dollar and then raising the value of the pound also 10%, thus establishing automatically the rate of the pound in terms of U. S. dollars. In conjunction with a loan to Britain on a proper commercial basis which would release world-wide blocked sterling and permit the purchase of U. S. goods, the adoption of this plan would give inter-

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A Post-War Tax Program

(Continued from First Page)

being of our population and raise the productivity of the nation as a whole.

The first thing that needs, therefore, to be said about a post-war Federal budget is that it should be a flexible one. One cannot talk intelligently, I feel, about the magnitude of post-war public expenditures or the volume of taxes that needs to be raised, without regard to the business cycle or without regard to the then prevailing level of private capital outlays.

In a forthcoming book on *State and Local Finance in the National Economy* (W. W. Norton and Company, New York), I have set forth four models of a post-war Federal budget varying according to different phases of the business cycle. At the one extreme, it is assumed that a strong private investment boom is under way, with inflationary tendencies. Under these conditions Federal taxes should exceed expenditures; my model for this situation provides a substantial budget surplus. At the other extreme, that of serious depression, useful and productive public expenditures, not wholly covered by taxes, should be made; in my proposed budget under these conditions a substantial Treasury deficit is assumed. Intermediate are two models, one of which provides for a balanced budget and the other a moderate deficit.

In this article I shall consider only these intermediate budgets since they are probably more useful for the purpose of introducing discussion about a post-war tax program. I assume in these two intermediate models a Federal budget (exclusive of the social security program) ranging from 19 to 21 billion dollars—roughly around 20 billion dollars. I was interested to note that my budget is very closely similar to that tentatively proposed by Senator Taft, as revealed in the columns of "The Commercial and Financial Chronicle" of March 9. He proposes a Federal budget of 18 billion dollars, social security excluded. His item for military expenditures is 5 billion dollars, while mine is 6 billion dollars. Possibly 5 billion dollars is sufficient for this purpose, in which case his budget and mine come still closer together. We both suggest 6 billion dollars for interest on the public debt, 2 billion dollars for veterans, and are not so very far apart on the other expenditures which include Government administration, public improvements and public works, social services (other than social security proper), and grants-in-aid to the localities. In point of fact, the main explanation for the difference between our budgets is that I suggest substantial Federal aid to the localities for urban redevelopment and for raising the level of public school education. The war once again has disclosed in an impressive way the educational deficiency of millions of our citizens. It is intolerable that so many American citizens should be functional illiterates. This is a national problem. Some States and localities do not have the fiscal capacity to provide the required necessary standard of education. Their outlays for education are intolerably low, yet it is a fact that they tax their people, in proportion to income, more heavily in support of education than do the richer States. They have not the financial means to provide the educational opportunities to which every American citizen is entitled.

But the subject matter of this article is taxes not expenditures. As I said above, in one of my intermediate models the budget (19 billion dollars) is assumed to be balanced, and in the other (21 billion dollars) there is a deficit of 3 billion dollars. In accordance with these models, the post-war tax structure should yield 18 to 19 billion dollars. How shall we raise this money?

Let me say that I am not discussing taxes in the transition period. It may well be that in the interim transition period, wartime taxes should in large part be retained. I am here addressing myself to more normal peace conditions.

It should first emphatically be said that we must have a drastic reduction in taxes from the wartime level. Excess profits taxes should be completely repealed and other tax rates should be reduced.

Omitting the payroll taxes (social security), which are here excluded, Federal taxes may broadly be classified in three categories: (1) Direct personal taxes (income, estate, and gift taxes); (2) Corporate income taxes, and (3) Excises and miscellaneous revenues.

The first problem relates to the relative merits of excises (selective sales taxes) on the one side, and income (corporate and individual) taxes on the other. There is, I think, growing agreement that consumption taxes are bad for business since they curtail the volume of mass purchasing power. On these grounds, general sales taxes ought to be excluded altogether under peace-time conditions. The same holds for the whole mess of selective excises, on all manner of products, which are currently on the statute books. These have decided merit in wartime, but should be completely eliminated in peace-time. How far we should go in reducing the excise taxes on alcoholic beverages, tobacco, and gasoline is a matter that will require much further study and should in part be determined by future developments. I would suggest, however, that we begin with a retention of these taxes, though with rates substantially lower than the wartime rates. Gasoline taxes ought, I think, to be entirely reserved for the States. There would remain for Federal taxation alcoholic beverages and tobacco. At substantially lower rates than the present, 2 billion dollars may be raised from these sources. Another billion can be raised from customs duties and miscellaneous revenues combined. We account thus far, then, for 3 billion dollars of the 18 or 19 billion dollars desired.

Under this proposal then, 15 to 16 billion dollars would need to be raised from income taxes (personal and corporate) and from estate and gift taxes.

Should relatively greater reliance be placed on personal income taxes or on corporate income taxes? My answer is to go relatively light on business and corporate taxation and to rely mainly upon personal income taxation. It is my view that such a tax structure will be less restrictive on private investment and business expansion than one which weighs heavily on business and corporate income.

It cannot be denied that both corporate income taxes and the personal income tax (with graduated surtax rates) tend to restrict investment in new ventures. This unfavorable effect upon risk taking can, however, be very materially ameliorated by the provision for loss carry-back for two years and loss carry-forward for five years. I would urge generous loss offset provisions in order to minimize to the utmost extent the unfavorable effect of high tax rates upon risk taking and new investment. This argument applies to taxes both on corporate and personal incomes.

I would suggest that the current double taxation of dividends be eliminated. The plan which I suggest is an adaptation of the British method. The British method has sometimes been described as a tax exclusively on stockholders with no tax on the corporation at all. So described it means that all stockholders pay the standard rate on the earnings retained by the corporation, regardless of their income status, while they pay according to their income status (taking account of exemptions and the surtax rates) on that part of the corporate income distributed in dividends. In point of fact, the standard rate (applied to the entire corporate income) is deducted at the source and paid over by the corporation to the national Treasury. The individual stockholder is credited with the deduction at the source on the distributed part. If he is a low income person, he may, owing to exemptions, be entitled to a refund. If he is a high income person, he will have additional taxes to pay on the distributed dividends, according to the surtax rate.

Now the British system may equally well be described as a corporate tax, at the standard rate, on the undistributed earnings and an individual income tax on the distributed part of the corporate income. The deduction at the source is, of course, only an administrative feature and has nothing to do with the final distribution of the tax burden.

In England, the standard individual income tax rate (which applies to all taxable income in excess of the first £165) is very high —50%; with us it is low, the "basic" tax (which applies to all taxable individual income) being only 19%—6% so-called normal, and 13% for the first bracket applicable to all taxpayers. In view of our low "basic" rate, it is not possible to apply the "basic" tax to that part of the corporate income which is retained. To do so would give a grossly unfair advantage to corporations as compared with partnerships. I would suggest, therefore, (Plan A) a rate of 45% on the retained part of corporate income with no corporate tax whatever on the distributed part, the individual stockholder alone being taxed on this portion. As a convenient method of collection there could be deducted at the source the corporate tax on the retained earnings plus the "basic" individual rate on the distributed earnings, such deduction, however, being credited to the individual stockholder. Small corporations might be accorded a somewhat more favorable treatment.

Plan A (eliminating double taxation) would in fact prove to be a lighter tax on corporations in general than a 30% corporate tax

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Price Control During The Reconversion Period

(Continued from first page)

the last war, consumer goods prices would tend to soar, hurting all groups of consumers. Following the first World War, the wholesale commodity price level rose by 90 points!

Producers similarly want protection against a runaway rise in prices. This would raise their raw material costs. It would also lead to new demands for sharp wage increases that trade unions will endeavor to make permanent, regardless of the later course of commodity prices subsequent to the reconversion period.

But any continuation of price controls beyond the end of the war should be conditioned upon three basic principles. These are:

(1) Such controls should be continued only so long as absolutely necessary, i.e., only so long as the demand for consumer goods continues to outrun available supplies because of wartime influences. Donald M. Nelson, in a letter to Senator Maloney of Connecticut, said:

"If, with return of peace, we were to start out with the policy of planning our peace-time economy in detail, as we would have to do in order to prevent competition, we would do irreparable injury to the free enterprise system in the United States."

The spirit of this statement should guide price control in the post-war period. Arthur D. Whiteside, until recently head of the Office of Civilian Supply, proposed that a commission of business men decide which products would require price control, and which should be left free of control, **during a three-year period after the end of the war.** This would be one way to apply the principle so ably expounded by Mr. Nelson.

(2) Price control in the reconversion period should not be made the excuse for applying social reform theories.

One of the chief causes of friction between the Office of Price Administration and the people of the United States has been the persistent effort of one group within OPA to use wartime price control, a necessary measure, for ulterior purposes. For example, at one time the brain trust in OPA decided that price ceilings provided a means of ending the use of nationally-advertised brands and substituting for them standardized products that would be sold on the basis of Government grades. Now left-wing consumer groups had been agitating for Government-grade labeling for some time, as is their privilege, and we will doubtless hear more about this after the war. But it is not cricket to use a wartime emergency to foist upon people a "reform" that is highly controversial at best. That is how national Prohibition was imposed upon the people of the United States during the last war. They did not like the idea, and expressed their dislike at the polls later in no uncertain terms.

Unfortunately, the brain trust in OPA, and in the parent Office of Economic Stabilization, is not yet ready to abandon its quest for social reform under the guise of price control. Any fond belief to the contrary that people may have entertained was rudely shaken, when Judge F. M. Vinson, Director of the Office of Economic Stabilization, issued his amazing directive of Nov. 16, 1943. In that directive Director Vinson instructed OPA to allow a maximum profit of only 2%, **before taxes**, in readjusting prices of consumer goods. For example, when washing-machine manufacturers are allowed to resume production on a considerable scale, selling prices will have to be readjusted to reflect the higher labor and other costs that prevail today, as compared with the date when production was halted. The Vinson directive provides that a maximum profit of 2% **before taxes** can be allowed: If earnings **before taxes** on all the business of the manufacturer is double the 1936-39 level, **no profit at all may be allowed.**

Now such an extremely drastic profit-control policy is wholly inconsistent with our economic policy. The contract renegotiation officials of the Army and Navy allow profits which in some cases have exceeded 20%. Wage earners, farmers, and other groups in our civilian economy are in no case subject to a counterpart of this 2% rule. It can only be described as a social reform bearing no relation to any phase of our war policies except the antagonism of the actual author to the profit principles. He refuses to recognize that if maximum profits are going to be 2% **before taxes**, many manufacturers simply will not, because they cannot, make the investment and assume the risks connected with reconversion, that unemployment will result, and that agitation for large-scale public works and Government operation of private industry will be fostered.

(3) Price control in the reconversion period must not interfere with needed production.

In the long run, the surest antidote for the danger of inflation is more production. Once industries turning out consumer goods again produce at capacity, prices will take care of themselves, for supply will then surely catch up with demand. That happened during the boom of the '20s, and it will happen again during the period of prosperity we hope to enjoy after the war.

Through Government price controls, we seek to keep prices of raw materials, supplies, equipment and labor on an even keel, and so avoid an inevitable rise in prices for finished goods. Unfortunately, price controls have not operated perfectly, and they never will. Some costs have gone up, and where they have, it is necessary to readjust selling prices of finished products upward if we want to maintain production. This has been necessary in many instances during the war, but it will probably be far more necessary after the war, when the most rapid possible expansion of production is desired to end shortages and permit a return to free markets.

No discussion of price control in the reconversion period would be complete without reference to the Truman Committee findings. This Committee, in its annual report on its investigation of the national defense program, demanded a return to unrestricted civilian production as rapidly as possible and consistent with the war effort. Its members would leave it to manufacturers to determine for themselves what they are entitled to make after checking with the appropriate Government agencies as to manpower and materials available for the manufacture of civilian articles. The Truman Committee report recognizes the need for Government control over reconversion in complicated cases such as automobiles, washing machines and other products which require ball-bearings, electric motors and such items now on the critical list. But the Committee urges that industry be given its freedom as rapidly as possible. "Bureaucratic judgment" is opposed on the ground that if the war should have a long duration, there is danger of these directives becoming self-perpetuating. The report states that if this should occur "we would indeed have won the war and lost the peace."

This healthy and sane report would permit a manufacturer to make any article he desired to make and thinks he has the facilities to make, providing:

"(1) Basic commodities such as steel and aluminum that are required for manufacture are available in the shapes and forms required by him, and are not required for the manufacture of war or essential civilian items.

"(2) The proposed manufacturing operations are not undertaken in any area which the War Manpower Commission has classified as having an acute manpower shortage.

"(3) The manufacturer has not been offered a contract or subcontract for a war item, or notified by a war procurement agency that a contract probably will be offered him in the immediate future."

The production of essential civilian durable goods does not call for profit regulation such as is imposed in the Vinson directives. The Truman Committee's proposed policies would bring out the maximum production by manufacturers prepared to undertake production of essential civilian goods.

Overwhelmingly, the American people wish to return to free competitive enterprise with both production and price-making on a free and competitive basis. Can this be done best by such regimented quota production as the Vinson directives prescribe while the war continues or by adopting such free competitive production policies as advised by the Truman Committee? The Vinson policies will require regulation, policing and strict Government control. The Truman policies gradually will lift Government control and reintroduce freedom and individual ingenuity. The Truman policies seem best on every count.

The Baruch-Hancock report on War and Post-War Adjustment Policies may well prove the most significant of the blueprints prepared to guide the nation in the difficult reconversion period that lies ahead. This report laid down a fundamental recommendation that is wholly consistent with the three principles outlined above.

This recommendation is that: "Basic wartime controls must be retained as long as necessary, but all controls and the war agencies administering these controls should be liquidated when no longer necessary."

The Baruch report also warns that "where materials are in excess of military needs, civilian uses should be expanded. . . . This will release resources for a new balance of the program at a higher level. **Always the program must be kept in balance."**

Such a balanced program can be achieved only if price control is conducted so as not to discourage or stifle output of any essential consumer goods. Application of the Vinson directive in such a way as to make it impracticable for manufacturers of various consumer goods to resume production during the period that price controls are in effect would artifically distort the whole pattern of production during the transition era.

The policies and spirit of the Truman and Baruch reports light a clear path through the present darkness of uncertainty, which, if followed, will lead to the objective most desired by the majority of our people—an early return to free competitive enterprise. Following any other path may prove disastrous.

Canadian Securities

(Continued from page 1414)

national commerce a flying start in the post-war era.

With regard to current financial events, the terms of the Sixth Victory Loan have just been issued. The minimum objective is $1,200,000,000 to be raised by the issue of 1¾% bond maturing May 1, 1947, and a 3% bond of June 1, 1960/57. The market during the past week was naturally under the influence of the impending new loan and activity was again at a minimum. Price movements were negligible. Direct Dominions were steady to firm but Nationals eased a trifle; provincials were quiet and largely unchanged although there was still a quiet demand for the short-term issues. There was a small turnover in the internal issues and the Canadian dollar in the "free" market remained motionless at 10 9/16% discount.

In looking forward to future developments, it has still to be borne in mind that the market should remain quiet while dealer attention is mostly occupied with Victory Loan activities.

The anticipated levelling off of prices generally after the rise of the beginning of the year has materialized but the price structure has not been affected to any notable extent. In a few weeks there will be a public issue of short New Brunswicks. The customary stimulus of a new issue, especially as these bonds will be suitable for commercial banks (a section of the market which has recently been showing a renewed interest in Canadian issues), could very well lead to a resumption of the interrupted market rise.

Interesting Situation

J. Roy Prosser & Co., 52 William Street, New York City, has prepared a circular on Shepard Niles Crane & Hoist Corporation, which the firm believes offers attractive possibilities. Copies of the circular may be had upon request from J. Roy Prosser & Co.

A Post-War Tax Program

(Continued from page 1415)

(Plan B) of the type we have been familiar with. Assuming—the statistical and analytical basis for this figure I cannot here explain—net corporate profits, prior to taxes, of 15 billion dollars after the war, Plan A (eliminating double taxation) could be expected to yield 4 billion dollars of corporate taxes, while Plan B (30% of all corporate income) would yield 4.5 billion dollars corporate income taxes.

Personal income taxes, designed to raise 10 billion dollars, would permit a very substantial reduction from the present tax rates. The effective rate on a $5,000 income in my schedule would be virtually cut in two from the current war-time rates. I would suggest raising exemptions to $800 for a single person and $1,600 for a married person, and a "basic" rate of 14% (including the present 6% normal tax with a first surtax rate of 8%). I assume postwar income payments to individuals at around 130 billion dollars. The net income of individuals after Federal taxes would, therefore, be 120 billion dollars or very substantially higher than in any former peace-time year. I believe gift and estate taxes might well be made to yield one billion dollars.

To sum up, then, personal direct taxes (income, death, and gift) would yield 11 billion dollars, corporation net income taxes 4 to 4.5 billion dollars, and excises and miscellaneous revenues 3 billion dollars. The main features of the program include:

1. Generous loss offsets carried back and forward in order to induce risk taking and new investment;

2. Major reliance on individual income tax;

3. Complete elimination of excess profits tax;

4. A sharp reduction in corporate income taxes along one of two lines, whichever is preferred:

a. Elimination of double taxation with a 45% tax on the retained earnings and no corporate tax on the distributed earnings, *or*

b. The type of corporate income tax with which we are familiar, with a 30% tax on the whole corporate income.

5. Elimination of all Federal excises except alcoholic beverages, tobacco, and customs duties.

What about State and local taxes? These I am compelled to discuss very briefly. I would suggest that State taxes be simplified along the following lines: Complete elimination of the chaotic mess of business taxes now common among the States. State taxes would then consist of the individual income tax, corporate income tax, inheritance tax, excises on alcoholic beverages, tobacco, gasoline and motor vehicles, and miscellaneous revenues. The States would need to raise in my proposed model about 4 billion dollars. This could be distributed as follows:

	Billions
Individual income tax	$0.5
Corporate income tax	0.6
Death duties	0.3
Alcoholic beverages	0.4
Tobacco	0.3
Gasoline	0.9
Motor vehicles	0.4
Miscellaneous revenue	0.5
	$3.9

The localities in my schedule would need to raise a little over 5 billion dollars. This might consist of the following:

	Billions
Property taxes	$4.1
Gasoline	0.4
Motor vehicles	0.2
Miscellaneous revenue	0.6
	$5.3

The gasoline and motor vehicle taxes referred to above would be collected by the States and shared with the local communities in the manner indicated in the State and local schedules as given.

Some intergovernmental transfers would, of course, be necessary. These I cannot go into in detail.

This, then, broadly is, it seems to me, the program that we ought to work toward. The reform of State taxation cannot quickly or easily be achieved. The whole problem of a properly integrated tax structure, Federal, State, and local, is tremendously complicated and the study of it should be undertaken at an early date by a competent and broadly representative national tax commission.

The tax program which I have suggested, it will at once be recognized, is very different from that proposed by Professor Lutz in his article in the "Commercial and Financial Chronicle" of Feb. 10, 1944. For Federal revenues he relies heavily upon consumption taxes which I regard as undesirable. He, moreover, suggests the elimination of a graduated Federal income tax and proposes instead a flat 5% rate on all individual incomes, collected at the source without exemption. The latter proposal runs counter to the well-nigh universal judgment of students of public finance over the last 30 or 40 years. It is, moreover, a proposal that I think would not be advanced by any responsible statesman in either of our major political parties nor would it be proposed in the platforms of either of our major parties. It violates the principles of equity and ability to pay. Moreover, it overlooks (what seems to me to be axiomatic) that personal income derived from great national corporations enjoying a *national* market should make its fair contribution to the support of national functions and national services. Professor Lutz does reserve the progressive income tax for States. However, since the more well-to-do reside mainly in a few States, though deriving their income from national corporations enjoying a national market, the net effect would be that progressive taxation could be used to support governmental functions only at the State level and not the governmental functions of the nation as a whole from which, in fact, their incomes are derived. This, it seems to me, is clearly inequitable and could be calculated to arouse violent opposition and regional conflict.

Professor Lutz has one element of flexibility in his program. He wishes to adjust from year to year his proportional Federal tax on individual incomes. On the other hand I have suggested that the "basic" Federal income tax rate be adjusted according to economic conditions. The difference between our proposals is that he wishes in depression periods to raise his rate in order to assure a balanced budget, whereas in depression I would wish to lower the rate in order to increase consumer purchasing power and sustain business activity. Professor Lutz is completely opposed to a compensatory fiscal program. What he proposes to do to meet a depression such as that which struck this country in 1929 and which caused the national income to fall to a half its former level inside of three years, I am not at all clear. Experience reveals that a fiscal program (such as he suggests) which balances the budget and retires the debt at the rate of one billion dollars a year *regardless of fluctuations in the cycle, may lead to disaster.*

It is, I think, a fair statement to say that both theoretical and practical students of the problem of business instability have come to believe that a compensatory fiscal policy is the most hopeful measure yet proposed to cope with depression. Other measures can and should supplement it. And can it seriously be doubted that governments will in fact be compelled to use, more or less, a compensatory fiscal program? I do not think that any administration will in the future permit the national income to fall in three years to half its former level without engaging in large expenditures. Unfortunately, it may be done clumsily and tardily owing to inadequate planning. Such expenditures would in large measure not be covered by current taxation. At other periods it will be necessary to exercise restraint, to balance or over-balance the budget. I find comfort in the self-discipline during the war. Imperfect as the record is, we have achieved substantial stability of prices and we have supported a heavy program of taxation. This indicates that it is not unreasonable to suppose that, also in peacetime, in the event of inflationary tendencies, democratic governments can prevent inflation. In war-time, such restraint must take the form of increased taxes, rationing, and price control. Expenditures cannot be reduced because the war must go on. In peace-time such restraint should take the form of a sharp curtailment in public works and capital expenditures, an increase in taxes, and indirect measures (such as FHA restraints on housing, consumer credit control, and the like).

The argument, sometimes made, that democratic countries cannot manage a compensatory fiscal policy, and therefore we should not undertake it, will not do. Whether we like it or not, governmental expenditures, borrowing, and taxes, on a large scale, *will* exercise a profound influence on our economic life. The only question is: Shall we permit their influence to be haphazard and chaotic, or shall we control them with a view to achieving a stable purchasing power of money, and high levels of income and employment? I do not believe we can escape this task. And it is the task of a rational and responsible fiscal program.

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.

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.

Mutual Funds

(Continued from page 1414)

regular monthly investment of $100 on April 1, 1940 (and reinvesting the dividends), the total amount invested was $4,800 on March 1, 1944. The total "offering price" value as of that same date was $7,593.04.

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The current issue of **MIT's Brevits** points out that the widespread use of common stocks as an investment medium "was a well-developed phase of our American economy as early as the middle of the 19th century."

An example is cited in the business and investment career of John Perkins Cushing, who was one of Boston's famous China merchants. In 1828 Mr. Cushing returned from the Orient to Boston with $600,000 of capital which he turned over to the banking firm of Bryant & Sturgis for investment. By the time of his death in 1862 this fund had been increased to $2,435,941.

Concerning these developments Brevits makes the following comment:

"There are two things about Mr. Cushing's affairs which strike us as particularly worthy of note: (1) When Mr. Cushing returned from the Orient and was faced with the problem of investing his money in a field which was entirely foreign to his previous experience, he turned to a group of experts who had made a notable success in the investing of capital in the securities offered in the American markets; and (2) Mr. Cushing's investment advisers followed much the same policies which are inherent in the operations of a conservatively managed investment fund of the Boston Type, i. e., the absence of buying and selling securities solely for the purpose of taking quick **speculative profits** and the purchase of securities on a sound earning basis in concerns which are **meeting a developed need.**"

* * *

"Group Securities Is Growing," writes **Distributors Group** in a recent letter to affiliated dealers. Net assets of the fund are currently over $23,400,000 as compared with $18,107,409 as of the year-end.

Dividend

Keystone Custodian Fund "B2"—A dividend of 75¢ a share payable April 15 to stock of record March 31, 1944.

Keystone Custodian Fund "S3"—A dividend of 35¢ a share payable April 15 to stock of record March 31, 1944.

Municipal News & Notes

George Dempster, City Manager of Knoxville, Tenn., recently advised the Cumberland Securities Corp., Nashville, that the city does not intend to refund any more bonds under the 1942 program, and at the same time issued a statement giving results of the refunding accomplished up to Jan. 1 of this year. This showed that a total of $2,952,000 of bonds had been refunded, of which, according to report, $1,303,000 were obligations of the sinking fund.

The question of further refunding came to a head when the refunding agents, whose contract runs to next June, presented a list of $65,000 more bonds for exchange. City Treasurer W. H. Stapleton is reported to have disclosed that the sinking fund now has a cash balance of $175,000 and is to receive a further contribution this year of $112,000. The sinking fund, he said, is seeking desirable investments and does not desire to postpone payment of its obligations. This latter was in reference to the fact that of the $65,000 bonds referred to above, $22,000 were held by the fund.

In a letter to the bond house explaining the city's opposition to further refunding, the City Manager suggested that the bonds be sold to the city outright instead of being exchanged for new bonds of extended maturity dates. He also said that he would be interested in receiving a plan for refunding a "portion of the bonded debt of the city of Knoxville which will mean a saving to the city and not extend the maturity of any new bonds" beyond present due dates.

Ohio State Bridge Commission Reduced Debt By $421,000 Last Year

Although conditions were the worst in its history, the Ohio State Bridge Commission nevertheless was able to meet all of its obligations in full and on time in 1943, it was stated by Secretary-Treasurer and General Manager Ray Palmer in his annual report to Gov. John W. Bricker. The report, issued on March 24 last, declared that in the face of the full impact of gasoline and tire rationing, and the gradual wearing out of old cars, the Commission was able in 1943 to accomplish the following:

(1) Meet all obligations in full and on time.

(2) Reduce the outstanding bonded debt on the four bridges operated by the Commission to the extent of $421,000.

(3) Reduce operating expenses to the lowest level for any year since the Commission has operated the bridges.

(4) Non-operating expenses (interest on bonds, etc.) lowest in the Commission's history.

(5) All of the necessary bridge maintenance work was carried out as usual.

(6) Effected a further reduction of $300,000 in the State of West Virginia's assessed valuation of Ohio's bridges, and an additional saving of $6,032 in taxes.

The $421,000 bonds retired during the past year were as follows: $125,000 each on Sandusky Bay Bridge and East Liverpool-Chester Bridge; $90,000 on Steubenville-Weirton Bridge, and $81,000 on Pomeroy-Mason Bridge. The following are excerpts from Mr. Palmer's report:

At the end of 1943, two of the Commission's bridges — Sandusky Bay Bridge and Steubenville-Weirton Bridge — had in their sinking funds balances almost large enough to meet the bonds maturing next October in amounts of $125,000 and $90,000, respectively. There are no fixed annual maturities on the Pomeroy-Mason Bridge, but indications were that the Commission would be able to pay off an additional $24,000 of bonds on this bridge April 1, 1944. Such retirement will reduce the outstanding bonds of the Pomeroy-Mason Bridge to $175,000, exactly half the original purchase price.

Of the four bridges, the East Liverpool-Chester Bridge presented the only drab scene in an otherwise bright picture. A sudden, but unexpected, increase in auto travel is the only thing that can provide the funds to meet the 1944 bond maturities on this tourist-travel bridge; however, the General Assembly wisely took steps to prevent any default in the East Liverpool-Chester bonds by providing for a loan from the State Emergency Fund in an amount up to $150,000.

The end of 1943 saw 66% of the bonds issued to buy the Sandusky Bay Bridge paid off. 52% of the Steubenville - Weirton Bridge bonds, and 43% of the Pomeroy-Mason Bridge bonds retired. The East Liverpool-Chester Bridge, acquired in 1938, two years after the others, has 21% of its bonds paid.

Bond retirement at the end of 1943 was as follows:

(In thousands of dollars)

	Original Issue	Bonds Paid Off	Bonds Outstanding
Sandusky Bay	$1,925	1,269	656
Steubenville-Weirton	1,600	845	755
E. Liverpool Chester	2,135	560	1,575
Pomeroy-Mason	350	151	199

Total income of the Bridge Commission in 1943 was $583,487, as compared with $727,281 in 1942; $906,199 in 1941 and $877,616 in 1940.

Operating expenses were $152,017 in 1943 as compared with $181,986 in 1942; $161,977 in 1941, and $166,617 in 1940.

Non-operating expenses (mainly interest on bonds) was $67,924 in 1943, as compared with $79,765 in 1942; $95,827 in 1941, and $273,425 in 1940.

Reserve funds on all four bridges at the close of 1943 were the largest they have ever been. During the year, the Sandusky Bay reserve fund increased from $22,501 to $46,501. The Steubenville-Weirton reserve fund increased from $26,395 to $50,395. The East Liverpool-Chester reserve fund increased from $23,192 to $41,192. The Pomeroy - Mason reserve fund increased from $12,625 to $17,291.

The grand total of all funds on hand at the close of the year 1943 was $506,696, as compared with $559,294 at the end of 1942.

Soviet Govt. Renews Japan's Fishing Pact

Under date of March 30, Associated Press advices from Moscow, said:

The Soviet Union renewed its fisheries pact with Japan, granting to Japanese companies the rights to fish in Russian Far Eastern waters.

The 1943 pact expired Dec. 31 and a renewal has been under negotiation since that time.

The signature indicated that Soviet-Japanese relations, which are based on the 1941 treaty of neutrality, remain unchanged. Last year's fishing agreement also was signed in March.

Huff Geyer News Review

The current "News Review," issued by Huff, Geyer & Hecht, 67 Wall Street, New York City, contains interesting information on several insurance situations which appear attractive at current levels and also comparative 1943 operating results for insurance companies. Copies of the "Review" and also a detailed circular on Home Insurance Company may be had from Huff, Geyer & Hecht on request.

Current Results Of Poll On 5% Mark-Up Policy

(Continued from page 1403)

NASD constitution and by-laws by foisting the philosophy on its members?

It did not add up. We determined to eradicate all doubt and to ascertain the facts as they are, and therefore, decided to conduct a poll. We sent a ballot (copy appears at end of this article) to each and every member of the NASD.

Up to press time (April 5), these are the results:

RETURNS FROM NASD MEMBERS

Total Ballots Returned	781		
Number Favoring 5% Rule	139	or	17.8%
Number **Opposed** to 5% Rule	642	or	82.2%

A similar ballot was sent to all over-the-counter dealers who are not members of the NASD. It was headed, "A Personal Message to all Investment Dealers."

RETURNS FROM NON-MEMBERS

Total Ballots Returned	188		
Number Favoring 5% Rule	11	or	5.8%
Number **Opposed** to 5% Rule	177	or	94.2%

What do Mr. Ralph Chapman and Mr. Albert E. Van Court say now? Here are some other interesting results:

DO YOU DO A RETAIL BUSINESS?

Total Answering Affirmatively	722		
In Favor of 5% Rule	127	or	17.6%
Opposed to 5% Rule	595	or	82.4%
Total Answering Negatively	45		
In Favor of 5% Rule	6	or	13.3%
Opposed to 5% Rule	39	or	86.7%

DO YOU EMPLOY SALESMEN?

Total Answering Affirmatively	479		
In Favor of 5% Rule	94	or	17.6%
Opposed to 5% Rule	385	or	82.4%
Total Answering Negatively	284		
In Favor of 5% Rule	38	or	13.4%
Opposed to 5% Rule	246	or	86.6%

DO YOU ACT PRIMARILY AS BROKERS OR DEALERS?

Total Acting As Dealers	401		
In Favor of 5% Rule	64	or	15.8%
Opposed to 5% Rule	337	or	84.2%
Total Acting As Brokers	104		
In Favor of 5% Rule	20	or	19.2%
Opposed to 5% Rule	84	or	80.8%
Total Acting as Both Dealers & Brokers	187		
In Favor of 5% Rule	41	or	22%
Opposed to 5% Rule	146	or	78%

ARE YOU PRIMARILY DEALERS IN U. S. GOVERNMENT OR MUNICIPAL BONDS?

Total Answering Affirmatively	44		
In Favor of 5% Rule	4	or	10%
Opposed to 5% Rule	40	or	90%
Total Answering Negatively	626		
In Favor of 5% Rule	117	or	19%
Opposed to 5% Rule	509	or	81%

In the light of the above results which demonstrates conclusively the overwhelming sentiment of those engaged in all phases of the business against the 5% mark-up policy of the NASD, will anyone ever again have the effrontery and temerity to assert what Mr. Chapman and Mr. Van Court heretofore set forth to be the facts?

It must be clear that those few people who are autocratically running the affairs of the NASD knew that the submission of that "philosophy" to the membership of the Association would inevitably have meant the permanent burial of the 5% mark-up rule, with a vast majority of NASD members acting as honorary ballbearers by their votes.

Here and now the SEC and the NASD have a true guide to go by. The real sentiment, the real reaction of over-the-counter dealers to this outrageous and un-American "philosophy" has been made known beyond peradventure.

With this knowledge, no excuse can any longer exist for the failure of the NASD and the SEC to abolish the "5% spread rule."

COPY OF BALLOT

A PERSONAL MESSAGE TO ALL NASD MEMBERS

We are anxious to learn the exact facts regarding the attitude of security dealers toward the "5% spread rule" of the National Association of Securities Dealers and for this reason we are mailing this questionnaire to every dealer in the United States.

Therefore will you please be good enough to check the "Yes or No" and answer the queries in the space below to enable us to ascertain how many dealers favor the 5% Mark-Up Limitation Rule and how many do not favor it.

A Business Reply Envelope is enclosed for your convenience.

HERBERT D. SEIBERT,
Editor and Publisher

YES, we favor the "5%Mark-Up" Rule ☐

NO, we do not favor the "5% Mark-Up" Rule ☐

Are you a member of the NASD?________________

Do you do a retail business?________________

Do you emply salesmen?________________

Do you act primarily as brokers or dealers?________

Are you primarily dealers in U. S. government or municipal bonds?________________

NAME and ADDRESS OPTIONAL

____

Chicago Stock Exchange "Special Offerings" Plan Declared Effective By SEC

The Securities and Exchange Commission announced on March 27 that it had declared effective a plan of the Chicago Stock Exchange for "Special Offerings." The Commission states that the effect of the action taken by it "will be to exempt distributions conducted in accordance with the plan from rules of the Commission prohibiting the payment of compensation for inducing purchases on the Exchange under certain conditions." The Commission also says:

"The Chicago Stock Exchange is the sixth National Securities Exchange to file and to have declared effective by the Commission a plan for special offerings. The plan of the Chicago Stock Exchange is generally similar to the plans heretofore declared effective for the New York Stock Exchange, New York Curb Exchange, San Francisco Stock Exchange, Philadelphia Stock Exchange, and the Detroit Stock Exchange.

"The Chicago plan differs from the other plans principally in its provisions relating to offerings of stocks traded on that Exchange which are neither listed nor have a primary market on a New York Exchange. In offerings of local stocks, the Chicago plan permits a higher scale of special commissions to be paid by the offeror and permits offerings of smaller blocks of stock. Also, in the event buying orders exceed the amount available in offerings of local stocks by the offeror on a principal basis, a maximum of 25% of the offered stock may, under certain conditions, be first allocated to the offeror to fill subscriptions for the account of his customers."

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.

N. Y. Bank Stocks Interest'g

Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange, have issued an interesting comparative analysis of leading New York City Bank stocks. Copies of this analysis may be had from the firm upon request.

L. V. Murphy Joins Steiner, Rouse & Co.

Steiner, Rouse & Co., 25 Broad St., New York City, members New York Stock Exchange, and other Exchanges, announce that Lester V. Murphy has become associated with them as manager of their Industrial Research Department. Mr. Murphy was formerly associated with Standard & Poor's Corporation as an account executive.

Griffis Named Chairman

Stanton Griffis, member of the firm of Hemphill Noyes & Company, 15 Broad Street, New York City, was elected Chairman of the Executive Committee of the Lee Tire and Rubber Company.

RR. Dividends and Net Compared

Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock Exchange, have prepared an interesting tabulation of railroad dividends compared to net income for the last three years for the leading, solvent Class I railroads. Copies of this interesting tabulation may be had from Vilas & Hickey on request.

Barbier In Trading Dept. Of G. A. Saxton

Leslie Barbier, formerly with Hornblower & Weeks has become associated with G. A. Saxton & Co., Inc., 70 Pine Street, New York City, in their trading department.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 1408)

ers crawled in its wake. But so far as instigating any move themselves, they weren't interested.

* * *

In the last two days the picture has changed. Not so much by deed as by implication. At this point I'm stymied. I sense certain things in current market action I find almost impossible to put my finger on or to explain in understandable terms. The technician will understand when I speak of relative action. Reduced to simplest terms, it means the relation of one stock to another; the groups to each other and the groups to the market. The clue is in negative rather than in positive terms. If the market goes down and a stock or group goes down with it, that's normal. There's nothing significant there. But if the market goes down and the stock in question goes down less than the component parts of the group, or even stands still, a clue has been given. This is the case with the leaders at this writing. But that these same leaders can go lower before they turn up must also be allowed for. Yet, in the analysis based on the past few days' action, it is the leaders, Chrysler, General Motors, General Electric, Anaconda, Kennecott, and even that plug, Westinghouse Electric, which give indications of significance.

Last week I recommended a list of stocks. Some of them became available, one even (American Car & Foundry) not only got down to buying level but broke its stop price by an eighth. Of this list here are the ones you could have bought and their prices: J. I. Case bought at 36, stop 34. United Aircraft at 28, stop 27½. Servel bought at 18, stop 16¾. Up to this writing, the other stocks in the list are still above the "buy" point. Suggest you read last week's column for the complete list.

* * *

I haven't changed my mind on long-pull stuff. The above stocks are recommended only as speculations. The long-term picture, as I see it, is still grey. I don't, for example, share the grandiose ideas of the post-war world and its pie in the sky philosophy. Of the statements of the tremendous business to be done once peace is signed, most can be attributed to wishful thinking. But whatever the long-term picture, it will take care of itself. Right now, I'm interested in the immediate future. And the immediate future shows a rally with the leaders acting as leaders—for once.

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.]

How Much Inflation?

(Continued from first page)

By LEWIS H. HANEY

price movements.

Inflation can exist without prices rising. By "prices," one ordinarily means commodity prices as measured by price indexes. Anyone who really "lives" today, knows that the cost-of-living index does not really measure commodity prices. Moreover, it is not true that all prices are represented by commodity prices, and inflation may find expression in prices other than the prices of commodities, as I will soon show. (Probably there is no particular reason for expecting inflation to show a direct correlation with the prices of any particular objects, unless it be, (1) with a standard money material, say gold, and (2) with highly liquid government bonds. Probably the price of gold and the price of liquidity will always be affected by inflation.)

My main point in emphasizing the lack of necessary relationship between prices and inflation, is that it follows that inflation can not be stopped by holding prices down—not even if all prices could be held down, which is never the case.

Consider, in passing, the technique that has been used, during the years since 1932, for the purpose of preventing the growing inflation potential from becoming effective. First, the government went off the gold standard, thus making it possible to mark up the so-called price of gold without that price having any relation to other prices. Then, by devious ways, to an ever increasing extent, the government adopted means of keeping liquid assets from being really liquid. In a sense, it is true that both idle men and idle money are "liquid." The trouble is that they are frozen in their liquidity! The technique of the government in preventing investors from putting their money into capital goods may have in a sense kept their money liquid, but certainly it has kept it from getting into anything solid.

Then came the war. A new technique has been adopted. This is characteristic of all so-called "war economies," in which so-called liquid assets of the people are collected through taxes and high pressure bond sales, and then turned into smoke.

Potential Inflation vs. Effective Inflation

In all this discussion, it is my judgment that we must distinguish between potential inflation and effective inflation. Potential inflation is any condition which gives rise to a **tendency** toward a reduced value of the currency. This tendency may be the result of increasing the quantity of credit currency, or it may be the result of reducing the security for the existing currency. For example, whenever we find a large increase in greenbacks or in bank deposits without any increase in the assets directly associated with those liabilities, **potential** inflation exists. This is the more obvious if the increase in the notes or deposits is one which does not automatically tend to be reduced through some self-liquidating process, as is the case when it can be said that their supply is "inelastic."

But this condition of **potential** inflation, which is now enormously developed in the United States as elsewhere in the world, need not become **effective** in prices. Especially it need not become effective in the prices of any **particular group** of commodties, or any **commodities** at all. When it does, our price indexes rise and there is a reduced purchasing power of the currency, which is referred to as currency depreciation. When this depreciation is the result of potential inflation as previously defined, it may correctly be called "effective inflation."

Three Different Cases of Effective Inflation

The foregoing distinction between potential inflation and effective inflation will become clearer and more significant when it is illustrated by statistical data with which most of you are doubtless familiar in a general way. The chart which I present extends from 1919 down to the end of 1943. It presents no detail, for the simple reason that it is designed to bring out the general fact that there have been three great periods of inflation since World War I, each one of which has represented a different sort of effective inflation, although back of all there lie the same characteristic conditions of inflation potential.

At once you will observe the three peaks, one in 1920, one in 1929, and one in our own day. The first peak shown by the heavy, solid line represents the Bureau of Labor Statistics index of **commodity** prices. It rose to a great altitude in 1920, fell sharply in 1921, and has not since returned to the high levels of the first post-war period.

Now note the next peak. It is fully as high and fully as significant as the peak of **commodity** prices reached in 1920. At the time that this second peak occurred, however, commodity prices were actually declining. The second peak is the peak in the stock market attained in 1929. Enough said—except that if time permitted a word might be added to remind you that there were other peaks in Straus bonds, Florida real estate, and the like. Thus **we had one of the most notable and exciting periods of inflation in the country's history at a time when commodity prices were relatively low and declining!**

The third peak, shown in the heavy red line, comes at a time when neither commodity prices nor stock prices are high in comparison with their earlier performances. To cut the matter short, the effective inflation of the present day comes not in the price of commodities nor in the price of stocks, but chiefly in the price of **labor.** The red line is factory payrolls; but it well represents the price of labor, as is shown by the fact that the dotted red line (which is the ratio of factory payrolls to factory employment) runs practically parallel with it.

One might add that there are as usual other areas of inflation which do not show in the ordinary commodity indexes. It is notable that the price of farm land is today inflated in the same way, and to about the same extent, that it was following World War I.

Thus **effective** inflation is rather a matter of detail, and it may find expression now in one form and now in another. The common factor which lies under these phenomena is the "potential inflation" to which I have referred. It is the development of excessive credit, which reduces the value of money, no matter how that value may be concealed through controls over the use of money.

It is of some interest to note signs of this common factor in the broad swings of bank debits. You will observe how the high and low points of bank debits (large orange dots) in a general way fit the three periods of effective inflation, no matter whether the effect appears in commodity markets, stock markets, or labor markets. Bank debits reflect all sorts of prices, including the price of labor.

Still more fundamental as a manifestation of the inflation potential is another set of points which I hope you will be able to distinguish on the chart. (These are the large purple dots.) They show the trend of the **funds in the hands of the public.** Thus when we take, say, October, 1943, and find that the sum of the deposits of the reporting member banks, the money in circulation, and the Government bonds in the hands of the public, totals about 138 billion dollars, we have a gross figure which some people may call liquid assets. (If we take the loans and add to them the **banks'** investments in Government securities, we get a figure of 49-odd billion dollars, which is something to deduct from the gross funds. The balance of 88-odd billion dollars would represent net funds available for spending.) This represents a condition of what we may call super-liquidity or hyper-liquidity, take your choice. Whichever term you prefer, about all it means is that a very low temperature has to be created at Washington in order to keep the **liquid** from spilling around.

As appears on the chart, the amount of funds, which is very crudely computed by me, follows roughly the great cycles of effective inflation which are shown in the various price curves.

How Much Inflation?

Now at last I can tackle the problem of the evening, namely, How Much Inflation?

It seems to me that it follows clearly from the analysis I have presented that the question must be broken in two. It becomes: (1) How much potential inflation? (2) How much effective inflation? Of the two, the potential inflation is in reality the more important.

I would say that the quantity of potential inflation is to be known by the **excess of claims, in the shape of debts or financial liabilities, over and above what can be liquidated in any ordinary period of time without any abnormal disturbance of the price level.**

One test would be to inquire into the possibility of using all the available credits without any effect on the general price level, thus really testing their liquidity. Is there a person in this room who has any question that if the bank deposits now available were to "turn over" at anything approaching an ordinary rate there would be a rapid rise in prices?

Or one might test the inflation potential by inquiring into the possibility of liquidating all the debt that exists at a given time without any change in the purchasing power of the money in which the debt is expressed. Does anyone in this room for a moment have any idea that it would be possible to liquidate the public debt already outstanding in this country in any ordinary period of time without there being a depreciation in the currency? (This would serve to do what is always called in such cases "lightening the burden of debt.")

A very useful, practical test of potential inflation is found in the question, To what extent are demand deposits "derivative"?; that is, to what extent are they self-liquidating, being based on productive commercial loans? To the extent that deposits build up without regard to truly liquid assets, these deposits may be **called** "liquid," but they cannot be liquidated!

Another similar test is to inquire whether the bonds, or funded debt load, can be carried without inflating national income. Read the papers. Listen to the speeches. What is the answer? In all official quarters, and some others, we hear it said that in order to meet the carrying charges on the already existing public debt it will be necessary to have a national income of—well whatever your favorite number of billions may be! That is what I mean by inflation. And the howmuchness of it may be measured by the difference between what the national income was, and what it must be in order to carry the excessive burden of debt.

Can Further Effective Inflation Be Avoided?

What are the chances of making good the so-called "liquid assets," which I have called potential inflation, without the potential inflation becoming effective in higher commodity prices? Frankly, it is my judgment that the chances are nil. Some of my reasons are as follows—and believe me it would not be possible in a single evening to state all the reasons that might be given.

First, there is the enormously inflated price of labor which is not adjusted to the general price structure. This adjustment, I think, can occur under our political system only through a further rise in commodity prices which will serve to deflate the money wage of labor. Second, there is the relatively depressed price level of the group of "semi-finished" commodities.

Aside from this approach, however, I would stress the number of factors of an intensely practical nature which bear upon the immediate post-war outlook. These are as follows:

(1) The United States is now really a debtor nation, and, aside from lend-lease arrangements, is a net importer of goods. Lend-lease obligations are not payable in dollars. We are actually losing gold. The general moral is that a debtor nation strongly tends to accept inflation in some form or other.

(2) It seems to me a foregone conclusion that any tendency of prices to rise, particularly if accompanied by any signs of a trend toward devaluation, will cause foreigners to cash in their dollar balances and bond holdings. Already, I think, there are symptoms in the tendency of gold to flow out at an increasing rate. Foreign deposits seem to amount to at least 2½ billion dollars, and earmarked gold to at least 4 billion more. Thus our reserves are not what they seem.

(3) The redemption of bonds held by corporations and individuals will force the Treasury to rely upon the commercial banks to a considerable extent. Bank loans on Government securities have already shown a tendency to grow. No one denies that when the banks become admittedly the necessary fiscal agencies of the Government in carrying its debt, a condition of inflation exists.

(4) The post-war expansion of commercial bank loans is another foregone conclusion. One of the notable developments of the present war has been the tendency to **reduce** private debts, farm debts, corporation debts and instalment credit. With the post-war period of expansion bound to come sooner or later, there will

(Continued on page 1424)

A Proposed Spending Tax

(Continued from page 1403)

lation and contests growing out of economic unsoundness.

I am going to start what I have to say from the standpoint of the economic problem before the world today which seems to me to be the key to the tax problem. It is the issue between spending and saving.

There is a great reaction, as you all know, today, against the lavish and extensive spending policy of the Government. We are all anxious about the mounting public debt. We are anxious about the fact that in this time of war, there is so much spending, both private and public. We are anxious because the tax system, especially with corporations, is taxing away savings today; and we think it is improper, when our savings are being shot away in war, that what is left of them should be spent away and taxed away. That, as I take it, is the great problem economically before this country today; and it is bound up with the other great problems like the inflation problem.

The solution that I have offered, with my brother, in my book, "Constructive Income Taxation," and which I want to discuss with you tonight would solve the problem of simplification better than anything else I know of.

The proposal is simply this: That hereafter we tax in our income tax only that part of income which is spent and do not tax the other part which is saved. In fact, I believe the **un**taxing of savings is more important than the taxing of spending, because it is the taxing of savings, which we now have in our corporations and in our private personal income tax as well, which is doing the mischief. It is threatening with destruction the accumulation of capital which has made this country great and which is the source of our high wages and prosperity.

Why is it that all of us from top to bottom, including the poorest in this country, are so much better off than we were a 100 years ago in the horse-and-buggy days? Because, instead of horses and buggies we have the railways, the automobile, the airplane, the substitution for primitive capital of small value of the gigantic capital today — which is winning this war just as it had won the great economic progress of the United States. When we compare ourselves with a 100 years ago, not only have we improved means of transportation, but we have better houses, better refrigerators, better clothing, better food, and better everything. Why? Because of the inventions and accumulations of capital

Now our tax system is calculated to kill the goose that lays the golden egg. The power to tax is the power to destroy, but it is not realized how great that power to destroy is, and that power to destroy is primarily the destruction wrought by taxes on savings.

I call it an income tax rather than a spending tax because that is its proper economic name. Our "real" income, as we economists say, is only what we get by spending. The other part, the saved part, is put on the shelf and is to be spent later, or the income from it. In other words, savings is not real income. It is capital. It is, if you wish, income put back into capital. That putting back has made a great deal of trouble even among economists as to what income is.

I venture to say that the real problem, legally, which puzzles all of you and has made these 30 million words and has created the problem that you are discussing here tonight, has grown out of the fact that we have, in our tax laws, no concept of income. When the law was passed it was naively supposed that you did not need any definition. It was supposed that everybody knew what income was.

But the things that we are most familiar with are the things that we understand the least. We are all familiar with income, but when you come to define it it seems very difficult. It is not very difficult, but the difficulty that appears is because of the savings element. There are really two concepts of income, and each has its proper place. One is: Income consists of "real" income —consumption—the enjoyment, or use, of consumption goods by virtue of the spending of the money we receive. That is all that you need to say.

The other concept is that same real income plus the savings. The only difference between the two is the savings.

If you receive $10,000 a year, save $3,000 and spend $7,000, your "real" income, corresponding to what we call "real" wages, is $7,000. You have an "accretion" income which includes the savings, of $10,000. That word "accretion" has been suggested by Professor Haig of Columbia University. I do not know of any better word unless it be "enrichment" income as some of the judges have called it.

My conclusion as an economist is that we should choose between these two senses of "income" and that our tax laws should take cognizance of them both, but it does not. Legal income is always a hybrid between the real income that is bought by what an individual spends as a consumer and the accretion income including savings. There are many legal inconsistencies. If you receive $10,000 in actual money and spend only $7,000, the law says your income is $10,000, but if you are a stockholder in a corporation and the corporation earns $10,000 for you but saves for you $3,000 and plows it back in undistributed profits, then only the $7,000 is your legal "income." Before the income tax was in operation I knew of cases where a corporation declared the whole $10,000 in dividends but with the checks it was stated that the company would be glad if you would reinvest 3/10ths of it because they wanted to expand; they knew that most of the stockholders would be able and willing to do it, keeping and spending only 7/10ths of it. Obviously, you should be taxed just the same whether you got the whole $10,000 and put back $3,000 or you only got $7,000 and the corporation **kept** back the $3,000. In either case, you spend $7,000 and have $3,000 saved. But under our law, your "income" is **not** the same in the two cases.

The law is full of those inconsistencies; and almost no income that pays taxes, whether individual or corporate, is accounted for by either one of the two legitimate concepts of income. There is always an ambiguity, because some savings are counted and some are not.

Under my proposal, by the way, you should not tax corporations at all, except as in England, where there is "stoppage at the Esource." That has some sense; you then tax a corporation **instead of** taxing individuals, but not **in addition** to taxing them. But we in America have set up something new; we regard the corporation as an independent source of income, which it is not. It is an artificial person, a legal person; it really means the stockholders, who are the only real persons. They are the ones that should pay the taxes. When you charge 80% tax to a corporation as if it were something different from its stockholders, then the poorest stockholder, the widow who has only a thousand dollars, is charged 80% (without knowing it, perhaps), simply because she has stock in a so-called "rich" corporation.

I do not know why it should be so difficult in America to do what they do in England, and to regard a corporation as it really is, an artificial person standing for the stockholders.

What we ought to do, therefore, is to abolish all taxes on corporations (except a nominal one for certain administrative purposes), and all the taxes now raised from corporations should be raised from the stockholders as individuals and done equitably, not by charging 80% to the widow and 80% to the millionaire as it is done today.

Something was said tonight about the little corporations. Every corporation that has made this country great was at first little, and it was the expansion or increase of capital that did it. Every tax on that part of income which is reinvested is a deterrent to that expansion.

There is a particular difficulty today growing out of this taxation of savings. It relates to inflation. What makes inflation today is the sale of government bonds to commercial banks in return for credit which is **newly created.** As someone has amply called this credit, it is "invisible greenbacks." If, whenever the Government sells a billion dollars of bonds to the banks and gets a credit for it, the banks instead of extending that credit invisibly, should extend it visibly by printing bank notes, and the Government should take those bank notes and distribute them to the soldiers and sailors in paying their wages instead of sending them checks, you would realize what is going on. The invisible greenbacks are flooding the circulating medium today and causing inflation. It is not because of the public debt as such, it is because the public debt is not created out of savings, and it is not created out of savings because the savings are taxed out of existence.

The Treasury understands this flood of invisible greenbacks very well. It tries, therefore, to get individuals to save as much as possible and to buy bonds out of savings. The time before the last bond drive, it raised 12 billion dollars from individuals, and we said that was wonderful. But it is not so very wonderful. For individuals also get the money with which to subscribe to the bonds by borrowing at the banks.

I remember that, in the last World War, I was speaking with a fellow speaker who went around the country with me urging people to buy government bonds —the "Liberty Loans"—but before I could educate my friend who was a clergyman, he was saying, "Now, it doesn't make any difference whether you have got any money or not—subscribe to the government bonds just as much as you can get anywhere, say, $10,000. If you haven't got the $10,000 go to the bank and borrow it. If the bank wants security, give them the bonds that you buy with it. It is as near perpetual motion as anything I know of."

You know and I know perpetual motion is unsound, and so is that kind of financing.

In fact, the last loan, I am told, was very largely subscribed, as far as laboring men were concerned, by their first cashing in on the former loan. That method does not add anything except to the inflation.

If you are going to pay for this war otherwise than by inflation, I believe you have to change your tax system to suit. I am very much worried about it. I do not think people who have not studied inflation—as I have for a lifetime—realize what we are up against. The fact that we are holding down prices individually by main force is very much like sitting on a safety valve while you are building up pressure from heat underneath. The inflationary pressure is increasing all the time; but, instead of trying to remedy that, we do not let it even show; instead we have a great mass of idle circulating medium which some day is going to explode. After the war is over people won't stand any more for this price control that we are now exercising in rather a wonderful way in spite of the black market and all. Even as it is, prices have risen some 40%, and probably, if you could count the black market, they have risen 50 to 75%. In the last war they were doubled, and I have very little doubt that after this war you will find the price level double or triple. If the war lasts much longer it may quadruple; and if it does it will be very largely due to our wrong tax laws.

I think that this system that I am proposing should be not only for the war but for peace and, therefore, I want to stress the double taxation involved which people do not realize.

Of course, there is double taxation when dividends are taxed as part of the earnings of a corporation and then taxed again to individuals who receive them. But that is not what I mean; I mean that taxes on any savings involve double taxation. If you save a thousand dollars and invest it, say, in an orange grove, buying 100 trees with it, you can either tax that thousand dollars 10% by taking 10 trees out of the 100 in the orchard, or you can tax 10% of the oranges that are grown by those trees. But if you do both, is is double taxation. It is not always recognized as double taxation. It is a little more complicated than the ordinary double taxation, but it is double taxation just the same. You tax the trees and you tax the fruit. The capital is the tree and the income is the fruit; and whenever you have a tax on savings and then afterwards tax the income from those savings, it is double taxation.

This was pointed out by John Stuart Mill a long time ago. He was very much in favor of substituting for the income tax a spendings tax. Incidentally, Ogden Mills was also in favor of that. He introduced it when he was a Congressman and, two weeks before he died, he wrote me a letter approving of it and doing so very largely on the ground of its simplicity.

People say it difficult to measure savings, but it is not. All you need, in order to make out a spendings tax return, is a record of the receipts and then subtract everything except what you spend —the balance is your spendings.

I feel so strongly about the destructiveness of the system that we now have as to say that if we had had it 50 years ago I do not think you would have today the automobile industry, because Henry Ford's plant built out of savings would not exist. If you calculate what was actually done by him and then see what the taxes would have been under the present system, he simply could not have built up his automobile industry.

Professor Lutz of Princeton has said, "If some future historian, some future Gibbon, has to write of the decline and fall of the American Commonwealth, he will date the origin of that decline in 1913, when the income tax law was passed, so greatly has it been abused."

Taxes on savings are taxes on expansion and can yet destroy the expansion or growth of the greatest country in the world.

How Much Inflation?

(Continued from First Page)

By R. A. SAYRE

ford good clues, especially when comparisons are available with the situation in World War I. Monthly data on the cost of living and weekly earnings of the average wage earner in manufacturing industry have been compiled for World War I on the basis of available records, using the less frequently compiled but complete figures as benchmarks. The data were prepared by the Bureau of Labor Statistics and first published in The Monthly Labor Review for November, 1941. They show that in the first 53 months of that war the cost of living rose 62% and weekly earnings 88%. When these earnings are adjusted for the change in living costs, we find that their purchasing power rose only 16%. Thus, at the end of the war—for it ended in the 53rd month—the average wage earner in manufacturing was better off than he had been at the beginning but not much. Why? Because prices and wages ran uphill together.

Turning now to the current situation, we find the statistics show quite a different picture. Again using BLS figures — and may I say that, despite the controversy still raging about the adequacy and reliability of the cost of living indexes, I believe them to be adequate and reliable —the rise in the cost of living in the first 53 months of World War II was only 23%. Contrast this with the 89% rise during the same period in weekly earnings in manufacturing—which incidently was about the same as the rise in World War I. When converted to the purchasing power basis, the World War II rise has been 53% or more than three times that in World War I. This comparison with the World War I situation has added significance when recognition is given to developments between the two wars. From July, 1914, to September, 1939, weekly earnings in manufacturing rose 109% in the face of only 40% advance in living costs. Thus, the previously cited figures for this war were based on a considerably higher level of earnings and a more modest increment in living costs. At the outset of the last war average weekly earnings were only $11.47 and had risen to $23.93 by September, 1939. In January of this year, they were $45.15. While many factors have contributed to this shift in relationships, a major obstacle in the present situation to rising living costs has undoubtedly been rationing and price fixing. On the other hand, wages have risen more rapidly through the ability of labor organizations to obtain wage rate increases for their members and through the policy of paying premium rates for work over 40 hours per week. Despite wage stabilization policies, the tendency to base wage increases on rates has a pyramiding effect when hours worked exceed 40 or fall on premium days.

The net effect of this tendency has been to build up an excess purchasing power which has been estimated at about 33 billions in 1943. With so much of our productive capacity devoted to building materials for war, shortages of goods, at least in certain lines, have been marked. Naturally, the demand for the supplies which are available has been great and has fostered indiscriminate bidding. Price fixing and rationing have been quite successful in combating this situation but can never be completely successful so long as people with money to spend are convinced they must spend it, regardless. Heavier income taxes and constant urging to buy war bonds have been helpful in syphoning off excess purchasing power, but not fully effective, because they have failed to fully reach the groups who have recently acquired most of

(Continued on page 1424)

Calendar Of New Security Flotations

OFFERINGS

ALLIS - CHALMERS MANUFACTURING CO.—296,015 shares of $4 cumulative convertible preferred stock (par $100). 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. Balance of proceeds will be added to working capital for war purposes and post-war business. Offered for subscription to common stockholders of record March 31, at rate of one share of preferred for each six shares of common at $100 per share. Rights expire April 12. Underwritten by Blyth & Co., Inc., and a nation wide group of 63 underwriters. Filed March 17, 1944. Details in "Chronicle," March 23, 1944.

ARIZONA EDISON CO., INC.—$2,500,000 first mortgage bonds 3½% series, due 1974 and 4,500 shares of $5 cumulative preferred stock (no par). Contemporaneously with the sale of these securities company will sell to a single purchaser $750,000 of serial notes. Proceeds together with other funds will be used to redeem outstanding first mortgage 4% bonds, series C (all $2,538,000 of which are owned by Equitable Life Assurance Society of the United States), all outstanding second mortgage 6% income bonds, series A and second mortgage 5% income bonds, series B. Filed March 20, 1944. Details in "Chronicle," March 23, 1944.

Offered April 5, 1944 by Coffin & Burr, Inc. and Dean Witter & Co., the bonds at 105¾ and interest and the stock at $100 per share.

MINNEAPOLIS - HONEYWELL REGULATOR CO.—30,000 shares of 4% cumulative preferred stock, series D (par $100). Proceeds for general corporate purposes. Underwriters and amounts underwritten are Union Securities Corp., 24,000 shares; Piper, Jaffray & Hopwood, 3,500 shares and Alex. Brown & Sons, 2,500 shares. Filed March 15, 1944. Details in "Chronicle," March 23, 1944.

Offered by above underwriters April 4, 1944, at $105 per share (plus div.)

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. Underwriting syndicate headed by Morgan Stanley & Co. and Smith, Barney & Co. won March 28 in competitive bidding the award of $18,000,000 of first mortgage bonds. The winning bid was 101.0939 for the issue as 2⅞s due in 1961. Company also sold 180,000 shares ($50 par) preferred stock to a group headed by the Stone & Webster and Blodget, Inc. on a bid of $50.50 for a 4¾% dividend rate.

Both issues were offered March 30, the bonds at 101.592 and interest by Morgan Stanley & Co. and Smith, Barney & Co. and the stock at $52 per share by Stone & Webster and Blodget, Inc. and 35 other underwriters.

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.

MONDAY, APRIL 10

CELANESE CORP. OF AMERICA—350,000 shares of first preferred stock, $4.50 series (no par), cumulative and 139,622 shares of common (no par). Holders of its common stock will be given the right to subscribe for additional shares of common stock at the rate of one share for each ten shares held. Of net proceeds, $23,662,290 is to be applied, concurrently with the issuance of the 350,000 shares of first preferred stock, $4.50 series, to the redemption of 164,818 shares of 7% cumulative series prior preferred stock and 37,710 shares of 5% cumulative series prior preferred stock presently outstanding. The balance is initially to become part of the corporation's general funds and applied for additional plant facilities, or any corporate purposes. Dillon, Read & Co., and Morgan Stanley & Co., are named principal underwriters. Filed March 22, 1944. Details in "Chronicle," March 30, 1944.

TUESDAY, APRIL 11

KATZ DRUG CO.—$1,500,000 15-year 4% sinking fund debentures due April 1, 1959. A portion of net proceeds will be used to repay bank loans of $800,000, remainder will be added to the company's general funds to be used to purchase inventory, to carry larger bank balances and for other corporate purposes. A. G. Becker & Co., Inc., Chicago, is named principal underwriter. Filed March 23, 1944. Details in "Chronicle," March 30, 1944.

MENGEL CO.—$2,500,000 sinking fund debentures, due April 1, 1959. Interest rate to be supplied by amendment. Proceeds will be applied to the redemption at 100½% plus interest of $1,568,000 first mortgage 4½% convertible sinking fund gold bonds, due March 1, 1947, balance added to general funds. Underwriters are F. S. Moseley & Co., Boston; Metropolitan St. Louis Co., St. Louis; Hemphill, Noyes & Co., New York, and J. J. B. Hilliard & Son, Louisville. Filed March 23, 1944. Details in "Chronicle," March 30, 1944.

CONSOLIDATED CIGAR CORP.—40,000 shares of cumulative preferred stock (no par). Proceeds from sale, together with other treasury funds, are to be applied to redemption in May, 1944, of 38,162 shares of 6½% cumulative prior preferred stock at $105 per share and dividends. Underwriting group follows: Eastman, Dillon & Co.; A. G. Becker & Co., Inc.; H. M. Byllesby & Co., Inc.; Central Republic Co., Inc.; Charles Clark & Co.; Ferris & Hardgrove; Hemphill, Noyes & Co., Inc.; W. C. Langley & Co.; Lehman Brothers; Loewi & Co.; McDonald-Coolidge & Co.; Merrill Lynch, Pierce, Fenner & Beane; Merrill Turben & Co.; Milwaukee Co.; Moore, Leonard & Lynch; Mullaney, Ross & Co.; Paine, Webber, Jackson & Curtis; Piper, Jaffray & Hopwood; Riter & Co.; Rogers & Tracy, Inc.; Stein Bros. & Boyce; Stix & Co., and Dean Witter & Co. Dividend rate to be filed by amendment. Filed March 23 1944. Details in "Chronicle," March 30, 1944.

WEDNESDAY, APRIL 12

KLINE BROTHERS CO.—$500,000 5% sinking fund notes, due March 1, 1954. To be offered at 100 net, proceeds will be applied as follows: To redemption of $243,600 5% sinking fund notes, due May 1, 1952, at 100, $243,600; to renewal of equipment, etc., $75,000; for working capital, $74,295, and for post-war expansion, $80,000. Illinois Securities Co., Joliet, Ill., underwriters. Filed March 24, 1944. Details in "Chronicle," March 30, 1944.

THURSDAY, APRIL 13

AMERICAN OPTICAL CO. — 230,000 shares of common stock (no par), of which 167,490 shares are to be offered by company and 62,510 shares presently outstanding to be sold by ten vendor trusts. Net proceeds to company will be used, in part, as additional working capital. Principal underwriters are Harriman Ripley & Co., Inc. and Estabrook & Co. Stockholders (other than vendor trusts) will be offered right to subscribe to 167,490 new shares in ratio of one new share for each three shares held. Filed March 25, 1944. Details in "Chronicle," March 30, 1944.

SATURDAY, APRIL 15

NATIONAL CONTAINER CORP.—$4,500,000 5% 15-year sinking fund debentures due April 1, 1959. Price to public 100 and interest. Of net proceeds, $2,844,500 will be applied to redemption of presently outstanding 5½% debentures, bank loan, notes or bonds and mortgages, and $556,000 will be applied to redemption of presently outstanding first mortgage bonds and 5% note of Bedford Pulp & Paper Co., Inc.; $246,300 will be used to reimburse company and subsidiaries for cash expended to acquire Bedford Pulp & Paper Co., Inc.; remainder ($553,200) will be added to general funds. Van Alstyne, Noel & Co. is named principal underwriter. Filed March 27, 1944. Details in "Chronicle," March 30, 1944.

SPROUSE-REITZ CO., INC. — 1,000 shares voting common stock (par $100) and 3,000 shares non voting common stock (par $100).

Address—1900 N. W. 22nd Avenue, Portland, Ore.

Business—Operates a chain of retail stores, selling a wide variety of merchandise.

Underwriting.—No underwriter.

Offering—The shares of voting common stock are to be offered first to the present holders of voting common stock ratably in accordance with their present holdings. The shares of nonvoting common stock are to be offered first to the present holders of all classes of stock ratably in accordance with their present holdings. Price is $100 per share for each class of stock. Unsubscribed stock will be offered to the public.

Proceeds—Net proceeds will be used to provide working capital for both wholesale and retail stores to carry additional inventories.

Registration Statement No. 2-5330. Form A-2. (3-27-44). Registration statement originally filed in San Francisco.

SUNDAY, APRIL 16

MOORE-McCORMACK LINES, INC.—60,000 shares of $2.50 cumulative preferred stock, convertible until Dec. 31, 1950 (par $50) and 210,000 shares of common stock (par $10), including 150,000 shares reserved for issuance on conversion of the preferred stock. The 60,000 shares of preferred and 60,000 shares of common offered are issued and outstanding.

Address—5 Broadway, New York City, N. Y.

Business — Operates ocean steamship lines.

Underwriting—Names to be supplied by amendment.

Offering—Price to public to be supplied by amendment. The stock is being sold by present stockholders as follows: Kuhn, Loeb & Co., 31,000 preferred and 31,000 common; Beavan Corp., 20,000 preferred and 20,000 common, and Schroder Rockefeller & Co., Inc., 9,000 preferred and 9,000 common.

Proceeds—Go to the selling stockholders, and no part of the proceeds is to be received by the company.

Registration Statement No. 2-5331. Form A-2. (3-28-44).

BRYHERN EXPLORATION, DEVELOPMENT & MINING, LTD.—200,000 shares of common stock, $1 (Canadian funds) par.

Address—10 Adelaide Street, East, Toronto, Ontario.

Business—Mining company.

Underwriter—Willis E. Burnside & Co., New York, is named underwriter.

Offering—Price to public, United States funds, 57 cents a share.

Proceeds — For organization expenses, patent, drilling, development and working capital.

Registration Statement No. 2-5332. Form S-3. (3-28-44).

MONDAY, APRIL 17

ILLINOIS COMMERCIAL TELEPHONE CO.—21,000 shares of $4.75 cumulative preferred stock (no par).

Address—122 West Washington Avenue, Madison, Wis.

Business—Provides, without competition, telephone service in Illinois.

Underwriting — Paine, Webber, Jackson & Curtis, New York, and Mitchum, Tully & Co., Los Angeles, are principal underwriters, with names of others to be supplied by amendment.

Offering—Price to public is to be supplied by amendment.

Proceeds — Net proceeds will be used principally to retire the $6 cumulative preferred stock of the company as follows: 17,098 shares at $110 per share, requiring $1,880,780, and 1,567 shares owned by company's parent, General Telephone Corp., at latter's cost, requiring $130,849, total $2,011,629. Balance of proceeds will be placed in company's treasury.

Registration Statement No. 2-5333. Form S-2. (3-29-44).

MILLER MANUFACTURING CO.—100,000 shares of convertible class A stock (par $5) and 316,667 shares of common stock (par $1).

Address—1725 16th Street, Detroit, Mich.

Business—Engaged in the manufacture of specially designed tools for repairing and servicing automotive vehicles.

Underwriting—Principal underwriters are Baker, Simonds & Co., Detroit; Van Alstyne, Noel & Co., New York, and Strauss Securities Co., Chicago, with names of others to be supplied by amendment.

Offering—Of class A stock 95,000 shares will be offered to the public at $10 per share. Company proposes to issue the remaining 5,000 shares of class A stock, and 16,667 shares of its common stock to certain holders of Rieke Metal Products Corp. as part of the purchase price of stock of Rieke Metal proposed to be acquired by Miller from such stockholders.

Proceeds—Net proceeds to be received from the sale of 95,000 shares of the class A stock are estimated at $790,445. Of this amount $587,500 is proposed to be used to pay the cash balance of the purchase price of stock of Rieke Metal Products Corporation and any amount not so required will be added to working capital.

Registration Statement No. 2-5334. Form S-1. (3-29-44).

AMERICAN BAKERIES CO. — 13,000 shares of class B stock, (no par). The stock is already issued and outstanding.

Address—520 Ten Pryor Street Building, Atlanta, Ga.

Business—Engaged in the manufacture at 18 plants of bread, rolls, cake and other usual bakery products.

Underwriting—To be supplied by amendment.

Offering—Price to the public to be supplied by amendment. The stock offered for sale is that of L. A. Cushman and Martha Bryan Allen Cushman as trustees of the L. A. Cushman Trust.

Proceeds—Proceeds from the sale go to the selling stockholders, and none of the proceeds from the sale will be received by the company.

Registration Statement No. 2-5335. Form A-2. (3-29-44).

VERTIENTES-CAMAGUEY SUGAR CO. OF CUBA—696,702 shares of common stock, $6.50 par value, United States currency. Of the shares being registered, 443,850 are outstanding and owned by the National City Bank of New York. The prospectus states the several underwriters have agreed to purchase $1,663,500 of first mortgage (collateral) 5% convertible bonds of Vertientes-Camaguey Sugar Co. of Cuba, due Oct. 1, 1951, owned by the National City Bank of New York. The underwriters propose to convert these bonds at or prior to the closing and the 252,852 shares of common stock of the company which are received by the underwriters on such conversion, together with the 443,850 shares previously mentioned, will make up the total stock to be offered.

Address—Edificio La Metropolitana 801, Havana, Cuba.

Business—Growing of sugar cane and production of sugar.

Underwriting—Harriman Ripley & Co., Inc., New York, is principal underwriter with names of others to be supplied by amendment.

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

Proceeds—Proceeds from sale will go to the selling stockholders.

Registration Statement No. 2-5336. Form S-1. (3-29-44).

PEERLESS IMPERIAL CO., INC.—4,000 shares of preferred stock, $100 par.

Address—321 Broadway, New York City, N. Y.

Business—Manufacture and sale of rubber keys for typewriters and adding machines, other rubber molded products, etc.

Underwriting—No underwriter.

Offering—Company is offering, without underwriting, to its various customers and others the 4,000 shares of preferred stock at $100 per share plus accrued dividend.

Proceeds—For working capital.

Registration Statement No. 2-5337. Form S-2. (3-29-44).

PLOMB TOOL CO.—$600,000 10-year 5% convertible debentures due Jan. 1, 1954.

Address — 2209 Santa Fe Avenue, Los Angeles, Cal.

Business — Manufacture and sale of mechanics' service tools.

Underwriting—Name to be supplied by amendment.

Offering—Price to the public, plus accrued interest from Jan. 1, 1944, to be supplied by amendment.

Proceeds—To be used for redemption of first mortgage bonds, reimbursement of company for funds used to redeem preferred shares and reduction in V-loan.

Registration Statement No. 2-5338. Form S-1. (3-29-44).

TUESDAY, APRIL 18

CORNELL-DUBILIER ELECTRIC CORP.—20,000 shares cumulative preferred stock, series A (no par). Dividend rate will be supplied by amendment.

Address—333 Hamilton Boulevard, South Plainfield, N. J.

Business — Manufacture and sale of various types of capacitors, known also as fixed electrical condensers.

Underwriting—Eastman, Dillon & Co., New York, is named principal underwriter with names of others to be filed by amendment.

Offering—Price to the public plus accrued dividends from April 15, 1944, to date of delivery will be filed by amendment.

Proceeds—To be added to working capital.

Registration Statement No. 2-5339. Form S-1. (3-30-44).

CARPENTER PAPER CO.—15,000 shares of common stock (par $1).

Address — 815 Harney Street, Omaha, Neb.

Business — Warehousing for sale at wholesale of paper and paper products of various descriptions.

Underwriting—None named.

Offering—Price to public is given at $30 per share. The registration statement stated 1,717 shares of common stock are being currently offered to a group of officers and employees at a price of $21.50 per share under a separate registration and prospectus.

Proceeds — Net proceeds estimated at $446,000 are to be used by the company for working capital required because of increased sales, to provide for carrying increased inventories and for other corporate purposes.

Registration Statement No. 2-5340. Form A-2. (3-30-44).

BULLOCK FUND, LTD.—300,000 shares of capital stock (par $1).

Address—One Wall Street, New York City, N. Y.

Business—Investment company.

Underwriting—Supervised by Calvin Bullock.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5341. Form S-5. (3-30-44).

WEDNESDAY, APRIL 19

AMERICAN ANNUITY SAVINGS ASSOCIATION—$500,000 accumulative annuity certificates, series J.

Address — 807 American State Bank Building, Lansing, Mich.

Business—Sale of face amount certificates.

Underwriting—None named.

Offering—The company offers to residents of the State of Michigan its accumulative annuity certificates.

Proceeds—For investment.

Registration Statement No. 2-5342. Form A-2 (3-31-44).

SOUTH COAST CORP.—$1,702,260 5% cumulative income debentures (subordinated) due Nov. 30, 1973. The debentures are now outstanding and do not represent new financing by the company.

Address—Carondelet Building, New Orleans, La.

Business—Manufacture and sale of products and by-products resulting from the processing of sugar cane.

Underwriting—Paul H. Davis & Co., Chicago, is named underwriter.

Offering—The income bonds offered are outstanding and owned by the Celotex Corporation. Offering price to the public will be supplied by amendment.

Proceeds—Will go to the Celotex Corporation as owner of the debentures.

Registration Statement No. 2-5343. Form S-1. (3-31-44).

THE TRION CO.—12,850 shares of 5% preferred stock, cumulative (par $100).

Address—Trion, Ga.

Business—Manufacturing, finishing and fabricating of cotton goods.

Underwriting—Courts & Co., Atlanta, 3,350 shares; Milhous, Martin & McKnight, Inc., Atlanta, 2,000; Ingalls & Snyder, New York, 1,200; Wyatt, Neal & Waggoner, Atlanta, 1,200; R. S. Dickson & Co., Inc., Charlotte, 1,000; Kirofer & Arnold, Inc., Raleigh, 1,000; Robinson-Humphrey & Co., Atlanta, 600; Brooke, Tindall & Co., Atlanta, 500; J. H. Hilsman & Co., Inc., Atlanta, 500; Clement A. Evans & Co., Inc., Atlanta, 500; A. M. Law & Co., Spartansburg, 500, and H. T. Mills, Greenville, 500.

Offering—Company offers the right to purchase preferred stock to the holders of common stock who have not waived such right, on the basis of one share of preferred for each 7½ shares of common held and for each remaining unit of less than 7½ shares held, the offering price to be supplied by amendment. The preferred stock covered by waivers is initially offered by the underwriters. The remaining preferred stock is offered subject to its purchase from the company by holders of the common stock.

Proceeds—The purpose of the issue is to effect the retirement of an equal number of shares of 7% preferred outstanding.

Registration Statement No. 2-5344. Form S-1. (3-31-44).

BOND STORES, INC.—60,000 shares of convertible preferred stock, cumulative (par $100). Dividend rate will be supplied by amendment.

Address—261 Fifth Avenue, New York City, N. Y.

Business—Consists principally of the retail sale of men's and ladies' ready-to-wear clothing.

Underwriting — Lehman Brothers and Wertheim & Co., New York, are named principal underwriters, with others to be supplied by amendment.

Offering—Price to the public, plus accrued dividends from April 1, 1944, will be furnished by amendment.

Proceeds—From the estimated net proceeds approximately $2,107,875 will be used for the payment and retirement of $2,100,000 face amount of serial notes, together with anticipated premium thereon. Corporation intends to use the remainder of proceeds for enlarging existing stores, building, altering and equipping stores, increasing factory capacity, carrying of larger inventories and accounts receivable, and for working capital.

Registration Statement No. 2-5345. Form S-1. (3-31-44).

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. Huff, Geyer & Hecht, Inc., principal underwriters. Details in "Chronicle," March 9, 1944.

ATLANTIC CITY ELECTRIC CO.—55,000 shares of cumulative preferred stock (par $100). Proceeds will be used to redeem 26,283 shares of old $6 preferred and purchase and cancellation of 30,592 shares of old $6 preferred stock of American Gas & Electric Co. (parent). Stock will be sold at competitive bidding with dividend rate to be named by purchaser. Filed March 14, 1944. Details in "Chronicle," March 23, 1944.

Company will receive proposals to noon April 10 for the purchase of the stock, the purchaser to specify the dividend rate.

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.

LOUISIANA POWER & LIGHT CO.—$17,000,000 first mortgage bonds due April 1, 1974. Proceeds for refunding first mortgage 5s due 1957. Bonds will be sold through competitive bidding with successful bidder naming interest rate. Filed March 16, 1944. Details in "Chronicle," March 23, 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.

SPRAGUE-WARNER-KENNEY CORP. — 15,000 shares of 6% cumulative preferred stock (par $100). Proceeds will be used for the acquisition of a maximum of 8,649 shares of Western Grocer Co. 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. A. C. Allyn & Co., Inc., underwriter. Filed March 16, 1944. Details in "Chronicle," March 23, 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.

How Much Inflation?

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By LEWIS H. HANEY

be a reinstatement of some part of the former volume of such business loans. This, coming on top of the present credit condition, would almost certainly make the existing inflation effective in prices.

(5) Large government spending—or for that matter private spending—for consumer goods is taken for granted by all, perhaps to prime the post-war pump or perhaps merely to let the post-war citizens have some of that which is in the well—the liquidity. Something in the way of a turnover of all these deposits and a circulation of all this currency, must occur. How long do you think the labor pressure groups are going to be satisfied with the high money wages which are taken from them through forced loans, rationing restrictions, and the like? But once the vast sum of money is used and the deposits begin to turn over, prices will rise. Or, to put the matter another way, it would not be possible to make use of all the currency in the country except at a much higher price level.

Other points worthy of note are such facts as that there will be in the post-war period a much greater and more expensive military establishment than we have ever before had in times of peace. Unquestionably there will be vast and expensive experiments with health and social-security schemes, to say nothing of education. It seems that the highly inflationary use of "subsidies" to fight inflation is one of the means of spreading the "liquid assets" around more thoroughly. **And don't forget that the veterans are coming!**

The Disguises Of Inflation

Let us not deceive ourselves. Inflation can not be measured if it is disguised as a condition of "liquidity." The plain truth today is that inflation exists in the form of debt, deposits, and income which are liquid simply and solely because they can not be turned into anything solid!

Or, again, we hear about **"working balances"** held by the banks, which are said to be in proportion to "industrial activity." But what is this industrial activity? It is the **inflated** index of the Federal Reserve Board, which gives us not even physical output, and which now includes the making of instruments of war which have no relation to economic production or consumption.

Finally, what about the so-called **"national income"**? We are told that it is **"required"** by the large fixed charges that result from the vast public debt. That is a good definition of inflation. **Inflation may be defined as national income that has to be puffed up to enable the people of the nation to float a vast mass of non-productive public debt.** This is sometimes known as a process of monetizing the public debt.

I hold that income is inflated whenever **money** income rises out of proportion to real income. This occurs when the money income of a nation is bigger than can be spent. It may also occur when prices rise faster than the quantity of money. In any case, it comes down to the existence of unearned income; that is, income not earned by production in the good old economic sense of the word.

In conclusion, note that the great trouble with our experts today is that they are toying with the idea of an "if" liquidity—with liquid assets which are liquid "if." We are told that the deposit currency and the public debt are our liquid assets, **if** the following conditions are maintained. Mark well the list.

(1) Prices are to remain unchanged. Just think that one over a minute. (In other words, if there be no effective inflation there will be no effective inflation.)

(2) **If** people do not lose confidence in the purchasing power of the currency. That, too, is a fast one, practically begging the question by assuming that prices will remain unchanged.

(3) These assets are to be liquid if the government **"deficit"** is drastically curtailed. But note that there is nothing said about the **debt.** Apparently the deficit is to be tapered off, but the debt will remain with us.

There are other assumptions. It is said that all will be well **if** no effort is made to devalue the dollar, and **if** price controls are removed exactly as the supply of commodities increases and just meets the demand.

But why prolong the discussion?

The real problem concerns the question, How much **what?** My answer is that if we call war debt and deposits "liquid" assets, we should recall that the most common liquid is **water!** Then we may get together for another discussion of the question, How much are our assets watered?

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How Much Inflation?

(Continued from page 1422)

By R. A. SAYRE

the excess purchasing power.

The wage figures previously cited are averages and like all averages include both highs and lows. Workers in a number of industries have not increased their earnings by the large percentages, or to the high levels, that war workers in such industries as automobile, aircraft, shipbuilding, and steel have. Average weekly earnings in these industries in January of this year ranged between $50 and $60 and, strangely enough, the percentage increases since January, 1941, ranged between 50% and 60%. The workers who didn't get the big increases and people with fixed incomes like pensioners and those in retirement, feel the pinch of any rise in their cost of living and are among the first to label this situation as a result of inflation. When these rises are aggravated by the bidding in of limited supplies of goods by people whose income has been rapidly increased, the pinch becomes acute. In times of war, civilians must expect their standards of living to be reduced since there isn't enough to fill everyone's wants. When big earnings by some are used to further shorten the supplies for others, it means that the unfortunate have to bear not only their own share of a reduced standard but also at least a portion of the share which should have gone to the thoughtless and selfish.

When we find, as we do in World War II, that earnings are far outstripping living costs, a situation is being created that is more explosive than the block busters currently being rained on Berlin. The BLS has just published figures showing the picture of spendable income in manufacturing since January, 1941. After deductions for social security taxes, income and victory taxes, and war bond purchases, the average wage earner in manufacturing by October, 1943, was estimated to have increased his weekly take by 44.8% since January, 1941 if he were supporting an adult and two children, and by 24.2%, if he were single. It should be remembered that the war bond deductions, if not social security taxes, are hardly expense—they are just as definitely savings as putting the cash in a savings bank. Family living costs over this period rose only 23.4%. Therefore, the average worker had added to excess purchasing power on either basis and in those many cases where more than one member of a family is now working and where the single worker is part of a family unit the probable additions to excess purchasing power, previously indicated, are magnified. Furthermore, additional magnification may well come from the fact that the cost of living index only reflects price increases of purchasable commodities and services and makes no allowance for decreases in expenditures resulting from the inability to buy many things like automobiles, electric refrigerators, etc.

It has been said, and justly so, that money in itself does not create inflation. It is what is done with the money. It has been further said that in this war the workers are saving their money, paying their debts and not indulging in "silk shirt" buying. Unfortunately this last contention is only partially true. There has been considerable saving, even when allowance is made for war bond redemptions and savings bank withdrawals. But, there also has been a considerable amount of buying of the "silk shirt" variety of the last war.

In connection with our cost of living studies at The Conference Board we have had occasion in recent months to personally interview many retailers in the clothing and housefurnishings lines. There is unmistakable evidence of a widespread tendency on the part of wage earners who have money to spend to buy higher-priced merchandise. Too often the tendency is to base the selection on price alone. One great clothing retailer informed us that where their C lines, the lowest priced, were the best sellers in 1941, followed by B and A, the order has been completely reversed in 1944. Today the A lines are the best sellers, followed by B and C. Furthermore, this reversal in best sellers has been consistent throughout all lines, regardless of price advances which have occurred since 1941. This development, called voluntary trading-up, is widespread. To quote an outstanding economist in the retail field:

"Relief from the economic pressure of prewar days naturally finds expression in the demand for a higher and better standard of living. Wearing apparel is discarded more frequently; wardrobes are much larger; and 'keeping up with the Jones' is not an inconsiderable factor. When money cannot be spent for automobiles and hard goods or new homes, it is spent for more and better food, wearing apparel and other appurtences of better living. The fixed income groups feel this difference in economic status keenly because they cannot buy the better and higher style ranges and the cheaper and more staple ranges in restricted assortments seem relatively much less desirable than formerly, although their serviceability remains substantially unchanged in the great majority of cases. In short, the war has brought a sharp change in the concept of the 'necessary standard of living.'"

What the future holds, I for one will not attempt to predict but I would like to conclude by expressing the opinion that current attempts to change and liberalize present wage stabilization policies are of paramount importance. The success or failure of these attempts will, without a shadow of doubt, be most influential in fostering or dampening a price spiral.

Rail Stock Review

Adams & Peck, 63 Wall Street, New York City, have issued their annual review of Guaranteed and Leased Line railroad stocks. Copies of this interesting review may be had from Adams & Peck upon request.