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Houston President Of Foundation

At the annual meeting of the Board of Directors of the Thomas Jefferson Memorial Foundation, held in New York, Frank K. Houston, President of the Chemical Bank & Trust Co. of New York, was elected President of the Foundation, succeeding the late Stuart G. Gibboney. Mr. Houston is a native Tennessean and a graduate of Vanderbilt University, of which institution he is at the present time a Trustee.

Frank K. Houston

He is also President of the National Board of Trustees of the Sigma Alpha Epsilon Fraternity, and is a Director of many large corporations. He has been Vice-President of the Foundation.

Other officers elected were Henry Alan Johnston, Attorney of New York City, and the Hon.

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IN THIS ISSUE

Price Trends And Outlook

By A. W. ZELOMEK*

Economist, International Statistical Bureau, Inc. and Fairchild Publications

Professional Forecaster Predicts Price Declines In Reconversion Period—Does Not Look For Heavy Spending After War Because Of Probable Large Unemployment—Holds People Will Veer To The Belief That The War Boom Is Over And That Deflation Rather Than Inflation Will Be The Short-Term Dominating Factor

We are at the stage in our war economy where it is difficult to make a single forecast to cover a period of several years. On the one hand, there are many indications that we are at the peak of the war economy or have passed it. On the other hand, we still have to bring the Nazis to their knees — although that may be nearer than generally realized — and after that we still have a dangerous foe to lick, which will probably take nine months to a year longer. Therefore we cannot liquidate all the war features of our economy at the end of the European war, and yet we do not need all the equipment to fight the war in the Pacific that we needed for the war in Europe.

A. W. Zelomek

*An address delivered by Mr. Zelomek before the 29th Annual International Convention of the National Association of Purchasing Agents at the Hotel Waldorf-Astoria, New York City, on May 31, 1944.

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Dollars Of Destiny

By ORVAL W. ADAMS*

Executive Vice President, Utah State National Bank, Salt Lake City, Utah

Western Banking Executive And Former A.B.A. President Holds Well-Being And Destiny Of All Free Peoples Centers In The Preservation Of Sound Money And That Loss Of Confidence In Its Money, Or Inflation, Is The Greatest Tragedy That Can Happen To Any Civilized State—Urges 7 Reforms To Curb Govt. Debt Expansion

The invitation extended to me to talk to you on the subject, "Dollars of Destiny," was one I was happy to accept, both because of the pleasure of meeting with you and because of my deep conviction that the basic problem of maintaining the purchasing power of the American dollar more deeply concerns all of us today than anything short of winning the war. That we will win the war is a foregone conclusion; but only statesmanship of the most heroic kind, backed by resolute courage, intelligence, and selflessness, can save the American dollar from becoming a postwar casualty. All sound econ-

Orval W. Adams

*An address made by Mr. Adams before the Pennsylvania Bankers Association at the Hotel William Penn, Pittsburgh, Pa., on May 24, 1944.

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Production Trends And Outlook

By LEWIS H. HANEY*

Professor of Economics, New York University

Economist Says Trend Of War Production Is Likely To Continue Downward And General Manpower Shortage Will Certainly Be No Worse—Predicts That When The War Is "In The Bag" People Will Not Tolerate Rationing—Holds Prices Will Rise And Profits Will Grow

In considering the production trend and outlook, we should begin by recognizing that the war is the main factor. Perhaps over 60% of the total industrial output consists of war goods. One great future problem lies in the matter of terminating war contracts, and reconverting war industries. The rest of the problem concerns so-called post-war planning, and the question of continuing war controls. It was war that temporarily solved the unemployment problem of the 30's, and peace will threaten a renewal of that problem. War brought inflation to a climax, and the passing of war will intensify the fight against inflation.

Lewis H. Haney

With the foregoing understanding, one may say that the most effective way to consider production trends and outlook at this time is to ask the question, Why not the usual sequence of events attending great wars? Why not a "war boom," followed by a

*A speech made by Dr. Haney before the twenty-ninth Annual International Convention of the National Association of Purchasing Agents at the Waldorf-Astoria Hotel, New York, on May 31, 1944.

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Gov. Dewey Sees A Revival Of State Responsibility

"We Cannot Practice In Peace The Centralization Which Brought About Totalitarianism To Our Enemies And Be Either Free Or Successful," He Declares—Urges Paying More Attention "To What Goes On In The World," And Not Again "Sit On The Side Lines As Mere Observers"—Asks Unity In Peace As In War

Governor Thomas E. Dewey of New York, in an address made on May 29 at the Thirty-Sixth Annual Governors Conference at Hershey, Pa., pointed out the dangers of regimentation and urged a return to State responsibility in the post-war reconstruction period, "so that all possible functions of government in this country will proceed closely to their sources—the people." He also expressed the conviction that "our people are united upon the proposition that our foreign affairs must be conducted so that disasters like the present one will not recur," and that they have "a positive determination to join in preventing future wars."

Gov. Thos. E. Dewey

The text of the address follows:

This conference is a stimulating and reassuring occasion. There are gathered here Governors from 39 States, North, South, East and West. Some of those States are preponderantly Republican, some Democratic. Some are preponderantly agricultural, some industrial. Some are seaboard States, some mountainous, some prairie States.

Each of us, as a Governor, has different problems and to some extent, differing types of people. But out of this immense divergence there comes no sense of confusion. Rather there comes a clear sense of the unity of the American people about the things that really count.

This unity of ours is a precious fact. The world is swept by war and confusion; chaos reigns elsewhere and threatens everywhere; throughout most of the world established institutions have been uprooted and men are bewildered or quarreling about the fundamentals upon which their societies can be rebuilt. At such a time

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E. C. Thomas With Bullington-Schas Co.

MEMPHIS, TENN.—E. C. (Coke) Thomas is now in charge of the municipal buying department of Bullington-Schas & Co., First National Bank Building, specialists in Mississippi, Tennessee and Arkansas municipals. Mr. Thomas was formerly manager of the bond department of the First National Bank of Memphis, and was a partner in Saunders & Thomas and Thomas & Allen.

This Scrambled World*

By DR. J. ANTON de HAAS
William Zeigler Professor of International Relationships, Harvard University

Economist Predicts "A Tremendous Potential Demand For All Kinds Of Products When The War Stops" Resulting In A Post-War Boom To Be Followed By a Period Of Industrial Decline—Urges An International Post-War Plan For Allotment Of Supplies And Equipment Or "Face Chaos In The World"—Sees Free Competition Still A Long Way Off

Usually when I am asked to speak for some business conference, the program chairman says, "Tell the boys something they like to hear." Your chairman made no such statement. It may be because from past experience he knows that I say what I think regardless of the fact that my audience may not like it. I shall tell you many things tonight with which you may not agree, and some you do not even like to hear.

J. Anton de Haas

But times are too serious and too confused for us to allow ourselves the luxury of living in a dreamland built of things we like. We want to see things as they are and believe me, many of them are not pleasant. Two big questions are in the minds of all businessmen today. The first one is:

Is there going to be a good mar-

*An address made by Dr. de Haas before the 29th Annual Convention of the National Association of Purchasing Agents at the Waldorf-Astoria Hotel, New York City on May 30, 1944.

(Continued on page 2372)

Blanchard, Snow, Watts New Stock Exch. Firm

The New York Stock Exchange firm of Blanchard, Snow & Watts will be formed on June 19 with offices at 115 Broadway, New York City. Partners will be I. Munro Blanchard, Charles W. Snow, John Watts and Richard R. Thomas, the Exchange member. Mr. Blanchard and Mr. Watts were formerly partners in C. N. Edge & Co.

Remick Returning To Stillman, Maynard Co.

J. Gould Remick will return to his desk at Stillman, Maynard & Co., 61 Broadway, New York City, members of the New York Stock Exchange, about the middle of the month. Mr. Remick, a partner in the firm since 1937, has been serving as a Major in the New York Ordnance Department. He was commissioned in March of 1942.

He has been a governor of the New York Stock Exchange and of the Association of Stock Exchange Firms, of which he was President in 1941.

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

Hearing On NASD "5% Spread Philosophy"

We have examined the "Order For Proceedings And Notice of Hearing" made by the Securities and Exchange Commission which fixes June 13th as the hearing date "In the Matter of the Rules of the National Association of Securities Dealers, Inc." A copy of this order giving the text in full, is appended.

Examining the order makes an interesting study.

The Commission recites a series of facts which its "official files disclose." These include:

(a) the registration of NASD under the Maloney Act;
(b) NASD's rule dealing with "high standards of commercial honor and just and equitable principles of trade";
(c) the communications sent by NASD interpreting the "5% spread"; and
(d) the resolution filed by the New York Security Dealers Association and the petition filed by the Securities Dealers Committee.

Then comes the clause in which the Commission defines the scope of the hearing. Here it is:

"The Commission, having considered the aforesaid, deems it necessary and appropriate in the public interest and for the pro-

(Continued on page 2390)

NASD Board Of Governors And The 5% Mark-Up Rule

Officials Failed To Abrogate Widely Opposed Measure At Recent Meeting In This City—Effort Again Made To Justify Mark-Up Policy As "Interpretation"

Despite repeated statements to the contrary by its sponsors, it has long been evident that a large number of the members of the National Association of Securities Dealers hold to the belief that the so-called "5% spread philosophy" promulgated by the Association's Board of Governors is definitely a rule, a position long held by the "Chronicle." Accordingly, as this publication has continuously maintained in its editorial discussion of the subject, the directive is definitely illegal as the by-laws of the Association require that the membership be permitted to vote on any rule. Despite this injunction, the Board of Governors failed to give the membership an opportunity to consider the proposal and has attempted to justify its illegal act by advancing the specious claim that, rather than a rule, the mark-up policy is merely an "interpretation" of the Association's rules of fair practice. It is perfectly clear, however, that the efforts of the Board of Governors in this direction have been singularly abortive. No better evidence of this fact is available than that contained in a letter sent under date of May 18 last by

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Gov. Bricker Calls For Post-War Balanced Budget

"The Pre-War Federal Policy Of Spend, Waste, Borrow And Tax Will Wreck American Economy," He Declares—Urges (1) Strictest Economy In Government; (2) Collaboration Between Federal, State And Local Governments To Segregate Tax Basis; And (3) Reservation Of Certain Taxes To Local Governments In Lieu Of Subsidies—Favors Baruch-Hancock Plan Of Tax Reduction

In an address delivered before the Thirty-Sixth Annual Governors Conference at Harrisburg, Pa., on May 30, John W. Bricker of Ohio, Republican Presidential aspirant, severely condemned the centralization of power in the Federal Government as leading to "the paralysis of State and local government," and as opening the doors "to absolutism and every form of demagogy." He stressed particularly the need for greater economy and a balanced budget in Federal operations, and a complete overhauling of tax policies so as to "aid and encourage rather than suppress American enterprise."

Gov. John W. Bricker

The text of Governor Bricker's prepared address follows:

Our representative system of government has responded amazingly to the crisis of war.

The dictators have said that the democracies were decadent. They had proclaimed to the world that a free people could not be welded together into a strong, united and determined nation. American ingenuity has belied their accusations.

We have built, almost overnight, the mightiest Army and Navy in the world. American in-

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U. S.-British Post-War Relations

"Just now I suggested that the British and American peoples, working through their Governments, can discover and work out an agreement on their mutual economic problems," said Don C. Bliss, Jr., Commercial Attache to the American Embassy in London in an address made before the Commerce and Industry Association, New York City, on May 23, 1944. "I think," continued Mr. Bliss, "that the scope in which we can agree to our mutual advantage is far more extensive than some of the current discussions would suggest — and by current discussion I mean unilateral discussion, when we are speculating among ourselves as to what the British are up to, or when the British are trying to appraise American attitudes. There is quite a list of situations in which American and British interests are not automatically identical, for one reason or another, but we haven't time today to cover that particular waterfront. Let us consider just one, taking it as an example—the issue of bilateralism vs. multilateralism as a feature of basic economic policy. To take an analogy familiar to us, let us assume that we are talking about the United States, that Great Britain is Vermont, that American is New York State, and that there are trade barriers between the states, —tariffs, quotas and other arrangements whereby each state endeavors to protect its own economic position. This is an oversimplification, but let us say further that Vermont has only maple sugar to sell, while New York is the only source of imported coffee. Vermont of course wants quite a

Don Bliss

(Continued on page 2385)

Small Business Fate Vital Issue In NASD 5% Mark-Up Rule

Abrogation Of Measure Essential To Preserve Markets For Securities Of Small Corporate Entities, Dealers Assert

While there is a difference of opinion, even among well-informed circles, as to the probable trend of conditions in the post-war period, there is one premise on which there is complete unanimity. This concerns the extent of the contribution that small business must make in the tremendous task of providing the fullest employment in peace years. Even so-called big business freely concedes and recognizes this principle. Such being the case, it is axiomatic that these smaller enterprises which, by and large, have necessarily suffered because of war conditions, must be favored in every way possible in order to grow and expand. A cardinal necessity here, naturally, is the creation and maintenance of markets for their securities, completely devoid of any artificial impediments.

Unfortunately, however, there is substantial reason to believe that the widely opposed 5% mark-up rule of the National Association of Securities Dealers is calculated to materially interfere with the normal functioning of such markets. This fact has been emphasized time and again by securities dealers in various parts of the country, whose views on the subject have been published in these columns regularly since our issue of April 13. While there have been expressions to the contrary, the overwhelming majority contend that the 5% rule, if it stands, will seriously impair the markets for existing securities of small corporate enterprises and make it extremely difficult for these and similar units to obtain new capital accommodation. In this connection, we give here additional expressions in the matter and these, incidentally, constitute the remaining unpublished balance of the hundreds received on the subject. We would call attention to the fact that the name of the city or town preceding the dealer's comments was obtained from the postmark appearing on the envelope in which the questionnaire was returned. In cases where publication of the name of the community would tend to identify the firm (as in places where only one firm exists), the point of origin is indicated by using the phrase, "A Small Maine Town," as an example, or its equivalent.

NEW YORK CITY

There will be no market for such securities.

BOSTON, MASS.

There won't be any market for them as the big brokers won't bother with dealers in that type of security. All this move is only to drive the little man out of business.

PATERSON, N. J.

There are many cases when I do not charge 5%, but there are many other situations where I put in much time and money for research and it is necessary to charge over 5% to cover the overhead. In these cases it has proved that the additional charge over 5% was well worth while. I do not sell packaged items, such as investment trust shares, where the dealers just tacks on 5%, but does no research. Just as in any line of business, you get just what you pay for. If the dealer has the interest of his clients in mind, he will not overcharge. If he does, he will eventually put himself out of business. If he is limited to 5% then he cannot afford to put in the time and money for

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Courts & Co. Admits Carter As Partner

ATLANTA, GA.—Courts & Co., 11 Marietta St., N. W., members of the New York Stock Exchange, have announced that Hugh D. Carter, Jr., has been admitted as a general partner in their firm.

Hugh D. Carter

Mr. Carter, who is a native of Atlanta and a graduate of Georgia School of Technology, has been connected with Courts & Co. since his graduation from Princeton University in 1925. Mr. Carter is a member of Capital City Club, Piedmont Driving Club, Kappa Alpha Fraternity, and Princeton Charter Club.

Admission of Mr. Carter to partnership in Courts & Co. was previously reported in the Financial Chronicle of May 18th.

E. W. Marshall Joins Goldman, Sachs & Co.

Announcement is made that Edward W. Marshall has become associated with Goldman, Sachs & Co., 30 Pine Street, New York City, members of the New York Stock Exchange, in its buying department. Since 1942 Mr. Marshall has been with the War Production Board, Office of Civilian Requirements, in the capacity of Acting Director, Appeals and Order Clearance Staff and Special Assistant to the Vice-Chairman. Prior to joining the WPB he was Vice-President and Director of Boston Fund, Inc.

Vilas & Hickey Admits Three To Partnership

Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock and Curb Exchanges, will admit Royden E. Jacobus, John H. Printon and George E. Richardson to partnership in the firm on June 15.

Laurence Hayes Forms Own Firm In Rochester

ROCHESTER, N. Y.—Laurence A. Hayes has formed Laurence A. Hayes Co., with office in the Powers Building, to act as dealers and brokers in unlisted securities.

Mr. Hayes was formerly with the Genesee Valley Securities Co., H. O. Wallace, Inc., and Delmonaco, Hayes & Co.

722 Relief Decision Evokes Interest

Involves Recovery Procedure Under Relief Section

By PETER GUY EVANS, C.P.A.

Member of New York Bar; Lecturer on Taxation at Columbia and Rutgers Universities

A great deal of interest was expressed in the recent decision of the Tax Court of the United States in the Uni-Term Stevedoring Company, case, one of the Court's first decisions involving the interpretation of the procedure to be followed in connection with the recovery of claims for refund of excess profits tax under Section 722, the so-called relief section.

Peter Guy Evans

Specifically, the ruling holds that the Tax Court will not try corporate claims for refund of excess profit tax until they have been first ruled upon, in accordance with law, by the Commissioner of Internal Revenue.

The Court emphatically pointed out that all cases involving tax deficiencies will be adjudicated as they come for trial, but interjection or offset of relief claims filed, but not yet ruled upon by the Commissioner, will not be permitted. In other words, if a corporation has been assessed an additional tax, and it has also filed an appropriate relief claim for refund, the Court will only rule on the deficiency. Later, should the taxpayer appeal from the Commissioner's action of the relief claim, the Court will hear the case accordingly.

722 Claim Filed

The Corporation filed on Sept. 15, 1943, Form 991, "Application for Relief Under Section 722 of the Internal Revenue Code," claiming a refund of $83,669 for the year 1940. This is the exact amount that the Commissioner determined to be due from the taxpayer for 1940. On April 5, 1944, when its case came up for trial the Corporation interjected its relief claim as an offset against the deficiency, claiming that the Court had the power to hear the claim despite the fact that the Commissioner had not acted on same. Since no excess profits tax had ever been paid by the taxpayer for 1940, the Commissioner did not act upon the Application because there was nothing to refund.

Procedure Premature

In concluding the Court's decision, Judge Murdock pointed out that there had been neither payment of the tax nor action by the Commissioner. The taxpayer's request that the Court take jurisdiction in the proceeding over the question of relief under Section 722 is premature, and "consequently is not in position to ask for any relief."

The Corporation contended that should it be compelled to pay the additional excess profits tax, it would be barred from later suing for refund of excess profits tax overpaid. The Court disputed such contention and assured the Corporation that it could sue later for overpayment.

"If the Commissioner disallows a claim for refund, the sending of a notice under Section 732(a) is mandatory," the opinion reads. "The same section also expressly provides that the petitioner (taxpayer) upon receipt of such a notice, may invoke the jurisdiction of this Court.

"If the Commissioner should act favorably upon this petitioner's claim for refund, the petitioner would be entitled to receive the refund or sue for it, or, if it were held by this Court in a later proceeding that the petitioner is entitled to relief under 722, this Court would find an overpayment."

Reed Drug Com. Offered By Floyd D. Cerf Co.

An issue of 25,000 common shares (par $1) of the Reed Drug Co. was offered June 6 by Floyd D. Cerf Co., Chicago, at $3.75 per share. The sale of this stock does not represent new financing and none of the proceeds will accrue to Reed Drug Co. The company is engaged in maintaining and operating a chain of retail drug stores located in Milwaukee West Allis, Racine, Kenosha and Janesville, Wis.; Chicago, Rockford and Springfield, Ill. and Gary, Ind., through which it sells at retail, drugs, pharmaceutical products, smoking materials, candy, specialties and sundries.

Sales for the calendar year 1943 aggregated $2,748,611, an increase over 1942 when $2,695,960 was reported. Earnings per common share in 1943 was 59 cents as compared with 64 cents in 1942.

Washington Dodge Is With Roberts & Co.

Roberts & Co., 61 Broadway, New York City, members of the New York Stock Exchange, announce that Washington Dodge is now associated with them. Mr. Dodge formerly was a partner of Arthur Wiesenberger & Co., and prior to that was financial editor of "Time" magazine.

Washington Dodge

Substantial Improvement

Wood, Gundy & Co., Incorporated, 14 Wall St., New York City, have prepared an eight-page pamphlet outlining the substantial financial improvement that has marked the operations of the Canadian Pacific RR. over the past five years; this is illustrated by graphic comparisons of 1938 with 1943. Copies of the pamphlet may be had upon request from Wood, Gundy & Co.

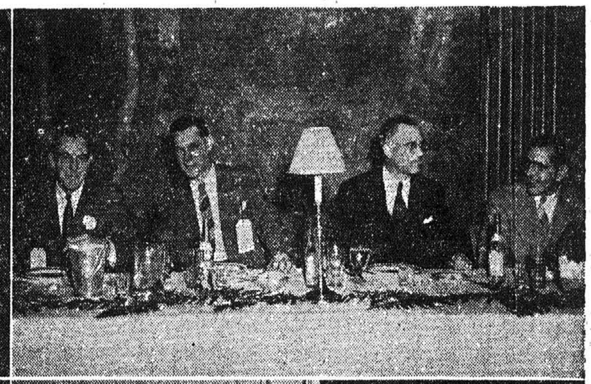
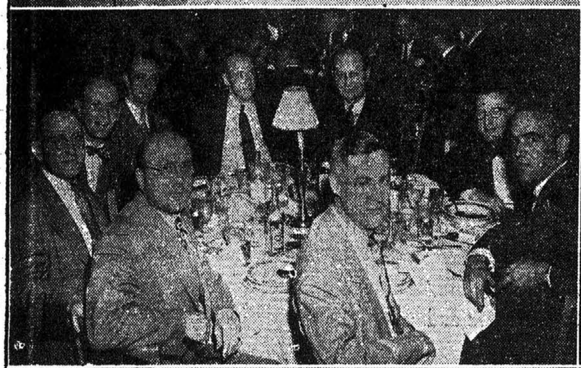
Interesting Rail Situation

Adams & Peck, 63 Wall St., New York City, have prepared an interesting circular on Boston & Albany RR., which appears attractive at the present time, the firm believes. Copies of this circular may be had from Adams & Peck upon request.

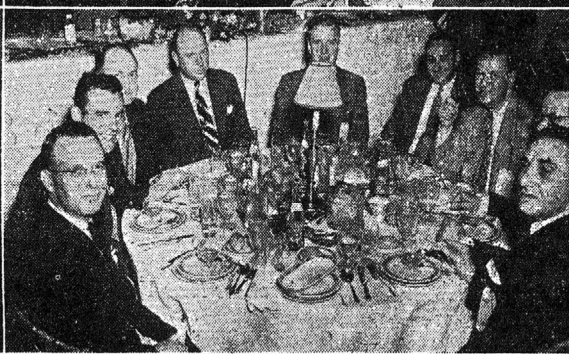
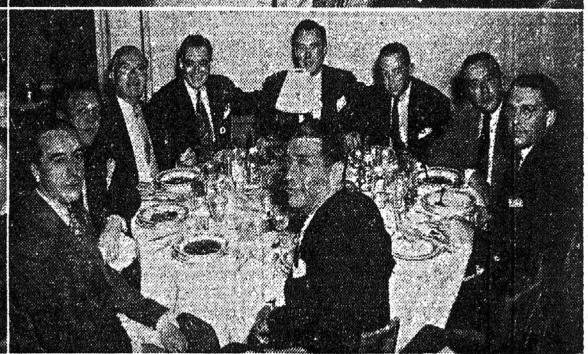
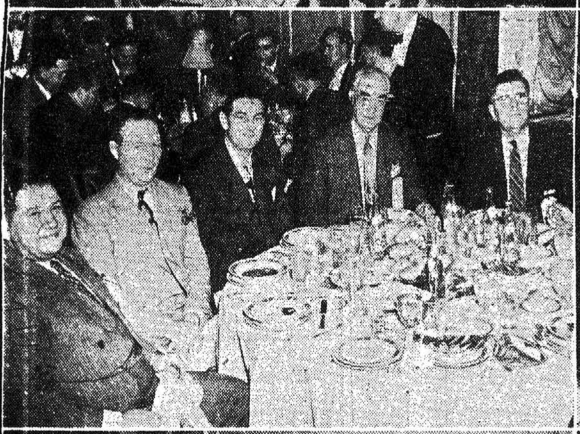
N. Y. Corporation Bond Traders Dinner

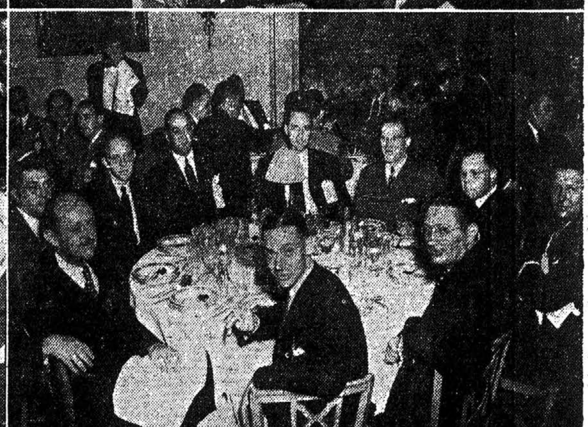
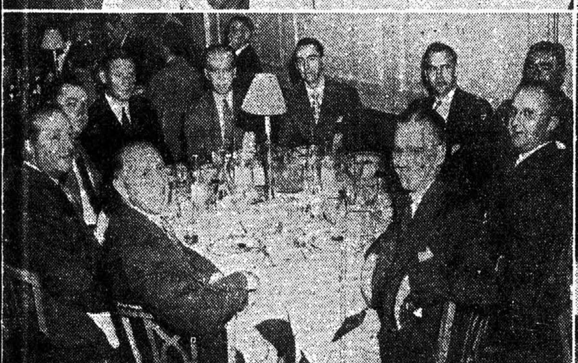
Photographs by Jack Germain








Brazil Transfers $42,000,000 To Meet Initial Payment On Dollar Loan Issues In U. S.

It is announced that Brazil has just transferred to this country more than $42,000,000 to meet the initial payment of its foreign obligations represented by dollar loan issues in this country amounting to $286,065,645. The new arrangement is the result of Brazilian Decree Laws 6019 and 6410, dated Nov. 23, 1943, and April 10, 1944, respectively, which determine the two plans A and B worked out in cooperation with the Foreign Bondholders Protective Council, Inc. (New York). These plans will be offered to the bondholders when the registration statement becomes effective. The announcement also says:

"Signing of the necessary documents was held today (June 7) in the presence of representatives of Brazil and of the various banking interests.

"The following documents were signed: (a) general bond; (b) agreement with 10 fiscal agents covering 31 different issues; (c) registration statement; (d) prospectus; (e) offer to holders of dollar bonds; (f) agreements with fiscal agents on fees and general expenses, and (g) agreement with the National City Bank of New York, which will act as depositary.

"The documents will carry the signature of Romero Estellita as the legal representative of the Minister of Finance, and who will sign in behalf of the United States of Brazil.

"Valentim F. Boucas and Claudionor de S. Lemos, member of the Council on Economy and Finance of Brazil, and General Comptroller of Brazil, respectively, also signed the documents, not only as witnesses, but as the principals responsible for all the work that has been carried out for the last six months in this country."

Mr. Boucas said: "This is in fact the most important financial operation of its kind in this country and shows the real and comprehensive way of a 'good neighbor' policy working in both directions.

"We all understand the enormous anxiety of all the bondholders to see this put into effect, but I am sure they will realize that because of the many complications and number of parties involved it was not possible to complete the program any sooner."

According to the announcement, to put into operation immediately the present plan the Brazilian Government issued checks amounting to approximately $33,000,000. Of this amount, $25,000,000 will pay the interest due up to July 1, plus a substantial amount on account of principal, and $8,000,000 will be advance sinking fund money. This latter payment would not normally be due for some time. The greater part of the paying agents' expenses were also paid.

Mr. Boucas also stated: "All this is a result of the financial policy adopted by President Getulio Vargas and has been made possible through the great ability of its Minister of Finance, Artur de Souza Costa, who has been in this country on several very successful financial and economic missions."

On Board of Sterling Bank

Herbert P. Luce has been elected a member of the Board of Directors of Sterling National

Herbert P. Luce

Bank & Trust Co. of New York, it is announced. Mr. Luce is Vice-President of United Cigar-Whelan Stores Corp.

NSTA Members To Aid In 5th War Bond Drive

The 2,200 members of the National Security Traders Association, Inc., are again being enlisted for participation in the forthcoming War Loan Drive along the lines of their efforts in the last drive, according to an announcement by Wm. Perry Brown of Newman, Brown & Co., New Orleans, President. According to present plans, the traders will concentrate their efforts in the professional investment field and will make a thorough canvass of every possible purchaser of War Bonds. John E. Sullivan, Jr., of F. L. Putnam & Co., Inc., Boston, heads the group's Special War Bond Committee and will direct the drive. The Association has 2,200 members located principally in 23 of the largest financial centers of the country.

Situations of Interest

F. H. Koller & Co., Inc., 111 Broadway, New York City, have prepared a comprehensive analysis on Great American Industries which the firm believes appears attractive at current levels. Copies of this interesting analysis as well as circulars on Bartgis Bros. and United States Lumber may be had upon request from F. H. Koller & Co.

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.

Railroad Securities

Apparently the first trial balloon released by the Baltimore & Ohio management in an attempt to settle the still burdensome maturity problems of the next ten years received a cool reception. Reports indicate that the larger institutional holders were approached with a proposal to extend the maturity of the 1st 4s and 5s, 1948 for a term of 40 years. At the same time the RFC loan was to be extended for the statutory limit. However, it was contemplated that the Southwestern Division 5s, 1950 and the Pittsburgh, Lake Erie & West Virginia 4s, 1951, outstanding in the aggregate amount of more than $74,000,000, should remain undisturbed.

It was hardly to be expected that holders of the 1st mortgage bonds, in their preeminent position, would look kindly on such a one-sided proposal. These First Mortgage bonds not only have a lien on some of the heaviest density and most important mileage of the system, but, also, they are secured on the company's equipment, subject, as to certain units, to outstanding equipment obligations. In the first place, the proposed maturity extension is for too long a period to be attractive to the institutional holders. In the second place the contemplated plan would extend the life of the bonds beyond the due date of close to $179,000,000 of system bonds now having a later maturity than the 1st Mortgage bonds. The maturities thus having their position relatively improved would include even the unsecured Convertible 4½s, 1960.

The cool reception accorded the initial proposal is not taken too seriously, however, and there is little question in the minds of most rail men who have followed the situation but that a more equitable compromise will be worked out within a reasonable time. It is possible that an agreement may be reached before the end of this month. Any such plan will inevitably also have to include satisfactory sinking fund arrangements—it is likely that at least another $100,000,000 of debt will have to be retired before the road may be considered on a truly firm credit standing. This is exclusive of $28,700,000 of publicly held 4% Notes, 1944, which it is expected will be paid off in cash this year.

Although the maturity aspects of the proposed plan were surprising as well as disappointing, the treatment outlined for the junior mortgage bonds was in line with earlier expectations. The fixed portion of interest on the bonds would be doubled over the amount received under the Chandler Act readjustment now in effect. The 5s would receive 2% fixed interest and 3% secured contingent interest and the 6s would receive 2.40% fixed and 3.60% contingent. On the basis of such treatment these bonds are considered in many quarters as the most attractive speculative media in the rail bond list.

Through its debt retirement program of recent years Baltimore & Ohio has reduced its fixed charges to around $18,000,000 and total fixed and contingent charges to around $27,500,000. Of this total, $4,000,000 is represented by unsecured contingent interest which is junior to the contingent portion of interest on the Refunding & General Mortgage bonds. If the publicly held 4s, 1944 are paid off this year the reduction in fixed charges would just about offset the increase in fixed requirements contemplated in the interest readjustment on the Refunding & General Mortgage bonds.

Fixed charges of $18,000,000 would absorb less than 11.4% of average 1938-1940 gross revenues. During the depression decade Baltimore & Ohio carried an average of 16.7% of gross through to net operating income before income taxes and even in its poorest year, 1938, carried through 11.1%. In addition, even in the poorest years non-operating income has run around $6,500,000. Obviously, then, even under the most stringent conditions that could be expected post-war the company would have little difficulty in covering these requirements. In fact it is notable that allowing for the minimum non-operating income of $6,500,000 the total of fixed and secured contingent interest would absorb only 10% of 1938-1940 gross, a modest burden for a property inherently so efficient as the B. & O.

Robert K. Bourne Is With Geo. H. Grant Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—Robert K. Bourne has become associated with George H. Grant & Co., Russ Building. Mr. Bourne was formerly manager of the trading department of the San Francisco office of Merrill Lynch, Pierce, Fenner & Beane, and prior thereto was in charge of the bond trading department of Hannaford & Talbot.

Lehman Brothers Offers National Airlines Com.

Lehman Brothers made a public offering June 7 of 113,333⅓ common shares (par $1) of National Airlines, Inc., at $13.75 a share. The issue will provide the company with working capital for expansion.

The Civil Aeronautics Board has granted to the company authority to establish a new route between Jacksonville, Fla., and New York City, and this will be started as soon as additional flying and ground equipment are available. The company has other applications pending to expand its present routes.

The stock issue will bring the outstanding common issue to 500,000 shares.

Beatrice Creamery Shares Placed

Glore, Forgan & Co. announced June 5 that the 7,998 shares of Beatrice Creamery Co. common stock ($25 par), representing the unsubscribed balance of 100,433 shares offered to common stockholders in ratio of one new share for each four owned have been sold.

The company will use the money received from this offering to redeem on Aug. 1 at 105.50 a share, 29,788 shares of $4.25 preferred stock or approximately one-third of the amount outstanding. The balance of the funds needed for this purpose will be taken from working capital.

Under the terms of the preferred stock issue, the company is required to purchase or redeem within 120 days after the close of the fiscal year ended Feb. 20, 1944, and each fiscal year thereafter an amount of preferred stock equal to 30% of the excess of consolidated net income over $750,000, with a limitation of $200,000 a year. This year the directors plan to retire about one-third of the preferred.

Real Estate Securities

By JOHN WEST

Realty Gains Due To Be Maintained For Coming Year Survey Indicates A Further Stiffening of Residential Market

London Terrace, Inc., Shows Increased Income As Result Of Improved Realty Conditions

The first two headlines of this article appeared in the New York "Times" Sunday, June 4, the other headline, the subject of this article, gives a concrete example of the advantages of efficient management under improved conditions.

London Terrace, Inc., reported optimistically on May 20, 1944, to First Fee and General Mortgage bondholders who also have about 60% equity interest in this well known New York City property which has 1,510 rooms, divided into 700 apartments of which 620 are one and two room units. We quote from the report.

"We are pleased to report that, in addition to the payment of six months' fixed interest of 1½%, there is now also being paid income interest of 2% on the outstanding bonds. This additional payment is possible because of the considerable increase in the earnings of the corporation for such fiscal year. The amount paid as income interest is applied as follows: 1% to the payment of cumulative income interest with respect to the fiscal year just ended and 1% on account of the unpaid cumulative income interest for preceding fiscal years. As a result, the deficiency in cumulative income interest as of March 31, 1944, is reduced to $161,175 as compared with the deficiency as of March 31, 1943 of $214,000.

"In our last annual report, you were informed that the operation of the End Units by an outside management agency was terminated as of Jan. 31, 1943. Since that date, the End Units have been operated under the direct management of the officers of your corporation. We also stated that this type of management would result in economies and improvement in net operating income. The results are best illustrated by the following comparative figures for the past fiscal year and the fiscal year ended March 31, 1943.

Increase in total income from rentals, etc.	$90,039.80
Net decrease in operating expenses	35,276.83
Decrease in loss on removal of gas refrigerators	7,014.11
Total	$132,330.74
Less increase in real estate taxes	2,520.00
Net improvement in operating results (before depreciation)	$129,810.74

"It is noteworthy that a reduction in operating costs and expenses was accomplished concurrent with a considerable gain in income and occupancy and notwithstanding the higher prevailing operating costs affecting real estate in general. Specifically, London Terrace, Inc., experienced the effect of increased wage rates resulting from the general wage award, effective April 21, 1943 and the uncontrollable increase of nearly $12,000 in heating costs because of the necessity, due to war conditions, of discontinuing the use of our own steam heating plant and of purchasing steam from the New York Steam Corporation.

"The property became subject to rent control on Nov. 1, 1943. On that date, the rental schedules were adjusted to the rentals in effect on March 1, 1943, with such modifications as have subsequently been made with the approval of the OPA. The substantial improvement in rental income did not arise, therefore, from increases in the rental schedule; but is directly attributable to the increased occupancy and to the continuation of the policy of furnishing apartments.

"The property continues to enjoy occupancy of practically 100%. In the absence of a substantial change in conditions during the current income period, it is anticipated that the earnings of the property for the fiscal year ending March 31, 1945, will show further improvement."

As earnings for the fiscal year ended March 31, 1944 were about 5⅞% before capital improvements on funded debt and as the corporation indicates further improvement for the current fiscal year, it appears that the outstanding First Fee and General Mortgage bonds carrying about 60% of the equity stock offer considerable appreciation possibilities from their present level of around 55.

Invasion Temporary Market Factor, Firm Believes

The invasion will prove to be a temporary and minor market factor (unless there is a military catastrophe, which seems in logic rather improbable), Newburger & Hano believes, in an interesting memorandum discussing the change in public psychology which is being reflected in the response of the market. The firm declares the belief that our post-war fears will yield to a rising optimism, and it seems that the future may see a profound change in stock and bond prices, which have risen and fallen with the rise and fall of capitalists' confidence. Copies of this interesting memorandum may be had upon request from Newburger & Hano, 1419 Walnut St., Philadelphia, Pa., members of the New York and Philadelphia Stock Exchanges.

N. Y. Analysts to Hear

At the meeting of the New York Society of Security Analysts, Inc., on June 9, Duncan R. Linsley of the First Boston Corp. will speak on "Highlights and Sidelights in the Underwriting of Public Utility Securities."

George H. Sibley, Vice-President of Squibb & Sons, will be speaker at the meeting on June 12.

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

Public Utility Securities

Standard Gas & Electric Plan to be Amended

The recapitalization plan of Standard Gas & Electric Company, to conform to Section 11 of the Utility Act, was submitted to the SEC in March, 1943, and was conditionally approved by the staff in November, but has now been rejected by the Commission. The company will have 90 days in which to amend the proposal to conform to the Commission's views.

However, the Commission sustained the major point in the plan—that although the holding company is solvent, it need not retire its bonds entirely with cash, but can make a partial distribution of stock holdings in subsidiaries provided the total value of the "package" is ample to assure the bondholders receiving par (the Commission has always disapproved of paying redemption premiums in holding company dissolutions).

The Commission disapproved inclusion of new "A" common in the package, and suggested instead "that the portion of debt not paid off in cash and portfolio securities could be compensated by modified debentures or a new issue of short-term debentures of the holding company providing for a rapid retirement by the application of earnings and proceeds from any future sales of assets."

The Commission pointed out that Standard Gas is now in a better position to dispose of certain assets than 15 months ago when the plan was first broached. At that time Standard's holdings in California Oregon Power, Mountain States and Pacific Gas & Electric were apparently the only holdings readily available for sale or distribution to bondholders. However, since that time the set-up of Oklahoma Gas & Electric and the financial position of Wisconsin Public Service has materially improved "so that we could sanction their distribution on suitable terms."

The Commission indicated its definite findings that the present common stock has no value, and based on this the New York Stock Exchange has now suspended trading in the issue. The position of the $4 (second) preferred stock remains somewhat uncertain, the question as to whether it can participate being left open.

Another point left unsettled is the status of the securities of Standard Power & Light Corp. This is the "parent" of Standard Gas (other holding companies such as U. S. Electric Power and H. M. Byllesby & Co., together with certain affiliated interests such as United Founders and a banking group, have now been pretty well eliminated as top holding companies). The Standard Power & Light bonds were assumed by Standard Gas some years ago, but the SEC and the courts have never passed on the question whether the bondholders still have any legal claim on the assets of Standard Power & Light. Presumably, however, this question will be disposed of when this issue is retired along with other Standard Gas debentures, under a modified plan. This would remove the "cloud" on the claim of Standard Power & Light preferred stockholders to the company's assets, which consist largely of Standard Gas preferred. The preferred sells currently some 13 points higher than Standard Gas $7 preferred, reflecting ownership of a larger number of shares than its own.

It will be difficult to appraise the exact position of Standard Gas prior preferred stocks until the new plan is forthcoming. Share earnings have fluctuated widely in the past and may continued to do so. If the system is broken up at a nearly date, the Federal tax burden might increase substantially, since subsidiaries would no longer enjoy the benefits of a consolidated system return. On the other hand, relief from the excess profits taxes after the war might more than offset this factor. In the calendar year 1943, $12.12 was earned per share on the prior preferred stocks, compared with $12.05 in the previous year, and relief from excess profits taxes would have increased this by half or more. The company has benefited substantially from war industry operations in its territory and may lose substantial revenues after the war. Any forecast of future values would depend on the relative weights assigned to these favorable and unfavorable factors.

Attractive Situations

Panama Coca-Cola Bottling and Coca-Cola Bottling Co. of New York offer interesting situations according to circulars being distributed by Hoit, Rose & Troster, 74 Trinity Place, New York City. Copies of these circulars may be had from the firm on written request.

Also interesting at current levels is Butterick Co., Inc. A circular discussing this situation may also be had from Hoit, Rose & Troster on written request.

Price Trends And Outlook

(Continued from First Page)

There is also the question of how far Government controls will be relaxed or eliminated with the end of the European war and while the Pacific war is still being waged. We must also determine how soon our military government will allow free enough rein in the liberated countries to resume normal civilian activity there.

Despite these uncertainties it is possible to indicate probable price trends between now and the end of the European war, and between the end of the European war and of the Japanese war, during what I term the reconversion and readjustment period. It is also possible at this early stage to indicate some of the post-war prospects for prices, after the end of both phases of the war. Within the time permitted me I shall devote most of my discussion to the period between now and the end of both wars, German and Japanese.

In line with my general policy of sticking out my neck first and then explaining, I will indicate here what I expect.

1. The peak of wartime wholesale prices has probably been seen. Any further gain in the composite index will be very nominal. It is certain that agricultural prices, for example, which have probably advanced the most, have already seen their peak, and in view of Government price control, semi-processed and processed items will hardly advance much further.

2. Prices will decline during the reconversion period between the end of the European war and of the Japanese war. The decline may start in earnest before the armistice is signed. In wholesale prices the decline may easily average 5% to 10%, with the reaction more marked in some groups. I might point out that very few groups will escape lower levels during this decline, but that the main generating force will be a decrease in agricultural commodities. The decline will vary with the economic position of the individual commodity, rather than according to price control. However, the decline in agricultural prices will be retarded by loan and parity levels.

3. Prices will then recover. This gain will be considerably less than the inflationary gain in 1919-1920 and will not result in runaway prices. It will be followed by a stable price trend for 3 to 5 years.

With the peak in the war economy reached, it is natural that price-raising influences are weakened. A study of the factors responsible for the wartime price rise will show very clearly that most of them will have lost their influence as soon as the European war is over. In fact, a number of them have already lost their potency. The war period price rise was caused largely by the following major factors.

(a) Tremendous consumption of materials by the munitions industries, backed up by the outpouring of billions of dollars in war expenditures by the Federal Treasury.

(b) Increased purchases of most goods by consumers as their incomes rose.

(c) Rising costs of production.

(d) Setting of higher prices to encourage production or imports.

(e) The building of stockpiles as safety reserves.

(f) The lagging increase in output, relative to consumption, of many commodities because of the time necessary to expand capacity.

(g) The curtailment of imports either by loss of foreign sources to the enemy or by lack of shipping.

I do not include the startling increase in the volume of money and currency, considered separately, as a major factor. People have generally bought what they wanted because they had the money to do so, but they have not tossed their money away without regard to values merely because they were worried about inflation. It remains a potential rather than an actual threat.

A review of the reasons for the wartime price rise clearly indicates that most of the influences are weakening. Within a few months most of the factors I have mentioned will in varying degrees lose their effectiveness as price-raising influences. Some of them, indeed, will go into reverse. An example of this is the consumption of materials by the munitions industries. By August or September at the latest, I believe that total war expenditures will turn downward as munitions output hits its peak and declines. From then on, Government requirements of metals and other basic war materials will shrink. National income will decline along with war expenditures. Hence consumer buying is bound to be adversely affected. While there may be exceptions, I doubt that business demand occasioned by deferred depreciation, replacement and capital requirements, and foreign demand for rehabilitation will offset declining military needs immediately after Germany is beaten. Certainly at that time also there will be an end to price rises to encourage production or imports, and to the building up of stockpiles.

In some lines productive capacity is still growing as a result of completion of wartime emergency expansion. Furthermore, in many industries productive capacity will continue to rise after the war as fast as new processes and discoveries are applied to the production of civilian goods. Hence, production capacity is reaching unprecedently high levels just when peak war requirements are on the verge of turning down, thus reversing the lag in output relative to consumption of many commodities.

Finally, the import situation is already improving and will become very much more favorable as the war approaches its end. After that, of course, we can have foreign supplies in any quantity that our international trade and political policies will permit.

It is true that some costs of production will not immediately decline, but will rise further or readjust only after a considerable lag. This will be the case of wage costs and overhead, both of which will retard the price decline.

During this century nations and groups have attempted to circumvent the law of supply and demand. This has proved to be ultimately impossible. The history of the Stephenson Act in rubber, the Japanese silk control in that commodity, our own Federal Farm Administration control of cotton, are all too recent to need elaboration. In each instance the increasing supply of the commodity ultimately broke down the attempted controls. We must therefore determine the position of supply and demand in coming months.

While we find that demand prospects will continue favorable for a while longer, the outlook is definitely for a sharp decline after the end of the European war. However, of still greater importance in this price equation is the supply outlook. We are definitely going into an era of excessive supply. The shortages of today will become the surpluses of tomorrow. Commodities that are now inadequate will become plentiful. I doubt whether anyone has a true conception, for example, either of the increasing production of raw materials that has developed in this country, or of the output we have encouraged abroad and which is available to us. These supplies will continue to press on the market. Having just finished a study of war surpluses I am really surprised at the prevailing belief that shortages will develop in the readjustment period.

There is no unanimity of opinion regarding the extent and duration of the decline in prices between now and the final liquidation of the Japanese war. Those who say that prices may not decline point to the tremendous pent-up demand in this country and abroad. While prices did gain during the war, they point out, they were well controlled, and as controls are removed prices will reflect the advances which would have occurred during the war period. It is further contended that supplies are not burdensome and that production cannot be increased rapidly enough to take care of needs. There is also the usual stress on the tremendous savings, huge deposits and easy credit, as helping to sustain demand.

Against this there is the fact that out of our total production at least 55% is for war, and that over half of this will be liquidated as soon as the European war is over. Furthermore, public demand is not going to manifest itself immediately. Even though there is great pent-up desire for many things, much of it will not be translated into demand when there is uncertainty about employment, especially after the weekly income of those still employed is deflated at least one-quarter by the elimination of overtime and Sunday work. Job security is probably more important from the standpoint of normal buying than accumulated savings.

Moreover, Government surpluses which can be used for civilian purposes may approximate 15 billion dollars. While these may not be pressed on the markets, they will continue to overhang them. This amount is exclusive of Government holdings of important war materials abroad.

In addition, foreign producers have expanded output and will strive to increase their own markets. While European needs will be great, they cannot be expressed in normal demand until the European countries become politically stabilized. Foreign balances in this country are large, but not in relation to needs, and it is questionable whether all bars to the use of these funds will be lifted immediately and credit liberally extended.

It is true that the monetary structure is inflated, in that the amount of money in circulation is huge, demand deposits are large and the debt structure is heavy. Nevertheless, the public has been smart and has not fallen for the constant talk of inflation wherein the dollar will buy less and less. With bad fiscal management in the post-war period, however, this could become an important factor in the longer-term outlook.

I have tried to indicate generally some of the pros and cons of the price structure during the reconversion period. I wish to go on record as stating that I agree with those who contend that a decline cannot be averted. I am convinced of the basic importance of psychological factors in economic movements. As Government contracts are cancelled and unemployment gains while reconversion is taking place, psychological factors will become adverse. People will veer to the belief that the war boom is over and will become over-cautious. Extreme caution will tend to aggravate the decline until there is a proper appraisal of what may be expected in the future. It seems, therefore, that deflation rather than inflation will be the short-term dominating factor.

I hope you will invite me again to speak at one of your future conventions where I shall have a chance to discuss what you are faced with for the longer-term outlook.

Chicago Brevities

Local investment houses have reported an increasing interest recently in the over the counter trading in Chicago bank stocks. Although banks throughout the country have been making good profits, the Chicago institutions seem to have had an enviable earning record in recent years.

Of the 18 leading Chicago banks, a survey recently indicated, 8 have increased their capitalization through stock dividends in the last 18 months. This has encouraged investors to believe that a number of the others will soon follow the same procedure.

Although the quotations on the bank stocks have advanced in the year and a half period, earnings assets per share have also had a sizeable upward movement at the same time—and traders point out that the stocks are only now recovering from the losses taken in the severe decline of early 1942.

* * *

Another important trend in Chicago banking has attracted the interest of Chicago security dealers. That is the approaching end of the excess profits tax carry-over of the banks. It is expected that a number of the more profitable local institutions will be in a much heavier tax category by the end of 1944.

As a result, some of the forward looking bankers have already begun a significant shift in their portfolios of government obligations, from taxables to those partially or wholly tax exempt.

When more banks—through necessity—find themselves in the same predicament, it is expected that there will be a heavy drain of the constantly shrinking supply of tax exempt bonds outstanding, as banks absorb tremendous quantities of the obligations.

* * *

Traction news—that old perennial—is again the subject of much conversation in the financial houses here.

The latest development in the long-continued tangle that is Chicago's transportation system was the refusal, last week, by four groups representing first mortgage bond holders of the surface lines to consider the federal court's suggestion that they cut the size of the first mortgage bond issue in a reorganized consolidated company from $72,000,000 to $45,000,000.

Although Judge Michael L. Igoe had warned the various transit interests that, if they didn't accept the cut, he would take steps to end the long search for a satisfactory solution to the troubles of the lines, apparently the bond holders were not too worried.

At present there are two major proposals under consideration. One would consolidate the surface and elevated lines in one reorganized company under private ownership. This plan, which has been kicking around for years, was rejected in 1941 by the Illinois Commerce Commission, because that group didn't like many details of the proposal. Committees are now at work, under court direction, in an effort to amend the 1941 plan to the satisfaction of the state commission. It was in connection with these amendments that the proposal to slash the bond issue was advanced.

The other principal possibility of solution lies in municipal ownership. Negotiations toward this end seem to be temporarily halted, however, although the city council is said to be working on a ordinance that would permit purchase of the transit properties.

One of the most peculiar accidents in La Salle Street financial history has had traders of municipal houses interested recently. It concerned the $11,000,000 error made by a group of Chicago banks in submitting a bid for a Chicago

(Continued on page 2371)

Payne Elected Board Chairman Of Cgo. Exch.

CHICAGO, ILL. — Harry M. Payne, partner of Webster, Marsh & Co., was reelected to a second term as Chairman of the Board of Governors of the Chicago Stock Exchange, at the Annual Election of the Exchange held today.

George E. Barnes, Wayne Hummer & Co.; Joseph P. Brown and John R. Burdick, Jr. were reelected members of the Board to serve three years.

Walter J. Buhler; Harry C. Daniels, Apgar, Daniels & Co.; Chancellor Dougall; Alfred W. Mansfield, Thomson & McKinnon; and Frederick R. Tuerk, Cruttenden & Co., were elected members of the Board to serve three years.

John J. Bryant, Jr., Jas. H. Oliphant & Co., was elected Chairman of the 1945 Nominating Committee, and Messrs. Sidney L. Castle, Carter H. Harrison & Co.; M. Ralph Cleary, Cleary & Co.; Carl J. Easterberg, Riter & Co.; and George E. Hachtmann were elected members of the Committee.

Chicago Recommendations

Brailsford & Co., 208 South La Salle Street, have an interesting memorandum reporting on current developments affecting **Chicago Tractions**, copies of which will be sent on request.

Fred W. Fairman & Co., 208 South La Salle Street, report that they are informed directors of the **Chicago Flexible Shaft Company** will shortly request stockholders to authorize an increase in the capital common stock. An interesting memorandum on the situation, which the firm believes has an excellent post-war outlook, may be had from Fairman & Co. upon request.

E. H. Rollins & Sons, Inc., 135 South La Salle Street, have an interesting memorandum on **Long Bell Lumber Co.**, copies of which are available on request.

Sincere & Co., 231 South La Salle Street, have interesting bulletins on **Nu-Enamel** and **Flour Mills of America**, which they will send upon request. **Nu-Enamel** has just brought in a well on some property which they leased and this interesting development is discussed in the memorandum.

Valiquet & Co., 135 South La Salle Street, have a continuing interest in **Devon Corp.** common; **A. B. & M. Liq.** notes, and **Embassy Corp.** and will be glad to furnish information on request.

Webber Simpson & Co., 208 South La Salle Street, have interesting data on **Continental Commercial Corp.** and **Rieke Metal Products Corp.**, copies of which may be had on request.

Invasion Marked In Congress And Churches By Prayer—Two Minutes Of Silence On Stock Exch.

The invasion of Europe with the landing of troops by the Allies on the coast of France was markedly observed throughout the nation on June 6 following the request by President Roosevelt that the people of the country join with him in prayer. In both the Senate and House cognizance was taken of the occasion, members having been stirred deeply by word that the Allied invasion of continental Europe from the north was on, said a Washington dispatch to the New York "Times," turning to prayers for speed and complete victory with a minimum of human losses. In part, the "Times" added:

"The members voiced confidence in the skills and plans of our military and naval leaders.

"'Grant that on this D-day of liberation,' was the supplication of the Rev. Dr. Frederick Brown Harris, chaplain of the Senate, 'weapons of freedom forged in fires of faith may pierce the shields of pagan steel and the cruel invaders' walls, reared in treachery and tyranny and oppression, may crumble and fall at the boast of Allied might.'"

In New York, as elsewhere, there were special devotions in the churches of all denominations and various places of business closed earlier than usual.

The New York Stock Exchange observed two minutes of silence at 11 o'clock a. m. on June 6 "in tribute to the armed forces engaged in the liberation of the European continent," during which period trading on the Exchange was suspended.

The ticker notice printed the following after the two-minute period of silence on the Exchange:

"The Chairman of the Board read from the rostrum of the Exchange the following statement issued this morning by General Dwight D. Eisenhower:

"You are about to embark on a great crusade.

"The eyes of the world are upon you and the hopes and prayers of all liberty-loving peoples go with you.

"You go with superior arms, security from the air, and incontestable right on your side.

"The enemy will fight hard and well. He will fight savagely in this year of 1944. You have air superiority, fine weapons.

"We will be victorious. Good luck, and may the blessings of God go with you."

Now With Barcus, Kindred

(Special to The Financial Chronicle)

CHICAGO, ILL. — **Edward V. Vallely** has become associated with **Barcus, Kindred & Co.**, 231 South La Salle St. Mr. Vallely was formerly with A. C. Allyn & Co.

Thinks Present Opportune Time To Buy Securities

John J. O'Brien III, Of John J. O'Brien & Co., Chicago Gives Views On Securities Market Outlook

In an article in the May, 1944, issue of the "Mid-Western Banker," John J. O'Brien III of John J. O'Brien & Co., Chicago, holds that there is nothing "bearish about the invasion," and that "the far-sighted individual should now be scanning the investment tables for opportunities to buy securities."

"No doubt," says Mr. O'Brien, "there will be many problems in converting our plants back to peace-time enterprise, but they should not all come at once. Both wars are not going to terminate at the same moment. Our armed forces, it proportion to the population as a whole, will probably remain much higher after this war than at the end of the last war. When, in 1932, our unemployment reached a figure of some 15,000,000 people, our annual expenditures for all purposes was about $10,000,000,000. Today we are spending seven or eight times that amount a year on the war. Would it not seem reasonable that a relatively small amount of our present spending must be allocated to bringing about an orderly reconversion? No doubt this problem has bothered enough people sufficiently to produce the current reaction, and the largest "short" position existing in listed New York stocks in the past six years. Yet, to me, the present market provides a real opportunity for one with patience and foresight. A year ago this time the industrial averages were almost at the same point at which they are now selling. Probably they will react further from today's levels, but it seems to me that the farsighted individual should now be scanning the investment tables for opportunities to buy securities. What can be permanently unfavorable about an economy when a public saved nearly $38,000,000,000 last year, an amount approaching the entire value of all the securities listed on the New York Stock Exchange.

John J. O'Brien

"In my opinion, the best opportunities are to be found in the securities of so-called commodity companies that have not been overexploited, and those of utility concerns. One should by studying the equities of the sugar, lumber and merchandising companies and certain other specialty companies having good post-war prospects. It must also be borne in mind that the utility industry is a large owner of fixed property, and that the companies, as a group, have only minor reconversion problems.

"While money rates appear stable for some time in the future, we feel that low yield, long-term corporate bonds still held by banks should be exchanged for short-term Government notes."

Scientist Wins Degree

Thomas Midgley, Jr., President of the American Chemical Society, received the honorary degree of Doctor of Science from Ohio State University on June 3. Dr. Midgley is the discoverer of tetra-ethyl lead, to which the spectacular development of high-octane gasoline and the performance of the modern military and transport plane are largely due.

Thomas Midgley, Jr.

FHLB Sell Debentures

The Federal Home Land Banks sold on June 1, at par, an issue of $44,000,000 0.85% Consolidated debentures, Series A-1945, it was announced by Everett Smith, New York financial representative. The issue was heavily oversubscribed. The debentures are dated June 15, 1944, and mature Jan. 15, 1945. The proceeds from the sale, together with $20,300,000 from the Banks' surplus fund, will be used to pay off $64,300,000 Series A, 1944, debentures maturing June 15, 1944. Giving effect to this refunding operation, the 12 regional banks will be confined to the new issue.

Chicago Brevities

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Board of Education bond flotation.

Four bids were received from underwriting groups for the issue. Two of them, offering a premium for 1½s, were out of the running. A third bid, that of an account headed by the Illinois Company of Chicago, offered a premium of $33,660 for 1¼s. The fourth submission, that of the bank group, included a premium of $115,606, but the bid failed to include the interest rate!

The representatives of the banks, headed by the Continental Illinois National Bank and Trust Company of Chicago, declared that they had intended to name a 1¼% rate, which would have given them a cover of about ¾ of a point over the next bid. However, officials of the Board of Education were reluctantly forced to declare the bid disqualified, and the Illinois Company of Chicago account received the award.

The story didn't end there. The bonds were not reoffered by the successful syndicate—and it was learned that one of the six banks that had joined in the Continental account bought the $11,000,000 block from the winning group at a compromise price, between that offered by the banks and that actually paid by the group that won the award.

To old timers on the street the whole fiasco recalled another case, involving the employe of an extremely well known bond house. In this case, the unfortunate employe submitted a bid for an issue by airmail, but after he had mailed the letter—late that night—he suddenly became aware that his offer, through an error in calculation, was outrageously high. He didn't sleep all night, visioning the loss of his job and financial difficulties for his employers. Early the next morning, on his way to work, he purchased a newspaper, and read that the airmail plane—carrying his offer—had crashed and that all the mail was destroyed.

In the present case of the Loop banks, though—there are several red faces on the street.

* * *

A great many investment men, from Chicago and other parts of Illinois, were visitors last week at the convention here of the Illinois Bankers Association. They heard a number of interesting talks, and met some of their out of town banking contacts. One of the features of the affair was the endorsement, by Illinois members of the American Bankers Association, of Frank C. Rathje, well known local banker, for vice president of the A. B. A.

If Mr. Rathje is elected to that office, at the A. B. A. convention at Chicago in September, it will mean that he will eventually assume the presidency of the national organization. Mr. Rathje is president of the Chicago City Bank and Trust Company and of the Mutual National Bank of Chicago.

Drackett Securities Offered By Van Alstyne, Noel & Co.

Van Alstyne, Noel & Co. headed a group which on June 7 offered $1,500,000 5% 15-year sinking-fund debentures of the Drackett Co. of Cincinnati, priced at 100 and accrued interest, and 85,000 shares of the company's common stock at $8 a share. Of the proceeds, $411,045 will be applied to redemption of bank loans and $540,000 to completion and improvement of the company's soybean extraction plant. The balance will be used for future expansion.

Among the underwriters are Field, Richards & Co., R. S. Dickson & Co., Inc., Westheimer & Co., Hill, Richards & Co., A. G. Edwards & Sons and Johnston, Lemon & Co.

Strawberries in North West

By the sound of shining waters,
In the city named Seattle,
Dwells the big chief berry-raiser,
Jack E. Jones of Hartley Rogers.
Raises he the plump strawberries,
Fat and scarlet, sweet and juicy.
All his neighbors, green with envy,
Watch the crimson harvest ripen.
Aided he by his fair daughter,
At whose hand the yield is doubled,
Till the planting, heavy laden,
Burgeons with its luscious savor,
And for one fat berry last year
Now appears a toothsome two-some.
Harken, all you Vict'ry gardeners,
Jack will share his wisdom with you,
Incantations, imprecations
To produce a super-harvest.*

*For further information write Jack E. Jones, Hartley Rogers & Co., 1411 Fourth Avenue Building, Seattle, Wash.

Interesting Rail Situation

The Morris & Essex Railroad Co. 7¾% stock offers interesting possibilities at the present time, according to a discussion of the situation contained in the current issue of B. W. Pizzini & Co.'s "Railroad Securities Quotations." Copies of this bulletin, which also carries quotations on guaranteed stocks, underlying mortgage railroad bonds, reorganization railroad bonds, minority stocks and guaranteed telegraph stocks, may be had upon request from B. W. Pizzini & Co., 55 Broadway, New York City.

Wisconsin Brevities

Nekoosa-Edwards Paper Co. of Port Edwards, Wisc., reports a net profit after all charges and taxes for the first quarter of 1944 of $147,717, or $3.34 per share on the common stock outstanding, as compared with $128,778, or $2.04 per share for like period of 1943. As of April 30, 1944, total current assets were $4,495,971 and current liabilities were $1,351,335, leaving net working capital of $3,144,636. The ratio of quick assets to current liabilities was 91.01%; current assets to current liabilities, 3.33%, and current assets to total debt, 1.75%.

The directors of the **Wisconsin Investment Co.** have declared a dividend of eight cents per share on the capital stock, par $1, payable July 1 to holders of record June 10. Payments in 1943 were as follows: July 1, seven cents, and Dec. 22, eight cents.

Milwaukee Electric Railway & Transport Co.'s proposal to redeem bonds and purchase capital stock held by its parent, **Wisconsin Electric Power Co.**, has been approved by the Securities and Exchange Commission. The Milwaukee Electric will redeem on June 15, 1944, at par plus accrued interest, $100,000 bonds, and purchase for cash at par, $100 per share, 9,000 shares of its capital stock, or a total of $900,000.

Cutler-Hammer, Inc., for the first three months of 1944 reported a net profit of $471,931 after all charges, including Federal income and excess profits taxes and Wisconsin income taxes, equal to 72 cents per share on the 659,998 shares of capital stock outstanding. For a like period in 1943 company had net earnings of $537,653, or 81 cents per share.

The directors of **Nash-Kelvinator Corp.** have declared a dividend of 12½ cents per share, payable June 30 to holders of record of June 12.

Two Wisconsin war plants were among 25 awarded the Army-Navy E May 29. Awards were given to the **Kimberly-Clark Corp.** ordnance division at Neenah, Wisc., and to the **Badger Ordnance Works** at Baraboo, Wisc.

Amendments to the articles of incorporation of the **Chicago & North Western Ry.** were filed with the Secretary of State of Wisconsin at Madison on May 15, last. The company, which emerged from trusteeship effective June 1, 1944, previously had been incorporated in **Wisconsin, Illinois and Michigan**, but under the plan of reorganization it will retain its incorporation only in Wisconsin. With the return of the properties by order of the court on midnight June 1, the company has elected a new board of directors and a new slate of officers. Three Wisconsin business men, two of them from Milwaukee, were among 15 men elected to the new board of directors. Milwaukeeans elected to the board were **Frederick W. Walker**, Vice-President of the **Northwestern Mutual Life Insurance Co.**, and **William C. Frye**, industrialist and also a Northwestern Mutual official. The other Wisconsin director is **William E. Buchanan**, President of the **Appleton Wire Iron Works**, Appleton.

The issuance of new securities under the plan of reorganization has been ordered by the court, and it is expected that this will be completed in the immediate future.

Dillon Read & Co. Offers $30,000,000 Alleghany

Dillon, Read & Co. and Hemphill, Noyes & Co., headed an underwriting group of 95 investment houses that offered on June 7 an issue of $30,000,000 Alleghany Corp. 3¼% secured convertible notes due on April 15, 1954, and priced at 102.15 and interest. The notes are secured by a first lien on 1,100,000 common shares of the Chesapeake & Ohio Ry., which are owned by the Alleghany Corp. and pledged as collateral under the indenture.

All dividends paid on the pledged stock and any other income on it will be received by the trustee as a service fund and applied to payment of interest on the notes and their retirement, except that Alleghany is allowed to withdraw certain amounts in certain contingencies for payment of taxes.

Each note is convertible into 20 shares of Chesapeake & Ohio common stock at any time up to the last business day preceding redemption or call.

Proceeds of the issue, with other funds, will be used to redeem the corporation's $21,661,000 of 20-year collateral trust convertible 5% bonds due in 1949 and $18,036,000 collateral trust convertible 5% bonds due in 1950.

After this redemption the long-term debt of Alleghany will comprise this issue and a $9,000,000 bank loan due in 1949, making a total of $39,000,000.

Tax-Free v. Taxable Bonds

Boland, Saffin & Co., 52 William Street, New York City, have for distribution a most interesting table comparing tax-free and taxable bonds indicating the approximate yield which taxable bonds must return to equal the return from tax-free bonds yielding 1% to 4½% when held by individuals or corporations subject to the top bracket corporation surtax. Copies of this table may be had from the firm upon request.

Dated Events War Map

Estabrook & Co., 15 State Street, Boston, Mass., and 40 Wall Street, New York City, members of the New York and Boston Stock Exchanges, are distributing a most interesting "dated events war map" of the world showing the progress of the allied armies. Copies of this map may be had from the firm upon request, as well as a leaflet summarizing the principal features of the securities offered in the Fifth United States War Loan.

This Scrambled World

(Continued from page 2362)

ket for my products after the war?

And the second one is:

Is there going to be an end to all this government control when the war is over?

Now it is curious that the two questions are really very closely related. In answering the first, we shall find an answer to the second.

Of one thing we can speak with certainty, there is going to be a tremendous potential demand for all kinds of products when the war stops. Ever since we changed over from peace to war production, millions of autos, refrigerators, radios, and other types of lasting consumers goods have not been produced. Some of the less permanent consumer goods have also disappeared completely from the market or have become scarce.

Here is an enormous potential market. It will take several years of normal prewar production to catch up with this potential demand. But this demand will have accumulated not only within the United States. In Latin America and elsewhere in the world outside of Europe, consumers have been compelled to do without things they used to buy abroad. And on top of all this, there will be a demand for consumers goods and for capital goods, for machinery, building material, and transportation equipment in the countries now occupied by the Axis powers. This potential demand will be indeed fantastically large. In Europe alone the destroyed factories, ports, railroads, electric power plants, and cities will represent a total value which will run in the hundreds of billions of dollars. No wonder some people grow enthusiastic and predict the greatest commercial boom this country has ever witnessed.

Before we can correctly estimate the true proportion of this market, we must ask ourselves how much purchasing power there will be available. For without purchasing power, this potential demand cannot be translated into an actual demand. The effect of the war, notwithstanding the high taxes, has put more free money in the hands of consumers and business enterprise than they have ever had before. It has been estimated that by the end of this year the funds which may conceivably be used for purchases of consumer goods and for new factory equipment will reach the enormous figure of 100 billion dollars.

When it comes to the purchasing power of the countries of the continent, we find that according to the best available estimates there will probably be about 10 billion dollars in liquid assets available to them in this country. The needs of the continent will far exceed this figure. Damage to the industrial and transportation equipment to farms and cities will run into the hundreds of billions of dollars. There is every reason to suppose that through private and government channels, loans will be made available which will enable these countries to purchase far more than their cash resources would allow.

The Latin-American countries which have been able to sell their products at fancy prices to the United States but have not been able to buy many goods on account of the export restrictions in this country and in Great Britain, have now accumulated bank balances in this country of approximately 3 billion dollars. These Latin-American neighbors of ours never were in a better financial position than they are today.

And finally, there is Russia. The USSR has already placed orders for machinery and other equipment in this country and in Great Britain amounting to about 2½ billion dollars. Once the war is over, this figure will probably run up to about 10 billion dollars and Russia is in a position to pay for these purchases with gold, manganese, and other products which have a ready world market. Add it all together, and we have an enormous potential demand and a larger actual demand than we have ever had in our history.

Can we meet this demand and what will be some of the problems that we may face? The first problem is of course that of conversion back to peacetime production. That will not prove simple. We have had many headaches when changing from peacetime to wartime production but this process was relatively simple since it took place under the government umbrella. Financial assistance for conversion and expansion was easily obtained while the government, in most cases, assumed the financial risks. There was no selling problem, since production was largely on government order. When production problems arose, it was possible to secure government assistance and advice in many cases, or to benefit from the experience of other manufacturers producing similar products.

But when peace comes and we start converting back to peace, most manufacturing concerns will be once more on their own. Theirs will be the decision how to retool, what volume of production they will prepare to meet, and they will need to rebuild their sales organization. The process will be far more difficult. And the problems of the individual manufacturer will be still further complicated by other factors over which he has no control.

The first question is will they have the funds necessary to this conversion?

This is a question to which every concern will have a different answer. Much will depend upon the way in which the government will proceed in the termination of war contracts. If this process takes place gradually and adequate financial adjustments are made, the financial problems of our manufacturers may be somewhat alleviated.

If a partial conversion to peacetime production can take place while a part of the productive capacity enjoys the continued support of war contracts the conversion problem may be simplified—and because of the possibility of offering continued employment, the purchasing potentialities of the consumers will be maintained.

Already some 12 billions of dollars of war contracts have been terminated and only very few of these contract terminations have resulted in claims against the government.

Another extremely important factor in the post-war financial picture is found in the carry-back provision of the 1942 Revenue Act. There will be inevitable delays in receiving this refund but the aggregate amount of these refunds will be considerable. Moreover, it is unlikely that all the accumulated savings will be spent for consumption; a fair proportion will undoubtedly flow into the capital markets. It is likely that substantial holdings of government securities will be liquidated and the funds reinvested in the securities of business concerns. All in all it would seem, therefore, that except in a few cases, no special difficulties will arise in connection with the financing of our reconversion program, especially in view of the fact that our banks are in a liquid position and will be in a position to supply a good portion of the credit that will be needed. If the established financial institutions find it impossible to supply this need, the Federal Government will undoubtedly come to the rescue. This will especially apply to the smaller concerns who may not have been in a position to accumulate reserves during the war period.

Senator Murray of Montana has just introduced a bill which contemplates enlarging the authority of the Smaller War Plants Corporation so that adequate financial assistance may be given to small concerns. It would seem that no insurmountable financial problems face American business, especially since not withstanding the tremendous war effort, 80% of all civilians now employed are engaged in activities where no physical conversion has taken place.

In many ways the period of changeover to peace will give our businessmen a better chance than they would normally have had to develop new and better products, and above all, new and better methods of production and selling. With all their past experience in war and peace, they start in many cases with what is practically a clean slate. It would seem that the principal problem before business will therefore be largely technical and engineering rather than economic and financial. And consequently, unemployment will probably be limited to unemployment resulting from the technical changes necessary during the changeover rather than to lack of employment resulting from basic economic conditions. The huge spendable funds and the combined purchasing power of the domestic and foreign markets will be a guarantee of this. The outlook therefore is good.

But there are problems which may affect individual firms adversely and may change the picture for them somewhat. It will be of the utmost importance to individual concerns how the termination of war production is managed. What factories will be released from war work? — will they be the large plants or the small concerns?

And if the large plants are to be released only with respect to a part of their war production, how will that affect their competitive position? A plant working only at half capacity on peacetime products may not enjoy the economies of efficiency it enjoyed when working full capacity. The position of the firm released from war production will be still further complicated by the fact that shortages of certain raw materials and equipment will continue to exist.

With the introduction of new materials, such as the use of plastics to replace metals or the use of aluminum in place of sheet steel, the relative position of many firms will be changed. Some firms although released from war production may be located in critical labor areas and may therefore have difficulty to secure the labor needed to return to civilian production.

What kind of government regulation must be established to give every one a fair chance to return to normal production? Surely it would seem unfair to injure the competitive position of a firm loyally engaged in war production while its competitors through a termination of war contracts are in a position to recapture the market.

Our business men are fed up with government control. It is understandable that they should hope for the day to come when once again they will be able to direct their affairs without reference to government bureaus. But it seems most unlikely that a so-called "free competitive system" can be established soon after hostilities cease. Nor is it likely that it is to the best interests of business to close down government control. If we are to avoid confusion and dislocation of industry, the process of industrial demobilization must take place according to a carefully worked out and government-controlled plan.

There is also the ever-present

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Is there a shortage of children's shoes?

America's largest manufacturer of children's shoes answers this vital wartime question

Yes, there is very definitely a shortage! This is particularly true of *dependable brands* of medium and better quality children's shoes.

Parents today are demanding *better* quality. Rationing has brought about a keen appreciation of the *difference* between shoes that *are* good, and those that merely *look* good.

Why is there a shortage of children's shoes?

The nation's military demands and the needs of our allies have caused a decrease in the supply of leather available for civilian use and thus fewer *leather* shoes are being made for men and women, as well as for children. However, there *is* a sufficient quantity of good, serviceable shoe material available to meet *essential* civilian requirements.

While fewer pairs of children's shoes have been made since the war started, the *demand* has actually been *greater* and the *shortage* is felt more acutely for the following reasons:

1. Children wear out their shoes more quickly than do adults. And because children also *outgrow* their shoes, they seldom have extra pairs in reserve.
2. The rubber shortage has severely limited the number of tennis shoes available to boys and girls . . . this has added to the demand for *leather shoes.*
3. A sharp increase in the birth rate each year for the past three years has also put a heavier demand on leather required for additional babies' shoes.

Has the Government taken steps to make possible an increase in children's shoe production?

Yes . . . the Government has recently effected ways and means to increase the allocation and production of leather for children's shoes. This will make *more* leather available and *enough* shoes should be produced to cover *necessary* replacements for children. However, to provide *substantial* increases in the leather supply will take time.

What should I do to make my children's shoes last longer?

1. Always clean shoes thoroughly and treat them frequently with a good polish to preserve the uppers.
2. When shoes get wet, stuff the toes with cloth or paper to preserve their shape, and dry them *away* from excessive heat. After they're thoroughly dry, apply polish or other leather preservative.
3. At the earliest indication of needed repairs, take shoes (if still the correct size) to the repairman. Don't wait until it's too late and the shoes are beyond repair.
4. Alternate the wearing of new shoes and older ones . . . provided the older pair is still large enough.
5. See that rubbers or galoshes are worn (when available) in wet weather.

How can I be sure my children's feet are properly fitted?

Good shoes are made in the correct shapes for growing feet . . . built to *stay* that way . . . but your dealer does the actual fitting . . . so be sure you go to a reliable dealer.

The range of sizes and widths your dealer has in this emergency may not be as complete as he would like . . . so if he is unable to furnish the *exact* size in the style you prefer, we suggest that you select another pattern in the correct size that will serve your purpose. Never buy shoes too small . . . remember they must give longer service now . . . so allow ample room for feet to grow.

What are shoe manufacturers doing to produce more children's shoes?

In some instances production is being diverted from men's and women's shoes into children's shoes. Some manufacturers who in the past have made only adult shoes are now devoting part of their facilities to the production of shoes for children.

What is the International Shoe Company doing about this children's shoe problem?

As America's largest manufacturer of children's shoes, we are now producing a great many *more* pairs than we did a year ago. We expect to maintain this higher rate of production and, if possible, increase it.

But... in our endeavor to make more children's shoes we will *not* disregard *quality*... we are determined not to use present conditions as an excuse for lowering the moral standards of our product... standards that we have maintained for more than forty years.

We shall continue to make shoes that are worthy of your complete trust . . . that are constructed, *inside and out,* to give your children *real protection* during the *vital* years while their feet are developing.

You'll know these trustworthy shoes by the familiar brands and trade-marks reproduced below.

International Shoe Company

ST. LOUIS, MISSOURI

America's Largest Maker of Children's Shoes

Dollars Of Destiny

(Continued from first page)

omists recognize that as the national debt approaches the national wealth, the freedom of action of the individual diminishes, the control of government increases, the demands of government increase, the possibility of rebuilding private enterprise diminishes. The prayer of the would-be dictator must be: God give us a big national debt!

Our total national debt is approaching dangerously near to our total national wealth. By July 1, one authority has said, the debt will equal the value of the entire capital wealth of the nation, its factories, mines, farms, railroads, forests, and so forth. By the war's end, it will probably equal, if not exceed, the total wealth of the nation, including homes, bedsheets, and wedding rings. It is obvious that the existing wealth, which is constantly wearing out, cannot pay the debt. It will be paid only out of wealth created by future production, work, and sweat. War is a destroyer, not a creator of wealth. We must not confuse the savings resulting from the purchase and holding of war bonds with savings in the ordinary sense of that term. Imperative as is the financing of the war, obligated as we are by every motive of interest, every thought of the welfare of our families, every patriotic instinct to aid in the financing of the war by purchasing and holding as many government bonds as possible, we cannot forget that war is destructive—not constructive—and that the savings to us as holders of bonds is simply and solely a charge upon us, our children and all the people of America which bonds, like the bonds in the Social Security "Trust Fund," must be met out of future taxes.

Every generation or so, the money question is thrust into the arena of public discussion. Now that we are in the throes of the most devastating war of all time, the American dollar question takes on an importance never before approached in recorded history.

Vitally important, not only to the American people, but to the people of all other countries, is the fact that 34 nations are giving consideration to a world-stabilization plan at this very moment. You and I know how vital enlisted dollars have been to the prosecution of this war, how they have made possible the planes, the tanks, the subs, the destroyers. Men, materials, and money will see us through this crisis and when the war is over, sound money will keep us from chaos. When the Ship of State sails home and puts into harbor to contemplate post-war problems, she must be anchored to honest American money. Success cannot attend our planning if the American dollar is reported "missing in political action."

One observes in this connection that we are living in a day of paradoxes. Ceremonious occasions are created to bewail the sad lot of the underprivileged and the downtrodden. Men in high places lament the inadequate wages of the less prosperous. Mere sponsorship and advocacy of higher wages seem to bring those in public life both applause and promotion, and the expectation of being retained permanently on the public pay roll. Yet here is the striking paradox: The very same agencies and the very same political leaders who are exhausting their store of eloquence and shedding tears out of commiseration for the worker because his pay envelope is thin are largely responsible for the vanishing returns upon the accumulated savings of our factory workers, clerks, teachers, mechanics, miners, farmers, and others who look forward to their savings to produce an income for them, so as to supplement their personal earnings and secure well-deserved comforts and relaxation in their declining years. Tens of millions of men and women with savings accounts, and millions who have holdings in building and loan associations, and other millions whose hopes depend upon the eventual purchasing power of the proceeds of insurance policies, and millions more who have purchased government bonds, will be at a loss to understand why "humanitarians" advocate drastic means of reducing unemployment and at the same time direct their ingenuity towards lowering the earning power of the billions of saved dollars that many of our workers have toiled almost a lifetime to accumulate for themselves.

These millions of people are the middle-class folks—the very salt of the earth. They look forward anxiously to the day when our leadership in government will be aroused to the gravity of this whole situation; when they shall recognize that employed money, if honest, is only employed labor in another form; and when they shall appreciate the truth that the challenging problem is to guarantee to direct and indirect labor, not only employment and security, but equally an adequate return for services rendered by each in all enterprise.

But we are talking about representative labor, dollars of destiny, and at a time when the stability of the dollar is threatened by the gigantic spending program necessarily launched to prosecute the war.

When it is known that the well-being and destiny of all free peoples centers in the preservation of sound money, we can readily understand that the problem transcends in importance parties, politics and partisanship.

All through history, governments, by debasing their money systems have multiplied their functions at the expense of the property, liberty and lives of their citizens. Representative republics have not been spared in this process of exploitation. Politicians of all persuasions are disposed to make public office a personal, vested interest. Parties in power are built up and maintained by the common practice of feeding their following out of the public treasury, creating printing-press money to do so, giving little thought to the vital principle of sound money—the cornerstone of representative democracy. They discover that it contributes to their perpetuation in office to find and exhaust new sources of revenue, to create more unproductive jobs as reward for party adherents, to permit more and more to fatten on the public payroll, to make more and more citizens economically dependent upon the public purse. By prolific spending of fiat money, they entrench themselves in office. When once a party is powerful enough, by the application of such methods, to defeat or crush its opponents and to modify or nullify constitutional restrictions so as to extend its powers, then a representative republic is transformed into socialistic democracy and eventual dictatorship.

Now, suppose that Congress should, after the war, continue to ignore its constitutional responsibility and cease to operate as a check on government spending: Suppose that the politicians then in office should further perfect the trick of corrupting the public with its own money, and suppose that under the attractive philosophy of an "economy of abundance" promoted under the paternalistic government, a large portion of the population could continue to be so duped and deluded as to permit this unrestricted political spoliation of the national wealth, and suppose that the people could be led to continue to believe that it is possible to get something for nothing and join in the further systematic looting of the public treasury? What then? Historians and the wisest political thinkers of all time have repeatedly given us the answer. In one voice they declare that that is precisely the manner in which all preceding democracies have destroyed themselves.

We hear much today of the evils of capitalistic exploitation. If such evils exist, and they do and always have, all informed citizens will welcome their removal only by wise and just legislation. But what we should see to is that the hoped-for cure is not more malignant than the disease. If we are to retain any vestige of the consent of the government, we, like our fathers, must stand out against any effort to multiply the powers of government. It is this vigilance which will prove to be the price of our liberty.

American citizens will not wittingly accept the establishment of a totalitarian state in this land. They will fight it if they are able to recognize it as it creeps upon them. There are among us, and always will be, some who would exchange political liberty for what they imagine is economic security. In this they ignore the historic fact that neither economic liberty nor any other liberty is possible without political liberty. When will the mass public, who hold the voting control, be made to understand that solvency is no small matter; that it is a sacred thing; that it is the very cornerstone of the kind of government that makes and keeps men free? The answer is: when they become informed through some nationwide plan of economic education. Or when, if it is not too late, they, themselves are made to feel the full burden of the tax and become sorely conscious of the fact that they, themselves are paying the bills for their alleged security. And that educational program is somebody's responsibility.

Before the advent of this war, a race was being run, fraught with more vital consequences than any other in our time. It was the contest between sound education and regimentation. Regimentation took the lead, as it always has done when Federal spending is out of control.

Someone has said that "the retreat of liberal principles throughout the world is a consequence of the decay of the money and credit systems that gave the nineteenth century a unique advantage in the annals of mankind." And what a contribution we in America made to that inglorious retreat!

Daniel Webster said in 1834, "I admonish every industrious laborer in the country to be on guard against those who would perpetuate against them a double fraud—a fraud to cheat them out of their earnings by first cheating them out of their understandings. The very man above all others who has the deepest interest in sound currency, and who suffers most by mischievous legislation, is the man who earns his daily bread by his daily toil. A vast majority of us live by industry. The Constitution was made to protect this industry, to give it both encouragement and security; but above all, security."

On the same subject the immortal and stalwart Democrat, Thomas Jefferson, said, "To preserve our independence, we must not let our leaders load us with perpetual debt. We must make our election between economy and liberty, or profusion and servitude."

And listen to this ringing declaration of Mr. Roosevelt in 1932 in his bid for the presidency: "Upon the unimpaired credit of the United States government rests the safety of deposits, the security of insurance policies, the activity of industrial enterprises, the value of our agricultural products, and the availability of employment."

Furthermore, "The credit of the United States definitely affects these fundamental human values. It therefore becomes our first concern to make secure the foundation. National recovery depends upon it. Too often in recent history liberal governments have been wrecked on rocks of loose fiscal policy. We must avoid this danger."

What a sound pronouncement! What a solemn implied promise! But that was back in 1932. *A barricade of words preceding a deluge of debt!*

At this point let us pause to observe how many of us have been continuously conscious of the methodical, deliberate manner in which politicians have done their destructive work against those very principles. Those whom we, the people, elect to public office are (or were) our servants, not our sovereigns. The death sentence of sound money had its beginning when the people failed to understand the menace of long tenure in public office.

It is rare indeed, that even men on the watch-tower seem able to recognize the approaching forces of disintegration. And as for the masses, they seem never to have been able to identify the enemy that comes to destroy sound money on which political, economic, and social liberties are made. I then pose this question: What is to be done to arouse the people?

Really, men, what power do you and I possess to make impressive these demonstrated historical axioms? How must we proceed to impress upon the public mind the vital importance of honest dollars? Have the schools a sacred responsibility to teach solvency in government to the oncoming generation? Is it not also the duty of the bankers and insurance executives who are the custodians of the savings of millions of thrifty citizens to disseminate education dealing with solvency? Unquestionably, yes! Emphatically so! Every boy and every girl in school and in every college in this great, free nation should be required to complete a course and to gain a clear understanding respecting dollars created through the production of goods and services. It is axiomatic, and therefore non-controversial, that only on the foundation of sound money, is it possible for a free school system to thrive or for a democratic representative form of government to endure. Young people should be shown that they have a personal, vital interest in that very kind of government. This very situation challenges the intelligent, cooperative action of education, business, and labor. There are no labor unions in dictator countries. Clearly, their interests, like all wholesome interests, are identical.

I fear that most of the young people in this generation coming out of the halls of learning into the world have not been given the vitally important education needed to understand the import and significance of historical and economic events. To verify, or put at rest my fear, I interviewed many graduates—boys and girls—most of whom admitted that they had meagre education having to do with the importance of government solvency, one of the principal pillars of a representative democracy. When provided with sound economic education, citizens old and young will no longer be deceived by catch-phrases, violent demogogic outbursts, mild impeachments, or glowing reassurances, all intended to frighten or appease. They then will become adult economic realists. Please note the word "realists." They then will have the facts and be guided solely by them. They then cannot be misled, terrorized or won over to new-sounding philosophies and creeds which, in the face of all experience, stand utterly condemned and branded as the cause for the collapse of nations and civilizations.

We know, and it is a teaching of all history, that back of each and every ultimate uprising of the people, looms some gigantic economic terror. Whenever and wherever the life-blood of the people has been sucked up to maintain men in power, to sustain a top-heavy government, from fiat money-spending, no matter what name it bears, the day of reckoning is at hand.

We are even told today to look upon the present terrifying struggle in the world as the result of the scheming of a few despotic individuals. How shallow such reasoning!

The men who now seem to control the destiny of all Europe are not self-elected. They were invited. They came into power because of the situation which had been created through the years, culminating in the very things that are now transpiring, in the tragedies that are rocking the very foundations of civilized society. Possessed of a superior power of persuasion, coupled with native political sagacity and a burning passion for power, these men recognized that their day had arrived. They witnessed the helplessness of those in power. They saw before them the beckoning, vacated seats of power made so by the breakdown of solvent governments. Coming out of comparative obscurity, with dramatic declarations uttered with Messianic solemnity, these dictators on horseback captured the imagination of the people and rode to power amid the applause of the unsuspecting and apathetic masses. That is how it all happened "Over There."

But what made their advent possible? Economic exhaustion; treasury erosion; ruthless taxation. That was the terror. It was the demon of debt. A disregard for solvency.

Why was it that the Blackshirts were able to march upon Rome without resistance and take over the reins of government? It was because the government itself had tacitly recognized its inability to meet its own astronomical current debts, plus its borrowed obligation of 27 billion dollars. It was Italy's debt that spelled its doom—the doom of its cherished democratic institutions in a country that has made such a picturesque contribution to world culture, art, and civilization. And so, whenever a people have abandoned all hope, have been shorn of all incentive to labor and produce, and when black clouds of debt, deficits and taxes shut out every ray of hope of rehabilitation, they are invariably ready to turn to the one who, with disarming eloquence and glowing assurances, announces himself as the awaited "deliverer." Apply that fact to the countries abroad and we have the underlying cause of the terrifying tragedy which now threatens the security and the very existence of millions of our fellow men.

It was not until the German government and its political subdivisions had incurred indebtedness and assumed obligations far beyond their power to meet; it was not until their bonds and their promises to pay had become worthless scraps of paper that the German people looked for and hailed the one who should come forward with the promise and pledge to lift them out of their hopelessness, restore their confidence and respect and win for them once more a coveted place in the sun.

And that man came. But before he came, tragic inflation, following national bankruptcy, had taken its toll.

Hark back for a moment, not so long ago—because it happened in the memory of most who are here today: At the height of German inflation, the hundreds of thousands of Germans who looked forward to economic security in

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Bank and Insurance Stocks

This Week—Insurance Stocks

By E. A. VAN DEUSEN

The United States Maritime Commission has recently authorized the business of insurance on vessels under construction to be turned back to commercial ocean-marine insurers. The bulk of this insurance risk has been assumed by the Government since the start of the wartime ship construction program. Also, insurance on war cargoes, which has been carried by the Government since April, 1942, is being returned to the insurance companies. Such companies as Boston, Insurance of North America, North River, Providence-Washington and others, should be favorably affected by this action for the duration of the war, assuming no recurrence of heavy submarine losses.

Investors in fire insurance stocks, however, are mainly long-terms investors, and consequently should be concerned more with the post-war prospects of insurance companies rather than with their relatively short-term "duration" prospects. Some thoughts on the post-war outlook for the fire and marine insurance business are therefore presented in this column.

It is of interest, first of all, to refer to the experience of a group of 16 representative companies following the Armistice of World War I in 1918. The aggregate liquidating value of these companies on Dec. 31, 1918 amounted to $204,545,000. Year by year it increased so that five years later it reached $326,352,000. Its upward trend continued until $655,274,000 was reached in 1929; thereafter it dropped to the 1932 low of $378,-925,000, but this still was approximately 90% above the 1918 figures. Currently, aggregate liquidating value stands approximately 15% above the 1929 peak. The volume of underwriting business written by these companies, as measured by their unearned premium reserves, shows a similar post-war expansion. At the close of 1918 their aggregate unearned premium reserves totaled $120,-046,873. Year by year the volume expanded, reaching $169,164,688 five years later, and $216,328,023 in 1929, but dropping to $177,-901,000 in 1932. Currently, unearned premium reserves closely approximate the 1929 level.

Net investment income also shows similar growth in the post-war years, moving from $7,961,000 in 1918 to $12,839,000 in 1923, then to a high of $18,894,000 in 1930, and declining to a low of $13,820,-000 in 1933. Net underwriting profits are characteristically erratic, but these, too, despite some years of losses, moved irregularly upward from $6,094,000 in 1918 to $8,459,000 in 1927, $14,930,000 in 1930 and $16,711,000 in 1933.

This post-war growth of the fire insurance business and its earnings was amply reflected in the action of the stock market, as measured by Standard & Poor's index of fire insurance stocks. At the close of 1918 the index was 39.5; by the end of 1923 it had steadily risen to 81.6, an appreciation of 106%; it was 116.9 at the close of 1926, 174.0 in 1927, and it reached a peak of 249.1 in 1929. Currently it stands at 114.5.

It is not the contention of this column that insurance companies will necessarily experience an equivalent expansion after World War II, but it is a significant fact in the history of our country that every war has been followed by a period of business growth which has carried the general level of National prosperity up to new high ground. True, a "primary post-war depression" also frequently occurs, as in 1921-1922, but this generally is short-lived. In this connection it is of interest to note the movement of the Composite Index of Industrial Production, compiled by the Federal Reserve Board, from the end of World War I to the opening of World War II, as follows:—

1918	73
1919	72
1920	75
1921	58 (low)
1922	73
1923	88
1924	82
1925	91
1926	96
1927	95
1928	99
1929	110 (high)
1930	91
1932	58 (low)
1935	87
1937	113 (new high)
1939	108

Except for the 1921-22 drop, there was almost an uninterrupted rise in the index to the 1929 peak. Currently the index, swelled to huge proportions by war production, is at 242.

Now, the fortunes of insurance companies rise and fall with the changing degree of prosperity of the Nation, and if the annual premium volume and net operating profits of a representative group of fire insurance companies over the past 25 years are plotted on a graph against the annual index of industrial production, very close correlation will be found. Hence, if after World War II the United States is to experience an expansion of commerce and manufacturing and is to rise to new heights of technical and industrial achievements, it must follow that the fire insurance companies will also rise to new levels of service and prosperity.

This is not a prophecy, nevertheless this writer believes in the destiny of America, and has little patience with the pessimists and other "prophets of gloom." To be a little more specific, who can doubt that the post-war years will witness very great expansion in private and commercial aviation? Already a number of leading fire and casualty insurance companies have found aviation insurance a profitable, though a minor, line which inevitably should expand to substantial proportions.

Another foregone conclusion seems to be that there will be a rush for automobiles after the war. Americans have been deprived of this form of transportation and recreation to an increasing extent since Pearl Harbor. Motor vehicle premium writings in 1941 by stock fire companies totaled $275,500,000, according to Best's "Aggregates & Averages," which represented 26.2% of all lines written. This compares with $77,612,000 or 9.8%, in 1922 after World War I. Since Pearl Harbor the volume has shrunk to approximately 45% of the 1941 figures. It seems reasonable to conclude that the 1941 peak of motor-vehicle business will again be reached and eventually exceeded.

Ocean marine business, too, should reach higher levels than have hitherto prevailed during peace years. The United States will have the largest merchant fleet in the world at the end of the war and even though it may only be possible to use but a portion of it for peaceful trade, yet it is doubtful that we will permit our merchant marine this time to deteriorate into an inferior position. Normally, ocean marine insurance is a profitable line, and any moderate to substantial increase in volume should handsomely augment the earnings of marine underwriters.

Fire insurance is still the major line of the so-called "fire insurance companies," even though its relative importance has slowly shrunk from 77% of all lines in 1920 to approximately 48% in 1943. In the decade following World War II, as this observer views it, there is likely to occur, with minor set-backs, an upward trend in the volume of fire premiums. There are many "probability factors" which would appear to substantiate this conclusion, for example: a building boom of unknown proportions, yet essential in order to relieve inadequate housing conditions; a growing public awareness of the value and cheapness of fire insurance; a normal increase in population of some 10,000,000, and, after a preliminary drop from our inflated "war prosperity," a rising curve of national prosperity.

By and large the prosperity of the insurance business depends on the prosperity of the Nation. If we believe that after the war America still will be "going places," still will exhibit the spirit of enterprise and still will face a promising and prosperous future, (and what true American can believe otherwise?), then we must likewise believe that the best of America's stock fire insurance companies also will face a promising and prosperous future.

Dollars Of Destiny

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their old age as a result of their savings accumulated in life insurance policies, were handed worthless currency. The same can be said concerning those who had savings accounts. The insurance companies actually lost 93.5% of their assets and 95.6% of their investments. That inflation did not come by presidential or legislative proclamation—it developed slowly, as it always does, until the final stages, when it assumed the proportions of a prairie fire, consuming all the substance of the people. There remained a despoiled nation. Then came the emergency, then chaos, then the dictator who, as you know, is nothing more than a receiver for a nation gone bankrupt.

Loss of confidence in its money, which, in the final analysis, is inflation, is the greatest tragedy that can happen to any civilized state.

We say it can't happen here. Rather, let us say, it must not happen here. Then let us proceed to make that declaration a living reality by recapturing the control of Federal spending at the earliest possible moment, after the war, which will be the only guarantee against that demon that counts civiliaztion after civilization among its victims.

In the man that came, the German people thought they saw relief from their suffocating debt, which had piled up upon already impossible debts, broken down their machinery of government and created the very kind of man who appears on the scene.

But need we look beyond the waters, or even cite the teachings of history to be convinced that in the eight years immediately preceding the war, in our own land, in this reputed sanctuary of freedom and liberty, we were tampering with the deadly explosive of excessive debt that has blown one civilization, one culture after another, into oblivion?

Back then, to our question: Do we possess power of discernment? What do present movements mean to us? Do we realize what it is going to mean to everything we cherish under this representative republic if we permit our country a continuation of a discredited fiscal philosophy—a policy which advocates and justifies uncontrolled spending?

"Vice (debt) is a monster of such
frightful mien
As to be hated, needs but to be
seen;
Yet, seen too oft, familiar with
her face,
We first endure, then pity, then
embrace."

—*Alexander Pope*

We shivered at the first sight of uncontrolled spending; we, too many of us, then came to endure it, and now we have embraced it and that is responsible at this very moment for the rearing of a debt structure of such unprecedented size that unless halted in the post-war period, it will pass the stage of safety and solvency and must, of its own weight, collapse, leaving among its ruins 150 years of free agency—a system that gave to the world a government characterized by Lincoln as "of the people, by the people, and for the people."

If that picture is overdrawn, then all history is a lie.

For the sake of verification, let us get down to the facts and see what our accounts show. Let us look at the picture. Here it is:

The present administration, in the pre-war years, piled up the largest debt in all history. It had for several years past created larger deficits than all other nations combined. In a statement reviewing the last ten years, before our entry into the war, Colonel Ayers of the Cleveland Trust Company said:

"Two facts about this depression are of special significance. One is that it has lasted longer than any other period of hard times in our national history. The other is that among all the important industrial nations of the world there is only one other that has made such laggard progress toward recovery, and that is France. In the progress toward recovery the United States takes rank in the 21st place among the 22 nations."

And why? Because with one hand we worked the pump handle, while with the other we wielded the sledge hammer to smash the pump. And we called this priming the pump!

That almost incomprehensible situation would have meant something more to us perhaps, had we realized that since the launching of our government, we had assumed all the debts of the colonies, we had shouldered all the burdens of the Revolution, we had fought the War of 1812, the Mexican War; we had engaged for many years in wars with the Indians; we had fought the Civil War, the Spanish-American War, and participated in the first World War. Moreover, we had met all the expenses incident to our marvelous expansion from a strip along the Atlantic Coast until we occupied the bulk of the entire continent. And yet, despite all the obligations incident to these struggles and expansions and the drains upon the national treasury, despite all the burdens which the taxpayers had been called upon to assume during those years, the aggregate costs of government during all that period fade into insignificance in comparison with the depredations which the present treasury eroders made upon our economic life and holdings in the few brief years preceding the world conflict—and mark you, in years of peace!

Now, why do I harp on the pre-war period of prodigality? Here is the answer—and a true one: If at the end of this war, the deficit spenders, the "we-owe-us boys," are not thrown out by an angry, tax-conscious electorate, and if sanity in fiscal matters is not re-established, the boys—our boys—who are fortunate enough to return, many with grievous wounds, will have fought in vain. The kind of government they gave their all to destroy will be enthroned here at home and we, their fathers and mothers, will have broken faith with those gallant lads, many of whom made the supreme sacrifice.

The Founding Fathers were aware of these dangers and warned against them. And why? Because they were historically minded. They were close students of world affairs. They knew what had brought about the rise and fall of nations. That is why they attempted through the Constitution, to map out the safe way which we should pursue to establish and to perpetuate the principles of government and human relations for which they gave so freely of their blood and treasure. They knew that any departure from that safe-charted highway of honest money would lead us into a wilderness of confusion where, in our helplessness and ignorance, we, too, would add one more name to the long list of defunct civilizations.

Washington's farewell address, the admonitions of Madison, Hamilton, and Jefferson were perhaps little understood or appreciated at the time, but what remarkable reading to us in our generation! How they bristle with wisdom! Almost against their better judgment they provided for general suffrage, for they hoped against hope that in some manner, mass education would be made a continuing, accomplished fact. They trembled as they anticipated the day when the vote of the majority could be bought in exchange for alleged economic social security. They recognized that only when people are informed, when they discern, are they able to exercise the voting privilege wisely and effectively in their own interest and for the perpetuation of their own rights. They knew of men's lust for power; that, once entrenched, they reluctantly yield their positions; that they create situations to perpetuate themselves in control; that they surround themselves with hungry hangers-on; that they build up a vast ever-increasing tax-consuming army of servile public employees; that by means of lavish contributions taken from the pockets of the people, by a systematic erosion of the public treasury, individuals, states and their political subdivisions can all be made to relinquish their time-honored, independent prerogatives in favor of an ambitious central government. Those men had seen how human nature operates; how easily men can be despoiled and sold down the river; how readily they can be betrayed. Out of the wealth of their wisdom and their power of discernment they gave to us that unprecedented instrument of human liberty, the Constitution, providing, among other things, that the spending power shall be vested in the House, the true representatives of the people. It had been burned into the hearts of the Founding Fathers that any departure from this fundamental of free government would be the beginning of the end of that free government.

But no sooner had that Magna Charta, with its priceless Bill of Rights, been placed in our hands than it became immediately an object of assault. These attacks have never ceased. They have increased in insolence and intensity. We need not recite the happenings of recent years. They are grimly familiar to us in this group. But . . . once again we come back to the question: How can they be made clear to the man on the street—to the average citizen who casts the controlling vote?

Who dares contend that we in our day have now shown ourselves to be equally gullible, equally willing to be silenced, equally willing to be betrayed, equally willing to be sold upon the block like those who have preceded us?

It can be safely asserted that in no other country on earth could sound principles of economics have so ruthlessly been violated, as we have recently violated them, without suffering complete and absolute wreckage. Thanks to our endless and apparently inexhaustible resources, we have been able, up to now, to meet our obligations and to remain solvent. The best proof that the American pattern of government is sound is that it was able to endure in the pre-war years, under the greatest orgy of peace-time spending that any government in any period had ever attempted in the history of civilization and then to become the arsenal of democracy to save the world. As much of our present indebtedness alarms us, it is our apprehension of the trend after the war that overwhelms us. We are not unmindful of those stalwart, patriotic Americans — Democrats and Republicans—in the Congress of the United States, such as Senator Byrd (God bless him)—who are at this very moment fighting against insurmountable barriers to preserve solvency. Their efforts seem at the moment, to be making some progress.

Just as we today are meeting, so have men done throughout the centuries. No doubt in days of yore there were men who dared stand up and paint to their fellows the gloomy picture of what must inevitably follow a continuation of the mania of incurring debts, borrowing and perpetuating deficits. They, too, were called ugly names and looked upon as calamity howlers. Strange, is it not, that we experience the same reaction when we, in our day, warn against the continuation of a devastating trend of Federal debt?

How then may the masses, our fellow citizens, be won over and stimulated into action so that they, the victims of a deficit program, will act in the interest of their own security and their own personal liberty? How can it be done? Who should be more willing than we to undertake the task? Who should possess more courage or more determination and the power of discernment to seize this opportunity ere it be too late? John Rustgard said, "If we are too weak today to handle the situation as it should be handled, we shall be weaker tomorrow and the next day still weaker. We are giving shelter to a vulture that is constantly eating out our vitals." The vulture referred to is the ever-increasing government debt and deficit.

Can it not be shown to the man in the street, to the merchant, to the manufacturer, to the housewife, to the educator, to the church man, to the farmer, to the vast army of honest workmen, even to those who today are subsisting upon government benevolence? Can it not be told to the eleven million service men, most of whom have a $10,000 government insurance policy? Can it not be demonstrated to the youth of our country, to all people, irrespective of color, or class, that they will all be made to suffer for ruthless prodigality; that they all must now unite to plan and perpetuate a sound fiscal policy following the war? With our wide range of contacts, can we not speak the language of each of these groups so that they will understand that no government ever did or ever can subsist upon its debts; that the only source of wealth is with the people themselves; that government support comes entirely from the earnings, production, and savings of the people; and that not one cent originates in the elaborate mechanism of government? How readily will the millions of savings bank depositors, the 69 million holders of life insurance policies, the 50 million holders of government bonds, with the voting control, rally to such a call for united action, once they are convinced that the leadership in this crusade is informed and passionately and patriotically devoted to public interest?

Men will not struggle to save if they know that they are ultimately to be denied the fruits of their labors. No trick of logic will ever be able to destroy that human trait. That fact is known to those in power. That is why they have introduced political magic. They have made us class-minded. As individuals and classes we are rapidly losing our national outlook. Our group consciousness has brought about group greed. We have proved that we can be purchased, big business included, and silenced by carefully planned doles handed out to us by some branch or other of that great philanthropic agency which we call our central government. Our protests against the unlimited outpouring of borrowed money are growing fainter and fainter. States and their local subdivisions are losing their constitutional autonomy. Federal projects and grants have done their work. Even branches in our national government set up under the Constitution to maintain the balance of power have shown their willingness to abdicate under the manufactured declaration that there exists an extreme emergency — *the recognized springboard and implement to despotism.* Thus we have abandoned many of our time-honored constitutional safeguards. Through the creation and operation of numerous, ever-increasing, alphabetical agencies and commissions, many exercising undisputed legislative, executive and judicial powers, there has resulted a delegation of authority of such proportion that the constitutional pillars of government have been largely eaten away.

Furthermore, by a new kind of bookkeeping, it is difficult to see clearly the financial condition of our Federal government. New terms were coined to make the government's studied fiscal subterfuge appear plausible. For instance, "recoverable assets." What an ingenious invention!

Heretofore, Congress had acted under Constitutional mandate, had designated the volume of public expenditures and the manner in which they should be made. But the whole control of public expenditures had gotten out of hand. For lo, what Congress authorized, constituted only a visibly small fraction of the tax burdens that were heaped upon the backs of the non-tax-conscious taxpayers. Government borrowing in the final analysis is nothing more than deferred taxation, deliberately deferred by politicians, in all parties, so as not to incur the wrath of the tax-conscious voting public.

So that all spending might be kept within bounds prescribed by Congress, so that public money would be spent only in the volume and in the manner specifically prescribed by Congress, provision was made under a former administration for the continuing control of the budget; a comptroller of the budget was appointed, whose term of office extended beyond the bounds of any existing administration. He was made the watch-dog of the Treasury. Any demands made upon the Treasury not in keeping with the provisions of the appropriation, were denied, with the result that the Treasury eroders swore eternal vengeance upon him and his office. Solemnly they set out to remove that one obstacle which lay in their extravagant path. And they succeeded, under the disarming plea for economy, to provide reorganization of government departments. That strategic key to government solvency, to strict control of government disbursements, has been quietly but effectively removed. In its place we have a glorified bookkeeper under the domination and subject to the will of the Executive—a helpless substitute. And did we catch the significance of that "reform"? We did not. All this was perpetuated largely because we showed ourselves to be economic illiterates. We lacked education. We had grown self-centered and group-conscious. We were no longer historically minded. We imagined that history began with us. We were the Little Red Riding Hoods bringing our hard-earned substance to our dear old Government Grandma, who turned out to be a hungry wolf that devoured not only our substance but threatened our very existence as a free people.

We need not alone assume the responsibility for inaugurating and conducting a needed fact-revealing process of education of the masses. Our great school system will prove an able, willing ally. It is my belief and conviction that many of those who stand at the head of our educational forces, including our endowed institutions, already recognize and appreciate that they, themselves, are in peril; that there is no justifiable gulf between education and business; that without the proceeds that come from constructive private business, schools must

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Mutual Funds

Food For Thought

Vance, Sanders & Co. has reprinted in the current issue of **Brevits** an article which appeared over 114 years ago in the January 1830 issue of the **Edinburgh Review.** The article gives much food for thought at this critical time. Here, for example, is the closing paragraph:

"It is not by the intermeddling of the omniscient and omnipotent state, but by the prudence and energy of the people, that England has hitherto been carried forward in civilization; and it is to the same prudence and the same energy that we now look with comfort and good hope. Our rulers will best promote the improvement of the people by strictly confining themselves to their own legitimate duties—by leaving capital to find its most lucrative course, commodities their fair price, industry and intelligence their actual reward, idleness and folly their natural punishment, by maintaining peace, by defending property, by diminishing the price of law, and by observing strict economy in every department of the State. Let the Government do this. The people will assuredly do the rest."

* * *

W. R. Bull Management Co. has published a little folder on **Republic Investors Fund** showing the performance of the common stock in relation to the nine important advances and declines in the market from June 10, 1940, to March 20, 1944.

As might be expected from the common stock of a leverage fund, Republic common declined at a somewhat faster rate than the Dow-Jones Industrial Average in each of the four market declines during the period. On the up-side, Republic Investors common substantially outperformed the Dow-Jones Industrial Average in each of the five advances. Over the entire period, Republic Investors Fund showed a net advance of 82.8% as against 49.2% for the Dow-Jones Industrial Average.

* * *

The new study on "The Automobile Industry and Two Great Wars," recently announced by **Hugh W. Long & Co.,** is now available. This folder contains charts showing the performance of automobile stocks after World War I and comparing automobile stock prices with production of cars and trucks over the 26-year period from 1918 to date. Another chart shows the performance of **New York Stocks Auto Series** in comparison with Chrysler and the Dow-Jones Industrial Average from the 1942 lows to date.

* * *

A new memorandum on **Railroad Equipment Shares** entitled "Need + Money to Buy = Profits" has been issued by **Distributors Group.** The memorandum stresses three main points:

1. The railroads **need** new equipment.

2. The railroads have **money** to **buy** new equipment.

3. An estimated post-war increase in railroad equipment **profits.**

It is estimated that in the first full post-war year the 15 leading railroad equipment stocks currently held by Railroad Equipment Shares will earn an average of $5.99 per share, as compared with $2.76 per share in 1943 and $2.75 per share in 1937.

* * *

The current issue of **Abstracts** presents an interesting comparison of the performance of **Affiliated Fund** with the Dow-Jones Industrial Average during the "round trip" in the market from May 28, 1943, to May 26, 1944. The Dow-Jones Industrial Average stood at 141.18 at the beginning of that period and at 141.03 at the end. Affiliated Fund common, on the other hand, rose from 3.61 to 3.99 per share.

It is further pointed out by **Lord, Abbett,** the sponsor, that during this same period many leading individual stocks showed substantial net losses, ranging from 52% for Anaconda Copper down to 8% for duPont.

* * *

Keystone Corp. reports combined net assets of the 10 **Keystone Custodian Funds** at a new high of $82,500,000 as of June 2, 1944. The present total represents an increase of 37.5% from the combined asset figure of approximately $60,000,000 reported last year at this time.

Keystone Series B-2 had total net assets of $10,915,285 and Keystone Series S-3 had total net assets of $1,818,088 on April 30, 1944, the semi-annual accounting period for these two funds. The figures compare with year-earlier totals of $8,760,593 for Series B-2 and $1,138,613 for Series S-3.

* * *

National Securities & Research Corp. presents the fifth in its series of articles on "Scientific Developments from the Investor's Viewpoint" in the current issue of **Investment Timing.** "New Alloys" is the subject of the current article. The conclusion is expressed that: "While competition should be keen as a result of expanded production capacity, investment in stocks of alloy producing and fabricating companies should prove remunerative when selected wisely and at the right time."

Mutual Fund Literature

Distributors Group — A letter and a suggested mailing to "Prospects Who Are Corporation Executives." . . . **National Securities & Research Corp.** — An issue of **National Notes** devoted to **National Bond Series.** A memorandum showing portfolio changes in the various funds during May. Also a revised current information folder for June. . . . **Selected Investments Co.**—An issue of **Selections,** comparing the current level of the stock market and other financial indicators with levels of ten months ago. Also the current issue of "These Things Seemed Important." . . . **Keystone Corp.**—The current issue of **Keynotes,** containing a highly informative discussion on "Tax Refunds for Corporations." Revised portfolio folders on each of the four **Keystone Bond Funds.** Also a **Current Data** folder for June covering all 10 Keystone funds.

Dividends

Institutional Securities, Ltd.—A semi-annual distribution of 3¾¢ per share on **Insurance Group Shares** to stockholders of record June 30, 1944.

Keystone Custodian Funds — A semi-annual distribution of 50¢ per share on Series "B1" and 35¢ a share on Series "K2," payable June 15, 1944, to stockholders of record at the close of business May 31, 1944.

Wellington Fund—The Wellington Fund has declared a dividend at the rate of 20 cents per share payable June 30, 1944, to shareholders of record June 17, 1944.

Ewing With du Pont

Francis I. du Pont & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, announce the appointment of Alonzo P. Ewing as representative in the Detroit area of its investment advisory division.

Dewey Sees Revival Of States

(Continued from page 2362)

the American people have a steadying unity of purpose.

First of all there is unity in the war. The people of this country are determined to win this war, to win it on all fronts and to win it decisively and at any necessary cost.

They want that cost, as far as possible, to be in terms of their labor, their natural resources and the implements of war they can produce. They want it to be as little as possible in terms of the lives of our young men. Because of this, they want to know how best to use their efforts at home to save lives abroad.

Military affairs are being conducted by trained and efficient commanders. The superb achievements of our trained military and naval leaders have won and deserve the continued confidence of all our people. But the civilians want their home efforts and sacrifices to be effective to the limit of our capacity. They are worried about inefficiencies and bungling that they all see here on the home front.

Labor and industry are performing valiantly. But every resource of labor and management must be released and directed harmoniously to insure the earliest victory and the quickest possible return of our youth. This is one fundamental upon which we as a people are united.

Our people are united upon the proposition that our foreign affairs must be so conducted that disasters like the present one will not recur. We shall have to pay more attention than heretofore to what goes on in the rest of the world. Twice now, in a generation, troubles elsewhere have been allowed to grow until they became vast catacysms that engulfed us.

We must not again sit on the sidelines as mere observers or commentators, while future kaisers and fuehrers and war lords grow strong and perfect their plans for aggression. The American people are united in their determination to be competently concerned about what concerns us, and with positive determination to join in preventing future wars.

We are also united in the fresh determination to keep our nation great. Our founders conceived this nation as one destined to be a beacon light to all the world. For one hundred and fifty years we moved steadily forward to realize that great vision.

We created here a society which demonstrated how free men could work together productively in an atmosphere of intellectual stimulation and of spiritual enlightenment. Throughout that period the great American experiment was an inspiration to the peoples of the world.

We had good-will everywhere because we are, by our conduct and example, a life-giving nation. At times our progress was interrupted, but we recoiled only to move forward. American genius found a way to overcome dislocations when they occurred.

Then in the years before the war while the pursuits of peace were possible, we experienced ten years of retrogression in many important respects. During these years we lost confidence in ourselves. We had a ten-year depression, ended only by the feverish and deadly stimulus of war.

We had never before experienced a depression from which we did not quickly rebound to greated progress. No material reason was adequate to explain what had happened.

The American people are the most competent, vigorous and intelligent in the world today. There lie before us opportunities which are immeasurable. There is only one thing that can stop us from resuming forward progress. That is loss of faith in ourselves and in the simple, yet profound truths by which free men live.

With restoration of faith in ourselves and our system, with hard work and an end to quarreling, the American people will again go forward. They will recapture their self-confidence and self-pride in worthy achievement. In the future we shall again be the great people which our heritage and our vigor command.

The means by which our present unity in war can be preserved in the peace to come is the vital problem of our time. It seems to me that much of our success in war has come from the sense that every individual citizen has a personal job to do.

While there has been a maze of regimentation, some necessary, some inexcusable, our strength at home has come wholly from the genius of our free men in industry and the devotion of our workers and our farmers to their jobs.

Our success or failure after the war will depend on whether we, as a nation, take to heart the lesson the war has taught us. If we permit the continuance of the regimentation which some so earnestly desire, we shall fail.

We cannot practice in peace the centralization which brought totalitarianism to our enemies and be either free or successful. We can release and rely upon the energy and spirit of the freedom for which we fight. In that way we cannot fail to be both free and successful.

In this meeting I think I see not only the means by which we go forward again but the fresh, confident leadership the nation needs. Each of you came to the head of your Government in a period of crisis, determined to do a job for your State and your country. The result has been that the Governors of the States are heard with new force and influence in the nation.

This is fundamental, I believe, because it represents an administrative revival. It stands for a revival of powers close to the people. It stands for a revival of responsibility close to the people.

It means that we are emerging from a period in which the communities and the States engaged in a holiday of surrendering responsibility to the National Government. It marks at least the beginning of the end of the surrender of their power by the people.

Our success in the war and the future of our country are indissolubly tied up with the maintenance of competent State Governments, competent governments in cities, counties, towns and villages. That is the essence of the Federal system we are sworn to maintain.

All of us, I am sure, no matter which our party, are deeply concerned that our respective States maintain their responsibilities in the war and after. But we can succeed in that objective only as we meet effectively our opportunities to advance the welfare of our people.

I have first-hand evidence in my own State, as I am sure each of you has in his, that the people want to bring responsibilities and obligations closer home. In the field of finance, for instance, it has been encouraging to witness the whole-hearted approval by the great majority of New Yorkers of the buttressing of the State's finances.

For the most part, our States will emerge from the war in a relatively stronger financial position than that of the Federal Government. The National Government will be confronted with an enormous debt and an enormous annual charge for debt service.

Meanwhile, the States have been able to strengthen their financial position greatly in recent years. We have found it possible to effect many economies, some permanent, some temporary. At the same time, the high rate of industrial activity and of employment has, in general, increased State revenues. Inevitably, this situation evokes some large questions of fiscal policy.

In my own State, and I am sure that others of you have had the same experience, there was certainly no lack of helpful suggestions about how to use the State surplus. Some groups suggested that it would be used to reduce taxes. Others were eager to see the surplus given away to aid them or particular causes they favor.

We felt that neither of these courses was morally or economically defensible. Either tax reduction or increased spending in times like the present would be equally unsound and irresponsible.

The State's surplus, as we saw it, was not ours to spend nor ours to give away. It was, rather, a fund which we held in trust for those who had left their homes to fight upon the battlefronts or to work in the munitions plants.

Moreover, we know that fiscal policy is following a treacherous course when it reduces taxes in relatively good times only to face the necessity of increasing taxes in hard times.

We adopted the principle that in good times one should save up for a rainy day in order that, if hard times come, there may be funds to meet necessary expenditures without adding to the burden of taxes.

What we did with our State surplus, therefore, was to lock it up. The entire sum, now amounting to $163,000,000, has, by act of the Legislature, been put into a reconstruction fund.

It will be available during the war period for reinvestment in United States Government securities to help the national war effort. When the war is over, it will be there to help us finance a postwar program of necessary deferred works.

It will contribute toward the economic and social rehabilitation of the men and women who will return from our armed forces and from the war industries. In addition it has been possible to provide full unemployment insurance and extensive educational and vocational training opportunities for our veterans. Our people propose to start with a healthy effort to help themselves.

In this job of helping the returning veteran to find employment, the States, so far as lies within their power, must seek to encourage the development of sound employment opportunities. To some extent there will be needed post-war public works which can help to stimulate the real jobs.

In New York our post-war Public Works Planning Commission is preparing a program of needed public works construction which will also provide immediate employment when needed. The commission also allots funds and assists the municipalities in the preparation of plans.

Many plans are already completed and on the shelf for needed and sound improvements. None of these will be "made work" projects. We are pushing ahead, getting blueprints ready for sound and essential construction and tossing all of the frills out the window.

By these and similar plans the various State governments are doing much to cushion the effects of post-war economic readjustment. But we must never forget that the heart of the economic life of America is business and industrial enterprise.

It provides the great preponderance of employment opportunities for our people. Here, again, State government can help. Our Department of Commerce is engaged upon a program to encourage business development and stimulate job opportunities.

It is making an inventory of all the manufacturing firms of the State. It is obtaining figures about their volume of employment both before and during the war and estimates of their employment potentialities in the post-war period.

Business men are being encouraged to plan for the future. We are investigating as accurately as possible the approximate dislocation of workers in war production so as to be able to meet their needs.

There is still another vital question with which I know we are all concerned. That is the production of food for war and the maintenance of a prosperous agriculture. Here, again, the people themselves and the units of Government closest to them can do the job best if they are encouraged and permitted to do it:

When I had the honor to speak to you over a year ago the consequences of remote control had become glaring in the food problem of our State. To meet the situation we created the Emergency Food Commission and appointed a Farm Manpower Administrator to work with that commission.

The farmers of New York rose to the occasion in a fashion that made the people of the State proud indeed. They had inadequate help, hardly any new machinery, sometimes not even enough gasoline to plow or cultivate their fields and they were confronted with excessive regulation from Washington.

But the Emergency Food Commission and the Farm Manpower Administrator overcame many apparently unsurmountable obstacles. The farmers were able to harvest and process their crops last fall without any loss, thanks to the help of a volunteer army of 111,000 workers.

Despite temporary surpluses of some products and removal of rationing of others, I fully expect that our Emergency Food Commission this year will have even more critical problems to meet.

The State and Federal farm manpower agencies have estimated that in the coming months we shall need in New York State alone a volunteer army of farm workers of 140,000.

I am sure each of the States is facing a similar need. But if we continue in the magnificent spirit of local leadership and neighborly help we will all again plant and harvest our crops.

I wish we could hear the experience of all the States in striking out boldly, as they have done, to meet the challenge of war. The fact is that each of the States has done it. The result is the beginning of a new revival that goes down to the roots of America.

It is a revival of growth, the principle of growth in our common life. It is a new willingness to face the future without prejudice, with open eyes and eager minds. It is a determination to do a good job and not to pass the buck to someone else.

This is not a matter of State's rights. It is a matter of affirmative acceptance of local responsibility. It is significant that the members of this group of Governors are largely in early middle life. You are not tired by long doing. You are fresh for great tasks ahead.

This group will be a wholesome influence when we face, as we must, the redistribution of functions, powers and people which have swarmed about our national Government.

You are ideally placed to see that all possible functions of government in this country will proceed close to their source. That source is the people.

With the help of the driving influence of the men in this room, there will be determination never to permit that concentration of national power, power which would wipe out our republican system and substitute a disguised totalitarianism.

There will be no reaction after the war. America never goes backwards. There will be no surrender to aggregations of power either in civil life or in Government. Our country always has and it always will go forward because its people are free men and women determined to remain free.

The American people intend to win this war and to be done with fighting both at home and abroad. The war against our enemies must be pursued inflexibly, efficiently and to a quick solution. When victory is won it must be won for good.

The task of political leaders is not to lead one part of the American people against another in violent crusades about unessentials. The task is to unify in peace, as in war; to keep and build our new-found faith in ourselves, in our country and in our God.

The evidence is overwhelming that the new competence, the new acceptance of responsibility shown by the Governors of the States reflects a new determination by our people that the freedom we have re-won at war shall be re-established and maintained in peace.

Canadian Securities

By BRUCE WILLIAMS

The Canadian Department of Finance, headed by the indefatigable Mr. Ilsley, appears on the threshold of another noteworthy achievement. As reported several months ago, the Canadian Minister of Finance took the initiative in clearing up the highly troublesome succession duties situation which has plagued executors of estates on both sides of the border for many years.

Now, according to a report from Ottawa, agreement has been reached between Canada and the United States for a new reciprocal arrangement in respect of succession duties, and the negotiations have reached the stage where announcement of a joint international convention is imminent.

This correction of an obvious inequitable state of affairs is timely in view of the growing importance of the market for Canadian securities in this country. Although comparatively restricted in its scope, this double taxation of estates caused such feeling that trustees in a body liquidated all Canadian securities held, whether subject or not to this taxation. It is to be hoped, therefore, that on removal of this impediment this important section of the investment community will shortly feel free to consider Canadian securities as desirable additions to investment portfolios.

This encouraging news coincides with the further welcome development of the approval by an overwhelming majority of the bondholders of the City of Montreal debt reorganization plan. The essence of the plan is that the maturities of the city are uniformly arranged from 1946 to 1975 so that the yearly service of the debt which will provide for both interest and debt reduction by 1975 will be approximately $14,000,000. As the city revenues in the past four years varied from $49,000,000 to $54,000,000 approximately, the debt service will be less than 30% of total revenues. Thus this great Canadian metropolis takes on a new and simpler financial lease of life, and it can be confidently anticipated that in view of this and its leading position among the Canadian cities, the credit standing of Montreal should in due course rank higher than ever before.

During the past week market activity was at a comparatively low ebb. In view of the development previously discussed, Montreal issues were the principal feature and there was a fairly large turnover at higher prices. Direct Dominions retreated from their recent high levels, but there was still a steady replacement demand for short-term Nationals which should, if anything, become more accentuated as we approach July 1, the call date. Canadian Pacific perpetual 4s were very strong and touched a new high of 97. There was scattered trading in the provincial issues and pricewise there was little change.

Internal issues continued in fair demand and the Canadian dollar in the "free" market maintained its strength at 9 5/16% discount. An intensified demand for gold shares was a contributory factor; results of recent diamond drilling, principally in the Northwest Territories, have been quite spectacular. Thus it would appear that past predictions concerning the potential wealth of this region were by no means unjustified. As soon as labor and machinery become readily available there is little doubt that the Canadian Northwest will prove to be one of the richest sources in the world of the rarer metals.

Turning to possible future developments, it seems that, as with investment markets generally, invasion influences have been thoroughly discounted. The Canadian market here during recent months has advanced steadily to reach a point where a slight reaction would not be surprising. However, there appears no reason to expect any basic change of trend, as there is still the important factor to be taken into consideration that interest in this country in Canadian securities continues to develop.

Production Trends And Outlook

(Continued from first page)

reaction at the termination of the war, with the whole situation reaching its denouement in a great post-war boom?

* * *

Surely there are the same reasons now that have always existed to explain this normal sequence of war and post-war events. To begin with, we have a vast amount of unsatisfied desires and postponed wants. (In business, the counterpart of this is a terribly depleted business capital.) To implement the desires that come from these deficiencies, there is a vast and growing purchasing power in terms of currency. Individual incomes have soared since the war began, much more than have taxes or the cost of living. The vast potential inflation existing in the shape of bank deposits, the growing effectiveness of which is finding expression in the diminishing excess reserves of the central banking system, should be known to all. There has been a subnormal use of private credit throughout the war. This is seen in the retirement of some 34 billion dollars of private debt, and in the abnormally low level of bank loans.

In general, therefore, the destruction of capital throughout the world, and the disruption of the productive mechanism, invite and challenge a great upsurge of productive activity. It has always been so after great wars.

The usual sequence calls for a sharp rise in production during the first two or three years of a great war. This "war boom" is partly due to the production of needed plant and equipment, and activities in the way of converting civilian industries for war purposes. Partly, however, it is due to increased effort and efficiency under the stimulus of the war emergency.

After this initial spurt, the war machine having been completely set up, and stocks of materials accumulated, there comes a dip in production. Then periods of manpower shortage are apt to become effective, as is now the case.

Is this not exactly what has happened since 1939? Probably the peak of war production was reached last Fall. There has been a dip recently, as stocks of semi-finished goods of various sorts (such as zinc) accumulate, and the great decline in building and construction, to say nothing of machine tools, shows that the war plant has been completed. At the same time, civilian production is held back pending greater certainty as to the final outcome of the war; and, of course, action on private post-war plans must be held in abeyance.

Usually after the first dip in the war boom, there is a recovery, which does not, however, carry production above the preceding peak. This, too, may be expected. At the present time, for example, we are just ending the landing-barge and landing-mat stage in steel production and are in the midst of a great demand for "shell steel," heavy ordnance, and lumber. Invasion uncertainty prevails; but just as soon as the end can be foreseen, civilian production will be stepped up, which will be before the war ends.

In the post-war period, there is usually a relatively short decline, lasting perhaps for some such period as a year, soon after the coming of peace is known or anticipated. On the one hand, war production is apt to be curtailed sharply. (Today, for example, many war contracts are not being renewed. Many are being "cut back." Some are being cancelled.) On the other hand, civilian production, while picking up, gains more slowly. Indeed, there can hardly be a complete shift to a civilian economy before the expansion in building activity and other heavy industries pick up momentum. The composition of these two forces—the relatively sharp decline in war production and the more gradual rise in civilian output, results in the first post-war reaction—a minor one.

In this phase, any uncertainty affecting post-war business plans may have a considerable retarding effect. Perhaps uncertainty concerning radicalism, by checking incentives to investment and enterprise, may delay the pick-up of civilian production. Perhaps, as the first strain of readjustment is felt, the demands of labor may come to a head in the shape of strikes for higher money wages. Certainly, as the end of the present war draws near, labor leaders will increase their efforts to get higher hourly wage rates to make up for the reduction of overtime pay that is already beginning.

Following the first post-war decline, however, there always comes a period of great so-called prosperity—a period of post-war inflation, characterized by great expansion of production and employment. Such a period is almost certain to return to, or exceed, the preceding peak of war production. This is true because of the great shortages which war creates, particularly in capital goods, and the use of technological developments which are usually stimulated.

* * *

Now to the question, Why should this usual sequence of events not carry through from here? If the war ends in 1946, why should there not be a minor recession in 1947, followed by a post-war boom before the end of 1948, which might carry on for at least two or three years?

The first point I would make is a negative one, namely that there has been no such relatively great expansion down to the present time as some fearful analysts have fancied. The plain fact is that the industrial production index, by which most observers judge the expansion of production, is itself inflated! It is based so largely on man hours, and other substitutes for data showing actual output of products, that it does not truly reflect industrial production in any ordinary sense of the term. The only things we have too much of, are war goods and non-productive labor.

It has been estimated by one careful student that the real increase in industrial production in the three years from 1939 through 1942 has not been 68%, as the Federal Reserve index says, but really only 35%. This compares with an increase of 32%, from 1914 through 1917, the corresponding period in World War I. The two increases are substantially the same. (Incidentally, I note that there has been almost identically the same rise in the price of farm lands in the two periods of the two wars.) Thus we do not start from any such extraordinary peak as the Reserve Board statisticians would suggest.

Note the big difficulty, and the big difference between the outlook for production today and that in other wars, lies in the retention of certain destructive forces, which is now threatened. These head up in a lack of incentive to enterprise. The forces I refer to are that American form of collectivism (which kept ten million men unemployed in the pre-war period), and the active propaganda for the projection of war controls into the post-war period. It all comes down to so-called post-war planning by government. Unless industry is given freedom to expand, how can one be sure that it will expand? Unless prices are allowed to rise, there will be no great gain in production or in employment. If we are to continue rationing and price-fixing in the post-war period, we need not expect a post-war boom. That would mean a "managed economy," which would not let the purchasing power already created come into use. That would substitute deflation for inflation.

* * *

So the question America, to say nothing of the business forecaster, has to decide with reference to production trends and outlook, is, What shall be the attitude of its government toward the system of free private enterprise? I do not hesitate to say that if that attitude is to be represented by the words of a high Department of Commerce official, when he says that, with the aid of the Government, we must try to spend more than our combined income, and that the basic requirement is to maintain a national income that will create full employment, the future is dark.

Much of the trouble lies in the smart-alec idea that the Government can "create purchasing power" — or make the people think so—by taking money away from its citizens as fast as it hands that money out to them. Sometimes this is disguised by saying that the people will enjoy saving, and will continue to hand over their money gladly Sometimes there is talk about the desirability of buying Government bonds, as if "saving" were the same as "investment." Never is there any definite idea of giving the money back in terms of identical purchasing power. You see, the idea is that the Government, after giving money out and taking it back, will then have it again so that it can spend it again, or otherwise give it back again to the people from whom it took it!—again! The more the Government borrows, the more it spends; and the more it spends, the more it can borrow. That is about the basis for saying that we need a national income of this or that number of billions of dollars in order to support a national debt of this or that number of billions! That is what is now meant by a managed economy. The managed economy has become one in which the Government manages to keep people from spending their own money as they please. Anyone who thinks that under such conditions we are likely to have prosperity and full employment, is not in touch with the realities.

Tell me how long the people, and notably the laborers, are going to fall for this shell game, and I'll tell you when the big post-war boom will get under way. Now they see their money; now they don't. People are now shell shocked. But when the war is in the bag, they will more and more demand their money's worth. They will be less and less willing to save. They will want more of a run for their money than they can get at 1 or 2%. Then they will buy and buy. They will not tolerate rationing. Prices will rise. Profits will grow. Once the war is won, price control will be like prohibition—futile!

It is sometimes said that if all of us spend freely, we will have production brought to full capacity and full employment. This may be true, but one might as well say, "If you can put salt on a bird's tail, you can catch it." If the Government has to do a large part of the spending, and if it makes disturbing conditions so that incentive to private industry or initiative is destroyed, investments will be cut, and idle men and idle money will increase. Then someone will arise and say that if businessmen won't, the Government will — which is collectivism.

I assert that the only way to get production increased in a free country is to let people earn and spend their own incomes, and to allow prices and profits to increase. I am confident that unless and until these things are done, there will be no full employment or maximum production. With still more confidence, however, I predict that the American people will soon be fed up with the shell game which consists in giving them money and taking it away, without giving them anything they want in return; and I therefore go on to predict that something approximating the usual post-war sequence will occur.

Already the trend of war production is downward, and is likely to continue so as a total. Prices of many materials will be easier for a time. The general manpower shortage will certainly be no worse.

But civilian goods production is champing at the bit. It has great possibilities, and requires little urging to expand with growing momentum. While the volume of effective war contracts is being reduced, the shortages of civilian goods accumulates, and the purchasing power in civilian pockets expands enormously. A current illustration is the tendency of women war workers to return to their homes. As the indexes of war production and employment decline (partly on account of the retirement of women workers) the demand for civilian goods for use in the homes to which they return, should grow.

Aside from political handicaps (expressed in the easy-money policy, the full employment notion, and post-war planning), never will a great war have ended with as much reason for a post-war boom as will exist in, say, 1948. Some of these reasons are:

(1) Hardly any new automobiles and electrical household equipment for home uses in four or five years.

(2) Hardly any new residential building, and the materials and equipment which usually go with it.

(3) The accumulated demand for a great variety of consumer goods (e. g. silk and nylon stockings).

(4) The total business capital of all active corporations (net worth) is far below pre-war levels, and requires expansion.

(5) The estimated total income paid to all individuals has risen from about 71 billion dollars in 1939 to around 150 billion dollars now.

(6) The burden of taxes has been much greater than in other wars, and relief from it will stimulate expansion.

(7) There has been an enormous rise in bank deposits, and an actual decrease in bank loans.

(8) Private debts have been reduced by about 34 billion dollars, which means important credit possibilities, and aid expansion in the reconversion period.

(9) Installment credit has been reduced to a minimum.

(10) Many business concerns have greatly strengthened their financial position.

On top of these facts, we now find signs of a more favorable political climate, to the extent of tax provision for a two-year carry-back of operating losses and unused excess profits credits, a fair war contract termination bill, and a reasonable assurance that surplus war property will be wisely disposed of.

And don't forget the building cycle. Building activity has fallen to levels which closely approximate the minimum. There are plain statistical indications that the curve of building activity is at or near bottom, and that with peace it will almost inevitably begin a long period of expansion.

Studies of employment, including both civil and military, indicate the probability that, with the coming of peace, the following developments may be expected (barring collectivist experiments):

(1) The number employed in war industries, and in the armed forces, will decline rather sharply for about three years (say through 1947).

(2) At about the same time, civilian employment in productive industry, will expand, but more gradually.

(3) The total number of employed will therefore decline during these first two or three years of peace.

(4) The decline in the number of those on war payrolls will then cease, however, and the cumulative growth in peace employment will cause total employment to expand during a long period of post-war prosperity.

It is tentatively my idea that, if the New Deal element were to win in 1944, the policy of Government would be unfavorable to business expansion until some such time as 1948. Now suppose that the war ends in 1946. That would mean the low point of the first post-war recession sometime in 1947. Then, if it became apparent that Roosevelt would not be reelected in 1948, which is a development that would occur in 1947, the result would be a great pickup in business and an expansion in the shape of a post-war boom which would begin in 1948.

If the New Deal element is at last put in its place, however, this "time schedule" will be speeded up, and expansion will be quicker. Post-war planning would then be helpful to enterprise and productive employment. The low point in the first post-war recession would not be so low. Prices and profits would thereafter rise faster and farther. Production would then reach a new all-time high.

As soon as Dr. Gallup throws more light on the subject, I will revise this forecast!

Louisville Bond Club To Hold Election And Annual Summer Outing

LOUISVILLE, KY.—The Bond Club of Louisville will hold its annual summer outing on Friday, June 9, at the Louisville Country Club. Golf, swimming, tennis, etc. will be featured during the afternoon, followed by dinner at 7 p. m. and the election of officers.

The following have been nominated for officers of the club:

President: Otto Ruth, James C. Willson & Co.

Vice-President: J. R. Burkholder, Almstedt Brothers.

Treasurer: Joseph Parks, Berwyn T. Moore & Co., Inc.

Secretary: Hector Bohnert, The Bankers Bond Company.

Nat'l Committeeman: Thomas Graham, The Bankers Bond Company; H. Allan Watts, W. L. Lyons & Co., as alternate.

A golf tournament will be held during the afternoon for the Arthur Sedley Memorial Cup donated by the Bankers Bond Company.

Guests of honor will be Elliott Lemon of the Securities and Exchange Commission in Cleveland; Neil Ransdick, chairman, and Sheldon Clark, secretary, of District No. 10 of the N. A. S. D.; and Eban Fuller, Securities Commissioner of the State of Kentucky.

Reservations are $2.50 per plate (free drinks) and should be made with Ora M. Ferguson of Merrill Lynch, Pierce, Fenner & Beane.

John R. Carter Dies; Morgan Cie Partner

John Ridgely Carter, senior partner of Morgan & Cie., Paris, died on June 3 in New York after a long illness at the Knickerbocker Club, where he had been staying. He was in his eighty-second year. His daughter, Mildred Countess of Gosford, his sister, Mrs. Arthur L. Fisk, and his daughter-in-law, Mrs. Bernard S. Carter were with him. His son, Lt.-Col. Bernard S. Carter, also a partner in Morgan & Cie., Paris, is serving overseas in the U. S. Army.

John Ridgely Carter was born in Baltimore, Md., on Nov. 28, 1862, the son of Bernard Carter and Mary Ridgely Carter. He was graduated from Trinity College, Hartford, in 1883, and after taking his M.A. degree there in 1885 he studied in Leipzig for a year. He took a law degree at Maryland University in 1887, and after studying for a year at the Harvard Law School, he was admitted to the Maryland bar in 1889. He became Secretary to the American Ambassador in London, Thomas F. Bayard, in 1894, and two years later was made Second Secretary to the Embassy. In 1897 he was American Charge d'Affaires in London. After serving as Associate Secretary of the Alaska Boundary Tribunal in 1903, he was Counselor of the American Embassy in London from 1905 to 1909, when Whitelaw Reid was Ambassador. He was our Minister to the Balkans from 1909 to 1911, and was sent to Constantinople as our Acting Ambassador from 1910 to 1911. On Sept. 21, 1914, he became a partner in Morgan, Harjes & Co., Paris, and he continued to make his residence in that city until he returned to this country late in 1940. He was the senior partner of his banking firm since the death of Mr. H. H. Harjes in 1926, when its name was changed to Morgan & Cie., Paris.

In 1887 Mr. Carter married Miss Alice Morgan, sister of the late William Fellowes Morgan of this city. She died in 1933. He is survived by two children, Lt.-Col. Bernard S. Carter, and Mildred Countess of Gosford, and seven grandchildren; by his sister, Mrs. Arthur L. Fisk of this city; and by a brother, the Rev. George Calvert Carter, now retired.

It is also announced that:

"Mr. Carter became one of the most widely known and respected American residents in Europe. He was a Grand Officer of the Legion d'Honneur, a Governor of the American Hospital of Paris, and warden and Treasurer of the American Church of the Holy Trinity, Paris. In 1911 Trinity College conferred on him an honorary doctorate of laws. Mr. Carter was identified with many philanthropic activities. One of the chief of these was the "Lighthouse," organized after the last war in France by Miss Winifred Holt to care for men blinded in the war. Mr. Carter served this institution as General Secretary, and its building up and maintenance became one of his chief interests. It was largely due to Mr. Carter's personal gifts and funds that he obtained from his many friends that "Le Phare de France" and Braille press and library in France were maintained.

Post-War Possibilities

Eversharp, Inc. offers attractive post-war possibilities, with no conversion problem expected, according to an analysis of the situation being distributed by Stanley Heller & Co., 30 Pine Street, New York City, members of the New York Stock Exchange. Copies of this interesting analysis may be had from Stanley Heller & Co. upon request.

Dollars Of Destiny

(Continued from page 2377)

starve! In return, with a healthy atmosphere in the schools, kept free of disturbing "isms," the schools will be in a position to raise up a generation of sound thinkers and clear observers prepared to become resolute, informed participants in the affairs of government and everyday life. Schools and business are natural allies.

It ought to be burned into the consciousness of every citizen that the first line of defense in a free country is a balanced budget.

Our national debt at the close of the war will approach 300 billions. Will history then repeat itself? Who then among us, groaning under such a crushing loan, may not welcome the man on horseback who, down through the ages, has made his appearance—some political adventurer, who will clothe himself in robes of superhuman wisdom and succeed in making us believe that our salvation depends upon his retention in power? Then democracy will surrender to despotism, perhaps as complete as that under which so many people and so many nations have gone down, and under which nations today, nations of culture, courage, and education are cringing in slavish impotence. What a sordid spectacle! What a disturbing sermon to us who are still free!

Let us dismiss any gay optimism clearly intended to charm and disarm us. The time calls for action—speedy action, intelligent action, determined action—even at this time before the conflict ends. It must be organized action, while action is still possible; and before we, too, are robbed of our weapons; before we lockstep under the whip of a despotic government that may continue to sing mock praises to a defunct Constitution. The name "democracy" will be maintained, but its substance will have departed. What to do? We must map out our course for peacetime enactment. We must select a few fundamentals upon which to rebuild. What are they? They may be stated briefly:

1. Re-establish the abandoned control of the budget under an official whose term of office shall be for ten years; who shall be authorized to check all requisitions from any and all sources, for moneys to be paid out of the public treasury, confining all such disbursements to those specifically authorized and approved by Congress, and in such amounts, in such manner for such purposes as Congress has specifically stipulated.
2. Strip all Federal agencies, irrespective of name or description, of the power to create obligations for any purpose or under any circumstances, except by direct Congressional sanction.
3. Call upon Congress to function as the one exclusive authority to contract public indebtedness—the only one authorized to determine what money is needed to meet the current expenses of government and to anticipate future obligations; to be the only borrowing or bonding Federal agency, as prescribed by the Constitution.
4. Change the bookkeeping system of the United States and all its subdivisions so that it will be complete, intelligible, honest; so that it will reveal, and not conceal, our actual financial condition.
5. Make government withdraw from the competitive field against its own taxpaying citizens; to continue to regulate and supervise, justly and constructively, but not to participate in the manifold affairs and transactions of business.
6. Restore to the States their once proud position as independent commonwealths, supporting their own enterprises, providing for their own worthy ones in need, and remaining safely within their own incomes.
7. Maintain the tax-conscious electorate. This self-reliant army composes America's best citizens. That this government is worth saving, all decent citizens will admit. In order to save it, all must pay on an equitable basis for its preservation. Those who are not assessed to perpetuate it, will never be conscious of its priceless worth.
8. Take and keep all relief out of politics.

The crying need for the restoration of all these keys to honest, solvent, and humanitarian government seems so obvious as to require neither comment nor defense.

But perhaps one statement at this point is necessary. It has to deal with relief. Let no citizen be naive enough to believe that a change of government will solve that problem overnight, because the technique of capitalizing the relief vote has been so perfected and its vote-getting efficiency so clearly established that politicians of the future, if left unhampered, will be disposed to continue the tricks and ruses employed by the politicians of the present. Unless then relief operations and control are decentralized, taken away from Washington and placed under State control, our elections will be mere contests in the purchase of the votes of the distressed, and our system of government with its free, coordinating checks and balances, will be doomed. Our worthy needy must be taken care of, but not corrupted.

This is sound doctrine, because at the close of the war, the states and their subdivisions, will largely be debt-free, while the government will be burdened with a debt nearly equal to the total national wealth.

We must know that the destruction of savings and the starvation of production brought on by ever-increasing government doles and deficits will mean ultimately the loss of our capacity to take care of the needy. It is the thrifty citizen and not the government that must and does provide the money for this purpose. Finally, the interests of those on relief are identical with the interests of all thrifty Americans. And why? Because government cannot continue to care for the needy once the capacity of the thrifty, saving people of America has reached the dead end.

The eight points mentioned are simple fundamentals of a sound, solvent, representative government. We and all like-minded, discerning citizens must declare and contend, without compromise, for their immediate restoration and operation in the affairs of our Federal government.

These are not idle words when we declare that the fathers handed down to us the instruments of freedom, shaped on the anvil of experience, providing these safeguards for solvent government and Christian conduct. Are we disposed and determined to transmit them, unimpaired, to those who are to follow us, who will bear our names, and who, too, claim the right to be born in a land of individual freedom and liberty; to live under a Constitution that has full meaning; and to behold the Stars and Stripes as an enduring, intellectual, spiritual and political triumph? Men have struggled throughout the centuries, up from serfdom to freedom, in which we now bask. It lies in our power to determine the fate of these unborn generations. What we now do will prove to be a powerful factor in deciding not only our own future but also the nature of the legacy to future America. Will it be the despotism of debt or the security of government solvency?

We should lack neither guidance nor inspiration for we should have a clear understanding of our rights and obligations. We must now determine whether we will accept our share of that responsibility to educate ourselves and our fellows to stay the threatening process of disintegration. As a constructive suggestion and plan of procedure I have enumerated a few of the indispensable fundamentals of a sound, controlled fiscal policy which must be restored and made operative in all our government affairs if the republic is to survive. Without them the superstructure cannot stand. On that point we can have no differences or illusions.

We know approximately what this war program is going to cost in dollars and cents. The burden of the charge alone on this debt will be almost back-breaking.

Certainly government owes it to the people whom it asks to buy its bonds to do everything it can to avoid unnecessarily increasing the total cost of the defense program, and to keep the ultimate debt down to an amount which can be met without destroying the value of the dollar, and the value of the savings of the people. I have been somewhat shocked at radio announcements I have heard—announcements paid for out of tax money and made for the purpose of inducing the people to entrust their savings to government. I have heard over the radio these statements, among others, with reference to investment in these defense bonds and stamps:

"Your principal is safe. Your interest is safe. Your investment is safe. No chance for these bonds to sell for less than you paid for them. Cash them in at any time if need arises, but always for full value for prices printed on the face of the bonds.

"An opportunity to make an investment that the citizens of every other country might well envy—an investment in defense savings bonds backed by the full faith and credit of the United States Government.

"They can never 'go down' in price. You'll never get back less than you pay—but you do get more—much more than you put into them."

If government, as a partner of the people, is offering its securities on the representation that they never can do down in price, government in simple decency should make good its promise.

No administration can violate its promises and preserve the confidence the people reposed in it when they called it into the service. When any administration, no matter what its personnel or its politics, deceives the people, it betrays its sacred trust. No higher trust was ever imposed upon any government than the duty to keep faith with the people. This is a sacred obligation, imposed by all the divine laws that have ever been given. No man, no party, no government can break faith with those they govern and escape retributive justice. God is slow to forgive those who betray their brother. "Thou shalt not bear false witness against thy neighbor," came from Sinai, and what false witness could be greater against your neighbor than to take from him his substance under false pretense?

The government, upon all considerations, not the least of which is its own perpetuation, must see that it handles its finances so that when this tragedy is played to the end, the people can have returned to them the money which they trustfully put into its keeping; and the government must see to it, that the money shall be returned not merely in numerically-equivalent, managed dollars but in dollars that shall be of such substantial purchasing power. This would be but the most ordinary, the most common, and in a sense the lowest kind of mere money honesty. Are our leaders to do these things? They must—and without compromise. Compromise—the Trojan horse, with national bankruptcy riding in the saddle—once admitted within our walls will open the gates to the waiting agencies of destruction.

Since the sturdy Pilgrims set foot upon our soil, America has been the land of promise to men and women of every clime and nation, who sought the gift of self-expression. They were willing to exchange the devitalizing "security" of their home lands for the virile "opportunity" of America. Are we now ready to accept what they abandoned, and to abandon that which they have sought? Are we going to be tricked by the voice of the humanitarian whose hand is that of the despot? Will we consent to become the regimented subjects of experimenting theorists when at the same time those experiments are carried on with the people's savings? It is not too late to repair the harm that has been done. We must not believe it is too late. There is but one course for us to pursue. We must be active participants in the affairs of government—local, state and national. We must give to the cause of government our time, our efforts and our means. We must endeavor to tear off the mask of corruption wherever and whenever it appears. We must take vigorous part in organizations established to preserve the institutions and the liberties of the American people. We must see to it that only men of proved integrity, recognized experience and genuine capacity are chosen to administer the provisions of the Constitution of the United States, which is an immortal deed of trust.

We must declare anew our allegiance in thought and action to the principals enunciated in the Declaration of Independence; in the Constitution of the United States; in the memorable farewell address of Washington; in the undying words of Lincoln.

We must rise to the full height of true American manhood and womanhood and rededicate ourselves to the principles laid down by the immortal Washington expressed in his final admonition to all lovers of freedom. Listen to his words: "Towards the preservation of your government, and the permanency of your present happy state, it is requisite that you resist with care the spirit of innovation upon its principles, however specious the pretexts. One method of assault may be to effect, in the form of the Constitution, alterations which will impair the energy of the system, and thus to undermine what cannot be directly overthrown. Liberty, itself, will find in such a government, with powers properly distributed and adjusted, its surest guardian. It is important, likewise, that the habits of thinking in a free country, should inspire caution in those entrusted with its administration, to confine themselves within their respective constitutional spheres, avoiding in the exercise of the powers of one department to encroach upon another. The spirit of encroachment tends to consolidate the powers of all the departments into one, and thus to create, whatever the form of government, a real despotism."

And now, you bankers, give ear to his final warning: "Let there be no change by usurpation . . . it is the customary weapon by which free governments are destroyed."

Who but a prophet could have foretold and described with such clarity and exactness the manner in which human nature operates—how men in public office easily become intoxicated with power, gained through spending the savings of all the people; and how, if they are not restrained and held in check by some established set of rules and regulations, proceed to exercise despotic power and to destroy the very foundations of personal liberty and the rights of a free people.

Our most dangerous foe is not to be sought longer under foreign flags, for the war will be won. America's No. 1 national menace now is *Demon Deficit*. Therefore, only statesmanship of the most heroic kind, backed by resolute courage and intelligence can save the *American dollar of destiny* from becoming a post-war casualty.

Is There A Shortage Of Children's Shoes?

America's Largest Maker of Children's Shoes Answers This Vital Wartime Question.

The Internation Shoe Co., of which Frank C. Rand is Chairman and Byron A. Gray is President, gives the reasons, elsewhere in the "Chronicle" today, why there is a shortage of children's shoes and what can be done to remedy the situation.

The International Shoe Co. of St. Louis, manufacturers of leading brands of children's shoes, state that since the nation's military demands and the needs of our allies have caused a decrease in the supply of leather available for civilian use, fewer leather shoes are being made for men and women, as well as for children.

The company also observes that while fewer pairs of children's shoes have been made since the war started, the demand has actually been greater and the shortage is felt more acutely because (1) children wear out their shoes more quickly than do adults; (2) the rubber shortage has severely limited the number of tennis shoes available to boys and girls, thus adding to the demand for leather shoes; (3) a sharp increase in the birth rate each year for the past three years has also put a heavier demand on leather required for additional babies' shoes.

According to the company, the Government has taken steps to increase the allocation and production of leather for children's shoes and the shoe manufacturers are in some instances diverting their production of shoes for adults to the production of shoes for children.

The International Shoe Co. is producing more shoes than it did a year ago and expects to increase output without disregarding the standards of quality which the company has maintained for more than 40 years.

New York Stock Exchange Weekly Firm Changes

Interest of the late E. Clarence Miller of Bioren & Co., Philadelphia, ceased on June 1.

Thomas R. Cox, member of the Exchange, retired from partnership in Brinton & Co., New York City, on May 31. The firm continues as member of the Exchange.

Interest of the late Van S. Merle-Smith in Dick & Merle-Smith, New York City, ceased as of May 31.

Roy E. Smith, partner in Moors & Cabot, Boston, died on May 26.

Attractive for Arbitrage

Old Chicago, Indianapolis & Louisville Railway Co. bonds are attractive for arbitrage or outright purchase and the new bond issues also appear interesting, according to a memorandum discussing the situation in some detail which has been prepared by Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock Exchange. Copies of this memorandum may be had upon request from Vilas & Hickey.

U. S. Supreme Court Decision Holds Insurance Inter-State Trade And Subject To Anti-Trust Act

A 4-to-3 opinion that insurance is business in interstate commerce and hence is subject to the Sherman Anti-Trust Act, was handed down on June 5 by the United States Supreme Court.

Justice Black wrote the Court's decision of June 5, which was concurred in by Justices Douglas, Murphy and Rutledge. Chief Justice Stone wrote a dissenting opinion in which Justice Frankfurter concurred. Justice Jackson also wrote an opinion in which he dissented in part. Justices Roberts and Reed took no part in the case. From the Associated Press accounts from Washington, June 5, we quote the following:

"The case specifically involved 196 stock fire insurance companies, and 27 individuals connected with the Southeastern Underwriters Association in Florida, Alabama, Virginia, North Carolina, South Carolina and Georgia.

"Anti-trust charges brought by the Department of Justice were dismissed by the Federal District Court at Atlanta on the ground that the Supreme Court had held for 75 years that the business of insurance was not commerce and, hence, the companies were not subject to the Sherman act, which prohibits combinations or conspiracies which restrain Interstate Commerce.

"Added interest was given the case by the fact that legislation is pending before Congress to exempt insurance companies from the Federal anti-trust legislation and to leave their regulation to the States.

"Thirty-five States filed briefs urging the Supreme Court to hold that insurance was not commerce and not subject to Federal regulation. To rule otherwise, it was contended, would destroy the 'sovereignty of the States.'"

Chief Justice Harlan F. Stone, writing the principal dissenting opinion, stated (according to a Washington dispatch June 5 to the New York "Times"), that the decision would unleash for years to come a flood of litigation and legislation that would harass the insurance business and every State while new boundaries were drawn between Federal and State powers.

The same advices said:

"In the absence of Attorney General Francis Biddle, officials of the Department of Justice would not discuss whether the Black opinion applied to life as well as other insurance companies, but some of those close to the case construed the ruling as embracing life insurance."

In part, we also quote from the "Times" advices:

A second decision of high importance to the insurance business, written by Justice Frankfurter with the concurrence of all other members of the court except Justice Roberts, held that the life insurance business of the Polish National Alliance of Illinois, one of the larger fraternal orders, was subject to the commerce laws under the Wagner Labor Relations Act.

Two questions formed the basis for the Southeastern Underwriters Association case, and each was answered affirmatively by the four-to-three margin. They were stated as follows:

"1. Was the Sherman Act intended to prohibit conduct of fire insurance companies which restrains or monopolizes interstate fire insurance trade?

"2. If so, do fire insurance transactions which stretch across State lines constitute 'commerce among the several States' so as to make them subject to regulation by Congress under the commerce clause?"

Justice Black wrote that Congress has power under the Constitution to govern transactions which "affect the peoples of more States than one."

"Our basic responsibility in interpreting the commerce clause," he said, "is to make certain that the power to govern intercourse among the States remains where the Constitution has placed it. That power, as held by this court from the beginning, is vested in the Congress, available to be exercised for the national welfare as Congress shall deem necessary.

"No commercial enterprise of any kind which conducts its activities across State lines has been held to be wholly beyond the regulatory power of Congress under the Commerce clause. We cannot make an exception of the business of insurance."

Justice Black brushed aside a host of arguments made before the Court to the effect that Congress in the last 50 years had tended to consider insurance companies as being in an exceptional position.

The fact that exempting legislation is pending in Congress, Justice Black added, had no bearing on the case. "If exceptions are to be written into the act, they must come from the Congress, not this Court."

On the other hand, Chief Justice Stone stated that Congress, always holding the power to regulate the insurance business, had specifically failed to assert that authority.

"It would be strange indeed," he wrote, "if Congress, in adopting the Sherman Act in 1890, more than 20 years after this Court had supposedly settled the question, had considered that the business of insurance was interstate commerce or had contemplated that the Sherman Act was to apply to it. Nothing in its legislative history suggests that it was intended to apply to the business of insurance."

Chief Justice Stone pictured great confusion as a result of this new interpretation of the Federal power.

The majority decision, he stated, "cannot fail to be the occasion for loosing a flood of litigation and of legislation, State and national, in order to establish new boundary between State and national power, raising questions which cannot be answered for years to come, during which a great business and the regulatory offices of every State must be harassed by all the doubts and difficulties inseparable from a realignment of the distribution of power in our Federal system."

Frankfurter's Opinion

Justice Frankfurter, long noted prior to his appointment to the Supreme Court as one of President Roosevelt's most "liberal" advisers, in supporting the Chief Justice, said:

"The evidence is overwhelming that the inapplicability of the Sherman Act, in its contemporaneous setting, to insurance transactions such as those charged by this indictment has been confirmed and not modified by Congressional attitude and action in the intervening 50 years."

In his dissent, in part, Justice Jackson raised the question whether it was the Federal desire to nationalize insurance companies. "If it be desirable" to do this, he said, it should be done in an orderly manner by legislation, not by court decision.

In the Polish National Alliance case, Justice Frankfurter agreed with the National Labor Relations Board that insurance services "have a close, intimate and substantial relation to trade, traffic and commerce among the several States and tend to lead to labor disputes burdening and obstructing commerce." Therefore "unfair labor practices" affect commerce within the meaning of the Wagner Act.

Investors Syndicate Message

Investors Syndicate, Roanoke Building, Minneapolis, Minn., have this message displayed on a stand next to a silk American flag:

"Our America was founded on the idea that we, the people, run the Government, not the other way round."

N. Y. Dealers Outing Promises Gay Time For All Attending

The Outing Committee of the New York Security Dealers Association is reminding all members that time for making reservations for free member tickets, and guest tickets for the Annual Outing-Dinner of the Association is growing short.

The outing will be held at the North Hills Golf Club at Douglaston, Long Island on June 15 and reservations should be in the hands of Alfred E. Loyd, Executive Secretary of the Association, at 42 Broadway, New York City, as soon as possible.

The outing promises to be the most enjoyable affair of its kind ever heald by the Association, and among other recreational activities the following will take place:

Golf in charge of Stanley L. Roggenburg, will start at about 11 a. m. and two principal prizes are the beautiful silver "President's Cup," and a new one, the "Governor's Cup," and other "Kicker" prizes. Green fees $2.

Soft Ball in charge of Duke Hunter will start at about 6 p. m.

Horseshoe Pitching in charge of Irvin Hood will start about 5 p. m.

In addition to this and other activities, there will be **Barrel Golf** and **Dart Poker.**

There will be many attractive prizes given to contestant as well as Door Prizes. For the entertainment of those who do not play golf and who come out after the market closes, there will be among other things a soft ball game at 6 p. m. Dinner will be served at 8 p. m.

Members of the committee are: John J. O'Kane, Jr., John J. Okane Jr. & Co. Chairman; Irvin Hood, Cohu & Torrey; Wellington Hunter, Hunter & Co.; Hanns E. Kuehner, Joyce, Kuehner & Co.; Stanley L. Roggenburg, Roggenburg & Co.; John F. Sammon, J. F. Sammon & Co.; Melville S. Wien, M. S. Wien & Co.

Hartford Bond Club Elects New Officers

HARTFORD, CONN.—The Bond Club of Hartford announced that the following officers and governors have been elected for the coming year, beginning July 1st:

President: Van Vleck H. Vos Burgh, Union Securities Corporation.

Vice-President: John H. Beardsley, Conning & Company and Ballard.

Secretary: Willard A. Snow, Jr., Lee Higginson Corporation.

Treasurer: Edward F. Dustin, Day, Stoddard & Williams.

Governors: H. H. Whaples, Whaples, Viering & Co., for a three-year term; Oscar Depatie, Coburn & Middlebrook, and L. H. Wiley, Adams & Peck, for one year terms; Alex Pardee of Day, Stoddard & Williams in New Haven, was elected the non-resident member of the board.

In addition to the above governors, Ernest H. Cady, Jr. of R. C. Buell & Co. and Charles W. Gould of the First Boston Corporation are on the Board, having previously been elected for terms which have not expired.

Hoyt Peck Is Forming Own Investment Firm

Hoyt Peck is forming the Hoyt Peck Co. with offices at 120 Broadway, New York City, to engage in a securities business. Mr. Peck was formerly Assistant Manager of the municipal bond department for Tucker, Anthony & Co.

Good Post-War Outlook

Sylvania Industrial Corporation offers an interesting situation with an attractive post-war outlook, according to detailed study issued by Loewi & Co., 225 East Mason Street, Milwaukee, Wis. Copies of this study may be obtained from the firm upon request.

This Scrambled World

(Continued from page 2372)

danger of inflation. Thus far we have succeeded remarkably well in holding down prices—but the need for price control will be even greater once the demobilization of industry starts. It will take a considerable period before the civilian market is once again adequately supplied. For some five years no new automobiles, refrigerators, and radios will have been produced. The change-over will take time. Even after our factories are back to their pre-war production schedule, they will not be able to supply the demand that will exist. The enormous purchasing power will be bidding up the prices of the inadequate supply of goods unless strict controls are continued. Here is another reason why government control cannot be relaxed for a considerable period after we return to peacetime conditions.

But there are other problems that will arise in the early years following the war. The enormous demand may induce some factories to enlarge their productive capacity and will stimulate others to enter the field. Many firms that never before manufactured radios or refrigerators are now laying plans to enter these fields. This may well mean that under the stimulus of a "catch up economy" productive capacity of many lines will increase far beyond the needs of a more stabilized economic life. Once the vacuum created by the war has been filled far less productive capacity will be needed than during the first hectic postwar years. If this over-expansion should indeed take place, then we may well face a period of industrial decline after the initial boom is over.

It is difficult to see how such a development can be prevented. Surely it cannot be prevented under what some like to call the free competitive system. The foreign demand will aggravate this situation. The influence of the foreign demand will be particularly disturbing because it will in all probability be for some time concentrated upon a comparatively small range of products. Russia will not use its purchasing power to obtain many consumer goods. The principal demand will be for factory equipment, roadbuilding machinery, railroad equipment, and hydroelectric installations. The 3 billion dollars of ready purchasing power owned by the Latin-American countries will in all probability be used largely to purchase more factory equipment. During the war we have assisted these countries in developing new industries. Brazil has recently put into operation a new $100,000,000 steel plant. The textile industry of that country is now so well developed that it can supply not only most of the domestic demand but can even export its products to other Latin-American countries and even to the United States.

On May 12, our newspapers reported that Mr. J. C. Maciel had started for the United States at the head of a delegation of Brazilian businessmen who expect to spend $100,000,000 to purchase machinery and tools. The greatest percentage of this money will be spent for textile machinery but they will also buy machinery for the manufacture of hardware and other steel products. Latin America has definitely started on the road of industrialization. There is every reason to expect that as far as lies in their power, they will continue on that road. There are many reasons for this.

The fundamental reason lies in the fact that thus far these countries have been almost wholly dependent upon the income from the exportation of a limited number of raw materials. Thus they have been until recently the tail to the kite of American and European industry. This has created in these countries an unstable economic life. Industrialization is giving them not only a more diversified economic life, but it is also making them less dependent upon the importation of manufactured goods and thereby is making them less dependent upon exports. They will want to continue now that they have made a good start with our financial and technical assistance. They are all the more interested in this development since the outlook for Latin-American exports is not encouraging.

As a part of our policy of economic warfare, we have developed many new sources of raw material and have aided in the expansion of already existing sources. All this was necessary because we needed the raw materials we could no longer obtain from the Far East. But unfortunately for Latin America, many of these new sources of supply are high cost producers. This in fact is the principal reason why they did not develop in peace time. It is almost certain that they will not be able to meet the competition of the older and more efficient sources from which we used to obtain our raw materials.

Take Bolivia as an example. We are now buying their poor, low-grade ore at 63c per pound. We transport it to this country, smelt it and distribute the tin through the Metal Reserve Corporation for 50c per pound. You may say poor business; and so it is. But all this is a part of our war effort. Once the war is over, we are not going to continue this. And how is Bolivia going to compete with the high grade ore we shall again be able to obtain from Malaya and the Dutch East Indies, where we will be able to buy it not for 63c but for 35c to 45c a pound? Many other newly developed resources in Latin America will find themselves in a similar position.

Being unable to sell, these countries will find themselves compelled to develop still further their own manufacturing establishments so that being unable to sell, they will no longer need to buy abroad. Much of the buying capacity of Latin America will therefore be concentrated not on consumers goods but on permanent industrial and transportation equipment. And the same thing will apply to the countries of the Continent of Europe.

In view of the tremendous destruction that will have taken place, the 10 billion dollars they will have to spend will be only a drop in the bucket. Their ability to secure loans in this country will be limited especially because they will need to be long-term loans for reconstruction purposes. With limited funds available and faced with the gigantic task of reconstruction, the governments in Europe will be compelled for some time to plan their purchases carefully. The most essential things must be bought first—and so far as funds allow. This means that the demand from Europe will come to us largely through government channels and will consist largely of a demand for capital goods, transportation equipment, machinery tools, and the materials required to rebuild the ports and public utilities.

Consumers goods will be needed but with the exception of the most essential items, they must take second place. First comes the need for rebuilding, and the need for the building of factories that can supply local needs and can produce goods for export. Not until exports can take place again in adequate amounts can the less essential civilian requirements be satisfied with imported goods. From Russia, from Latin America, and from Europe, the initial demand will therefore be for substantially the same type of goods. This foreign demand will overlap the domestic demand. Public works have been postponed during the war, municipal equipment and public utilities have been deteriorating. Moreover, many of our states and cities have elaborate plans to provide employment to those temporarily displaced and to the men of our demobilized armed forces. And the plans are all similar in that they contemplate road building, the construction of airfields, and the improvements of public utilities. This means that this domestic demand and the foreign demand will concentrate upon a comparatively small group of industries. It is not at all certain that these industries will be in a position to meet this demand. Nor would it be wise to expand our productive capacity to meet it since the demand will be largely temporary. Once the first rush is over, this demand is destined to shrink substantially. It would seem, therefore, that some kind of rationing on an international scale may well be necessary. And the need for some international rationing scheme results not only from our industrial problem.

The systematic looting of the occupied territories by the Nazis may well leave Germany in a relatively more favorable position, industrially, than its unfortunate neighbors. The German people have been better fed than those of the occupied territories. This means that unless the rebuilding program of Europe is carefully controlled and directed, and the relative needs of the occupied countries are given first consideration, Germany may recover before her victims are able to do so.

But a similar reasoning applies to the occupied territories. The countries that have suffered most and have the smallest amount of available foreign exchange will need to receive special concessions if they are not to see their more fortunate allies outstrip them in the reconstruction period. Considerations such as these coupled with the economic necessity of dovetailing the foreign demand to the domestic demand will make international rationing necessary, and most certainly a coordinating of the various domestic post-war construction plans.

Unless some scheme is developed to bring about a planned allotment of supplies and equipment, we shall face chaos in the world and at home we shall expand our production in the direction of products for which there will be a rapidly diminishing demand after the first period of rebuilding is passed. As if there were not enough problems facing us already, there comes the problem of the disposal of surpluses to plague us. This indeed is no small problem and unless it is properly handled, it may upset all our optimistic calculations. The problem of the disposal of surplus is extremely complex. There will be a large variety of products to be disposed of. Machinery for manufacturing purposes; shipping supplies and ships; aviation equipment; industrial raw material; and finally, consumers goods, clothing, medical supplies, and other supplies of the armed forces which can be turned to civilian uses.

Each group of items, in fact each individual item represents its own problem. The method to be adopted in disposing of the surplus of each item must be devised with due regard to the effect which its disposal will have upon the domestic and the foreign market. The problem is not of negligible proportions. It has been estimated that approximately 50 billion dollars worth of commodities will need to be disposed of.

How are these goods to be disposed of?

If they are sold through newly created channels, through auctions, and other emergency methods at low prices, the regular market for competing products will be very seriously affected. But can they be sold through the established channels of trade? If we consider that 50 billion dollars represents approximately the total value of all commodities sold by the retail trade of the United States in any normal year, then we can see that we face a problem of no mean dimensions. It is therefore of the utmost importance to business that the proper channels be chosen for the disposal of this surplus and that the disposal take place carefully, not too rapidly so as not to upset prices and markets, thereby hampering the readjustment of business to peacetime production. Not too slowly so that the surplus stock may not continue to hang over the market as a threatening cloud. Again, a job for some government agency or as Mr. Baruch has proposed, for a group of agencies.

It might be possible to use some of the surplus stocks as a means of controlling prices in the established market, releasing supplies as prices show a tendency to rise rapidly. But this is not without danger since it introduces an element of uncertainty which may well discourage investment in new factory equipment. Moreover, since these surplus stocks cover only a limited number of items, use of the surplus to control prices would affect some prices but leave others untouched. Some optimists hold that we can use these surplus stocks to sell abroad. There undoubtedly will be an opportunity to use substantial supplies in the relief and rehabilitation of the liberated countries. Some of these supplies we shall give away; others will be purchased by the liberated countries for distribution within their borders.

But not all surpluses can be so disposed of nor do all kinds of commodities fit into the relief program. Nor will a general policy of disposing of these commodities in the foreign market have the approval of the governments abroad. To be sure they would be interested in securing cheaply the goods their countries need. This would diminish the drain upon their foreign balances needed to pay for imports. But most of the governments abroad will look beyond the period of relief and will think in terms of the rapid and healthy recovery of their commerce and industry.

In order to build a sound economic life, these countries will need to rebuild their industries as rapidly as posssible, they will need to develop once more export industries so that through normal trade relations, they will be in a position to accumulate balances abroad to be used to pay for their imports. No monetary stabilization will be possible until such normal commercial and financial relations are once more established.

If our surplus stocks, improperly handled, are likely to upset our own domestic market, how much more disturbing would their disposal be in countries with far smaller purchasing power and smaller populations. It is therefore not likely that the countries abroad would welcome the influx of these surplus commodities which would threaten to retard the normal recovery of industry. They will reason: better a few more years of hardship and shortages if at the end we can attain a normal and sulf-sustaining economic life.

Moreover, it is doubtful whether the channels of trade will be open to these surplus stocks on any large scale. Much of the buying on the part of the countries of Europe will for some time to come be under strict government control, or in the hands of government agencies. Very little opportunity will exist to dispose of goods in the countries of the continent except with the approval and cooperation of the governments concerned.

In the Netherlands East Indies, the Emergency Export Office will be in charge of the selling abroad of all the exportable goods of the Indies. In other parts of the world, government buying and selling agencies will continue to operate for some time after the end of the war. The United Kingdom Commercial Corporation which was formed in 1940 to combat the activities of the German government agencies in the markets of the Near East will continue to operate after the war. So it was announced recently by the chairman of the Board of Trade.

All this does not look like a world in which we can decide how we shall do business abroad. Most of the decisions will be made by others. At one of your earlier national conferences, I spoke of the business world as scrambled. It should be clear now that I do not hold the opinion that it is a simple matter to unscramble the egg. Many voices are raised demanding that we return at the earliest possible moment to a free competitive system. I'm all in favor of it. But I for one cannot see how in the near future it will be possible for us to abandon our government controls.

The problems we shall face in the post-war period are too complex and too large to fall within the scope of any single business enterprise. Coordination, planning, and therefore control and direction will remain necessary. All that we can reasonably ask for is that businessmen both large and small be given a larger share in determining the policies of our Government.

However much we may dislike the thought, it will be some time before we can hope to see the free competitive system of which some of you dream.

Erdmann Heads Nat'l Savings & Loan League

Arthur G. Erdmann, President of Bell Savings and Loan Association, Chicago, was elected President of the National Savings and Loan League at its first national business meeting held May 30 and 31 at New Orleans. Mr. Erdmann was First Vice-President of the League and one of its founders. The League was organized last December to supply constructive leadership for the 6,400 thrift and home-financing institutions of the country, constituting a $6,600,000,000 business.

Mr. Erdmann was the first President of the Chicago Regional Bank of the Federal Home Loan Bank System and is now a director and a member of its Executive Committee. He is also a member of the Federal Savings and Loan Advisory Council of the Illinois Building and Loan Advisory Board and a past President of the Illinois Savings and Loan League.

In accepting the Presidency of the New National League, Mr. Erdmann said: "This league has been formed democratically and will be so operated. In its operation every one of the 6,400 thrift and home-financing institutions of America can have an effective voice. The recommendations of members will be the chief source of all action taken by our administration. Having as a league no political preferences, we can best achieve our aims by cooperating with the Federal and State Governments empowered to safeguard the thrift and home interests of the people. We shall seek the help of all progressive legislators of whatever political faith. The time has come for the nation and its representatives to realize that the savings and loan industry is a most democratice institution because it represents substantial and progressive people in every city, town and country—more than 6,000,000 Americans united in thrift and home ownership."

Elected to the new league were also George M. Eason, Los Angeles, and W. E. Wood, New Orleans, Vice-Presidents, and John S. M. Glidden, Natick, Mass., Secretary.

U. S.-British Post-War Relations

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lot of coffee, because everyone up there wants two cups a day, but only a few New Yorkers like maple sugar. You can see that Vermont would go short of coffee under bilateralism if it could get only a value in terms of coffee equal to the value of maple sugar which New York would accept. At the same time New York would not be selling anywhere near the value of coffee in Vermont that could be consumed in that area.

"Under the multilateral system we would pull down those trade barriers between the states, no state would feel it necessary to balance its accounts with each of the others, and interstate trade would fall into a pattern governed by the volume of production within each state. Under that system Vermont would buy all the coffee it wanted from New York, and it would pay for it by shipments of maple sugar, not only to New York but all over the country, increasing output if necessary, and tapping a country-wide demand for that rather specialized product. Everybody would gain—Vermont as a consumer of coffee, New York in a wider market for its coffee, the whole country as a consumer of maple sugar.

"As between Britain and the United States, the American attitude is to seek international agreement on two main objectives—absolute undiscriminatory treatment as between nations, and general action to lower or remove trade barriers by tariff reduction by elimination of import and export quotas, by getting away from Government bulk purchasing. The advantages of tariff reduction are obvious, to the British as well as to ourselves, and there is little doubt that much could be done in this direction although naturally it could not be one-sided and advantage would have to be matched against disadvantage in revising the tariff structure. There is almost complete agreement on the desirability of general non-discriminatory treatment between nations. On two points, however, the British and American positions are not identical, due to force of circumstances. Britain, for example, feels that she could not cut herself off altogether from the possibility of imposing import quotas, at least for a time, to protect her rather shaky balance of payments by cutting down imports of luxuries or articles not necessary for her people. They may hope that we could concede a point here, especially as it wouldn't cost us much—some 91% of British imports represent foods, raw materials and semi-manufactures the country cannot do without, only 9% are manufactured goods, and most of them are necessities. Britain would also like to do some bulk purchasing, of the type developed so extensively during the war, because of the efficiencies and economies to be attained. If we would permit this, Britain might undertake not to use such purchasing as a device for stimulating her exports to our disadvantage.

"All of this is rather tentative and speculative, however, and we don't know what the final answer will be. The important thing is that the "Economist" one of the soundest and most influential journals, in appraising the chances for Anglo-American economic collaboration in this particular field, estimates that already we are in agreement on most of the important points and that the era of agreement can be appraised as about 75%. That is a fairly good figure, and certainly far better than the 50-50 or "split the difference" type of compromise.

"Enough of the higher economics. I have one more point to make, and I regard it as the most important of all. Some weeks ago, I understand, Mr. Hoffman of the Economic Development Committee spoke to you and suggested that the greatest obstacle to full development of American business activity is fear. I don't know in what context he developed that theme, but it is certainly true that fear is one of the most serious obstacles to full realization of the benefits to the world of full-scale multilateral international trade. You remember the story of Oliver Wendell Holmes, who flew in a rage because he couldn't find a certain book. His wife finaly discovered it and left it with a note: 'I am an old man. I am very easily disturbed by a great many things, most of which never happened.'

"Among American business men, judging by what they tell me and by what I read in the American trade press, there is a wide-spread fear lest the British, by the exercise of a type of wiliness commonly attributed to them in the United States, will by hook or crook wrest some kind of commercial advantage out of our country. They will certainly try to improve their economic position, which will be in great need of restorative measures after the war, but that is an aim with which we should have a great deal of sympathy, as it will work definitely and directly to our advantage if Britain, one of our most important foreign markets, has a strong and healthy economy. Suppose that we should, to assist Britain to gather her strength, place no additional tariff obstacles in the way of developing her sales in this market, or even lower our tariffs somewhat, if she will lower hers. What would be the result?

"The Department of Commerce in Washington gave me some figures which show that in 1938 about 6% of American imports by value came from Great Britain—some $118,000,000 worth. On the other hand our exports to Great Britain to a value of over $447,000,000 were four times our imports and represented 13% of British imports. I won't fall into the trap of suggesting that we should balance these figures, because that would be to advocate bilateralism, but I do suggest that we are at no disadvantage in Anglo-American trade. In terms of national income it is even more striking. British exports to this country represented only two-tenths of 1% of our national income; our exports to Britain represented about 2½% of the British national income. Would it hurt us seriously, would it injure our economic interests, if British exports to the United States doubled in value? I would find it hard to believe.

"The Britishers with whom I have talked are frankly afraid of the United States, of our terrific economic power, and worried about what will happen in the post-war world. They are afraid that we will resist strongly any sign of a British intention to sell more in the United States, and they are trying hard to work out certain lines of export trade which promise to find markets here without competing directly with our important industries. They feel, for example, that they must concentrate on products which can compete on the world market only if a large element of labor cost is added in Britain to imported raw materials. This would mean in practice a tendency for British trade to concentrate on highly finished, rather expensive goods—fine cottons, for example, or fine woolen fabrics, fine leather goods, and so on—which appeal to our luxury markets rather than to the mass market to which our industry is geared. All they ask, really, is that we do not make it too difficult for them.

"The British are also afraid, and in fact the whole world is afraid, that the American domestic economy will develop relative instability after the war. Economic planning abroad is based on a fundamental objective of full employment in each country, to be attained in different ways in each country—in Great Britain by a housing program and by some expansion in exports. This objective of full employment, the economists agree, is also really necessary if we are going to be successful in developing multilateral international trade to best advantage. Full employment builds international commerce and international trade contributes to full employment. As yet these seems to be no great emphasis on this objective in the United States, and relatively little planning to this end has been made public. But if we can only set our American house in order, develop a high degree of prosperity in the United States and maintain the American standard of living with a high level of civilian consumption, we will not only serve our own ends but those of the world. We will find the whole world applauding such an ambition on our part, we will find no unnecessary obstacles placed in the way of its realization, and we will be assuming leadership in economic rehabilitation in the most effective and practical manner.

"But we must banish fear and suspicion."

Houston President Of Foundation

(Continued from first page)

Breckinridge Long, Assistant Secretary of State, as Vice-Presidents. William S. Hildreth, President of the Peoples National Bank of Charlottesville, Va., was elected Secretary and Treasurer. Winston Taliaferro was elected Assistant Treasurer and Paul F. Tate, Assistant Secretary.

The Hon. Edward R. Stettinius, Jr., Under Secretary of State, was elected a member of the Board of Directors. The Hon. Josephus Daniels of North Carolina was nominated to be a member of the Thomas Jefferson Memorial Commission at Washington who, together with Dr. George J. Ryan of New York City and Dr. Fiske Kimball of Philadelphia, will represent the Foundation on that Commission.

Marie Kimball, author of the recent biography, "Jefferson—the Road to Glory," was appointed Curator of the Foundation.

The Foundation owns and operates "Monticello," the shrine and home of Jefferson at Charlottesville, Va.

Interesting Situation

H. R. Baker & Co., Russ Bldg., San Francisco, Calif., have available an interesting report on Hearst Consolidated "A." Copies of this report may be had from the firm upon request.

Taylor Again Heads Baltimore Stock Exch.

BALTIMORE, MD.—At the annual election of the Baltimore Stock Exchange on June 5, Howard R. Taylor was unanimously reelected to the office of President to serve for a period of one year. The Governing Committee was reduced from 10 members to 6 members and therefore no vacancies occurred this this year. The new Board will meet on June 12, for organization and appointment of other officers.

Profit Possibilities

Raymond & Co., 148 State St., Boston, Mass., have prepared an interesting discussion of the profit possibilities in Frisco issues, and how current holders will fare by the new capital set-up; post-war estimates and figures are also presented in the study, copies of which will be sent by the firm upon request.

Utility Attractive

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, New England Public Service Co. offers attractive possibilities. Copies of this interesting circular may be had from Ira Haupt & Co. upon request.

Gov. Bricker Calls For Post-War Balanced Budget

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dustry and agriculture, in spite of burdensome restrictions, have worked a miracle of war production. The American people are actuated by a singleminded determination to win this war. There is every evidence that we are now ready to strike decisive blows both in Europe and in the Pacific.

We cannot safely predict the length of the war. But I think it is the part of wisdom, in developing our post-war plans, to assume that the Axis Powers may see at any time that they have nothing to gain by further resistance.

We may suddenly be confronted by problems of converting our economy to peacetime production and providing jobs for our returning soldiers. There is much to do. Nothing would be more encouraging to the American people than some substantial progress in the solution of our fiscal and taxation problems. These problems have confused enterprise and dampened the spirit of our people for more than a decade.

For six years I have attended these conferences. At every meeting we have been considering the encroachment of the National Government on State and local authority. We have had to fight our own Government to keep our own rights. At this time of crisis there should be complete unity of purpose in all segments of our governmental authority. On the Federal Plan we have builded and produced mightily. We are serving America's best interests when we battle to maintain it. This issue of centralized bureaucratic power as against a larger degree of local autonomy cuts across our fiscal and tax policies.

In considering our fiscal policies I am guided by two basic objectives. The first is the preservation of our Federal system of government. The truth is that the States are threatened by an ever-growing centralization of power in Washington. The threat is so serious that today we face the question whether the States will remain active, cooperative and equally sovereign members of our governmental system, or whether they will be reduced to provincial administrative units with little or no self-government.

Indeed, the issue reaches to the very heart of the American form of government. Shall government be kept close to the hands of the American people and ever responsive to their guiding will, or shall it be completely usurped by an already highly centralized national authority which is ever growing more powerful? Shall the people preserve home rule or shall they sit passively by while it is being strangled to death? This is the issue to which the people must be constantly alert. To settle it, there must be a sweeping change in many current philosophies of government.

My second objective is that we must devise a system of taxation and adopt a scale of rates that will revitalize our entire economic machinery. To that end we must provide the necessary incentives for investment in industry and for production by management and labor. Before the war our economic machinery was virtually on dead center because of unbalanced budgets, severe taxation and the overwhelming threats of higher taxation and restrictive legislation.

If Government is to encourage, rather than hinder, full production and high employment, it must devise a system of taxation for the long run, not for the short pull. It must understand that frequent changes in fiscal policy throw our economic machinery out of gear and cause confidence to give way to misgiving and uncertainty. Government also must understand that if risks are to be taken, there must be a fair balance between opportunity for reward and hazard of loss.

In order to grasp fully the immediate and far-reaching significance of State and local fiscal policies it is necessary to bear in mind certain trends which have been changing our public fiscal policies.

From the founding of our nation until the early 20th century ours was essentially an agrarian economy. Individuals felt far removed from the Federal Government — even from State government. Their governmental relations were primarily with the township or town and the county.

The Federal Government was concerned mainly with foreign relations, especially foreign commerce. At home it had the job of maintaining a small army and navy and improving internal waterways. Its financial requirements were easily met by indirect taxes, largely customs, and a few internal revenue duties of a sumptuary nature.

With the closing of the geographical frontier and the rapid growth of cities, the Machine Age was upon us. Soon a wider view was taken of interstate commerce. More businesses were held by the courts to be carrying on interstate commerce and hence came within the purview of Congress.

Thus began the more minute Federal regulation of business which involved the organization of new Federal agencies and the expansion of old ones. This led to the search for new sources of revenue. The income tax amendment was ratified in 1913 and immediately a new Federal tax was imposed. World War I brought death taxes to the Federal system. The depression of the '30s saw the introduction of many more new taxes, such as those on payrolls, and the extension of old ones.

These developments had an adverse effect upon State and local governments. Confronted with their own increased financial responsibilities resulting from the depression, they found their tax resources being cut into very severely by the revenue demands of the Federal Government. Nevertheless they have continued, without forethought, to go along with a trend which, if continued, will lead to the loss of their financial independence. Our Federal system is founded upon the necessity of maintaining strong, independent State and local governments. They cannot be destroyed without also destroying freedom. As Dean Pound said:

"All experience shows that a domain in continental extent has always been ruled as an autocracy or as a Federal Government."

Or as Woodrow Wilson was moved to say:

"The history of liberty is the history of the limitation of governmental power, not the increase of it. When we resist . . . concentration of power we are resisting the processes of death, because concentration of power is what always precedes the destruction of human liberties."

It is true that now the States and local governments generally are in a relatively good financial position. Many States have accumulated surpluses. This present condition has resulted from more efficient and economical operation of State and local governments. It also resulted from the rise in the national income which started in 1939 and which was accelerated by the war in Europe, the defense program and, finally, our war production. Notwithstanding this condition, however, we should not be oblivious of the underlying currents which are inevitably washing away the very foundation of our State and local governments — their traditional financial independence. The time has come for the adoption of fiscal policies which will preserve that financial independence.

Attention should first be directed to the mainstay of local governments—the property tax. This has been severely reduced by the purchase of more and more land by the Federal Government, thus withdrawing it from the State and local tax rolls. As of June 30, 1937, it was estimated that total Federal real estate holdings (including the public domain) were 395,000,000 acres. This was more than 20% of the total area of the country. If taxed at local rates, this Federally-owned property would have yielded some $91,000,000. That amount exceeds all collections from property taxes in 1939 in 34 of our 48 States.

Since Pearl Harbor there has been, of course, further substantial acquisition of land by the Federal Government and its instrumentalities. The Defense Plant Corporation, for example, by December, 1943, had acquired more than 10,000,000 acres and 20,000 city lots.

To make up the loss in revenue, instead of permitting the States and local governments even a limited exercise of their own taxing power, the Federal Government devised the scheme of "payments in lieu of taxes." Adherence to this policy will help to destroy the financial independence of local governments.

Appropriate authorization for the local taxation of Federally-owned property, with proper restrictions, would help to maintain their financial independence. Even more important, all this property acquired for the conduct of the war, not needed for our permanent post-war military needs, should be returned to private ownership as soon as practicable after victory, thus restoring it to the local tax rolls.

The next threat to State and local governments to which we should direct our attention is the recent expansion of what might be termed the subsidy theory. This means that more and more functions of government heretofore locally administered and financed are becoming centralized. Changes in economic and social conditions obviously require, from time to time, a reallocation of governmental functions. But this should be done only when such a change results in greater benefit to the public at large with no loss in democratic control of the revenue raising and spending activities of the Government assuming such function.

In 1932 Federal subsidies to the States amounted to $217,000,000. By 1937 the figure had more than doubled. In 1941 it was more than triple, reaching $744,000,000. But this is not all. In 1941, in addition to the $744,000,000 granted to the States, over $95,000,000 went to local governments. Of all taxes collected in the United States in 1932, the Federal Government's portion was 22%, leaving State and local governments 78%. In 1939, before World War II started, the share of State and local governments had dropped to 62% of all taxes, the Federal Government's share having jumped to 38%.

Make no mistake about it, the most effective way to abolish the independence of State and local governments, and with it home rule in America, is by taking away their financial independence.

Coincident with the centralization of more and more of the taxing power in the Federal Government and the increase of Federal subsidies to State and local governments, a similar trend has been going on within the States. There has been a steady expansion of the State taxing power with increased subsidies from the States to local governments.

It is perfectly natural that extension of the subsidy program should have some support from State and local office holders. It is always more agreeable to a local official to have money to spend for the benefit of his constituents which he gets from the State Capital or from Washington than it is to have to raise it by taxing his constituents who elect him. The same may be said of State officials with respect to Federal grants. But we must realize the implications and results of this trend. State and local governments become a sham and a pretense if they cannot support themselves and must go to another government for handouts.

An excellent illustration of extending the subsidy theory into more and more fields has been the recent proposal of the Federal Government to subsidize the public schools of the nation. By dangling Federal money before the eyes of the public schools a very attractive lure is presented. But the difficulty is aside from the loss of financial independence, that there results a proportionate surrender of the States' control over their educational systems. When an effort is made to change the government of a country, one of the first steps is to take over the education and training of the youth of that country. This is what Hitler did in Germany. I am opposed to the dictation of our educational policies from Washington.

The question then is: What is to be done in the face of these trends? I offer three recommendations.

First, it is essential that the strictest economy in government be practiced. This applies particularly to the Federal Government. Unless Federal expenditures are limited to absolutely essential items, it is inevitable that the Federal Government must ultimately pre-empt the entire field of taxation, leaving nothing for State and local governments. I have repeatedly pointed out that we may expect no substantial curtailment of Federal expenditures until we abolish our present bureaucracy and return to a responsible cabinet government. There is a limit to the tax burden which our economy can bear.

Second, the States working together, the local governments working together and the two groups working with the Congress, should take immediate steps toward appropriate segregation of tax bases, preserving appropriate fields of revenue for the national, State and local governments. One of the most serious problems confronting not only national, State and local governments, but especially the taxpayers, lies in overlapping tax bases. Our tax structure now is only a planless patchwork held together by nothing more substantial than political expediency.

Third, whenever State governments reach the point where their revenues may reasonably be anticipated to exceed necessary demands for any material period of time instead of increasing local government subsidies, they should repeal such taxes as will best open fields of revenue for local governments. During recent years the present administration in Ohio, after paying off its inherited deficits, has been confronted with the constant demand from local governments that the State's surplus be distributed to them.

It was my position last year that had we not been confronted with the uncertainties of war and the necessity of providing for a much needed post-war building program, we should have launched upon a State tax repeal program, rather than one of increasing subsidies to local governments.

Of equal importance to the establishment of fiscal policies to maintain financial independence of State and local governments is the shaping of those policies so as to aid and encourage rather than stifle and suppress American private enterprise. Sound governmental fiscal policies, national, State and local, are the foundation stones of a stable economy and American prosperity.

There is need for further cooperation between the States in extension of reciprocity provisions in tax statutes. In view of recent decisions of the Supreme Court, two or more States may now tax the same income, the same inheritance or the same property. The necessity for appropriate reciprocal legislation has become more pressing in order to avoid this form of double taxation. While in a sense multiple taxation has existed for many years, it is my position that there is no justification for the imposition of such inequitable double taxation as I have mentioned. Appropriate reciprocal legislation will also relieve not only business, but individual citizens from double taxation arising from questions of domicile.

I am convinced that constructive work along these and other similar lines will aid rather than hamper business, to which we must look for high employment. But if this program is to be effective, the Federal Government also must do its part. This means that recent fiscal and tax policies of the Federal Government must be completely overhauled.

The Federal Government should balance its budget at the earliest possible date. That would give more jobs than all the made-work the Government could possibly plan. Simplification and stability of tax laws are desperately needed. We are given little encouragement along this line now. Adherence to the principle that the taxing power exists primarily for the purpose of raising necessary revenue and should not be used as an undercover method of effecting social changes is also necessary.

Moreover, there is a vital need for a sane and constructive Federal tax policy that will stimulate incentive and encourage venture capital. Federal taxes should be reduced as soon as possible after victory. Such action would enable business to map out constructive programs, without constant fear of changes, and to provide jobs for all who wish to work.

The recent Baruch-Hancock report went even further. It said: "Until it is definitely known that post-war taxes are to be reduced, the launching of new enterprises and the expansion of existing ones will be deterred." Accordingly, it recommended "that a post-war tax law be drafted now, during the war, and put on the shelf to go into effect at the end of the war."

This proposal points the way toward the kind of Federal tax policy that will be needed for reconstruction and rehabilitation after the war. In my judgment, the pre-war Federal policy of spend, waste, borrow and tax will wreck American economy if continued in the post-war period. A nation which builds its financial house upon shifting sands of deficit financing in peace times cannot survive as a nation.

Nor can such a nation be a powerful influence in world affairs. The United States must help solve such problems as currencies, credits, air rights, markets and international trade. So long as the world is inflicted with discriminatory trade agreements, quotas, cartels, exchange wars, barter systems and the like, there can be little assurance of an enduring peace. Collaboration between nations in solving world economic and monetary problems is just as necessary as collaboration in solving world diplomatic and political problems.

But for all these purposes America must be strong. To be strong, to be influential, to be helpful in the world, we must, above everything else, build our own house upon the solid rock of financial solvency, equity and justice. Our power to help others will be dependent upon the degree in which we strengthen private enterprise and preserve individual opportunity.

Let us then remember, as the guiding principle of domestic policy, that our State and local governments, as well as the National Government, are essential to our Federal system. The strength of America stems from the practice of representative government in the towns, the cities, the counties and the States of this nation. When State and local governments become paralyzed, the door is open to every form of absolutism and every form of demagogy. When local responsibility is destroyed, citizenship atrophies and dies. But when State and local governments flourish, when men and women practice representative home rule, the foundations of the Republic are secure. The more the history of the Republic is written at the crossroads and the less at the Capital, the freer we shall be.

President's Invasion Prayer Marking Opening Of Allied Assaults On Hitler's European Fortress

A prayer, written by President Roosevelt incident to the start of the invasion of Europe with the landing of Allied troops on the coast of France in the early hours of June 6, was read in Congress, on June 6, on the floor of the House, where it had been dispatched that day by the President by motorcycle. It was read by Dr. James Shera Montgomery, House chaplain, who departed from custom to ask members to join him in the opening invocation.

In Associated Press accounts, June 6, it was stated that, aware of the invasion date, Mr. Roosevelt began work on his prayer several days ago, but did not complete it until June 5, according to Presidential Secretary Stephen T. Early, correcting an earlier impression that the Chief Executive did not start it until the attack was at hand. The accounts added:

"Describing the President's activities to reporters, Mr. Early said Mr. Roosevelt went to his bedroom early last evening shortly after he delivered his radio address on the fall of Rome.

"He said the President received steady invasion reports—complete and in detail—from 11:30 p. m. on into the actual hour of the assault."

In his prayer the President had asked that the people of the nation join in it with him, and although not read by him over a nation-wide broadcast until 10 p. m., June 6, its text had been issued at mid-day to permit Americans to follow him in his recital of the prayer. In asking blessings for our troops, the President said:

"These are men lately drawn from the ways of peace. They fight not for the lust of conquest. They fight to end conquest. They fight to liberate. They fight to let justice arise, and tolerance and goodwill among all Thy people. They yearn but for the end of battle, for their return to the haven of home."

Stating that he had been urged that he "call the nation into a single day of special prayer," he said that "because the road is long and the desire is great, I ask that our people devote themselves in continuance of prayer."

The President's invasion prayer which he read to the nation with his introductory words on the radio, as recorded and transcribed by the New York "Times," follows:

"My Fellow-Americans:

"Last night when I spoke with you about the fall of Rome I knew at that moment that troops of the United States and our Allies were crossing the Channel in another and greater operation. It has come to pass to success thus far.

"And so in this poignant hour I ask you to join with me in prayer:

"Almighty God: Our sons, pride of our nation, this day have set upon a mighty endeavor, a struggle to preserve our Republic, our religion and our civilization, and to set free a suffering humanity.

"Lead them straight and true; give strength to their arms, stoutness to their hearts, steadfastness in their faith.

"They will need Thy blessings. Their road will be long and hard. For the enemy is strong. He may hurl back our forces. Success may not come with rushing speed, but we shall return again and again; and we know that by Thy grace, and by the righteousness of our cause, our sons will triumph.

"They will be sore tried, by night and by day, without rest—until the victory is won. The darkness will be rent by noise and flame. Men's souls will be shaken with the violences of war.

"For these men are lately drawn from the ways of peace. They fight not for the lust of conquest. They fight to end conquest. They fight to liberate. They fight to let justice arise, and tolerance and goodwill among all Thy people. They yearn but for the end of battle, for their return to the haven of home.

"Some will never return. Embrace these, Father, and receive them, Thy heroic servants, into Thy kingdom.

"And for us at home—fathers, mothers, children, wives, sisters and brothers of brave men overseas, whose thoughts and prayers are ever with them—help us, Almighty God, to rededicate ourselves in renewed faith in Thee in this hour of great sacrifice.

"Many people have urged that I call the nation into a single day of special prayer. But because the road is long and the desire is great, I ask that our people devote themselves in a continuance of prayer. As we rise to each new day, and again when each day is spent, let words of prayer be on our lips, invoking Thy help to our efforts.

"Give us strength, too—strength in our daily tasks, to redouble the contributions we make in the physical and the material support of our armed forces.

"And let our hearts be stout, to wait out the long travail, to bear sorrows that may come, to impart our courage unto our sons wheresoever they may be.

"And, O Lord, give us faith. Give us faith in Thee; faith in our sons; faith in each other; faith in our united crusade. Let not the keenness of our spirit ever be dulled. Let not the impacts of temporary events, of temporal matters of but fleeting moment—let not these deter us in our unconquerable purpose.

"With Thy blessing, we shall prevail over the unholy forces of our enemy. Help us to conquer the apostles of greed and racial arrogances. Lead us to the saving of our country, and with our sister nations into a world unity that will spell a sure peace—a peace invulnerable to the schemings of unworthy men. And a peace that will let all men live in freedom, reaping the just rewards of their honest toil.

"Thy will be done, Almighty God.

"Amen."

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.

Rails Offer Interest

Gary Railways common and Memphis Street Railway preferred offer interesting possibilities, according to memoranda issued by Bittner & Co., 80 Broad Street, New York City. Copies of these memoranda, into which are incorporated news of recent developments in the situations and earnings, may be had from Bittner & Co. on request.

Calif. Utility Revenues At All Time High

Total revenue for 12 major California public utility companies reached an all-time high in 1943, according to a study just completed by Dean Witter & Co., 45 Montgomery St., San Francisco, Calif., members of the New York and San Francisco Stock Exchanges. Despite being tax-damaged and subject to far-reaching governmental controls and criticism, the industry, the study shows, has continued to increase its volume of business and retains a high degree of investor regard for its securities.

Copies of this interesting and attractive booklet, discussing the situation and outlook in detail, may be had from Dean Witter & Co. upon request.

Mallory Interesting

P. R. Mallory & Co., Inc., offers an interesting situation, according to an analysis prepared by Steiner, Rouse & Co., 25 Broad St., New York City, members of the New York Stock Exchange. Copies of this analysis may be had from Steiner, Rouse & Co. upon request.

Attractive Situation

H. H. Robertson Company, which is tax-free in Pennsylvania, offers interesting possibilities, according to a memorandum being distributed by Buckley Brothers, 1529 Walnut Street, Philadelphia, Pa., members of the New York and Philadelphia Stock Exchanges. Copies of this memorandum may be had upon request from Buckley Brothers.

N. Y. Trust Co. Interesting

Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange, have prepared an interesting bulletin discussing the current situation in New York Trust Co. Copies of this bulletin may be had from Laird, Bissell & Meeds upon request.

Bright Possibilities

Giant Portland Cement is a low-priced stock in an industry with a bright future and offers interesting possibilities, according to a circular prepared by Lerner & Co., 10 Post Office Square, Boston, Mass. Copies of this circular may be had from Lerner & Co. upon request.

Yields on San Francisco Oakland Toll Bridge Bonds

Kaiser & Co., Russ Building, San Francisco, Calif., members of the New York and San Francisco Stock Exchanges, have an interesting bulletin on the San Francisco-Oakland Bay Toll Bridge revenue bonds giving a schedule of call prices applicable at the various redemption dates and a tabulation of yields which the holder of sinking fund bonds would realize from such calls. Copies of this interesting bulletin may be had from the firm upon request.

Tomorrow's Markets Walter Whyte Says—

Market jitters follow Invasion news. Averages show selling level beginning 144. Don't expect too much advance until news following invasion is clarified. Events of Tuesday haven't changed market picture.

By WALTER WHYTE

Alongside the actual invasion news everything else pales into insignificance. The first taste of the news came last Saturday afternoon when the AP flashed, and later retracted, what everybody thought was an official communique. But it being a Saturday afternoon with the market closed there was no gauging the effect of the news.

* * *

Monday, however, saw a nervous market even though the Saturday flash had been cancelled. In retrospect it is easy to say that that day's nervousness was due to the impending effect of Tuesday's news. But there is no certainty. And anyway what difference does it make.

* * *

That an invasion was coming was inevitable. From a market viewpoint, however, the word "invasion" is an abstraction around which the hopes and fears of millions are built. As a market factor the actual invasion was merely a culminating event in a building-up process of months. As such its market effect was nil.

* * *

Disregarding all sentimental factors and analyzing the market strictly on its technical behaviour we see that the averages (Dow) moved up Tuesday to 142.74. Volume increased but considering the news, the increase was comparatively small. Stock market action during the day (Tuesday) was nervous. Some issues went up some went down. On the up-side it was the leaders, e.g. Steel and Motors that climbed nicely. In going to the above figure the market is up against a supply area which proved strong enough to restrain it five times in the past year. Here and there individual stocks managed to penetrate it. But the market as a unit doesn't show enough get-up-and-go to follow suit. As the market stands today, it gets its ammunition from news reflected in mass hopes rather than from any internal strength. If the former proves powerful enough it may even carry the averages through the levels that have stopped it in the past. But instead of being bullish such an event may

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Small Business Fate Vital Issue In NASD 5% Mark-Up Rule

(Continued from page 2364)

research. **Then the client will suffer.** If the dealer is limited to 5% why should dealers in other lines be allowed over 5%? Isn't this called discrimination? What about the Anti-Trust Law? America wasn't built on a 5% mark-up rule.

BOSTON, MASS.

We still have Attorney Generals and District Attorneys to enforce the laws against fraud and crime and I believe that the Federal Government should keep out of local affairs including financial affairs.

Regardless of the intent behind this Federal regulation, which intent might be honest, I believe the results are harmful to the public of this district. I know and like personally many of the holders of jobs on the SEC and its affiliate the NASD, but of all the misguided red tape, etc., etc. ad infinitum, well, I think Mr. Anderson, now Professor Anderson, is correct for calling for its abolishment. I'm sorry many of my friends will lose their present pay checks, but it is better that way than no market or almost no market for the securities of small corporations belonging to many widows and orphans through inheritance. Keep up your good work.

BUFFALO, N. Y.

It would penalize them by cutting down their distribution and favor the listed securities.

SMALL UPSTATE NEW YORK TOWN

(From firm favoring rule)

Better market through more confidence by investors in dealers.

GLEN FALLS, N. Y.

It certainly will not help them.

ATLANTA, GA.

It will largely destroy it.

CHICAGO, ILL.

Unfavorable, unless the small dealer is permitted to charge up to 10% on certain of his business he will be compelled to close up his shop.

NEW YORK CITY

I am convinced it will **seriously restrict** the market for securities of the smaller corporations. Good marketability should be worth more than 5% of the value of any man's investments. A 5% mark-up is totally inadequate to cover the dealers' efforts in creating a market for issues of the smaller companies. I believe the 5% mark-up rule is not in the public interest and this is an unprejudiced opinion as I am not now a broker-dealer.

BOSTON, MASS.

Decidedly bad. Dealers will shun commitments with the result that spreads between bid and asked will become increasingly wide. The situation will deteriorate to such an extent that many heretofore small reputable companies whose securities have enjoyed justified popularity will find little demand for those securities. The result will be that markets will be demoralized and respectable securities will suffer a severe lack of interest on the part of investors. Sorry we cannot take a more hopeful view.

SYRACUSE, N. Y.

Ruinous.

A SMALL PENNSYLVANIA TOWN

Put them all out of business or force us to work for Stock Exchange houses.

CINCINNATI, OHIO

The effect of the above rule will mean the lack of markets. The element of profit is the one reason a dealer will buy securities for his own account. We have been instrumental in making markets for securities of small corporations. However, if such a rule becomes effective our margin of profit will not warrant the risk.

BOSTON, MASS.

Ruin them.

BOSTON, MASS.

(From firm favoring rule)

If all firms large and small will uniformly mark-up their sales the full 5% instead of some firms offering their services to buy as agents for their customers at the wholesale price plus a small commission, and some firms selling as principal at 5% mark-ups and even more, then all would be making a reasonable profit and confidence in the business on the part of the public, because all would be treated alike by their brokers, would be considerably increased.

BUFFALO, N. Y.

Too many salaried people, who have had no personal responsibility in a business of their own, are making rules for men of honest endeavor and purpose who have enough American initiative to ethically run their business without unsolicited and unworkable forced rules. **The Commercial and Financial Chronicle has shed enough light on this unnecessary 5% mark-up.** It may, if placed in effect, be another destructive means to small industry security markets and to small investment dealers maintenance of worthy service to both small borrowed and small investor. The relatively few large-profit dealers who gauge the public are normally caught up with. The majority of dealers don't need this restriction. Better spend this time selling war bonds with no 5% mark-up.

BOSTON, MASS.

Ruin.

BOSTON, MASS.

Wouldn't know. Think the whole idea silly.

NEW YORK CITY

Dealers will concentrate on the larger and more active issues, where the market is close. Market on smaller corporations will be hit severely and will not be able to raise capital to expand. May eventually put them out of business, as soon as competition sets in after the war.

NEW YORK CITY

With limitation on mark-up dealers will not handle securities of smaller corporations and markets so they will practically disappear. Holders of these securities will have to find their own buyers and sellers.

NEW YORK CITY

Do not believe the small firms who cannot take position in securities they are retailing can live.

LOS ANGELES, CALIF.

(From firm favoring rule)

For a good many months we have been receiving from your office reprints of articles which have been published in the Commercial and Financial Chronicle concerning what you call the "5% spread rule" of the NASD. We have, of course, disregarded all of these communications but when we received, under date of Mar. 22nd, a questionnaire from you in this matter, it moves us to become more articulate as we are considerably concerned with the future of the investment business in this country.

If your interest in this matter is purely one of a financial publication endeavoring to serve its subscribers, we earnestly feel that you would be doing them a great service by acting in cooperation with the best minds in the investment business rather than attacking the result of much hard work and study by men who merit the confidence of everyone in our profession.

If you have any other interest than this, you will, of course, be guided by motives which we cannot here even attempt to analyze. Let us say, however, that the writer of this letter has been in the investment business in California for more than a quarter of a century, that he has been connected with the Investment Bankers Association and with the NASD in an official capacity; that in all of his conversations with the various investment dealers in this territory concerning the letter of the Directors of the NASD; he has yet to find any worthwhile legitimate organization who has not been perfectly in accord with the philosophy expressed. And, insofar as we can see here, the only dealers that might not be in accord with this policy letter would be those dealers who have not the good of the investment business at heart.

NEW YORK CITY

They will have a poor market; for, no salesman will waste his time on them; and new issues of that sort will probably find no market. In times such as these I'll sign X.

NEW YORK CITY

It will kill a lot of business. Brokerage houses should not belong to the NASD. What do they do for the brokers? Whatever brokers support they'd collapse—we are in favor of it. Their attitude is the same as Washington's—all brokers are crooks.

NEW YORK CITY

A small dealer will no longer be able to pick out and study the most attractive situations. Consequently he will follow line of least resistance and sell investment trust issues and new underwritings and his clients will be the chief losers. Furthermore, the business will be increasingly concentrated in the hands of the large underwriting houses.

A SMALL MISSISSIPPI TOWN

Will retard if not destroy.

A SMALL TEXAS TOWN

Think they will go to the bottom.

DALLAS, TEXAS

It will have no effect on me; and about all of my business is on a 1% or 2% basis; but this rule will affect trades in low-value stocks or on new issues of both stocks and bonds coming out; that in my judgment cannot be handled on a 5% basis; and are really worth a higher charge. Hence, this 5% rule would be hurtful; and certainly is arbitrary.

HOUSTON, TEXAS

There won't be a market.

FORT WORTH, TEXAS

It will kill what is left of the business.

WILMINGTON, DEL.

(From firm favoring rule)

Frankly it seems to the writer as if you are making a tremendous to-do about this situation. It may be sounding the death knell for certain dealers who have believed in terrific spreads, but I for one feel that the elimination of such dealers would be all to the good. I believe that we are going to have to get along with less in the future and I think that we should begin to school ourselves along these lines at once. This may be aside from the point, but just what is your fear about this 5% mark-up? Have you read an emanation of Thomas D. Sheerin Company of Indianapolis, Ind., dated Feb. 29, 1944, entitled "As We View It"? Why don't you send for it as you should be interested in it.

TERRE HAUTE, IND.

No one will be very much interested in handling them. Brokerage business is a sideline for us.

DENVER, COLO.

Ruin it!

COLUMBUS, NEB.

Rather think it will be a handicap in selling such securities.

ABILENE, TEXAS

Will restrict market.

A SMALL WEST VIRGINIA TOWN

If the dealer is confined to 5% it will mean the destruction of all of the small dealers and remove the opportunity for corporations with small assets to secure capital.

A SMALL VIRGINIA TOWN

Will discourage dealers from marketing or redistributing little known but otherwise sound values in small corporations. Why should a dealer spend time and money trying to establish a good market when there will be more expense than eventual income. Consequently many stocks will have no market.

DAVENPORT, IOWA

They will have to depend on some government financial corporation for their capital funds.

LINCOLN, NEB.

Certain to restrict the market.

A SMALL NEW YORK STATE TOWN

Detrimental.

MEMPHIS, TENN.

Don't know about this, but it is decidedly a move toward further regimentation.

KANSAS CITY, MO.

It is obvious to anyone who has the slightest knowledge of the investment business that the 5% rule is sure death for a small investment firm. It will completely freeze the marketing or selling of small corporations securities. It allows nothing for a salesman who has to make many personal calls. It would allow nothing for liability, or wholesaling or distributing expense for an unlisted block or issue of securities.

A pretty large bank once told me it cost them 2 points on bonds to do business. This will vary on amount of business done. Trading houses, or trading departments, or members of exchanges who are primarily order takers like a grocery store, and do not render any service nor have retail salesmen would not earn the 5%. Likewise they would never have or create a market for small or isolated securities, hence contributing nothing to the investment business.

NEW YORK CITY

A 5% mark-up does not permit sufficient margin for the expense entailed in the distribution of securities which must be **sold.** In other words, large, well-known corporations can find more or less ready distribution whereas small more or less unknown corporations must be sold to the investor. Hence fewer sales are made and cost of obtaining names of prospective investors is greater, so that more than 5% of the sales price would be absorbed by expenses. For this reason it is our opinion that the 5% rule would preclude small corporate financing.

NEW YORK CITY

As specialists in inactive securities we feel that the 5% rule would frequently make it impossible for us to do the business, due to the high overhead caused by research, etc.

NEW YORK CITY

It will not make it worthwhile for the broker and salesman to devote the extra time and effort which are necessary to present the securities of the smaller corporations, and furthermore it will drive a large number of good salesmen into commercial fields where they can enjoy at least 10% net commission without having to split it with their employers.

NEW YORK CITY

(From firm favoring rule)

If we are not to be persecuted by the SEC because of lawlessness of a few unscrupulous dealers, there must be some rule as to the amount of mark-up which can be taken. The present rule is an attempt to establish this amount. We believe that out of it will evolve some less rigid rule. Manifestly a mark-up of 5% on a bond selling at 100, is too much. Similarly, a mark-up of 5% on a stock selling at 2 is too little.

Too rigid application of the rule would lead to destroy the market for securities of small and little known companies. If there exist only one or two markets for a given security, money invested is locked in permanently unless a dealer can make more than 5% on a sale. The subject requires considerably study. Lacking any other standard or vote for the 5% rule, hoping it will be relaxed in some cases.

BOSTON, MASS.

Probably restrict obtaining a "fair" or real value in the sale. Brokers will not be able to obtain a market of real value and investors will not care to buy.

LITTLE ROCK, ARK.

Marketwised it should make them better as 5% mark-up would induce trading.

WICHITA, KANS.

We consider the 5% mark-up rule would be harmful to the market for securities for smaller corporations.

NEW YORK CITY

I believe it would have the effect of stiffling such markets. I believe further that it will lead to retarding the financing of smaller corporations with resultant undesirable effects on employment of many thousands of workers throughout the country. I believe further that this question of regulated mark-up would be disastrous to the investment business should it become law. Certainly too great a mark-up can be prosecuted under our present fraud laws.

NEW YORK CITY

The time involved in investigating securities to discover ones worthy of recommending, and then the follow up on these securities (furthered and continued examination of them, which means interviews with officers and directors, inspection of plants, etc.) all this work means either one of two things.

1. A dealer cannot generally cover his cost with a 5% mark-up.
2. He will have to restrict his clientele to those who are very wealthy and buy in large quantities.

This would leave the small investor to the mercy of the ignorant or unscrupulous security (or insecurity) salesmen.

NEW YORK CITY

Will impair the markets for securities of smaller corporations.

NEW YORK CITY

Will certainly cause lessening of market activity and will eventually prove injurious to the stockholders of small corporations.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 2388)

prove to be the culmination of a move rather than a signal for a new advance. Without taking invasion into consideration 144-145 looked like a top last week, and the week before that. The actual invasion hasn't changed it.

* * *

On the individual stock side the two issues this column is still long of—Crane at 22½ (now about 25) and National Gypsum at 10¾ (now about 11) still act okay. Yet if the market goes down neither of these stocks can withstand the tide. Incidentally, while discussing National Gypsum it might be interesting to point out that it is one of a number of stocks which may well pass from the dog to the blue chip side. The fortunes of war will be principally responsible for this metamorphosis, should it take place. For this reason such issues as Mullins "B," Hayes and Murray, known before the war as body builders, are also in the up and coming class. All this is however in the future. I am merely pointing them out as candidates to be included in the buy list when market conditions permit.

* * *

Meanwhile I expect the market to slop off to about 139 or so rally when the news is good and decline when it is bad. The successes and failures that will follow the invasion will play a major part in the market picture.

* * *

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.]

Hearing On NASD "5% Spread Philosophy"

(Continued from page 2363)

tection of investors that a hearing be held on the question whether the aforesaid letters of Oct. 25 and Nov. 9, 1943, constitute a rule or rules, and, if so, whether the Commission should take any action pursuant to Section 15A (k) of the Securities Exchange Act of 1934 as amended."

Our readers will recall that the columns of this paper heretofore carried the full text of the resolution and letter sent by the New York Security Dealers Association to the SEC, as well as the petition filed by the Securities Dealers Committee.

All of these raised the issue of "5% spread philosophy"—rule or interpretation.

As to that issue, the order of the Commission is complete.

However, the petition of the Securities Dealers Committee raised a number of issues. We quote them all:

"The said rule is illegal upon the following grounds, among others:

"(a) It was not submitted to the vote of the NASD membership as required by Article VII, Section 1 of the by-laws of said NASD.

"(b) Neither it nor the manner of its passage has been approved by the Securities and Exchange Commission.

"(c) It is monopolistic in its operation, contravenes the anti-monopoly statutes in that it tends and will tend to eliminate the small dealer in securities and thus cripple competition.

"(d) It was promulgated by an organization, to wit, NASD created under an illegal statute, to wit, the Maloney Act, which contravenes the law of the land because it is special legislation in effect giving to the NASD certain exclusive and monopolistic privileges amongst them that of having its members participate in certain financial advantages and dealings to the exclusion of non-members; as a result, the NASD is a body which is not legally constituted and is therefore without any rule-making power.

"(e) It constitutes the exercise of a legislative function which the Congress had neither the intention nor the power to delegate to NASD, and which the Congress in fact never so delegated.

"(f) It is a modification of the law and of trade custom and usage, which the NASD is without legal right to effect.

"(g) It is unconstitutional because confiscatory since it disregards the profit motif in business.

"(h) It constitutes an illegal exercise of legislative powers and governmental functions by a private association.

"(i) It constitutes a burden upon and impairment of interstate commerce.

"(j) It is contrary to the common law and to trade practices and usage by inferring fraud merely from the spread between purchase and sales price of securities despite the fact that no representations of any kind accompanied such purchases and sales.

"(k) It tends to limit and destroy the markets for securities of the smaller corporations of the country and is therefore against public interest and against public policy.

"(l) It is unconstitutional because it deprives securities dealers of property rights without due process of law."

Clearly, what the Securities and Exchange Commission has done is to single out an issue and limit the scope of its hearing. We do not assume to pass upon its power so to do. However, we are of the opinion that the public and the securities industry would have been best served, if all the issues raised by the petition were embraced within the scope of the hearing.

It may be possible that as to some of these, the SEC is without jurisdiction. If so, the Commission should make that determination.

We regret that the scope of the hearing has been thus limited because we feel this is not the end. If the philosophy is held to be a mere interpretation, the other questions will of necessity have to be presented at some time, to another forum, or other fora, for determination.

The full text of the SEC's order for proceedings and notice of hearing follows:

SECURITIES AND EXCHANGE COMMISSION
Philadelphia

SECURITIES EXCHANGE ACT OF 1934
Release No. 3574

United States of America
Before the Securities and Exchange Commission

At a regular session of the Securities and Exchange Commission, held at its office in the City of Philadelphia, Pa., on the 1st day of June, A. D., 1944.

In the Matter of The Rules of the NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.	**Order for Proceedings and Notice of Hearing Under Section 15A (k) of the Securities Exchange Act of 1934 as Amended**

I

The Commission's official files disclose that:

1. The National Association of Securities Dealers, Inc., is a national securities association registered pursuant to the provisions of Section 15A (a) of the Securities and Exchange Act of 1934 as amended.

2. The rules of such Association include a provision reading as follows:

"A member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade."

being found in Section 1 of Article III of the Rules of Fair Practice of said Association.

3. By letter dated Oct. 25, 1943, the Board of Governors of said Association announced to its members, among other things, that it had approved the following interpretation of the meaning of the rule quoted in the preceding paragraph:

"It shall be deemed conduct inconsistent with just and equitable principles of trade for a member to enter into any transaction with a customer in any security at any price not reasonably related to the current market price of the security."

4. Subsequently and on Nov. 9, 1943, the Chairman of the Board of Governors of the Association and its Executive Director sent a letter to all of its District Business Conduct Committees containing the following, among other things:

"The general import of this statement and the construction that should be placed upon it is that, when transactions show a mark-up of over 5% on the part of a member, it raises the question as to whether there is a violation of the Rule and interpretation. In such a situation, a duty is imposed upon the member to show the satisfaction of the Business Conduct Committee that no violation has occurred."

5. Following the events recited in the preceding paragraphs, the New York Security Dealers Association adopted a resolution asserting that the Association's letter of Oct. 25, 1943, has the practical effect of a rule and requesting the Commission to direct the National Association of Securities Dealers, Inc., "to sumbit said 'rule' to its membership as required in Article IV, Section 2 of its by-laws," or in the alternative that the Commission "grant to the representatives of the New York Security Dealers Association an opportunity for a hearing to present its point of view."

6. Thereafter, Messrs. William S. Baren, Baron G. Helbig, and Benjamin S. Lichtenstein, as "representatives of a voluntary committee of securities dealers known as 'Securities Dealers Committee'" filed a petition referring to the letters of Oct. 25 and Nov. 9, 1943, aforesaid, as a "rule" of the Association, asserting that the action taken was illegal upon various grounds stated in the petition, requesting a hearing upon their petition, and requesting "the rule herein referred to be cancelled, revoked and declared a nullity."

II

The Commission, having considered the aforesaid, deems it necessary and appropriate in the public interest and for the protection of investors that a hearing be held on the question whether the aforesaid letters of Oct. 25 and Nov. 9, 1943, constitute a rule or rules and, if so, whether the Commission should take any action pursuant to Section 15A (k) of the Securities Exchange Act of 1934 as amended.

III

IT IS HEREBY ORDERED that a hearing on such question be held before the Commission at 10:30 a. m. on Tuesday, June 13, 1944, at the office of the Securities and Exchange Commission, 18th and Locust Streets, in the City of Philadelphia 3, Pennsylvania.

IT IS FURTHER ORDERED that this order and notice be served on the National Association of Securities Dealers, Inc., the New York Security Dealers Association, and the "Securities Dealers Committee" personally or by registered mail not less than seven (7) days prior to the time of the hearing.

By the Commission.

ORVAL L. DuBOIS, *Secretary*.

Christmas Mail For Armed Forces Overseas

Postmaster Albert Goldman announced on June 5 that the Post Office Department, Washington, D. C., advises that in order that Christmas parcels may reach the addressees on time and in good condition, arrangements have been made by the Post Office Department, in cooperation with the War and Navy Departments (the latter including the Marines and Coast Guard) for the acceptance of such parcels for members of our armed forces serving outside the continental United States. The announcement states:

"Christmas cards and Christmas parcels for personnel of the armed forces overseas must be mailed during the period beginning Sept. 15, 1944, and ending Oct. 15, 1944, the earlier the better.

"The War Department advises that Christmas greeting cards for soldiers overseas must be sent in sealed envelopes and prepaid at the first-class rate.

"No requests from the addressees are required in connection with Christmas parcels mailed to Army personnel during this period only. Patrons should endorse each gift parcel "Christmas Parcel." Special effort will be made to effect delivery of all Christmas parcels mailed during that period in time for Christmas.

"Not more than one Christmas parcel or package will be accepted for mailing in any one week when sent by or on behalf of the same person or concern to or for the same addressee.

"Christmas mail for members of the Merchant Marine should also be mailed between Sept. 15 and Oct. 15, 1944, if delivery by Dec. 25, 1944, is desired.

"In addition to the name and address of the sender, which is required, inscriptions such as "Merry Christmas," "Please Do Not Open Until Christmas," "Happy New Year," "With Best Wishes" and the like may be placed on the covering of the parcel in such manner as not to interfere with the address or on a card enclosed therewith. Books may bear simple dedicatory inscriptions not of a nature of personal correspondence. Stickers or labels resembling postage stamps are not permissible on the outside of parcels.

"The term 'armed forces overseas' includes the personnel of our armed forces who receive their mail through an A.P.O. or Fleet P. O. in care of the postmaster at New York, N. Y., San Francisco, Calif., New Orleans, La., Seattle, Wash., or an A.P.O. in care of the postmaster at Miami, Fla., Presque Isle, Maine, or Minneapolis, Minn., or through a naval installation or station in care of the postmaster of Seattle.

Halsey, Stuart Offers Central RR of Pa Equips

Halsey, Stuart & Co., Inc., on June 7 offered to the public $3,720,000 of Central Railroad Co. of Pennsylvania's 2¼% equipment trust certificates, maturing annually from June 15, 1945 to June 15, 1959. The certificates are offered at prices to yield 0.95 to 2.50%, according to maturity.

The certificates, subject to Interstate Commerce Commission approval, are to provide not more than 75% of new equipment estimated to cost $4,971,157. This will include 1,000 seventy-ton gondola cars, 500 fifty-ton hopper cars and 100 seventy-ton flat cars.

The issuing company is wholly owned by the Central Railroad Co. of New Jersey, whose trustees will guarantee principal and dividends on the equipment trust certificates.

Other members of the offering group are: Otis & Co., Inc.; L. F. Rothschild & Co.; Hornblower & Weeks; Gregory & Son, Inc.; First of Michigan Corp.; The Milwaukee Co.; The First Cleveland Corp.; Walter Stokes & Co.; F. S. Yantis & Co., Inc.; Newburger & Hano; Alfred O'Gara & Co.

Semler, Inc. Common Offered By Eberstadt

F. Eberstadt & Co. on June 6 offered and quickly sold 101,300 shares of common stock of R. B. Semler, Inc., at $10.50 per share. Of the stock offered, 15,000 shares represents new financing by the company for general corporate purposes, the balance, 86,300 shares, having been acquired from certain large stockholders.

Giving effect to the new financing, the company will have outstanding 400,000 shares of $1 par common stock. Net profits for 1943, after Federal income taxes of $1,346,120, amounted to $484,553, equivalent to $1.21 per share. Net profits for the three months to March 31, 1944, amounted to $142,160, equal to 35 cents per share.

According to the prospectus, the company intends to apply for the listing of its stock upon the New York Curb Exchange.

Calendar Of New Security Flotations

OFFERINGS

ALLEGHANY CORP. has filed a registration statement for $30,000,000 $3\frac{1}{4}\%$ secured convertible notes due April 15, 1954. Net proceeds, together with other funds of company, will be used for the redemption of all of the outstanding bonds of Alleghany within 60 days from the date of issuance of the notes, including $21,661,000 of 20-year collateral trust convertible 5s due June 1, 1949, and $19,137,000 of 20-year collateral trust convertible 5s due April 1, 1950. The notes are to be convertible into shares of the pledged common stock of the Chesapeake & Ohio Ry. (or into substituted units of collateral as provided in the indenture). Filed May 19, 1944. Details in "Chronicle," May 25.

Offered June 7 at 102.15 and interest by Dillon, Read & Co., Hemphill, Noyes & Co., The First Boston Corp., Mellon Securities Corp., Smith, Barney & Co., and associates.

BEATRICE CREAMERY CO. has filed a registration statement for 100,433 shares of common stock ($25 par). Company is initially offering the shares for subscription to common stockholders. Holders of record May 19 are given right to subscribe for one additional share for each four shares held at $27.50 per share. Rights expire June 1. Proceeds, together with other treasury funds, will be used to redeem on Aug. 1, 1944 approximately 29,788 shares ($33\frac{1}{3}\%$) of company's outstanding $4.25 cumulative preferred stock at $105.50 per share. Glore, Forgan & Co., are principal underwriters. Of the 100,433 shares offered, stockholders subscribed for 92,435 shares. The balance 7,998 shares were taken up by the underwriters. Filed April 29, 1944. Details in "Chronicle," May 4.

DALLAS RAILWAY & TERMINAL COMPANY has filed a registration statement for $3,000,000 first mortgage serial bonds dated June 1, 1944 due each June 1 from 1945 to 1959, inclusive. Proceds from the sale of the bonds, together with such additional cash from its general funds as may be necessary, will be used to redeem $3,567,700 first mortgage gold bonds, 6% series due 1951, at 102 and interest. Filed May 3, 1944. Details in "Chronicle" May 11, 1944. Bonds awarded to Kidder Peabody & Co., June 5 on bid of 3.6448, the coupon rates varying from $1\frac{1}{2}\%$ to 4%.

Offered June 7 by Kidder, Peabody & Co., Rauscher, Pierce & Co., Inc., Equitable Securities Corp. and associates at prices ranging from 100 and interest to 102.5496 and interest, according to coupon rate and maturity.

THE DRACKETT CO. filed a registration statement for $1,500,000 5% 15-year sinking fund debentures due June 1, 1959, and 85,000 shares of common stock, par $1 per share. Proceeds will be used for payment of serial promissory notes $411,045, plant and equipment $430,000, reimburse treasury for improvement made $110,000, general corporate purposes $1,033,955. Details in "Chronicle," May 31. Filed May 20, 1944. Offered June 7 by Van Alstyne, Noel & Co., Field Richards & Co. and R. S. Dickson & Co., Inc., the bonds at 100 and interest and the stock at $8 per share.

NATIONAL AIRLINES, INC., filed a registration statement for $113,333\frac{1}{3}$ shares of common stock, par $1 per share. Proceeds will be available for general corporate purposes pending specific application of such funds. Details in "Chronicle," May 31. Filed May 23. Offered June 7 by Lehman Brothers at $13.75 per share.

R. B. SEMLER, INC., has filed a registration statement for 101,300 shares of common stock, par $1. Of the total 15,000 represent stock to be sold by the company and the remaining 86,300 shares to be sold by present stockholders. Net proceeds from sale of 15,000 shares by the company are to be used for general corporate purposes. F. Eberstadt & Co., heads the list of underwriters. Filed May 20, 1944. Details in "Chronicle," May 25.

Offered June 6 by F. Eberstadt & Co. at $10.50 per share.

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.

Offered 15,000 shares of 6% preferred stock May 31 by A. C. Allyn & Co. and associates at 100 and dividend.

SUNRAY OIL CORP. has filed a registration statement for $13,000,000 sinking fund $3\frac{3}{4}\%$ debentures. Proceeds is to provide the funds required for the consummation of the proposed merger of Darby Petroleum Corp., of Tulsa, Okla., into Sunray Oil Corp., and to retire mortgage indebtedness. Eastman, Dillon & Co., principal underwriter. Filed May 18, 1944. Details in "Chronicle," May 25.

Offered June 8 at 103 and interest by Dillon, Read & Co., The First Boston Corp., Blyth & Co., Inc. and associates.

NEW FILINGS

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

SUNDAY, JUNE 11

MORRISON-KNUDSEN CO., INC., has filed a registration statement for $300,000 series K 5% preferred stock and $200,000 series L 6% preferred stock, both $100 par value. Serurities will be offered by Morrison-Knudsen Co., Inc., at par. Any part of the issue not sold by company officials will be sold through Wegener & Daly, Inc., Boise, Idaho as underwriters. Details in "Chronicle," May 31. Filed May 23.

HAWAIIAN ELECTRIC CO., LTD., filed a registration statement for $5,000,000 first mortgage bonds, series D, $3\frac{1}{2}\%$, due Feb. 1, 1964.

Address—900 Richards Street, Honolulu, Hawaii.

Business—Operating electric utility.

Proceeds—To pay the company's 3% collateral promissory notes due June 1, 1948, in the principal amount of $3,500,000; to pay for additions, improvements and betterments of plant and properties to be made prior to the close of 1945.

Underwriting—Dillon, Read & Co., New York and Dean Witter & Co., San Francisco.

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

Registration Statement No. 2-5383. Form S-1. (5-23-44).

TUESDAY, JUNE 13

HAYES MANUFACTURING CO. has registered 100,000 shares of common stock $2 par value. Net proceeds will be received by Porter Associates, Inc. The moneys paid to the corporation by Porter Associates, Inc., on account of the purchase of said shares will, in the estimated amount of $187,500, reimburse the corporation in part for the $200,000 expended by it in purchasing such shares. Porter Associates, Inc., underwriters. Details in "Chronicle," May 31. Filed May 25.

SATURDAY, JUNE 17

EXCESS INSURANCE CO. OF AMERICA has filed a registration statement for 48,981 shares of capital stock, par $5 per share.

Address—99 John Street, New York City.

Business—General casualty and fidelity and surety business.

Underwriting—None named.

Offering—Shares are to be offered for subscription to present stockholders of record May 31, 1944, on a pro rata basis at $8 per share.

Proceeds—Net proceeds will be added to company's capital and surplus funds.

Registration Statement No. 2-5386. Form S-1. (5-29-44).

UNION TRUSTEED FUNDS, INC., has filed a registration statement for 154,173 shares Union Bond Fund "C" and 53,702 shares Union Preferred Stock Fund, total 207,875 shares.

Address — One Exchange Place, Jersey City, N. J.

Business—To purchase, sell and hold for investment, securities subject to the limitations of its certificate of incorporation, and to the provisions of a trust agreement.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5387. Form A-1. (5-29-44).

GERMANTOWN FIRE INSURANCE CO. has filed a registration statement for 50,000 shares of common stock, $20 par, and voting trust certificates for said stock.

Address—5521 Germantown Avenue, Philadelphia.

Business—Company is proposed to be organized as a Pennsylvania corporation to succeed to the business and property of the Mutual Fire Insurance Co. of Germantown which will then cease to exist.

Underwriting—Bioren & Co., Philadelphia.

Offering—Policyholders of Mutual are to have pre-emptive rights to subscribe for the common stock at $20 per share in proportion to the respective premiums paid by them upon insurance policies issued by Mutual. Voting trust certificates representing shares not subscribed will be offered to the general public at the same price. All stockholders will be asked to deposit shares in the voting trust for a period of 10 years.

Proceeds—Will be added to and retained in company's capital share account and invested in legal securities.

Registration Statement No. 2-5388. Form S-1. (5-29-44).

GERMANTOWN FIRE INSURANCE CO.—William H. Emhardt, Arthur W. Jones and Charles E. Dearnley, voting trustees, have filed a registration statement for voting trust certificates for 50,000 shares of the common capital stock, par $20.

Address — 5521 Germantown Avenue, Philadelphia.

Purpose—To form a voting trust for a period of ten years. See above registration.

Registration Statement No. 2-5389. Form F-1. (5-29-44).

MONDAY, JUNE 19

AMERICAN MACHINE & METALS, INC., filed a registration statement for $2,000,000 15-year sinking fund debentures, due June, 1959, and 68,450 shares of capital stock, without par value. The interest rate on the debentures will be supplied by amendment.

Address—100 Sixth Avenue, New York City.

Business—Manufacture of machinery etc.

Underwriting—Hornblower & Weeks is named principal underwriter, with names of others to be supplied by amendment.

Offering—The 68,450 shares of capital stock are to be offered for subscription to the holders of capital stock at the rate of one share for each four shares held. The subscription price as well as the record date and time when subscription warrants will be filed by amendment. The public offering price of the debentures will be filed by amendment.

Proceeds—The net proceeds from the sale of the debentures and stock will be applied, together with additional funds from the company's treasury, to repay a $3,000,000 temporary bank loan which was incurred in the purchase last March of control of the United States Gauge Co.

Registration Statement No. 2-5391. Form S-1. (5-31-44).

PANHANDLE EASTERN PIPE LINE CO. has filed a registration statement for 531,638 shares of common stock, without par value. The shares registered are issued and outstanding and are owned by Missouri-Kansas Pipe Line Co.

Address—1221 Baltimore Avenue, Kansas City, Mo., and 135 South LaSalle Street, Chicago.

Underwriting—None stated.

Offering—Mokan will offer to the holders of its common stock and Class B capital stock, of record on July 3, 1944, the right to purchase, pro rata, 163,710 shares of the common stock of Panhandle, at the price of $30 per share, on the basis of one share of common stock of Panhandle for each 10 shares of common or 200 shares of Class B capital stock of Mokan. Such purchase offer will expire on Aug. 12, 1944.

Proceeds—Net proceeds will be used to pay off indebtedness to banks and insurance companies in the sum of $5,050,000. After payment by Mokan of the indebtedness, it will offer to each holder of its common stock or Class B capital stock according to a plan adopted by the stockholders on March 27, last, the right and privilege of exchanging all or any part of his holdings of such stock for full shares of the common stock of Panhandle, on the basis of two shares of Panhandle for nine shares of Mokan common or 180 shares of Class B capital stock of Mokan, or any combination of common and Class B capital stock of Mokan equivalent thereto. The exchange offer will expire April 15, 1945.

Registration Statement No. 2-5390. Form S-1. (5-31-44).

THURSDAY, JUNE 22

FLEMING COMPANY, INC., has filed a registration statement for 2,500 shares of preferred stock, 5% cumulative, $100 par value.

Address—311 East 17th Street, Topeka, Kan.

Business—Engaged in wholesale mercantile business.

Underwriting — Beecroft, Cole & Co., Columbian Securities Corp. and Seltsam & Co., Inc., Topeka, Kansas.

Offering—Price to public $103 per share.

Proceeds—To be used to increase working capital through the reduction of bank loans.

Registration Statement No. 2-5392. Form A-2. (6-3-44).

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 BAKERIES CO.—13,000 shrs. of class B stock (no par). The stock offered for sale is that of L. A. Cushman and Martha Bryan Allen Cushman as trustees of L. A. Cushman Trust. Courts & Co. are named principal underwriters. Filed March 29, 1944. Details in "Chronicle," April 6, 1944.

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

BURRY BISCUIT CORPORATION has filed a registration statement for 200,000 shares of common stock, par value $12\frac{1}{2}$ cents. Proceeds will be used to augment working capital and for other corporate purposes. Van Alstyne, Noel & Co., and Carlton M. Higbie Corp. are named representatives of the underwriters. Filed May 11, 1944. Details in "Chronicle," May 18, 1944.

Registration statement withdrawn May 30, 1944.

CARPENTER PAPER CO.—15,000 shares of common stock (par $1). Price to public $30 per share. 1,717 shares are being currently offered to a group of officers and employees at $21.50 per share under a separate registration and prospectus. Net proceeds ($446,000) are to be used for working capital. Kirkpatrick-Pettis Co. are underwriters. Filed March 30, 1944. Details in "Chronicle," April 6, 1944.

EQUIPMENT FINANCE CORP. filed a registration statement for 14,000 shares 4% non-cumulative series 2 preferred, par $100. Price to the public $100 per share. Proceeds for acquisition of factory and warehouse buildings and additional trucks. Filed May 19, 1944. Details in "Chronicle," May 25.

KANSAS - NEBRASKA NATURAL GAS CO., INC., has filed a registration statement for $1,500,000 first mortgage sinking fund bonds 4% series C, due April 1, 1959. Central Republic Co., Inc., Chicago, underwriter. Price 107 exclusive of accrued interest from April 1, 1944. Proceeds for construction purposes. Details in "Chronicle," April 27, 1944.

KANSAS - NEBRASKA NATURAL GAS CO., INC., has filed a registration statement for 2,000 shares of $5 cumulative preferred stock (no par) and 58,636 shares of common stock ($5 par). Holders of common stock of record May 12 are offered the right to purchase one share of common at $6.50 a share for each four shares held. Rights expire May 26, 1944. Unsubscribed shares will be taken up by the underwriters at $6.50 a share and offered to the public at $7 per share. Offering price of the preferred to the public is $105 a share. Proceeds from sale of stock will be used to defray costs of construction expenditures. Underwriters for stock are First Trust Co. of Lincoln, Neb.; Cruttenden & Co., Chicago; Beecroft, Cole & Co., Topeka; Harold E. Wood & Co., St. Paul; Rauscher, Pierce & Co., Dallas; United Trust Co. of Abilene, Kansas, and Frank & Belden, Inc., Minneapolis. Details in "Chronicle," April 27, 1944.

MISSISSIPPI VALLEY PUBLIC SERVICE CO. has registered 15,000 shares of 5% cumulative preferred stock ($100 par). Company is offering to holders of its outstanding 7% cumulative preferred stock, series A, and 6% cumulative preferred stock, series B, the privilege of exchanging their old stock for new preferred on a share for share basis, with a cash adjustment amounting to $7.83\frac{1}{3}$ a share on the 7% stock and $2.66\frac{2}{3}$ a share on the 6% preferred. The exchange offer will expire at noon on May 20. Underwriters are Milwaukee Co., 5,750 shares; Wisconsin Co., 4,750; Morris F. Fox & Co., 1,500; Loewi & Co., 1,500; Bingham, Sheldon & Co., 1,000 all of Milwaukee, and A. C. Tarras & Co., Winona, Minn., 500. Filed April 25, 1944. Details in "Chronicle," May 4.

PUBLIC SERVICE CO. OF OKLA.—$1,500,000 5% cumulative preferred stock (par $100) and $6,600,000 first mortgage bonds, series A $3\frac{1}{2}\%$ 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.

NASD Board Of Governors And The 5% Mark-Up Rule

(Continued from page 2363)

Irving D. Fish, Chairman of NASD District No. 13, which embraces the States of New York, New Jersey and Connecticut.

In this letter, which he addressed to Ralph Chapman, Chairman of the Association's Board of Governors, Mr. Fish stated that District No. 13 "has received numerous questions from its members," the nature of which, judging from the contents of the communication, is that members of this district believe that the 5% mark-up policy does, in fact, constitute a rule and any infraction thereof may automatically result in disciplinary action.

At the direction of the Board of Governors, which met in New York City on June 5 and 6, Chairman Chapman replied to Mr. Fish under the latter date, and declared that the "policy announced by the Board in its letter to District Business Conduct Committees of Oct. 26 and the subsequent letter of Nov. 9, 1943, is not a rule," but was intended as a guide or yardstick in determining the merits of dealer mark-ups. Both the letter sent by Mr. Fish and Mr. Chapman's reply are reprinted below and we understand that copies will be sent at this time to all members in District No. 13 and that they will appear in the next issue of NASD "News," which is sent to members of the Association throughout the country.

Fortunately, due to the "Chronicle" campaign against the 5% rule, it has not been enforced in most districts and the exchange of the above mentioned letters will undoubtedly assure this being the case to a still greater extent. However, this does not alter the fact that the "5% philosophy" does in effect constitute a rule and should therefore be abrogated or rescinded so that members of the NASD may have no qualms about conducting their business in accord with trade custom and usage as had formerly been the case prior to the birth of the "5% philosophy."

Mr. Fish's letter of May 18 and the recent reply thereto by NASD Chairman Ralph Chapman are given herewith:

May 18, 1944

Mr. Ralph Chapman, Chairman,
Board of Governors,
National Association of Securities Dealers, Inc.,
1616 Walnut Street,
Philadelphia 3, Pa.

Dear Mr. Chapman:

District Committee 13 has received numerous questions from its members under the policy outlined in the letters of the Board of Governors of Oct. 25 and Nov. 9, 1943.

Would the Board of Governors advise us whether District Committee 13 is correct in interpreting the policy announced by those letters as constituting a desirable objective or yardstick to be considered by the District Business Conduct Committee in applying the Rules of Fair Practice in the light of the circumstances surrounding the particular transaction under examination?

Very truly yours,
(Signed) Irving D. Fish,
Chairman, District Committee 13

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.
1616 Walnut Street, Philadelphia 3, Pa.

June 6, 1944

Mr. Irving D. Fish, Chairman,
District No. 13 Committee,
National Association of Securities Dealers, Inc.
111 Broadway,
New York, N. Y.

Dear Mr. Fish:

Your letter of May 18, 1944, was presented to the Board of Governors at its meeting June 5, 1944.

I was directed by the Board to advise you that you are correct in your understanding that the policy announced by the Board in its letter of Oct. 25, and the subsequent letter of Nov. 9, 1943, is not a rule, but should be considered by District Business Conduct Committees as a desirable objective or yardstick, neither more nor less and be employed by them in the light of the circumstances surrounding each transaction which may be the subject of examination or review under the Rules of Fair Practice.

Very truly yours,
(Signed) Ralph Chapman, Chairman

"Our Reporter On Governments"

By E. P. TEE

The estimate made by the Federal Reserve Board in its March "Bulletin" that it may be necessary to increase central bank purchases of Governments by as much as $3,000,000,000 in order to keep the market supplied with credit up to the time when the Fifth War Loan starts, seems well on the way to fulfilment. . . .

Government holdings of the 12 Reserve banks on March 1 aggregated $11,624,000,000. . . . These have been increased by over $2,600,000,000, to $14,250,000,000 as of May 31. . . .

Practically all of the securities acquired came from the commercial banks. . . . This is indicated from the drop since March 1 to the latest reporting period of $1,700,000,000 in the holdings of reporting banks in 101 cities. . . . These institutions have about 60% of the nation's commercial banking resources. . . .

The principal factors necessitating such open market activity have been the increase in money in circulation which rose by $1,290,000,000, to above $22,000,000,000 during this period and the loss of gold through foreign earmark which resulted in a $448,000,000 depletion of our stockpile. . . .

The balance of the credit need arose from the transfer of balances in War Loan accounts to private deposits (which must be covered by reserves) as the Treasury drew on its funds to meet the heavy costs of the war. . . .

Treasury bills and certificates accounted for the bulk of the central bank purchases. . . . Holdings of the former rose $2,118,000,000 and certificates advanced $450,000,000. . . . Notes also increased $294,000,000, but bond investments were off $238,000,00. . . .

MARKET ACTIVITY

This over-all picture serves to explain in some measure why we have had limited market activity during recent months. . . . What necessitous selling that the banks were confronted with in order to meet their reserve needs went directly into the central banks via the bill repurchase agreement. . . . Some certificate dealings took place and banks which had a little excess on hand presumably were active buyers of the bond section. . . .

Look for this condition of affairs to change once the Fifth War Loan gets under way next week. . . . It may be only temporary, but it should provide market activity and the opportunity for some turns in the Government list. . . .

As soon as private balances start to swing over to War Loan account (which are free of requirements), and this will happen as individuals and corporations buy the new securities, the excess reserve position will again build up rapidly. . . . Remember, War Loan accounts are down over $11,000,000,000 since the middle of February. . . . They stood under $7,000,000,000 at the start of this week and will be close to $5,000,000,000 when the drive starts. . . . Before the Fifth Loan is over they should go back close to the $18,000,000,000 mark with an attendant large temporary unfreezing of bank credit and surplus of funds for investment. . . .

BANK BUYING DURING DRIVE

The banks have caught on the technique of buying during the drive period as indicated by careful estimates of purchases made in the open market during the four previous campaigns. . . . During the November 1942-February 1943 period it is estimated they bought $2,400,000,000 open market issues in addition to drive subscriptions. . . . For the March-June 1943 period it is estimated they took on $3,000,000,000 on the same basis. . . . In the August-November 1943 period it is estimated they bought $4,000,000,000 and during the January-March 1944 period they acquired $4,500,000,000. . . . Thus it can be seen the amount of bank accumulation during each succeeding drive period has been in larger volume. . . .

There is every reason to expect this trend to continue, with bank purchases before, during and immediately after the Fifth War Loan likely to aggregate as much as $5,000,000,000. . . . The reason for this is that the new basket contains some extremely desirable bank paper, notably the new 1¼% notes and the new 2% bonds of 1954/52. . . . So the banks may buy not only old issues for their particular needs, but engage actively in the indirect purchase of the drive securities. . . .

DEFICIT FINANCING

While we continue to operate under deficit financing, and this may be expected for another year at least, some notable progress has been made in closing the gap between receipts and expenditures. . . .

For example, during the first 11 months of the present fiscal year our gross receipts amounted to $37,700,000,000 compared with $17,700,000,000 in the corresponding period of the 1943 fiscal year. Higher income taxes were the answer. . . .

Our expenditures, which amounted during the same period to approximately $84,000,000,000 against $68,500,000,000 in 1943, resulted in a net deficit of $46,500,000,000 compared with approximately $51,000,000,000 in the preceding fiscal year. Thus, while our outlays have been higher, we have succeeded in cutting the actual deficit by nearly 10%. . . .

Once the invasion of Europe gives indication of ultimate success, it is expected in some quarters that cutbacks in war production will be sharp with a resulting lower monthly Treasury outlay. . . .

FIFTH WAR LOAN

The drive to raise $16,000,000,000 additional war financings, which starts Monday, is apparently organized with greater care and efficiency than any of the previous campaigns. . . . Quotas have been freely employed among the banks and broker-dealer organizations which normally account for about 80% of the total amount raised. . . .

Nevertheless the job will require vigorous techniques to stimulate the individual. . . . The money is around, however, as indicated by the recent Federal Reserve Board survey of deposits which show large gains on the part of individuals. . . . The job is to pry this cash loose, particularly from the free spenders. . . . With the selling experience gained in the preceding campaigns, it is safe to assume that the goal will be reached. . . .

Incidentally, the banks might well publicize more the free time and effort they are giving to make these drives go over. . . . There is a general lack of understanding on this phase of the situation among large sections of the public.

N. Y. S. E. And Others To Contest Treasury Rule Applying Transfer Tax In Partnership Changes

A recent ruling of the General Counsel of the Treasury, appearing in the Internal Revenue Bulletin, holds that any change in partnership of a firm subjects the new partnership to payment of the stock transfer tax or securities held by it "irrespective of whether the admission of a new partner effects a dissolution of the partnership and the formation of a new partnership." This ruling is based on Sections 1802 (b) and 3481 of the Internal Revenue Code as amended under the terms of the law, and the application of the tax can be made retroactive for a period of four years.

As partnership changes among Stock Exchange firms and security dealers occur with relative frequency, this ruling will involve a serious additional expense to many firms, unless it can be avoided by some device, not contemplated in the law. Avoidance may be had, it is believed, by each firm when a change in partnership occurs, setting up a liquidation account in this way closing out its security holdings in the name of a single partner, acting as an administrator or trustee.

Although the issue has been under discussion between stock brokerage firms and Treasury officials for some time, the ruling came as a surprise, and there is a complaint of insufficient warning given by the Internal Revenue Bureau. Moreover, if the ruling is upheld some firms estimate that they will be required to pay from $10,000 to $240,000 in back taxes, because of the retroactive provisions in the law.

The New York Stock Exchange, together with the Association of Stock Exchange Firms and other security dealers associations, are preparing to contest the new ruling, and will, if necessary, carry their case to the courts. It is contended that Congress merely overlooked the change-in-partnership situation in failing to exempt it from the provisions of Section 1802 (b) of the Revenue Code. It is argued, also, that the Treasury has never applied the income or capital gains taxes, in cases of changes in partnership set-ups. Pressure will undoubtedly be brought to have Congress amend the Revenue Act and thus remedy the situation.

The following is the text of the ruling of the General Counsel of the Treasury covering stock transfer taxes in connection with partnership changes:

"Advice is requested whether the admission of a new partner into the M Partnership effected a change in the ownership of the securities carried on the partnership's books and a transfer of legal title thereto which is subject to stamp tax under Sections 1802 (b) and 3481 of the Internal Revenue Code, as amended.

"Sections 1802 (b) and 3481 of the Code, as amended, impose a stamp tax on the transfer of legal title to shares or certificates of corporate stock and corporate bonds, respectively, with certain exemptions not here applicable.

"The M Partnership has both general and limited partners. In 1942 the partnership agreement was amended to provide for the admission of a new partner. At the time of such amendment the partnership owned certain corporate securities. A new partner was admitted in that year and the question has arisen whether any stamp tax liability was incurred with respect to the partnership securities.

"Irrespective of whether the admission of a new partner effects a dissolution of the partnership and the formation of a new partnership, it is believed that a partnership, either at common law or under the Uniform Limited Partnership Act as adopted in a number of jurisdictions, is not a juristic entity but an association of individuals holding the partnership's property in 'tenancy in partnership'—a form of co-ownership. (See Sections 24, 25, Uniform Limited Partnership Act, and Commissioner's note to subdivision (1) thereunder, 7 U.L.A., 31; Rossmore v. Commissioner C.C.A. 2, 1935), 76 Fed. (2d), 520, Ct.D. 1009, C.B. XIV-2, 278 (1935); Helvering v. Smith (C.C.A 2, 1937), 90 Fed. (2d), 590; Ct. D. 1297 (C. B. 1938-1, 227.) It follows that the transfer of the interests of such joint owners effects a change in ownership of the partnership's securities which constitutes an incident to which the stock transfer tax and bond transfer tax apply. (See Regulations 71 (1941), Sections 113.33 (f) and 113.63.)

"It is held, therefore, that the admission of a new partner into the M Partnership effected a change in the ownership of the securities carried on the partnership's books and a transfer of legal title thereto which is subject to stamp tax under Sections 1802 (b) and 3481 of the Internal Revenue Code, as amended.

"This problem is not a new one. Stock Exchange officials have been discussing it off and on with the Treasury for years and, in recent months, have been endeavoring to argue them out of the stand they now have taken publicly. At one time it was suggested, as a basis for compromise, that the transfer tax be applied to the percentage of change in partnership interest. In other words, if one 2% partner leaves and another 2% partner joins a firm, the tax would be payable only on 2% of the stocks owned by the firm."

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