Final Edition

ESTABLISHED OVER 100 YEARS

In 2 Sections—Section 1

The Commercial and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 159 Number 4290 New York, N. Y., Thursday, June 15, 1944 Price 60 Cents a Copy

The News Behind The News

By PAUL MALLON

WASHINGTON — The unresolved conflict between the Four Freedoms and radical ideologies which is apparent behind the confusing political news from abroad is also conspicuous behind much domestic news and interpretation.

Paul Mallon

The leftist journals are currently campaigning for the Beveridge proposed "way of life" in Britain, with the critical demand that it also be pursued here. They think that is what the Four Freedoms mean, assumption by the State of more complete authority over the lives of men economically, fixing

(Continued on page 2495)

IN THIS ISSUE

Special material and items of interest with reference to dealer activities in the States of Connecticut, Michigan and Missouri appear in this issue.

For Connecticut and Michigan see page 2474; Missouri on page 2475.

General index on page 2496.

Our Post-War Banking Systems?

By DR. FREDERIC EDWARD LEE

Professor of Economics, University of Illinois
Member Economists' National Committee on Monetary Policy
Formerly American Financial Trade Commissioner, American Ambassy, London
Author of "Currency, Banking, And Finance in China," "Banking And Trade Financing In The United Kingdom," Etc.; Sometime America Economist Consul At Shanghai And Peking

Without specific reference to the Keynes and the White plans for post-war exchange stabilization, or to the more recently announced proposals for an international clearing bank, unanimously agreed upon by the "experts" of 34 nations, and released by the United States Treasury on April 21, 1944,[1] I propose in this article to consider the possible outlook for commercial and central banking in the light of immediate prewar trends and of wartime developments. More specifically, the article is concerned with the question as to whether we as United Nations, while fighting to preserve and restore political democracy throughout the world, while talking about such impossible freedoms as "freedom from want" and "freedom from fear"—freedoms which are impossible of attainment in our economic world except under conditions of an utopia—are at the same time preparing the way and setting the stage, so to speak, for the end of democracy in banking. Will we emerge at the end of

Dr. Frederic E. Lee

1 These have been adequately covered in various articles in the *Commercial and Financial Chronicle.*

(Continued on page 2484)

Common Sense About Profit Control

By DR. IVAN WRIGHT

Professor of Economics at Brooklyn College and Executive Secretary of the Economists Committee on Reconversion Problems

The American people want the cost of living held stable during wartime, when shortages of most goods are unavoidable. They know that, while the fighting goes on, the nation cannot produce all the goods required to satisfy every demand of both the armed forces and civilians. Willingly, they accept such inconveniences and sacrifices as are incident to price control and to rationing by the Office of Price Administration.

Dr. Ivan Wright

Price control—Yes.

But in setting ceiling prices for certain goods, the OPA has gone much further. It has undertaken in some instances to regulate profits as well as prices.

Profit control is a horse of a different color. Profit control tampers with the very mainspring of our economy. If the profit motive is to be ruled out of our economy, production will dry up. Jobs will disappear. The whole structure of American business will topple.

* * *

The purpose of this pamphlet is to spell out in simple terms the issues involved in profit control. What is at stake is nothing less than the survival of the system of free enterprise which made this country great, and which can make us greater still in the era

(Continued on page 2488)

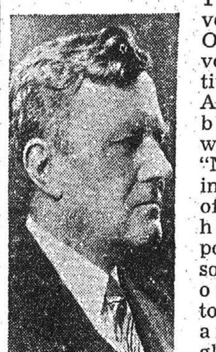
The Future Of American Exports

By DR. J. ANTON de HAAS*

Professor of International Relationships, Graduate School of Business Administration, Harvard University

Leading Foreign Trade Expert Declares Post-War Foreign Trade Outlook Less Favorable Than After World War I—Holds Government Control Over Trade Abroad Will Exist, Not From Choice But From Necessity—Believes International Cooperation With Cartels And Allotments A Remedy, But Warns It Will Mean Ending Of Our Policy to Return to Enforced Competition At Home

Mr. Frederick C. Crawford, President of the National Association of Manufacturers, in an address before the National Foreign Trade Convention last October, voiced the attitude of most American businessmen when he said: "Never before in the history of our nation has the opportunity been so great to sell our products to countries around the globe."



J. Anton de Haas

To some of us who recall the enthusiasm with which American businessmen looked upon the export possibilities of this country when victory was in sight during the first World War, a statement like this stirs up memories. And these memories are by no means pleasant.

Following the first World War our exports skyrocketed. Where before the war (1913), our exports amounted to approximately two billion dollars, in 1920 they amounted to more than eight billion dollars, or four times the prewar level. But by 1932, they had

*An address made by Dr. de Haas before the annual meeting, Manufacturing Chemists' Association, New York City on June 1, 1944.

(Continued on page 2480)

Mobility Factor In State Tax Bases

By WILLIAM J. SCHULTZ
Research Consultant to the New York Tax Commission

State taxation is not merely a problem of choosing the goose that does least squawking under the plucking. Care must be exercised to chose a goose that does not fly to some other barnyard to avoid plucking. Some tax geese are earth-bound and can not escape the plucking. Others are only too ready to exercise their wings over State boundaries if too many feathers are drawn.

A plot of land can never run away from the tax collector. But more than one large estate composed mainly of intangibles has slipped out from under the taxing jurisdiction of New York, which imposes an estate tax with rates above the Federal credit, because its owner established residence in some other State. A salary or wage-earner will not sacrifice his job to escape a State income tax, but a man who lives on investment income will readily locate himself in one of the "tax haven" States which advertise their lack of personal income taxes. A manufacturing enterprise will not abandon its factories because the State of their location imposes a corporation tax only slightly heavier than those of surrounding States, but where the only situs at issue is that of a selling office a corporation may reduce its tax by relocating that office. A consumer may buy through out-of-State mail order houses to avoid a retail sales tax, but he will not seek his entertainment

Wm. J. Shultz

(Continued on page 2478)

Sidney Weinberg Is Returning To WPB

Donald M. Nelson, Chairman of the War Production Board, announced that Sidney J. Weinberg had been appointed a Vice Chairman of WPB to work on special problems. He will report both to Mr. Nelson and to Executive Vice Chairman Charles E. Wilson.

Sidney J. Weinberg

In making this announcement, Mr. Nelson said:

"I am very happy that Mr. Weinberg is returning to the War Production Board. I have been urging him to return for some time and he has agreed to come back for a limited period on a dollar-a-year basis."

Mr. Weinberg will be on leave of absence from his firm, Goldman, Sachs & Co. of New York. In addition to his connection with that firm, Mr. Weinberg is director of a number of corporations.

Mr. Weinberg came to Washington in May, 1941, as one of Mr. Nelson's assistants in the Division of Purchases, Office of Production Management. Later he organized and became chief of the Bureau of Industry Advisory Committees. When Mr. Nelson became Chairman of the War Production Board in January, 1942, Mr. Weinberg was made Assistant to the Chairman. He resigned from this office in July, 1943, because of ill health.

Outlook For Aircraft Manufacturing Co's

Gordon C. Sleeper Of Republic Aviation Corporation Pictures Continued Large Demand For All Types Of Airplanes After War—Losses Due To Post-War Reconversion Will Be Absorbed By Government And Not By Stockholders—The "Personal Plane Market Has Tremendous Possibilities"

At a meeting of the New York Society of Security Analysts, on May 25, Gordon C. Sleeper of Republic Aviation Corporation discussed the outlook for the aviation manufacturing companies.

When this war started in 1939, Mr. Sleeper began, the aviation industry was in 40th place in national importance. It employed 28,000 people. It built 6,315 planes of all types, but mostly little planes of 40-60 horsepower. Such was the aviation industry in 1939. In 1941, after the tremendous stimulus of war orders from the British, French, Dutch and Swedish, the number of people employed had grown to 425,000. Output reached $1,500,000,000 but delivery of all types of planes was still only 19,000.

Gordon C. Sleeper

In General Arnold's recent report to the nation, it was pointed out that we have 500 prime contractors employing 1,600,000 people of whom approximately 600,000 are women. Sub-contractors probably employ well over a million more men and women. Output this year will be over 100,000 planes, most of them in heavy categories. "Life" magazine says we shall produce 1,000,000,000,000 pounds of airplanes this year. Our output will be over $25,000,000,000, or one-quarter of our

(Continued on page 2477)

Tax Tabulation For Incomes Over $18,000

E. F. Hutton & Co. have prepared a tabulation of interest to business and professional men whose earnings produce taxable income in excess of $18,000 annually and receive additional income from investments. The figures indicate in a new way the extent to which taxable income from business or professional sources alters the assumed net returns from current interest or dividend yields of security holdings, and is intended to provide the background for a more logical investment program. Copies of the tabulation may be obtained from E. F. Hutton & Co., 61 Broadway, New York (6), N. Y.

The COMMERCIAL and FINANCIAL CHRONICLE
Reg. U. S. Patent Office
William B. Dana Company
Publishers
25 Spruce Street, New York 8
BEekman 3-3341
Herbert D. Seibert,
Editor and Publisher
William Dana Seibert, President
William D. Riggs, Business Manager
Thursday, June 15, 1944
Published twice a week
every Thursday
(general news and advertising issue)
and every Monday
(complete statistical issue—market quotation records, corporation, banking, clearings, state and city news, etc.)
Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

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

"China Wants To Trade"

By EDWARD G. WHITTAKER*
China-America Council of Commerce & Industry, Inc.

Industrial Expert, Long Resident In China, Sees That Country As A Field For Post-War Foreign Trade Expansion, But Warns Of Competition With Other Trading Nations—Urges Immediate Steps To Develop Chinese-American Economic Relations And Plans For Making Of Sound Investments In China After The War

I am glad to have this opportunity to tell export managers of New York something about the enormous possibilities of trade with China.


Edw. G. Whittaker

When I sailed from Shanghai last September on the second Gripsholm exchange voyage, I left behind me a record of more than a quarter of a century of foreign trade service in the Orient. I saw much that American business had built up in almost a century of trade with China ruined by the war. And yet my faith in China and in the future relations between our two countries never wavered. I knew that the Japanese could never conquer the Chinese people and could never destroy the friendship between that great people and our people. This friendship is the soundest basis for the development of a flourishing two-way trade, and I am very glad to be associated with the China-America Council of Commerce & Industry in its work of

*An address made by Mr. Whittaker before the meeting of the Export Managers Club, Hotel Pennsylvania, New York City, on June 6, 1944.

(Continued on page 2482)

Hearing Held Before SEC—Dealers Oppose "5% Spread"

Philadelphia, June 13, 1944—The hearing on the NASD "5% spread philosophy," pursuant to the petition of the Securities Dealers Committee, and the resolution and letter of the New York Security Dealers Association, got under way this morning before the Securities and Exchange Commission.

It was off to a lively start when Edward A. Kole of New York City, one of the attorneys for the Securities Dealers Committee, consisting of 82 dealers in all parts of the country, challenged the right of the Commissioners to sit in judgment on the ground that they may have participated in the promulgation of the "5% spread philosophy."

Mr. Kole said:

"I do not know whether any of you in fact participated in conferences with representatives of the NASD which gave rise to this philosophy, but I submit that if you did, this would disqualify you from acting as judges on this panel. If you fail to disqualify yourselves, I shall assume that in fact none of you had anything to do with the origin of the "5% rule."

The Commissioners got into a hasty huddle. They did not commit themselves on this point.

Mr. Kole then proceeded:

"Some use the terms 'rule' and 'interpretation' as if these were mutually exclusory, i. e., as if the existence of one precluded its being equal to the other.

"I make the point that 'interpretation' involves an act of individual volition, thus persons seeing the same thing may give it varying interpretations.

"An 'interpretation' can, and under given circumstances, does become a 'rule.' That occurs when a body in authority directs that its various subdivisions use it as a yardstick. That's exactly what the NASD did in its letters of Oct. 25, 1943, and Nov. 9, 1943. The Business Conduct Committees were so instructed."

IN CONCLUDING HIS ARGUMENT, MR. KOLE POINTED OUT THAT THE VICIOUS PRINCIPLE OF CEILINGS ON PROFITS, ALTHOUGH PRESENTLY ARISING IN THE SECURITY FIELD, MAY LATER BE APPLIED TO OTHER BUSINESS, AND ULTIMATELY AFFECT OUR WHOLE ECONOMY, AND THAT THEREFORE, THE "RULE" SHOULD BE CAREFULLY SCRUTINIZED BY THE COMMISSION.

Others Represented

Frank Dunne, President of the New York Security Dealers Association, read a prepared statement giving an account of his activities and those of his associations. He said that in

(Continued on page 2492)

The Trend In Reconversion Policy

By L. R. BOULWARE*
Operations Vice-Chairman of the War Production Board

The trend in reconversion policy is simply that the War Production Board is gradually authorizing more and more resumed or increased civilian production,—with constantly greater promptness as proof develops in individual cases that the output can be accomplished without interference with the war effort and with reasonable equity to all concerned.


L. R. Boulware

I am sure I do not need to convince anyone in this June of 1944 that the war requirements still come first, that these requirements are still constantly changing in types and quantities unexpectedly, and that there is yet, therefore, no possible basis for predictions as to when and at what rate whole industries or even individual companies can resume or increase civilian production.

Yet our productive capacity is so great that, as you all know, a $70 or $80 billion per year war has been superimposed on a civilian production that has, despite the absence of many metal-consumer goods, continued at roughly its all-time high.

And there is still more civilian production to be had without interference with the war effort, as is being proved almost every day now in the authorizations by the War Production Board. Typically, these authorizations are not indi-

*An address made by Mr. Boulware before the American Marketing Association at the Benjamin Franklin Hotel, Philadelphia, Pa., on June 8, 1944.

(Continued on page 2486)

What "Q" War Means To Banks And Business

By WILLIAM HURD HILLYER

Unnoted by the multitude, a nationwide controversy has been raging for months between bankers of opponent groups, each side supported by a powerful Government agency. Swirling around the interpretation of a certain "Regulation Q" of the Federal Reserve Board, disputing which are 2,500 banks and the Federal Deposit Insurance Corporation, belligerent forces have made Congress a battle-ground. The Capitol is now the hottest front. Protesting banks aver that their very existence as well as the freedom of small enterprise depends upon the outcome. Concurring banks and certain other organizations uphold the "Q" interpretation, countering with a plea for nationwide "par clearance." The contest pivots upon the question, "Are checks money?"

William H. Hillyer

In itself, the Federal Reserve Board's ruling neither upholds nor forbids the charging of exchange on checks. It merely prohibits city banks from "absorbing exchange charges" for correspondent banks maintaining sufficiently large balances. The Board holds such absorption as constituting payment of interest on demand deposits — and therefore illegal under Regulation Q.

Exchange absorption benefits the 2,500 "non-par" banks, mainly in the South and Middle Northwest, which charge exchange on checks drawn on themselves and presented through the mails. The Brown-Maybank bills, passed by the House and scheduled for early hearing in the Senate, would legalize exchange absorption by amending Section 19 of the Federal Reserve Act, so that the practice would not be considered payment of interest. As a practical matter, those bills are the foci of controversy.

Brown-Maybank advocates assert that the bills if enacted into law would strengthen independent unit banking, restrain branch banking's march toward monopoly, check excessive regulation by

(Continued on page 2494)

Donald Summerell Is With O'Melveny Firm

LOS ANGELES, CALIF.—Donald E. Summerell, who has been active in Los Angeles trading circles for many years, has joined O'Melveny-Wagenseller & Durst, 626 South Spring Street, members of the Los Angeles Stock Exchange, as Manager of the trading department, it is announced. Mr. Summerell, who brings to his new post eleven years active experience in the trading field with two leading investment and brokerage houses, will also be Assistant Secretary of the firm. He was formerly with Merrill Lynch, Pierce Fenner and Beane, and prior thereto was Manager of the trading department of the Los Angeles office of Schwabacher & Co.

W. T. Kitchen Forms Own Firm In Chicago

(Special to The Financial Chronicle)

CHICAGO, ILL. — William T. Kitchen has formed Kitchen & Co. with offices at 135 South La Salle Street, to engage in the securities business. Mr. Kitchen was formerly manager of the Chicago office of Otis & Co. Prior thereto he was with E. W. Thomas & Co. and in the past had his own investment firm.

Guide to Railroad Reorganization Securities Now Ready

Pflugfelder, Bampton & Rust, 61 Broadway, New York City, members of the New York Stock Exchange, are distributing the 1944 edition of their Guide to Railroad Reorganization Securities. The Guide presents in a concise ready-reference form all of the important statistics concerning the entire thirty-six major Class I reorganizations of the contemporary period.

J. William Kumm To Be Partner In Dunne & Co.

Frank Dunne announces that he has formed a co-partnership with J. William Kumm to continue the business of Dunne & Co., 25 Broad St., New York City, which was established in 1921.

J. William Kumm

Mr. Kumm has been associated with the firm since 1939, and has managed the department dealing in securities of sugar producing companies. He previously was associated with Farr & Co.

Mr. Kumm is a member of the Class of 1927, Princeton University, and of St. George's Golf and Country Club, Stony Brook. Mr. Dunne is President of the New York Security Dealers Association.

Hilker Back At Desk

J. Kenneth Hilker is again active in the investment business with Stone & Webster and Blodget, Inc., 33 South Clark St., Chicago, Ill. Mr. Hilker, who was formerly with the firm in Chicago for a number of years, has recently been with the War Production Board.

Now Partnership

CHICAGO, ILL. — Midland Securities Company, 111 West Monroe St., is now a partnership. Harry H. Young and Hazel Young, officers of the corporation, are partners.

The Price Index Controversy

By A. M. SAKOLSKI
City College, New York

In writing about price indexes more than two decades ago Professor Wesley Mitchell remarked that "it is a curious fact that men did not attempt to measure changes in the level of prices until after they had learned to measure such subtle magnitudes as the weight of the atmosphere, the velocity of sounds, fluctuations in temperature, and the precession of the equinoxes." He ascribes as one cause of this delay to the fact "that averages of price fluctuations did not promise to command much confidence after they had been made." And so it has been unto this day! Despite the planning and development under government auspices of a most elaborate system of collecting and averaging price changes, (a system which is superior to any similar contrivance anywhere else in the world); there is still in this country a lack of adequate or complete faith in the results attained, or their value as a guide in indicating changes in the cost of living. The Bureau of Labor Statistics in Washington, which is charged with the task of compiling indexes of prices and wages, and which, on the whole, has done a good job during almost half a century, has been called upon repeatedly to defend the accuracy on the validity of the work, and to ward off the blows of critics and detractors.

A. M. Sakolski

The most recent attacks have come from the representatives and spokesmen of organized labor. In their efforts to break the "Little Steel" formula of the War Labor Board, the labor unions have repeatedly claimed that living costs have risen much more than wage rates; that the Labor Department's index of price changes was defective and fallacious, and therefore should not be used as a guide in determining whether or not increases in wage rates are justified. The controversy was considered of sufficient seriousness to lead the President to appoint a committee, under the chairmanship of William H. Davis, chief of the War Labor Board, to investigate and report upon the validity and accurateness of the Labor Bureau's monthly cost of living index. As labor representatives on this committee, the President appointed Mr. George Meany of the American Federation of Labor and Mr. R. J. Thomas of the CIO. In the meantime, Secretary of Labor, Frances Perkins, had requested the American Statistical Association to appoint a committee to investigate and report on the soundness of the government's official cost of living index. The

(Continued on page 2495)

Henry G. Riter Named Head Of N.Y. Bond Club

Henry G. Riter, 3d, of Riter & Co., was elected President of the Bond Club of New York at its annual meeting. He succeeds Richard de La Chapelle, of Shields & Company.

Henry G. Riter, 3rd

Lee M. Limbert of Blyth & Co., Inc., was elected Vice-President of the club, filling the post held by Mr. Riter during the past year. Other officers elected were E. Jansen Hunt, of White, Weld & Co., Secretary, and Raymond D. Stitzer, of Equitable Securities Corporation, Treasurer.

Three members were elected to the Board of Governors for three year terms. They are: Adrian M. Massie, of The New York Trust Company, Charles L. Morse, Jr., of Hemphill, Noyes & Co., and Edward K. Van Horne, of Stone & Webster and Blodget, Inc.

W. Fenton Johnston, of Smith, Barney & Co., was elected a Governor to serve the unexpired term of Mr. Limbert.

Governors whose terms carry over are: James Coggeshall, Jr., of The First Boston Corporation; Joseph A. W. Iglehart, of W. E. Hutton & Co.; Frederic H. Brandi, of Dillon, Read & Co.; Henry C. Brunie, of Empire Trust Company, and T. Jerrold Bryce, of Clark, Dodge & Co.

McMeen, Merillat Co.

FORT WAYNE, IND.—J. E. Allen McMeen and Leroy B. Merillat have formed McMeen, Merillat & Co. with offices in the Old First Bank Building. Mr. McMeen was formerly President of G. Ward Beers & Co.

Percy G. Olds, formerly Vice-President of G. Ward Beers & Co., will also be associated with the new firm.

Interesting Rail Situation

B. W. Pizzini & Co., Inc., 55 Broadway, New York City, have available interesting information on Morris & Essex Stock, which they will send upon request.

Secretary Perkins Urges Post-War Social Security Expansion

Labor Department Head Thinks There Is No Question Of Our Ability To Pay For It—Says Temporary Post-War Public Works Program Is Already Set Up And Gives A Variety Of Post-War Proposals

Addressing the twenty-fifth national convention of the International Ladies' Garment Workers' Union at Boston on June 1, Frances Perkins, Secretary of Labor, proposed an expansion of the Social Insurance Program as a means of bridging the post-war reconversion period. Such a program, she said, would do much to assist in re-establishing returning service men and stabilize social and political conditions. In amplifying her proposals, and condemning war-time strikes, Miss Perkins remarked "the No-Strike Pledge of labor and the No-Lockout Pledge of management has been kept at a rate of better than 99%, but of late there have been altogether too many wildcat stoppages of work. They have been called without the knowledge or sanction of responsible leadership and they have not lasted long because the leaders of the labor movement have cooperated with the Conciliation Service of the United States Department of Labor and the National War Labor Board in adjusting differences.

Frances E. Perkins

"There are ample Government facilities for the settlement of industrial disputes and as I have said repeatedly they should be used by labor and management. For the most part they agree and practice their agreement. But when American boys are fighting and dying that we may have

(Continued on page 2491)

Broderick Elected V.-P. Of Doremus & Co.

Following a meeting June 14 of the Board of Directors of Doremus & Company, 120 Broadway, New York City, William H. Long, Jr., President, announced that John P. Broderick was elected a Vice-President of the company to direct the Public Relations Department. Mr. Broderick has been associated with the Doremus advertising agency since June, 1943. A former member of the news staff of Dow, Jones & Co. and formerly one of the editors of The Wall Street Journal, Mr. Broderick is a graduate of the University of Minnesota and obtained his early training on newspapers and other publications in the Middle West. He was publicity director for the Victory Fund Committee in the Second Federal Reserve District, New York in the Second War Loan Drive.

Mr. Broderick was president of the New York Financial Writers Association in 1939-40 and president of the New York professional chapter of the journalistic fraternity, Sigma Delta Chi, in 1940.

D. F. Faulkner, Jr., With Baker, Weeks & Harden

Baker, Weeks & Harden, members of the New York Stock Exchange, announce that Dwight F. Faulkner, Jr., formerly with Cyrus J. Lawrence & Sons, is now associated with this firm.

Management's Stake In Collective Bargaining

By WILLIAM H. DAVIS*
Chairman, National War Labor Board

Government Official Urges Management And Labor To Collaborate On Peace Constructive Bargaining So As To Eliminate Permanent Government Interference In Labor Relations—States That "If Labor And Management Turn To Government For Solution Of Their Differences, They Must Expect To Follow Decisions Which Frequently Will Not Be Favorable Or Pleasant."

I am very glad of the opportunity to be here today to discuss with you management's stake in collective bargaining. You have heard it discussed during the day in specific terms. I should like to consider more generally what collective bargaining means for American industry, particularly when the war has been won and peacetime conditions have returned.

William H. Davis

It seems to me that management's stake in preserving the collective bargaining processes is actually one of survival of management in its present form. Because if management and labor do not collaborate on peaceful, constructive bargaining at the conference table, they face the alternative of having Governmental interference, now tolerated because of the war, carried over into peacetime. And if Governmental participation in labor relations is made a permanent part of our industrial system, both management and labor stand to lose the freedom of action and the essential character they have had in the past.

I think I can safely say that such a prospect is one that neither labor nor management nor the Government would look forward to with any pleasure. In America's pre-war labor policy it was assumed that the complexities of wages and hours and other management relations could best be worked out by the parties themselves. The nation accepted collective bargaining as the best

*A statement made by Mr. Davis before the American Management Association, New York City, May 24, 1944.

(Continued on page 2492)

Crawford Trustee Of Mutual Life Of N. Y.

Frederick C. Crawford, President of Thompson Products, Inc., of Cleveland, has been elected a

F. C. Crawford

trustee of The Mutual Life Insurance Company of New York. In 1941 Mr. Crawford was awarded the Cleveland Medal for Public Service. He is also Chairman of the board of the National Association of Manufacturers, and served as President of that organization in 1943.

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.

American Foreign Policy Alternatives

By HON. JOSEPH H. BALL*
United States Senator from Minnesota

Republican Statesman Favors An International Organization "Having Both The Authority And The Power To Enforce The Peace" As Against (1) A Policy Of National Isolationism; (2) A Close Military Alliance With Russia And Britain, Based On The Balance Of Power Principle; And (3) Revival Of The League Of Nations, With Power To Make Decisions, But No Power To Enforce Them

The greatest and most difficult problem facing the civilized world today and for decades to come is the prevention of major wars. In that task the foreign policy of the United States will play an important and probably decisive role. Whether we like it or not, whether we recognize it or not, we are today one of the most powerful nations in the world, if not the most powerful. Our political influence is tremendous, our military power is unsurpassed, and our economic resources and productive capacity, essential to modern war, will exceed those of any other nation for a decade after this second World War. Our policy, the program we propose for solution of this world-wide problem, or our failure to espouse any clearcut solution, probably will be decisive in establishing the pattern of the peace after this war and the chances of its enduring.

Senator Jos. H. Ball

Our stake in finding an effective solution is equally great. The cornerstone of our democratic system is the dignity, the rights and liberties and the responsibilities of the individual. The waging of modern war on a world-wide scale requires an organization that is the very antithesis of that philosophy. The individual becomes a small cog in a vast machine, his every action subject to arbitrary control. That is obviously the case for those millions who are in military organizations. To a lesser extent it is true of those

*An address delivered by Senator Ball at the World Trade luncheon of the New York Foreign Trade Week Committee, held at the Hotel Astor, May 25, 1944.

(Continued on page 2490)

Situations Interesting In Conn. Companies

Chas. W. Scranton & Co., 209 Church Street, New Haven, Conn., members of the New York Stock Exchange, have prepared memoranda on Acme Wire Co.; Veeder-Root, Inc.; Scovill Mfg. Co.; Arrow-Hart & Hegeman Electric Co.; Landers, Frary & Clark, and United Illuminating Co., Connecticut situations which appear attractive at current levels. Copies of these memoranda may be had from Chas. W. Scranton & Co. upon request.

Interesting Rail Situation

A. W. Benkert & Co., Inc., 70 Pine Street, New York City, has issued an analysis of Western Pacific Railroad Company with special reference to the reorganization plan finally approved by the U. S. District Court and its effect on the company's securities. Copies of this interesting analysis may be had from A. W. Benkert & Co. upon request.

Hubert O'Neil Joins Butler-Huff & Co.

LOS ANGELES, CALIF.—Hubert R. O'Neil, Jr. has become associated with Butler-Huff & Co. of California, 210 West Seventh Street, where he will specialize in active industrial situations.

Mr. O'Neil for many years conducted his own investment business in Los Angeles.

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.

Tomorrow's Markets Walter Whyte Says—

Widely advertised market advance on volume is beginning to attract public buying. Combination of two offers better selling than buying opportunities.

By WALTER WHYTE

Despite the fact that the market turned around the latter part of last week and became strong there is still an undertone of uncertainty that doesn't point to much higher prices.

* * *

The push through in the Dow averages has been so widely advertised that there is hardly anybody who watches the market who doesn't know about the obstruction the market is now attempting to overcome. Under ordinary circumstances such a penetration of upper resistance would point to still higher levels. Occasionally, after such a move, the market either goes into dullness or a minor reaction. The next phase usually is accompanied by a sharp volume increase and plus marks all over the tape. But no one can call these ordinary times. The war has changed that.

* * *

The invasion is of course now a thing of the past. But just as I didn't believe actual invasion would have more than a temporary effect on the price structure, so don't I believe the battles raging overseas will have more than minor effect on the trend. For it isn't battles that determine market movements. It is wars. And so far as this war is concerned few of us know what is ahead.

* * *

But if the battles don't have more than a temporary effect on the market, the by-products of the conflict have something real to do with it. The economic changes, political upheavals and social breakups all are bound to be reflected in the price movement of securities.

* * *

For example, Congress is now in the throes of considering legislation which if passed will change the present structure which determines not only current business profits but post-war profits as well. Frankly most of the changes are inflationary in character. Whether or not they will develop that way is something to be seen. From the action of the market it looks as if the opinion that makes and breaks stocks feels the same way.

* * *

But if Congress seems agreed that some sort of inflation is necessary, even if not called that, there is no assurance that the White House

(Continued on page 2493)

Extent Of War Boom

Course Of General Business Activity, Wholesale Commodity Prices, Industrial Stock Prices, Bond Yields, And Commercial Paper Rates Compared With Pre-war Trends Back To 1854

The physical volume of general business activity has reached a level much further above estimated normal than it reached during World War I, according to a chart showing the course of business activity, wholesale commodity prices, industrial stock prices, bond yields, and commercial paper rates month by month from January, 1854, to April, 1944, prepared by the research department of E. W. Axe & Co., Inc.

The general level of industrial stock prices, however, even after the advance of 1942 and 1943, remains below the peak reached in 1916; and, of course, still further below the subsequent peaks reached in 1919, 1929, and 1937. The wholesale commodity price index has thus far remained substantially lower than the peaks reached during and immediately after the World War I. Relative to the physical volume of business activity by standards of past experience, commodity prices today are shown to be very much subnormal, suggesting the possibility that they may rise even more sharply than they did immediately after the World War I. Relative to the physical volume of business activity by standards of past experience, commodity prices today are shown to be very much subnormal, suggesting the possibility that they may rise even more sharply than they did immediately after the World War I. The danger of such a post-war rise is emphasized by the position of commercial paper rates and the average net yield on highest grade railroad bonds. Commercial paper rates remain extremely low, and long-term interest rates, as shown by the bond-yield curve, are lower than at any other time since before the Civil War.

Cohu & Torrey Will Admit Two Partners

Cohu & Torrey, 1 Wall Street, New York City, members of the New York Stock Exchange, will admit Arthur W. Breyer, Jr. to general partnership and Josephine Brinton Grimm to special partnership in the firm as of July 1.

Railroad Securities

Contrary to the general expectations of many Washington observers, the Hobbs Bill was reported out favorably to the House by the Judiciary Committee last week. This bill would amend the present bankruptcy laws, its principal aim being the putting of limitations on the discretion of the Interstate Commerce Commission in setting up new capitalizations for railroads reorganizing under Section 77. It is designed to prevent the Commission from eliminating stockholder interests on the grounds that they have no equity.

The measure of support the bill attracted in committee can probably be traced to the high level of railroad earnings engendered by the war traffic, which has resulted in earnings of as much as $10 to $30 a share on the stocks which I.C.C. plans contemplate eliminating as having no value. The Commission even in its most recent proposals has refused to recognize these war earnings as any valid measurement of the normal earning power of the properties. In fact, in general, the Commission has apparently been inclined to work on the theory that railroad earnings post-war are quite apt to be even poorer than the pre-war normal level. In this the courts have consistently backed up the government agency.

This brings up the second aspect of the proposed amendment, which is the provision for full independent review of reorganization plans by the courts. It has long been contended that the powers of the courts over reorganization were abrogated by the Supreme Court decisions in the Western Pacific and St. Paul cases, handed down a little over a year ago. These decisions recognized the preeminent position of the I.C.C. with respect to virtually all questions arising in Section 77 proceedings, and particularly stressed the value of the "informed opinion" of the Commission with respect to the value of the properties (based largely, if not entirely, on earning power) and the amount and composition of the new capitalization. Section 77 itself stresses the importance of the use of earning power as a yardstick in determining the value of a railroad property for reorganization purposes.

Under the proposed measure, the capitalization of the reorganized road could not be reduced below the capitalization on the date the bankruptcy petition was approved, with any adjustment made necessary by subsequent issuance of new securities or retirement of old securities. There are two limiting provisions affecting the new capitalization, however. It shall not be in excess of the actual investment in the properties, or the valuation found by the Commission under Section 19 (A) of the act, plus expenditures for additions and betterments and less retirements since the date of the valuation, whichever is less.

To the extent that this mandatory capitalization exceeds the value of the properties as ascertained by the Commission under subsection (e) of the Bankruptcy Act (the subsection by which the Commission has arrived at its plans to date) it shall be represented by no par value common stock. Presumably this would necessitate the creation of two classes of common stocks in practically, if not actually, all pending reorganizations. Creditors who are now securing part of their claim in new common would hardly consent to sharing this equity with old stockholders. Moreover, an attempt to solve the problem in such a manner would obviously be contrary to the principle of absolute priority which has consistently been upheld by the courts.

Railroads would not be affected where plans had already been completed so that the North Western, So Line and Western Pacific stockholders, at least, would apparently be barred from any benefits from the proposed legislation. As a matter of fact the general concensus is that now that the bill is out of committee it is not apt to move very fast, and may even eventually be lost in the shuffle. Certainly the Commission will in all likelihood continue to fight against its adoption. If it is enacted it will put to naught much of the work already done by the Commission and will postpone for an indefinite period consummation of all of those plans not already completed.

L. E. Wakelee Joins Reynolds & Co. Staff

Reynolds & Co., 120 Broadway, New York City, members New York Stock Exchange, announce that Louis E. Wakelee is now associated with them. Mr. Wakelee for many years conducted his own investment business in New York under the name of L. E. Wakelee & Co.

Real Estate Securities

By JOHN WEST

Land Trust Certificates

From an investment and yield standpoint, so-called Land Trust Certificates appear to be a desirable real estate security.

This type of security actually represents a share of a fee that has been leased to a tenant who has increased the value of said fee by erecting thereon a valuable improvement. In other words, it is an equal share in the ownership of a plot of land leased to one tenant who paid the cost of constructing the building on the site. The tenant agrees to pay all of the real estate taxes on the property, operating expenses of the building and a stipulated rental for the use of the land, generally in an amount sufficient to give the group owning the property a uniform amount of income each year.

Each Land Trust Certificate is therefore secured by an equal share in the ownership of a particular property and is further secured by the improvement the tenant has made to the property. How valuable the improvement really is can best be measured by the junior financing the tenant has been able to secure on the improvement. This junior financing is always subject to the Land Trust Certificates, which have first lien on the property and are usually in the form of leasehold mortgage bonds. Failure of the tenant to live up to the terms of his lease would probably result in these junior securities being wiped out and the trustee for the Land Trust Certificates holders taking possession of the property unless the junior security holders made good for tenant's default to protect their investment.

Bankers Building Land Trust Certificates currently selling at 78 and paying 5½% interest, offering a yield of better than 7%, are an example of this type of security.

Outstanding are 5,000 equal undivided shares of equitable ownership in a property consisting of about 22,300 square feet of land on the southwest corner of South Clark (178 feet) and West Adams (125 feet) Streets, Chicago, Ill., and the 41-story building erected thereon. Land also has a frontage of 125 feet on the extension of Quincy Street, or a total street frontage of 428 feet. Building was completed in 1927 and has a net rentable area of approximately 403,401 square feet and a cubic content of 6,770,966 feet. During the fiscal year of 1943, the property had a gross income of $797,181.

Shares in the ownership of this property were issued at $1,000 each and accrued rental to yield 5½% in July, 1926, by Merrill, Lynch & Co., New York.

Rental payable is $275,000 per annum for distribution to the Land Trust Certificate holders, sufficient to pay $55 per annum per certificate. The lessee has agreed to pay, in addition, all taxes and assessments on the leased premises and also trustee charges. Lease was dated June 1, 1926, and is for 99 years. Lessee has the option to purchase the fee and interest of the lessor on any rental date up to June 1, 1976, on three months' notice upon payment of $5,500,000. In the event the lessee purchases the property during this time, certificates are retireable as a whole at $1,100 plus accrued interest for each 1/5,000th part.

Junior in lien to these Land Trust Certificates is a $4,764,000 bond issue on the leasehold and building, which matures in 1960. Also junior in lien is a stock issue of 142,900 shares of $1 par value.

Other Land Trust Certificates may be found on properties in Cleveland, Ohio. In New York City there is a similar type of security, differing only that it represents a participation in the ownership of the first mortgage on the fee, rather than the actual ownership of the fee itself. However, here also the real estate was leased to one tenant who improved the property by erecting a large commercial building. These certificates were issued by the City Bank Farmers Trust Co. and are secured by the first mortgage on 501 Madison Avenue.

The Electric Utilities Situation

By C. W. KELLOGG*
President, Edison Electric Institute

Mr. Kellogg Says That Despite Greatly Increased Output And Higher Peak Load Requirements, Electric Utilities Still Have Large Reserve Of Generating Capacity—Observes That Both Operating Costs And Taxes Have Increased While Rates Have Declined But Resulting Lower Earnings Not As Great As With Industrial Concerns

As we assemble for our twelfth Annual Meeting, our nation is plunging into the greatest military effort of all time. The sinews for that effort have been built up over the past years and all signs indicate that the industrial production needed to support the attack of our armed forces has now reached a peak. The scale of government expenditures for war, which has shown a monthly average of about 7.33 billion dollars for the last six months, is beginning to flatten off. Electric energy output in recent months has shown continuing decreases in growth over the corresponding week of last year. We are now, therefore, in an advantageous position to survey the whole progress of the war powerwise.

C. W. Kellogg

The Promise

When we met in Atlantic City, four years ago this week, the German armies had just swept over Holland and Belgium and large parts of France, and few doubted that we were in for a world war. The major part of my annual report on that occasion was devoted to an appraisal of the ability of the electric utility industry to provide the power that would be required for the great industrial war effort we all then clearly visualized. At that time, we expressed confidence in our ability to care for the power situation, basing that confidence on the reserves of generating capacity available, the ability to build generating plants as fast as new war industrial plants, the higher load factors which war industry would produce, the beneficial effect of the extensive interconnections of systems that had been built up over the years, and the resourcefulness of our trained organizations. How has the promise been performed?

The Performance

In the four years now ending, the nation's annual output of electricity has grown from 137 to 230 billion kilowatt hours, or 68%. The load factor (for twelve months ending May 31) has grown from 53.3 to 64.4%. The generating capacity has grown from 40.65 to 49.5 million kilowatts, or

*An address made by Mr. Kellogg before the Annual Meeting of the Edison Electric Institute, New York City, on June 6, 1944.

(Continued on page 2487)

Public Utility Securities

American & Foreign Power

Recent activity in the first and second preferred stocks of American & Foreign Power has aroused Street interest in the possibilities of a recapitalization plan. While the company's Latin-American subsidiaries are not subject to the rule of the SEC, the company itself as a subsidiary of Electric Bond & Share is under Commission jurisdiction.

In January this year the Company refunded its $35,000,000 past due note to Electric Bond & Share by paying $5,000,000 cash and issuing $30,000,000 serial 3% notes. This saved the company $1,200,000 in interest charges, part of which would be absorbed by Federal taxes. In approving this arrangement, the SEC reserved the right to examine the "rank and status" of the loan, i.e., the possibility of subordinating part of all of the issue under the so-called Deep Rock principle.

The company was formed in 1923 and paid preferred dividends through 1931, resuming partial payments on the first preferred in 1940. Arrears on the $7 first preferred now amount to about $74, on the $6 stock $63, and on the $7 second preferred $96. None of the preferred stocks have any par value, but valuing them at $100 a share and arrears (to which they would be entitled in dissolution), following are the approximate amounts in millions of dollars:

	Held By E. B. S.	Held By The Public	Total Outstanding
Debenture 5s of 2030	--	$50.0	$50.0
3% serial notes	$30.0	--	30.0
$7 preferred stock	2.4	80.8	83.2
$6 preferred stock	10.7	52.3	63.0
$7 second preferred	423.0	82.0	505.0
Totals	$466.1	$265.1	$731.2
Total excluding second preferred stock	43.1	183.1	226.2

The common stock has been omitted from the above table because it could obviously have little, if any, participation in a recapitalization (it is currently around 3½). However, the second preferred cannot be dismissed so lightly; EBS's stock represented an actual investment of over $200,000,000. The SEC and the company will obviously have a difficult job in arriving at a satisfactory formula for recapitalization—possibly on the basis of debenture bonds and common stock.

How big a debt might the parent company have under a recap plan? System plant account is currently carried at about $600,000,000 net, and the over-all capital structure is as follows:

Subsidiary companies	Millions of Dollars	Percentage
Funded debt	$46.8	7%
Prferred stocks (incl. arrears)	51.3	8
Common stocks	10.4	2
American & Foreign Power		
Funded Debt	80.0	13
Equity for preferred and common stocks	441.5	70
Total	$630.0	100%

Obviously this is a strong setup so far as balance sheet values are concerned. But the SEC may substantially reduce plant account. The parent company balance sheet also reflects a favorable set-up, 16% debt vs. 84% stock equity. It seems probable therefore that the company could stand a somewhat larger amount of debt, which might be of value for tax purposes. Any increase in the amount would, of course, be given to holders of the first preferred, probably with a "bonus" of common for arrears.

The major problem is the interest of Electric Bond & Share vs. the interest of the public. In its Findings and Opinion, dated Jan. 5 this year, the Commission stated: "The record indicates its apparently extremely top-heavy senior capitalization; the existence of inflationary items in its accounts; the large sums paid to Bond and Share as fees for services, a substantial portion of which would seem to have constituted intra-system profits; the large amounts of interest paid to Bond and Share at high rates while public preferred stockhold-

Signing Up Brazil's Debt Plan

Left to right: Valentim F. Boucas, special economic representative; Romero Estellita, legal representative, and Claudionor de S. Lemos, General Comptroller for Brazil, are shown signing documents involved in plan for servicing $286,000,000 debt of the Latin nation. A check for more than $42,000,000 to take care of initial payments under the program was turned over to representative of U. S. creditors.

Brazil Offers Debt Adjustment Plan Covering All Outstanding Dollar Bonds

The United States of Brazil, first Latin-American nation to effect a debt adjustment plan covering all its outstanding dollar bonds, offered on June 13, to holders of $286,065,645 principal amount of bonds, representing 30 different issues, a choice of retaining their bonds, with reduced interest rates, or of accepting new 3¾% external dollar bonds of 1944 of reduced principal amount, but with varying cash payments.

Valentim F. Boucas, member of the Council on Economy and Finance, and Claudionor de S. Lemos, Comptroller General, who are special representatives of the Brazilian Government for the external debt adjustment, announced that the offer follows discussions with the Foreign Bondholders Protective Council, Inc., and is being made pursuant to Decree Laws No. 6019 of 1943 and No. 6410 of 1944. The offer is being made to holders of all outstanding dollar bonds of the United States of Brazil, its States (other than Ceara) and Municipalities.

Mr. Boucas and Dr. Lemos, who have spent many months in this country work out details of the plan, announced that the debt settlement is an example of "lend-lease" working in both directions. When the necessary agreements were signed here last week, more than $42,000,000 had been transferred to this country to meet the initial payments under the plan. As to the offer it is announced:

"Under Plan A, bondholders may keep their existing bonds at full principal amount, with certain modifications, including a reduction in interest rates to rates ranging from 1⅞% to 3½%, a cumulative sinking fund, and an extension of maturity dates. Issuers of the original bonds would still be responsible for the payment of interest, sinking fund and principal. Under Plan B, holders may exchange each $1,000 bond for a cash payment of from $75 to $175, plus $800 principal amount of new external dollar bonds in the case of Federal Government loans and the State of San Paulo Coffee Realization Loan of 1930, and $500 principal amount for all other issues. Bondholders who do not choose Plan B before the end of 1944 will be deemed to have accepted Plan A.

"Brazil is also offering to pay all unpaid interest coupons or instalments of interest due prior to Jan. 1, 1944, on any of the bonds at the reduced rates provided in the offer, and also offers to redeem that State of Ceara 8% bonds of 1922 at 12% of their principal amount.

"If all bondholders choose Plan B, the principal amount of dollar bonds outstanding will then be $189,872,016, and total annual interest and amortization will be $12,151,809."

The special agents in the case of the various outstanding dollar bond issues are given in an advertisement appraising elsewhere in these columns.

---

ers were receiving no return on their investments; and, finally, the fact that substantial portions of the very advances making up the $35,000,000 may have been used to pay dividends. However, we wish to emphasize that as yet no exhaustive examination has been made."

From the quotation above, it seems possible that Electric Bond & Share's equity may be reduced fairly substantially. Adjusting the consolidated income statement for 1943 to the interest savings effective in 1944, earning power might be in the neighborhood of $8,500,000. Using the old-fashioned ratio of 10 times earnings, this would seem to warrant some $85,000,000 equity interest. Applying current prices to only the publicly-held stock, the current market valuation is $73,000,000 for the first preferred stocks and $9,000,000 for the second preferred—the total being about in line with the above figures. It seems obvious therefore that current prices assume almost complete subordination of EBS's stock holdings, particularly of the second preferred—despite EBS's apparently bona fide investment in the latter issue.

It is possible, of course, that Electric Bond & Share may be able to work out a compromise plan which would give the publicly-held second preferred a fairly substantial amount of new preferred (or senior common stock) which might permit it to retain a substantial equity interest for itself. It is usually difficult, however, to persuade the SEC to approve issuance of more than two classes of securities. There is obviously a high degree of guesswork in appraising the outcome.

"Our Reporter On Governments"

By DONALD MacKINNON

(Mr. MacKinnon has been kind enough to act as guest writer this week. As is true of other contributors, the opinions expressed by Mr. MacKinnon are his own and do not necessarily reflect the views of the Chronicle.—Editor.)

In this column, on June 1, we indicated the possibility that longest-term partially exempts would be higher in price immediately following the Fifth War Loan than was the case as of that date. . . . We made that observation because of the belief that taxes would not be decreased to any important degree for at least a period of one to two years after the end of our wars; that commercial bankers would continue to invest at least a portion of their assets in Treasuries which are exempt from certain taxes. . . .

When we say "commercial bankers" we are thinking of Jim Barbour, Bill Boies, Bill Flynn, and many others like them—small-town bankers, and darn good ones. . . . We think of the many changes, that they have been met realistically and successfully, especially during the past 10 years. We think of those troubled times following 1933. . . . Most of all, we think of the convictions these men and their associate directors possessed, that the country wasn't going to Hades in a hand basket. . . .

It has been most interesting to observe that, in the main, the problems that arose were solved practically. . . . Some mistakes were made, but who hasn't made plenty of them during this same period? . . . Who could have foreseen on March 3, 1933, that the issue of 90-day Treasury bills, barely oversubscribed when offered that day, with the lowest accepted tender at the rate of 4.742%—which figure established the all-time low price for Treasury discount bills, would be but the forerunner of many other issues to follow to constitute but a part of the greatest Federal debt in the history of this nation? . . .

THEN AND NOW

One of today's most popular issues, the 2⅞s of 60/55, was, in 1935, offered in exchange and for cash on five separate occasions before the total of $2,611,000,000 now outstanding was reached. . . . The highest average price paid in competitive bidding was 100.25. . . .

At that time no one would have dared forecast that within a period of about 10 years the House and the Senate would pass legislation increasing the legal Federal debt limit to $260,000,000,000. . . . But one factor was present—the recognition that Treasuries would occupy an increasingly important place in bank portfolios. . . . One recalls what happened to market prices of corporation, municipal and other types of bonds; and with a constantly growing number of bankers then reluctant or unwilling to make such investments, Treasuries began to be preferred in spite of lower rates of interest. . . .

PARTIAL EXEMPTS

We believe that many commercial bankers who thus far have not been subject to higher normal taxes, and to excess profits taxes, will incur such taxes this year and in 1945. . . . We believe that such need for partially exempt Treasuries will result in stabilized prices and feel that, while somewhat higher prices will materialize, the market swings in partially exempt Treasuries belong to a day that has past. . . .

Just as firmly do we believe that taxable Treasuries will continue to turn in a very satisfactory performance, and when the day comes that taxes could be decreased, rather than making any such changes, the choice might well be for the maintenance of a high rate of Treasury revenue and a corresponding decrease of the Federal debt. . . .

POST-WAR OUTLOOK

In some quarters one still hears references made to the large discounts at which Treasuries sold following World War I. . . . Under our present economy, and under any economy which must continue to exist over a period of many years if our institutions are to survive, we do not admit to the possibility of a disorganized Treasury market. Each American today owns more of our country than ever before, and each stake will grow. . . .

We believe that, after our wars, we will engage in a period of industrial activity that in later years will have proved our now most optimistic prophets only pessimistic. . . . And when that happens Americans will be on the job, doing their jobs.

The Penalty Of Leadership

In every field of human endeavor, he that is first must perpetually live in the white light of publicity. Whether the leadership be vested in a man or in a product, emulation and envy are ever at work. In art, in literature, in music, in industry, the reward and punishment are always the same. The reward is widespread recognition; the punishment, fierce denial and detraction. When a man's work becomes a standard for the whole world, it also becomes a target for the shafts of the envious few. If his work be merely mediocre, he will be left severely alone; if he achieves a masterpiece, it will set a million tongues a-wagging. Master-poet, master-painter, master-workman, each in his turn is assailed and each holds his laurels through the ages. That which is good or great makes itself known, no matter how loud the clamor of denial. That which deserves to live lives.

(Printed with the permission of the Cadillac Motor Car Division, General Motors Corp.)

To Obtain Tickets For Fifth War Loan Carnival

Tickets for the Fifth War Loan Sports Carnival at the Polo Grounds in New York on June 17, admission to which is by War Bond purchase only, can now be obtained at the following locations upon the purchase of bonds of $25, $100 or $1,000 (maturity value) denomination: Manhattan: R. H. Macy & Co.; hotels; movie theaters; Polo Grounds; Brooklyn: Hotels, movie theaters; Bronx: movie theaters; Queens: War Finance Committee headquarters in various local communities; Richmond: All area offices of CDVO. Tickets are also available at Treasury War Bond booths throughout the city.

Connecticut Brevities

On June 5 last, the Supreme Court handed down a decision which places the insurance business under Federal regulation. The ruling that insurance business is interstate commerce subjects the companies to the provisions of the Sherman Anti-Trust Law. Hartford insurance stocks, accordingly, sold off sharply in the past week.

* * *

Stockholders of The First National Bank & Trust Company of New Haven voted to increase the bank's common stock from 25,200 shares of $50 par value stock to 44,100 shares $50 par value stock, an increase of $945,000.

The convertible preferred stock outstanding in the amount of $920,000 is to be retired on Aug. 1 at $125 and accrued dividends from Feb. 1, 1944.

Giving effect to this financing, the book value of the common stock as of March 31, 1944, was $96.94.

The directors are considering placing the stock on a $2.50 annual dividend basis, or a total disbursement of $110,250. In the past eight years, the bank has paid out an annual average of about $164,000 in either dividends or in retiring Prior preferred stock.

As of the quarter ended March 31, 1944, the balance sheet shows Cash and Government securities (maturing within 10 years) totaling 79.9% of total assets.

* * *

The Electric Boat Company of Groton, Connecticut, engaged in the construction of ships for the Navy, showed an increase in earnings for the past year. After provision of $1,500,000 for post-war contingencies in 1943, and $1,547,500 in 1942, the earnings per share were $2.46 (including post-war refund), as compared to $1.87 the preceding year. Excluding postwar refund, the figures are $1.65 and $1.31 respectively. Income account for 1943 is, of course, subject to renegotiation of war contracts.

The volume of sales advanced from $84,932,758 in 1942 to $95,901,694 in 1943, while net income increased $1,404,242 to $1,780,758 in 1943. As of the year end, the company had unfinished business in the amount of $207,342,000. By the end of May, the company had launched 11 submarines this year.

* * *

The directors of The Phoenix State Bank & Trust Company of Hartford have elected John H. Chapin to the board to replace the late James L. Goodwin. Mr. Chapin is President of Veeder-Root, Inc., and a Director of Holo-Krome Corporation and recently of Colt's Patent Fire Arms Manufacturing Company.

Standard Screw Company, in its consolidated income account for the year ended Dec. 31, 1943, subject to adjustments for contract renegotiation, shows operating income of $8,243,115 against $7,517,885 the previous year. Net income was $1,542,059 as compared with $1,491,085 in 1942, while the earnings per share amounted to $5.41 and $5.23 respectively. Preferred shares outstanding were reduced from 1,241 to 1,173 during the year.

The balance sheet showed Cash and Government securities of $10,440,876, or approximately 45% of the total assets.

Equity per common share was $46.59 as compared with $43.06 a year ago.

* * *

As of Jan. 1, the American Thread Company had total assets of $22,322,094—a decline of $2,926,113 from Jan. 1, 1943. Equity per share of preferred stock was $18.96 against $19.17 the preceding year.

* * *

For the year ended March 31, 1944, the consolidated income account of Pitney-Bowes Postage Meter Co. shows earnings of 55c a share, subject to renegotiation of war contracts, as compared with 52c a share in 1943. These figures are based upon 905,379 shares outstanding in 1944 against 903,320 in 1943.

Sales totalling $11,096,399 showed an increase of $1,357,866.

Louisville Bond Club Elects Otto Ruth Pres.

LOUISVILLE, KY. — Otto C. Ruth, of James C. Willson & Co., was elected president of the Bond Club of Louisville at its annual election.

Other officers names were: J. R. Burkholder, Almsted Brothers, vice-president; Joseph Parks, Berwyn T. Moore & Co., treasurer; Hector W. Bohnert, Bankers Bond Company, secretary; Thomas Graham, Bankers Bond Company, National committeeman, and H. Allan Watts, W. L. Lyons & Co., alternate committeeman.

Ora Ferguson, of Merrill Lynch, Pierce, Fenner & Beane, has been appointed to the Nominating Committee of the National Security Traders Association.

Growth Possibilities Of U. S. Enormous

DETROIT, MICH.—John Clifford Folger, of Folger, Nolan & Co., Washington, D. C., President of the Investment Bankers Association of America, addressing a meeting of the Michigan group of the IBA, declared the growth possibilities of the nation are breath-taking when one considers the "pent-up recovery force of more than $50,000,000,000 that individuals have saved and have ready to put to work in industry and business or to fill other capital needs."

John Clifford Folger

"This money," he said, "is a recovery force which dwarfs anything the most visionary can contemplate in the way of government public works expenditures."

"It is time to reverse the trend," he declared, expressing optimism about the capacity of private financing to take over from the Government in the postwar period, "get the Government out of banking and let the people's savings finance industry and business. Ten or 15 years ago the people were hard up and the Government was flush. Now the Government is hard up and the people are flush."

Municipal Bond Club Elects 1944-45 Officers

Sanders Shanks, Jr., of The Bond Buyer, was elected president of the Municipal Bond Club of New York for the year 1944-45 at the annual meeting of the Club. Mr. Shanks, a charter member of the Club, served as vice-president and member of the Board of Governors in 1940-41. The meeting was presided over by W. Manning Barr, of Barr Brothers & Co., Inc., Mr. Shanks' predecessor.

Walter H. Steel, of Lazard Freres & Co., was elected vice-president, William W. Mezger, of Graham, Parsons & Co., secretary, and Russell McInnes, of Lehman Brothers, was elected treasurer.

W. Neal Fulkerson, Jr., of Bankers Trust Company, was elected to the Board of Governors of the Club to serve a term of three years.

John D. Talmage To Be Minsch Monell Partner

Minsch, Monell & Co., 115 Broadway, New York City, will become a New York Stock Exchange firm with the admission to partnership on July 1 of John D. Talmage, Exchange member. Mr. Talmage has been active as an individual floor broker for some years.

Partners of Minsch, Monell & Co. will be William J. Minsch, G. Leonhard Boveroux, Harold S. Smith, and Mr. Talmage.

Michigan Brevities

At a meeting in the Book Cadillac Hotel, sponsored by the Detroit Stock Exchange, several hundred representatives of banking, trust, business, financial, insurance and professional groups heard Dr. William Ernest Hocking, former head of the philosophy department of Harvard, speak on "Factors of America's Future."

He was introduced by Hal H. Smith, president of the Exchange.

* * *

Detroiters have been watching developments in the Willys Overland Motors, Inc., for several weeks now, anticipating the news that Charles E. Sorensen would be the new president.

Although confirmation was made, no details of the financial arrangements were disclosed.

Reports here are that Sorensen receives an option on a large block of Willys stock along with a comparatively nominal salary—probably about a quarter or a third of his $220,000 Ford figure.

With Willys already selling up four full points in the last two or three weeks, Sorensen stands to profit much more through such an option than through even a top heavy salary because of the 25% long term capital gains tax.

* * *

Square D Company arranged a $10,000,000 V loan with a syndicate of banks headed by the National Bank of Detroit to provide capital for war production purposes and to free capital for postwar adjustment.

Interest on the funds used will be 2¾% and ⅜ of 1% on the unused portion as a commitment fee.

The company agrees not to let its net current assets fall below $3,200,000 and will increase this amount by 20% of the earnings each year. Terms also prohibit cash dividends of more than 75% of the net earnings after preferred charges.

* * *

Louis J. Groch has been appointed resident manager of the Detroit office of Hornblower & Weeks succeeding Charles R. Perrigo, a Chicago partner of the firm who has been in charge during the absence of Capt. J. J. Phelan, Jr.

Groch formerly managed the Detroit and Albany offices of J. S. Bache.

* * *

And J. S. Bache and Company announced the appointment of Julius Rubiner for 13 years a member of the staff, as manager of the Detroit office. At the same time R. A. Roberts was named associate manager of the office.

Rubiner was with the Old First State Bank prior to his association with Bache, while Roberts, with Bache for 12 years went to A. M. Kidder about a year ago as manager of the Detroit office.

Both stockholders of Detroit Steel Corporation and of the Reliance Steel Corporation approved the merger of the two firms, which will be known as Detroit Steel Corp.

Tonnage sold by Reliance averaged about half of Detroit Steel's entire output.

* * *

The Detroit and Cleveland Navigation Company squabble continued to drag in federal court when the presiding judge ruled that the company could hold a meeting but could transact no business.

Further hearings started this week at which the court will rule on the legality of the management's indefinite adjournment of the annual meeting.

McConnell To Manage Baker Weeks, Detroit

DETROIT, MICH. — Baker, Weeks & Harden has announced the appointment of R. M. McConnell as manager of their Detroit office in the Penobscot Building. R. D. Young was named assistant manager.

Mr. McConnell, well known in Detroit brokerage circles, has been with Merrill Lynch, Pierce, Fenner and Beane for 13 years.

New York Stock Exchange Weekly Firm Changes

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

The proposed transfer of the Exchange membership of Joseph H. Seaman to Louis J. Werner will be considered by the Exchange on June 22. Mr. Werner will continue as a partner in Asiel & Co.

Transfer of the membership of the late Joseph T. Donohue to Percy D. Lown will be considered on June 22. Mr. Lown, it is understood, will act as an individual floor broker.

Transfer of the Exchange membership of Norman S. Walker to Benjamin Stenzler will be considered on June 22. Mr. Stenzler will continue as a partner in Bliss & Co.

With C. A. Parcells Co.

DETROIT, MICH.—Kathryn R. McMillan has been added to the staff of Charles A. Parcells & Co., Penobscot Building, members of the Detroit Stock Exchange.

Roberts Rejoins Bache

DETROIT, MICH.—Raymond A. Roberts has rejoined the local office of J. S. Bache & Co., Penobscot Building. Recently Mr. Roberts was with A. M. Kidder & Co.

Supplementary Briefs Submitted In Underwriters Price Stabilization Case

As a follow-up of the oral arguments before the Securities and Exchange Commission in Philadelphia on April 11 in the NASD case, involving the right of underwriters to enforce a price stabilization covenant on new security offerings, three additional briefs have been submitted, one by the Anti-Trust Division of the Department of Justice, one by the National Association of Securities Dealers, and a third by the attorneys of the Trading and Exchange Division of the Securities and Exchange Commission.

The case, which has been pending over a period of more than two years, grew out of an attempt by the National Association of Securities Dealers to fine some 70 of its members for violation of a price stabilization covenant contained in an underwriting agreement for the offering of $38,000,000 of bonds of the Public Service Corporation of Indiana. The main question at issue now is not the disciplinary action of the NASD, but rather the legality, under the Sherman Anti-Trust Act of any price-maintenance arrangements among security dealers, the Department of Justice having intervened in the proceedings on the ground that all such arrangements are illegal.

The three briefs concern the application of the principle of a "joint venture" to underwriting agreements. In the former briefs and oral arguments, it was contended by the attorneys for the National Association of Securities Dealers that the price stabilization covenants in underwriting and selling agreements were not conspiracies to maintain prices by competitors, but were a method of price arrangements agreed upon by participants in a joint venture, and therefore would not constitute a restraint on trade.

Against this contention, the Department of Justice submitted its supplementary brief. It limited its application merely to the agreement among the underwriters, and specifically excluded from its considerations the purchase agreement between the issuer and the underwriter, and the agreement between the underwriter and the selling-group members, on the ground that these two agreements contain "no elements of 'joint venture.'"

"It is true," continues the Department's brief, "that all agreements relate to the public offering of the P.I.S. issue. It is also true that each member expended or contributed money, services and skills to the success of that public offering, but the contributions were not for a common cause, but only for the several advantages of the contributors as a principal for himself alone. As each underwriter or dealer purchased a portion of the issue in severalty and for himself only as a principal, the essential attribute of a joint enterprise, joint proprietorship, is wholly lacking. And since each purchased and acted as a principal and not as an agent, or as principal and agent, no right of mutual control over the operation arose. . . . There is no provision for sharing in the profits of a common endeavor. Such an agreement is essential to the creation of a joint venture."

The next contention of the Government's brief is that "No act of Congress authorizes joint ventures among securities dealers." In support of this contention, reference is made to the Capper-Volstead Act, the Fishines Marketing Act and the Webb-Pomerene Act, in which marketers of competitive products might engage in "joint ventures," and were relieved from the restraint of trade provisions of the Sherman Anti-Trust Act.

The final argument of the Justice Department against the application of the "joint venture" principle is that the underwriters have not been legally "incorporated" to act as a single entity and thereby establish "a price for its products without any legal contract, combination or conspiracy between its component parts." "To carry such a conclusion over into the law of joint venture where no single legal entity has been created," continues the brief, "is unwarrantably to confer corporate advantages upon an unincorporated combination."

The brief submitted by the SEC's counsel follows the lines of that of the Department of Justice. In refutation of the "joint venture" idea, the brief refers to the contents of the securities syndicate's agreements. "By express provision of the syndicate agreements," it is stated, "each member took his syndicate participation severally, not jointly with any other; and liability for the act and omissions of any other member was likewise expressly denied. Each member's profits resulted solely from and depended solely upon the difference between the purchase cost and sales proceeds of the bonds comprised in his own participation. Moreover, the evidence is undisputed, that even where withheld (i.e. in the application of the repurchase penalty), they are considered as compensation rather than profits."

The brief of Baker, Hostetler and Patterson, Counsel for the National Association of Securities Dealers, denies that it was the intention of Congress to include in the Maloney Act any prohibition among securities dealers to enter into joint ventures, merely because the act did not "specifically authorize this form of conducting business." The right to form partnerships and joint ventures, it contends "is a common law right."

"That the business undertaking has assumed the form of a corporate combination, partnership or joint venture, is significant only because each is a well recognized form of doing business with legitimate commercial advantages both to the parties and the public." "Consequently, such enterprises are on their face plainly reasonable business arrangements unless it appears that the purpose or necessary effect is to control or fix market prices."

"In the instant proceedings," continues the brief, "it is uncontradicted and conceded that the distributing organization was not formed for the purpose, and did not have the effect, of fixing or even affecting market prices in any degree and that on the contrary, market prices in a market dominated by other competition wholly controlled the success of the public offering. . . . Whatever the legal relationship of the members, this is conclusive upon the issue of violation of the Sherman Act."

St. Louis Traders To Hold Outing June 29

ST. LOUIS, MO.—The Security Traders Club of St. Louis will have an outing Thursday, June 29 at the Normandy Golf Club, according to a preliminary announcement card sent out by the Entertainment Committee consisting of Hermie Zinzer, Dempsey-Tegeler & Co., Bob Guion, Newhard Cook & Co., and Lowell Newcomb, formerly with the St. Louis Union Trust Co. and now with Uncle Sam. A "detailed, enlarged, embossed and embellished announcement" has been promised at an early date. Officers of the club are hopeful that a large number of out-of-town dealers will be represented.

Missouri Brevities

Fifth War Loan Drive Launched in St. Louis

The **Fifth War Loan campaign** was officially launched at a luncheon meeting of key workers held at the Jefferson Hotel June 9. **I. A. (Zach) Long**, Trust Officer of **Mercantile-Commerce Bank & Trust Company**, is Chairman of the War Finance Committee directing the drive. In line with their policy in previous campaigns St. Louis security dealers have "cleared the decks" and are prepared to put forth an all-out effort to insure success in the shortest time possible. The luncheon was addressed by R. W. Coyne, Field Director of the National War Finance Committee, and John R. Morris, Far Eastern Manager of the United Press. The quota for St. Louis and St. Louis County is $180,863,050.

Laclede Gas Market Anomaly

Announcement by the Securities and Exchange Commission on May 24, 1944 that it had approved the plan of reorganization for **Laclede Gas Light Company** (subject to certain reservations) was followed by a sharp rise in the price of the preferred stock from a level of 68-70 to a high of 104 followed by a reaction to 85-90. The common stock which had been selling around 12 gradually declined to a price of 10. Under the plan each share of preferred would receive 14 shares of new common; each share of old common would be exchanged for one share of new. Traders reason that if the present common is worth 10 then the preferred should sell at 140, whereas it trades in the 85-90 range. On the other hand, if the preferred is selling at the correct level, the new common should have a value in the neighborhood of 6 to 6½ and the present price of the old common would be much too high.

The SEC release states "We find that the reasonably prospective net income of Laclede Gas, giving effect to the reorganization, will range from $900,000 to $1,000,000." These estimates are equivalent to about 37c per share on the low side and 41c on the top. A price of 6½ on the new common would capitalize estimated earnings from 15 to 17 times; a price of 10 figures 24 to 27 times. A logical explanation being advanced for the price discrepancy between the preferred and common stock is the extremely small amount of the latter held by the public. A hearing on this reorganization plan has been set for June 30, 1944 in the U. S. District Court in St. Louis.

Underwriting and Market Activities

Underwriting activities of St. Louis dealers were stepped up considerably during the first half of June. **Smith, Moore & Company** refinanced **Laclede Steel's** $750,000 Note issue with a new issue of 1½%-2% Serial Notes maturing to June 1, 1947. **G. H. Walker & Co., Newhard Cook & Co.**, and **Stix & Co.** were members of an underwriting group headed by Dillon, Read & Co. and Hemphill, Noyes & Co. offering a $30,000,000 **Alleghany Corporation** 3¼% Secured Convertible Notes due April 15, 1954.

Stifel, Nicolaus & Company, Inc. were members of the underwriting group headed by Kidder, Peabody & Co. offering $3,000,000 **Dallas Railway & Terminal Company** First Mortgage Serial 1½%-4% bonds due June 1, 1959. **A. G. Edwards & Sons** were members of the underwriting group headed by Van Alstyne Noel & Company offering $1,500,000 **The Drackett Company** 5% S. F. Debentures due June 1, 1959 and 85,000 shares of Common Stock. **Scherck, Richter Company** were members of the underwriting group headed by Eastman, Dillon & Co. offering $13,000,000 **Sunray Oil Corporation** 3¾% S. F. Debentures due June 1, 1959.

White & Company report renewed interest and activity in **insurance stocks**. These issues declined sharply following the recent United States Supreme Court decision which held that insurance is interstate commerce and, therefore, subject to federal regulation. However, substantial portions of the market losses have since been recovered. Statistical summaries covering most companies are available through White & Company on request.

A new write-up covering **Portland Electric Power** 6's, 1950 has been prepared by **Scherck, Richter Company** who will supply copies to dealers. These bonds have been active recently at higher prices evidently anticipating a near term reorganization.

Bank and Insurance Stocks

This Week — Bank Stocks

By E. A. VAN DEUSEN

Bankers Trust and Chemical Bank & Trust were both quoted 52 bid 54¼ asked at the close of the over-the-counter market on June 8. Both stocks are high quality and are among those especially favored by informed and conservative investors. It may be of interest, therefore, to compare one with the other and try to ascertain which of the two gives the investor more for his money.

Bankers Trust Co. is a relatively young institution, having been formed in 1903. It was originally organized to act as a trust company for National and State banks. Its departments today comprise: banking, foreign, personal and corporate trust, trust investment, analysis, custodian, corporate agency and bond. It operates two branches in New York and one in London. Dividends have been paid each year since 1904.

Significant figures over the past three years are as follows:

	1941	1942	1943	Increase Over 1941
Net operating earnings	$3.19	$3.39	$3.79	18.8%
Dividends	2.00	1.40	1.40	—30.0
Book value (12-31)	44.48	46.07	50.15	12.7
Earning assets (12-31)	413.17	454.15	556.40	34.7
*Total U. S. G. securities	586	712	950	62.1
*Total deposits	1,375	1,505	1,595	16.0
*Total capital funds	111	115	125	12.6

*Millions of dollars.

Chemical Bank & Trust Co. dates its history back to 1824, when the New York Chemical Manufacturing Co. was chartered. Its operations for several years combined both chemical manufacturing and banking, but in 1844 the chemical business was liquidated. In the 1857 Panic it was the only bank in New York to maintain specie payments and was therefore dubbed "Old Bullion." Its predomiant activity is commercial banking which is well diversified, its trust department provides supplementary income, while its foreign activities are quite limited. It operates 10 branches in New York City. Dividends have been paid each year since 1827, a period of 117 years.

Significant figures over the past three years are as follows:

	1941	1942	1943	Increase Over 1941
Net operating earnings	$2.60	$2.68	$3.42	31.5%
Dividends	1.80	1.80	1.80	No change
Book value (12-31)	39.58	40.23	41.23	4.2
Earnings assets (12-31)	359.75	467.83	501.98	39.5
*Total U. S. G. securities	321	537	658	105.0
*Total deposits	1,014	1,199	1,154	13.8
*Total capital funds	79	80	82	3.8

*Millions of dollars.

A tabular comparison is now presented which gives significant operating and market ratios, based on 1943 operations and balance sheet figures as of Dec. 31, 1943:

	Bankers Trust	Chemical
Net operating earnings to dividends	2.71	1.90
Earned on book-value	7.60%	8.30%
Earned on earning assets	0.68%	0.68%
Deposits to capital funds	12.8	14.1
Earning assets to capital funds	11.1	12.2
Earning assets to deposits	87.3%	85.8%
Surplus and undivided profits to capital	4.0	3.1

CURRENT MARKET RATIOS

	Bankers Trust	Chemical
Asked price 6-8-44	54¼	54¼
Dividend yield	2.6%	3.2%
Earnings yield	7.0%	6.3%
Book value per market	$0.93	$0.76
Earnings assets per market	$10.25	$9.80

With regard to market performance it is of interest to note that the April, 1942, low of Bankers was 32⅛ and of Chemical 33, thus Bankers has appreciated 68.9% and Chemical 64.4%. The 1937 high of Bankers was 86½ and of Chemical 86. To reach these levels again Bankers must appreciate 59.4% and Chemical 58.5%.

It will be observed that whereas Chemical has maintained its $1.80 dividend, Bankers reduced its from $2.00 to $1.40 in 1942. Currently, the investor gets a better dividend yield with Chemical, but he buys more earning assets, more earnings and more book value with Bankers. It will be noted that dividend coverage by Bankers is 2.71 times compared with 1.90 times by Chemical, and that Bankers' capital funds have consequently grown faster than have Chemical's. It is not improbable that Bankers will restore its former $2.00 rate after the war, but it is not nearly so probable that Chemical will increase its rate to $2.00. Both stocks are worthy of inclusion in any portfolio of high-grade bank stocks.

J. C. Thomson Points To Banking's Contributions To War Effort

President Of Northwest Bancorporation Holds The Distribution Of The Cost Of Servicing The Public Debt Is Our Most Vital Economic Problem

In addressing the annual meeting of the American Institute of Banking at St. Louis, Mo. on June 7, J. Cameron Thomson, President of the Northwest Bancorporation, and a former president of the Institute enumerated the various services performed by the nation's banking institutions to the wartime economy. These comprise such important functions as management of the war loan drives and other similar matters connected with financing the war and furnishing working capital to war contractors, to the "distribution of millions of fibre tokens". He stated that banks of the nation handled at least 80% of all the securities sold during the Fourth War Loan Drive, in addition to purchasing the bonds for their own account.

J. C. Thomson

Speaking of the effect of the war on banking personnel and banking functions Mr. Thomson remarked: "The effect of the war on the banking business is indicated by figures which show that in 1940 there were a total of 270,000 employees in all banks in the United States, 200,000 being men and 70,000 women; while it is estimated today that there are 283,000 employees, 153,000 being men and 130,000 being women.

"All postwar planning must include an analysis of fundamental principles of the business we are engaged in. The private chartered banking business has shown itself to be essential in wartime. It will be fully as essential in peacetime, in continuing to help finance the Government until we get on the basis of a balanced budget. In the meantime, banks will have to provide funds to take care of Government securities which may not be sold to private investors. It is hoped that there will develop a normal demand for loans. There will be many ways in which we can help our customers with the problems of readjustment to peacetime operation. Banks are interested in helping to finance small business. The opportunities and responsibilities of the private chartered banking system are as great today, if not greater, than ever before."

Turning to the general problems facing banking and business in the postwar period, Mr. Thomson concluded his address by saying: "The problems that the Institute and banking face are similar to those faced by all lines of business. After the war we are going to have a tremendous Federal Government debt. The distribution of the cost of servicing that debt on a fair basis and in such a way that there will be more incentive for business to take the risks of employing labor, is our most vital economic problem. The banking fraternity should contribute very definitely to the better understanding of that problem, and in suggesting the ways that our Federal fiscal problem can best be handled.

"There can be no question as to the continuance not only of the private chartered banking system, but of the American Institute of Banking and of private business, if we will realize that our prosperity and our standard of living depend on the general and continuous exchange of goods and services as a result of voluntary action by individual citizens and if we will act to secure greater acceptance of that principle. It is only as we produce goods that attract consumer demand and render services that others want and can afford to pay for, that we make possible a high level of employment. We must, however, continually sell the value of banking and other institutions, as well as individuals, which produce these goods and services. This is necessary because only by doing so can we expect to have an environment favorable to business. Without this, banking and every other form of private enterprise cannot be successful, or render their contribution to our economic welfare."

Neilson Appointed To A.B.A. Commission

Appointment of Stanley A. Neilson, President of the Bank of Gowanda at Gowanda, N. Y., to membership on the Commission on Country Bank Operations of the American Bankers Association, was announced in New York recently by A. L. M. Wiggins, President of the Association. Mr. Neilson, a native of Buffalo, began his banking career with the Marine Trust Co. of that city. Since then he has been associated with the Columbia National Bank in New York and the Peoples Bank in Buffalo. He became Assistant Cashier of the Bank of Gowanda in 1916, Cashier in 1919, Vice-President and Cashier in 1929, and President in 1937. He has been prominently identified with civic affairs in Gowanda for many years. He is Vice-Chairman of the Erie County War Finance Committee, member of the District No. 1 War Finance Committee and Vice-Chairman of the Gowanda Defense Council. Mr. Neilson has also been active in the affairs of the New York State Bankers Association, having been Chairman of its Erie-Niagara Counties Bankers' Association Division and of its County Organization Committee. He is now Chairman of the Bank Management and Research Committees of the State Association.

Other members of the Commission on Country Bank Operations are: K. J. McDonald, President, Iowa Trust & Savings Bank, Estherville, Iowa, Chairman; R. A. Bezoier, Vice-President and Cashier, First National Bank, Rochester, Minn.; T. E. Burch, President, Security State Bank, Wewoka, Okla.; R. L. Eberhardt, Executive Vice-President, Stockton Savings & Loan Bank, Stockton, Cal.; Glenn L. Emmons, President, First State Bank, Gallup, N. M.; Howard Hambleton, Vice-President, Citizens National Bank, Waxahachie, Texas; B. M. Harris, President, Yellowstone Bank, Columbus, Mont.; Clyde D. Harris, President, First National Bank, Cape Girardeau, Mo.; C. C. Neumann, Executive Vice-President, Farmers & Merchants National Bank, Oakland, Neb.; Claude F. Pack, President, Home State Bank, Kansas City, Kan.; William C. Rempfer, Cashier, First National Bank, Parkston, S. D.; S. N. Schafer, President, First National Bank, Fort Atkinson, Wis.; John B. Sloan, President, The County Bank, Greenwood, S. C.; R. B. Stewart, President, The Miami Deposit Bank, Yellow Springs, Ohio; C. D. Tedrow, President, Citizens First National Bank, Princeton, Ill., and J. E. Drew, Deputy Manager, American Bankers Association, New York, Secretary.

Outlook For Aircraft Manufacturing Co's

(Continued from page 2466)

country's total expenditures for all purposes.

The American system of private industry has certainly met the challenge of a world war with an accomplishment which every American feels proud of. In looking at the future of aviation, Mr. Sleeper wondered whether many of the Wall Street statisticians were not too pessimistic. It is impossible to make any comparisons with the last war, so that the question as to whether they will all go broke the first year after peace cannot be answered with any comparison with the past.

"In the first place," Mr. Sleeper pointed out, "we are not concerned with finding employment or orders for a plant capacity of 100,000 airplanes per year. This does not exist in the aviation industry, but is only borrowed. It is borrowed from the industries that make automobiles, trucks, electrical appliances, iceboxes, stoves and a dozen other major staple peacetime products. Fifty per cent of aviation's productive capacity is borrowed from sub-contractors, most of whom ask only to get back to their own work."

Another 25% of aviation's capacity is coming from overtime—time borrowed and paid for only because of war's urgency. Another big part of aviation's wartime production comes from women who work only because their men folks are away in service. When peace comes these women will gladly return to homemaking. Thousands of men will ask release also to go back to career jobs, to the hundreds of occupations they used to follow before war called them to help make airplanes. So the capacity we must reckon with is not 100,000 planes a year. It may be 25,000 or 30,000, but it is not 100,000.

The vast plants that cost such billions of dollars do not belong to the aviation industry. They are not carried on the balance sheets of our principal producers. They belong to the Government and its agencies and they have served their purpose in most cases. They have won the war. What becomes of them is important to the taxpayer, but they are not in most cases the problem of the stockholders of aviation companies.

The aviation industry, Mr. Sleeper, admitted, has ahead of its problems of contract termination and cancellation and the headaches of cataloging, disposing of, or storing millions of dollars of inventories. But again, remember that in most cases these millions are not the stockholders' money. They are the Government's money as under cost-plus-fixed-fee contracts the aviation companies are agents, not principals. They are expected to be faithful and honest agents, but their financial responsibility is limited.

In order to prove that there is a profitable future for aviation, Mr. Sleeper went on to say that if peace were declared tomorrow, it would be as difficult to stop the momentum of the aviation industry as it would be to stop the momentum of Niagara Falls. When he was a pilot in 1917-1918 and survived the last war with 28,000 other pilots, he found no aviation industry in any modern sense. When he returned home the only planes in this country at the end of the last war were open-cockpit affairs of wood and fabric, uncomfortable, underpowered, unreliable and unsafe.

We had few airports, no lighted runways, no radio beacons, almost no weather service, no parachutes and almost none of the modern flight instruments. There were no airlines. The public had never flown so aviation had very little to offer at the end of the last war. When this war ends, however, aviation will find airlines girdling the entire globe. Oceans are being crossed hourly by carriers of the Air Transport Command and great airfields with every modern installation are found in even the most remote places of the world. Many miracles have happened in this industry as, for example, engineering. War opened the doors of aviation to thousands of brilliant engineers who might never have entered the little industry it used to be. They have brought developments in design, efficiency, power, speed and safety that might not have come in 20 years of normal growth.

In production, the industry that never made a plane except by hand found itself able to apply every known technique of mass production. Its output of $25,000,000,000 contrasts with the $4,500,000,000 of the best year the automobile industry ever knew in peacetime. It has developed production techniques of its own that when they become known will astonish the world.

He predicted that the most startling business news for the balance of this year will be the revelation of what is now happening to operating costs in the aviation industry. By way of illustration, announcement will be made tomorrow that Republic Aviation Corp.'s Farmingdale plant, with no change whatsoever in the output of Thunderbolts, employed 1,000,000 less manhours in April than it did in November for the same four-week period of production.

The next question which Mr. Sleeper took up had to do with sales outlets of the post-war period. In this connection he felt that war has gone far to answer the question. Uncle Sam has gone into every nook and corner of our great land and has tapped on the shoulders of over 200,000 of the best of our youth. He has said, "Young man, how would you like to fly?" Then he has given them not eight or ten hours of instruction that we used to buy for them during the last war, but a complete education in flying costing $25,000 to $30,000 and requiring 250-300 hours of flight instruction. These young men are the future leaders of their communities. They will convert all America to flying.

There will be nearly 3,000,000 young men and women whom Uncle Sam has taught to be aviation technicians, servicemen and mechanics, helping the flyers. Most of them know no other trade other than aviation and they came from every walk of life. They will buy planes themselves. They will sell and service planes; operate airports and help build up America's network of air freight, air mail and air passenger lines.

Three great markets are now open to all efficient, well-managed companies in their post-war planning. The first is military and, in his opinion, the Army and Navy will not stop buying planes because of the signing of a peace treaty in either Berlin or Tokio. Huge experimental contracts already placed with many aviation companies inndicate the thinking of our military leaders. The second is commercial, and it covers the world. In this field come the air lines, the cargo ships, the tramp liners, and still undreamed of applications of flying trucks to private business. Finally, the personal-plane market, which has tremendous potentialities.

Post-War Tax Cushion

Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock Exchange, have prepared an interesting summary of I. C. C. "Monthly Comment" in which the cushioning effect of refunds from present high income and profits taxes for railway corporations should not be overlooked in considering the possibility of railway deficits accompanying a decline of traffic which might develop after the close of the war.

Copies of this interesting discussion of the situation may be had from Vilas & Hickey upon request.

Mobility Factor In State Tax Bases

(Continued from page 2466)

in other States to save a theatre or amusements tax.

The extent to which a State tax may be avoided in this fashion depends upon what we may call the "mobility" of the tax base or of particular elements of the tax base. This factor of mobility in State tax bases has received very little attention from fiscal writers. Articles on estate taxation, personal income taxation, and corporation taxation frequently discuss cut-rate competition among the States as a problem associated with these taxes, but none has analyzed the problem in the light of its cause—the relative mobility of elements in the tax base. I must confess to having written several times upon Federal-State and interstate tax relations without ever having isolated this factor of tax base mobility as an important factor in the problems involved. Indeed, the only fiscal authority who, to my knowledge, has come within hailing distance of recognizing tax base mobility as a significant tax topic is Professor Groves: in his "Financing Government" (p. 500) he touched upon it, yet in the monumental Treasury report on "Federal, State and Local Government Fiscal Relations," 78th Cong. 1st Session, Sen. Doc. No. 69, 1943, written under his supervision, there is absolutely no mention of mobility of State tax bases as a factor in Federal-State or interstate tax relations.

Variation in Mobility of State Tax Bases

Our problem is not an esoteric one, based on little-known or obscure data. All the facts involved are matters of common knowledge. Our task is only to organize a body of common knowledge in classified order, and to draw certain obvious conclusions from this classification.

Property-Base Taxes

A piece of real estate can not be budged an inch from its location, no matter what tax burdens are imposed upon it. Its mobility is zero.

Tangible personalty has unlimited physical mobility, but from a tax viewpoint the significant point is its **use** mobility. Home furnishings, farm implements and livestock, and inventories will not be given a location determined by tax considerations if such location robs them of all utility to the owner. In general, we may say that the mobility of personal and farm tangibles is identified with the residence mobility of the owner. Only fairly wealthy individuals have any significant degree of residence mobility for purposes of tax minimization, and tax burdens based on personal tangible property ownership—even death tax burdens[1]—are not ordinarily of sufficent magnitude, even for the wealthy, to instigate a shift of residence accompanied by a physical transfer of personal tangible property to minimize the tax on such property.

Business tangibles may be mobile in two ways. They may be transferred from one tax jurisdiction to another by transfer of the enterprise itself. As we shall note below, there is wide variation in the relative mobility of business enterprises, and there are certain types that do have considerable mobility. The tangible property owned by such enterprises therefore may be considered relatively mobile in relation to taxes based on tangible property values. The New Jersey tax on personal property, for example, offsets New York corporation tax burdens for certain classes of enterprises, and concerns that might otherwise locate in New Jersey to avoid the New York corporation tax do not do so because of the New Jersey tangible property tax—property mobility in such cases counteracts business mobility.

The second manner of business tangibles mobility acquires prominence in property tax assessment. If inventories are valued as of a given assessment date, taxed concerns may so manage their purchasing, production or shipping scehdules as to have abnormally low inventories on the assessment date. This is mobility in time rather than mobility in space, but it is a case—albeit a rather special one—in our analysis of tangible property mobility. The States have had to meet it by providing that inventories shall be valued at an annual average, instead of as of a specific date.

Intangible personalty owned by individuals is mobile to the extent that personal residence is. Individuals of moderate means, whose residence is firmly determined by their jobs or their business operations, in general have little choice of residence location, and their intangible personalty may be considered relatively immobile. But there are exceptions to this generalization where a metropolis in one State is located within commuting distance of the boundary of another State. The intangibles of men of medium means who work in New York City or Philadelphia must be deemed relatively mobile. And when we come to individuals of substantial wealth, particularly to those of advanced years who have retired from active business participation, we find that they and their intangible personalty have the mobility of quicksilver. Any attempt to assess their intangibles under a property tax, or to subject them to a State death tax rate in excess of the Federal credit, tends to drive them to a "tax haven" State.

The mobility of intangibles owned by corporations depends upon the situs attributed to such property. In jurisdictions where the courts construe the doctrine of **mobilia sequuntur personam** to attribute a corporation's intangible personalty to the State of its incorporation, the mobility of the intangible property is determined by the freedom of choice among States of incorporation, and this is high. Where the domicile of a corporation is construed as its "business domicile"—the State of its principal office—or where intangibles can receive a "business situs" through association with the corporation's business activity, the mobility of its intangibles becomes identified with the mobility of business location, which will be discussed below. Where the value of a corporation's intangibles enter through allocation into a "capital-employed-in-the-State" tax base, intangibles mobility is also identified with business mobility.

Personal Income Taxes

Income from salaries and occupations has a double situs—at source, and at the residence of the recipient. When taxed exclusively on a source basis, such income has no more mobility than the source itself, and the mobility of jobs and occupations, as influenced by taxation, is slight. When job and occupation income is taxed exclusively on a residence basis, its mobility is equivalent to the residence mobility of the recipients. We have already noted that the residence mobility of employed individuals is relatively slight, except where a metropolitan center is within commuting distance of residential areas in other States. This last-noted element of mobility disappears, however, if a State income tax is levied on the double basis of source and residence.

Investment income generally is taxed by the States only on a residence basis.[2] Hence its mobility is determined by the residence mobility of the recipients. When received by an individual who is employed or active in a business of his own, investment income is mobile only if a non-taxing or lower-taxing State is within commuting distance of a business center in the taxing State. This exceptional situation constitutes a very important and unavoidable weakness of the New York income tax, because of the proximity of New Jersey and Connecticut to New York City. When investment income constitutes the sole income of the recipient, its mobility is of the highest order. Except for ties of sentiment or habit, the recipient is free to establish residence in a "tax haven" State and avoid all State income taxation.

Corporation Taxes

Through allocation procedures, State corporation taxes, whether measured by income, or capital stock, or capital employed, or corporate excess, are generally determined by the proportion of a corporation's business done within the taxing State. To what extent is "doing business" mobile?

If mobility is construed solely in an active sense—the possibility that an enterprise will shift from one State to another—we can agree that manufacturing functions are relatively immobile. No existing tax differentials between States would warrant a corporation in abandoning or selling at a sacrifice the site and structures of a going factory, transporting the equipment, moving its labor force or hiring and training a new force, and arranging totally new purchasing and transportation schedules. But the manufacturing function may embody considerable passive or potential mobility. When the issue arises of establishing a new factory or closing a war production factory, a corporation will certainly give weight to relative tax burdens, along with labor considerations, relative costs of power and freight, and other factors, in selecting the State in which the new factory will be located. When business associations protest the rates of a State corporation tax and claim that it is "driving manufacturing out of the State," they generally grossly exaggerate the effect of tax burdens on manufacturing location, but recognition of this exaggeration should not blind us to the presence of some elements of mobility in manufacturing location.

The selling activities of manufacturers and wholesalers, under the allocation formulas currently used in State corporation taxes, are generally an important factor in determining the amount of taxable income or capital attributed to the taxing State. Where sales, for allocation purposes, are attributed to the State wherein is located the office through which the sales are made, considerable mobility may enter into this sales factor of the allocation formula. An enterprise with an interstate market may have considerable choice among cities in several States as to where it will locate a regional sales office. The effect of such location upon the corporation's tax burden, by determining the attribution of sales and hence the allocation of taxable income or capital to one State or the other, may exercise considerable weight in determining such sales office location. This sales office mobility, moreover, is not merely potential or passive, as in the case of manufacturing mobility, but may be definitely active since the dislocations involved in shifting a sales office are much less disturbing them would be those involved in a manufacturing shift. If sales attribution in an allocation formula is determined in some other way—if sales are attributed to the State where the goods are manufactured, or to the one where they are stored prior to sale, or to the State where the customer is located—selling activity mobility is reduced or completely eliminated.

Retail merchandisers and service enterprises are relatively immobile. Their locations are determined by the proximity or convenience of their customers. A department store, a beauty parlor, a theatre, could not move across a State line—even a nearby State line—and expect its customers to follow it. There may be some business service enterprises to whom the conveniences and accessability of a metropolitan address are not essential, and which may accordingly enjoy some freedom of movement, but these are probably exceptional.

Retail Sales Taxes

When a retail sales tax is not supplemented by a use tax, the situs of the sale, and hence its taxability, is generally determined by the location of the seller. Customers may have some discretion of choice among sellers, according to their location, in the purchase of certain types of commodities. Purchasers near a State boundary may buy from stores across the boundary line. Out-of-State mail order houses may be patronized. This interstate choice of customers as to sellers may be view as giving an element of mobility to a retail sales tax base.

A supplementary use tax, to the extent that it is enforceable and enforced, eliminates this element of retail sales mobility. Tax liability then is determined primarily by the residence of the customer. People who are employed or have business occupations have, as we have seen, little mobility of residence. For the recipient of a substantial investment income, the burden of a retail sales tax measured by that income is likely to be too small to constitute an incentive to shift residence. To the extent that a use tax is evaded, however, some degree of mobility inheres in the sales base.

Significance for Federal-State Tax Relationships

One of the solutions most frequently advanced for the problem of Federal-State tax relationships is separation of the tax sources for the two levels of government. In rare cases this proposal is made as an overall solution; more frequently it is indicated as one arrangement that must be a part of any general solution of the problem.

Various bases for dividing available taxes between the Federal Government and the States have been suggested—historical priority of imposition, "breadth" or "narrowness" of a tax base, "suitability," and relative efficiency of the two levels of government in administering particular kinds of taxes. Nowhere in any of these discussions, except very indirectly under the topic of "suitability," has consideration been given to the factor of tax base mobility. Yet, as the foregoing discussion has indicated, mobility of tax base is an important determinant of whether a State can make effective use of a particular tax.

Mobility of the base weakens or even nullifies the application of a heavy State personal income tax to large investment incomes. Along with other more familiar arguments, this consideration could be advanced in support of turning personal income taxation over exclusively to the Federal Government or providing a credit arrangement in the Federal personal income tax similar to that in the Federal estate tax. Or this factor of investment income mobility might be made the basis of a proposal to have the Federal Government tax large incomes only while the States limited their taxes to small incomes, or to confine the Federal tax to investment income while State taxes were confined to personal compensation incomes.

Similiarly, the mobility of the intangible elements of large estates becomes a supporting argument for continuation of the Federal estate tax credit arrangement. It would also support proposals for the Federal Government to limit its estate tax to large estates while the States limited their death taxes to small estates.

The mobility of amusements and personal services, as noted above, is practically zero. This consideration makes them an ideal field for State taxation. Here is the strongest possible ground for asking the Federal Government to withdraw completely from this field, so as to leave it free for exploitation by the States.

The retail sales-use tax, when effectively administered, has a base embodying relatively little mobility. On this count it is suitable for State exploitation. The Federal Government should be persuaded to refrain from imposing sales taxes so that, if this type of tax is to be developed at all, the States may have the benefit of it.

Significance for Interstate Tax Relationships

To avoid double personal income taxation as among the States, it has often been proposed that they should confine their taxes to a single jurisdictional base—either residence or source of income. Our earlier analysis indicated that personal compensation and occupational income has practically no mobility when the tax is imposed on a source basis, but for States with metropolitan areas close to their boundaries it may have considerable mobility if the tax is imposed on a residence basis. This constitutes an argument against uniform State personal income taxation on a sole residence basis. It is also an argument against double-basis taxation with reciprocal exemption of non-resident income, since such an arrangement in effect transforms the basis of the tax exclusively to residence as between the reciprocating States. If mobility of personal compensation and occupation income is to be eliminated under reciprocity, it must be by provision of a credit granted by the source State for the tax imposed on the disputed income by the residence State.

Significance for State Tax Legislation in General

The base of every State tax should be examined to determine whether any significant elements of mobility inhere in it. If mobile elements are discovered in the tax base, an effort should be made to "freeze" them by supplementing the tax base in some way. If they can not be so frozen, then the rate of the tax must be set so low as not to stimulate these mobile elements to flight. The penalty for ignoring mobility in a State tax base is not merely a loss of revenue. The loss of the mobile elements constitutes an adverse regulatory effect of the tax, weakening the State economically and perhaps socially.

The possibilities of freezing a mobile element in a State tax base by supplemental extension of the base have already been indicated in the case of the personal income tax and the retail sales tax. Elements of mobility in personal compensation and occupation income under a residence-base tax can be frozen by basing the tax on source as well as income. Elements of mobility in retail sales can be frozen by a supplemental use tax. Another

1 Except in a very few States, estate or inheritance taxes are not constitutionally property taxes, but they are none the less taxes measured by property values in the act of transfer.

2 Wisconsin's privilege dividend tax is noted as an exception to this generalization.

striking example of such "freezing" is offered by the New York stock transfer tax. It has frequently been suggested that the basis of this tax be changed from sales **and transfers** in New York to sales alone, to eliminate the competitive disadvantage suffered by transfer agents located in New York. But analysis of the business of stock trading indicates that many stock sales are now effected in the State only because it is a matter of indifference, so far as the tax is concerned, where the sales transaction occurs, since the book transfer is made here and establishes tax liability anyway. But were the act of book transfer freed of tax liability, these sales transactions would be effected out of the State. New York would lose not only an element of tax revenue, but an element of stock trading business now enjoyed by New York brokers and institutions. The stock transfer business itself embodies some mobility, and the tax has driven an element of this business out of New York. But analysis shows that the stock **transfer** business is less mobile that the stock **trading** business, so that the freezing of trading mobility by the supplemental transfer base of the tax is a greater gain than the stimulation of the transfer mobility.

This issue of mobility enters not only into tax base determination, but may also affect other phases of State tax framing. We have already noted how it dictates assessment of inventories on an annual average value instead of on a given assessment date. It comes to the fore in corporation tax allocation. The New York Tax Commission recently decided against attributing sales, for allocation purposes, to the State where the sales office is located—the most common type of sales attribution in corporation tax allocation—because it was realized that sales office location is a rather mobile factor, and such an allocation provision would induce a number of corporations to shift their regional sales offices out of New York.[3] Too rigid a definition of a mobile class of business classified for preferential tax treatment may likewise send borderline concerns flying across state boundaries. New York has had this experience in applying its corporation franchise tax to investment trusts.

Conclusion

A problem recognized as such is already partly solved. It is submitted that a number of troublesome problems in the field of state taxation involve this factor of tax base mobility. Recognition of this factor for the part it plays and the limitations it places on state taxation may spot one of the trouble-breeding elements in this tax field, and clear some ground towards improvements of state tax systems.

3 The point is more fully discussed in William J. Shultz, "Sales Attribution in State Tax Allocation Formulus," *Bulletin of the National Tax Association*, February, 1944, pp. 153-157.

N. Y. Analysts To Hear

At the luncheon meeting of the New York Society of Security Analysst, Inc. scheduled for June 16, Herbert Wyeth of Shields & Company will speak on the outlook for the Baltimore and Ohio Railroad.

On June 20, Joseph Stagg Lawrence, Vice-President of the Empire Trust Company, will discuss the stock market and inflation.

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

Lazard Freres To Admit

Louis N. Singer will be admitted to partnership in Lazard Freres & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, on June 30.

OUR REPORTER'S REPORT

Likening the long battle to a prize fight of the old bare-knuckle days, Carl E. Newton, President of the Chesapeake & Ohio Railway, reviews the struggle over competitive bidding for railroad securities in the current issue of the road's monthly publication "Tracks."

Terming the opponents brainy, brawny and tough, and veterans of many hard-fought campaigns in the world of industry and finance, who neither asked nor gave quarter, he referred to them as masters of "all-round ring strategy," referring presumably to hearings before the Interstate Commerce Commission.

Stripped of all its complicated language, Mr. Newton contends that railroad financing is basically the same as any other business, such as selling cigarettes, refrigerators, railroad tickets or other articles of commerce.

The railroad, he points out, has its own organization, and the investment banker likewise. The latter he likens to the "middleman." The railroad sells the bonds to the banker for cash and the banker worries over wholesale and retail distribution. That was under the old order before the recent ICC decision, when the banker was consulted and advised the road on price and terms and invariably, Mr. Newton says, purchased the bonds.

Under the new order of things, he declares, the railroads call in the banker in a professional capacity, much as the average person calls a doctor or lawyer for advice. Once the deal is set up the road is free to call for competing bids.

Reviewing the financing operations of the C. & O., since the present management assumed control in 1937, as justification for competitive bidding, he asserts that the road has been saved many millions of dollars, noting that on one deal involving $30,000,000 of bonds in 1938 the road realized a saving of $1,350,000 by shopping around for a better price than initially offered by negotiating bankers.

Several underwriters pointed out that Mr. Newton does not discuss the status of the investor under the competitive bidding procedure in his article and said they felt this phase of the subject is the old controlling one.

Step by Step

The question of whether the U. S. Treasury has the right, under the law, to tax the income from bonds issued by the Port of New York Authority and the Triborough Bridge Authority advanced another step nearer the final decision this week when the case was taken up for a ruling by the U. S. Circuit Court of Appeals.

This is the case, a test venture, involving the interest on bonds held by two estates which already has been through several legal phases, with the U. S. Tax Court holding that the Treasury had no right to impose such taxes and ruling that the two issuing authorities are political subdivisions of States.

The case itself involves only $8,000, but the ruling by the Appeals Court will affect bonds totalling $178,871,000 of the Port Authority and $53,000,000 of Triborough Bridge issues.

In Pretty Good Shape

Underwriters and their dealer organizations evidently did a good job of clearing away unsold balances of recent issues in advance of the Fifth War Loan Drive now steaming ahead under full power.

Judging by response to inquiry among several of the larger organizations there is very little in the way of undigested corporate bonds remaining in dealers' hands.

This, however, does not appear to hold altogether in the municipal field, where it is said that some sizable lots are around, chiefly in quarters where trading is a sizable factor in the business. Then the recent sales out of portfolios by some large institutional investors have tended to build stocks a bit.

Keeping the Wolf Away

The investment world is lock, stock and barrel behind the Treasury's new war financing. But there naturally are spells of dullness in that direction which give banking firms an opportunity to eke out a bit toward meeting overhead which goes on just the same.

New issues are regarded as out of the question "for the duration," as bankers put it, of the loan drive. A corporate undertaking of any size would come these days with a considerable element of surprise.

But here and there, as the occasion presents itself, bankers are inclined toward taking a position in blocks of selected bonds and proceeding to retail them, much the same as the course pursued between new underwritings ordinarily.

Morgan & Co. Expands Investment Activity

LOS ANGELES, CALIF.—General expansion of the activities of Morgan & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange, was announced recently by Emerson Morgan, head of the firm.

A Beverly Hills office has just been opened at 9437 Santa Monica Boulevard and Sydney H. Stroud, prominent investment man, has been named Resident Manager. S. J. Small, Jr., one of the best-known investment banking executives in California, was recently appointed Manager of the firm's investment department.

Mr. Stroud has a comprehensive background of securities experience, having been affiliated with leading investment banking houses in Los Angeles for the past seventeen years.

Mr. Small brings to his new post more than 20 years of investment banking experience. Until recently, he was Vice-President of one of the largest Pacific Coast investment houses, and prior to that was, for fifteen years, an executive with a leading state-wide securities organization.

Mutual Funds

"What Price Prudence?"

"Prudence is a good thing," writes **Lord, Abbett** in the current issue of **Abstracts.**

"Like every other good thing, though, too high a price can be paid, or too much can be bought. Especially so when it comes to investing in securities." The discussion stresses the steady contraction in the total available supply of quality investments. "Individuals, faced with the prospect of losing more of their investments, and aware that idle funds in the hands of investors generally are increasing, may well ask themselves just how 'prudent' it is to keep more than a modest uninvested cash reserve."

"As bond yields feel the impact of expanding demand on shrinking supply, a wider interest in better grade stocks will develop. Is the time at hand to replace a degree of prudence with a measure of courage?"

In a letter to dealers, Lord, Abbett lists the yields afforded on the various funds under that company's sponsorship, based on June 1 prices and dividends paid during 1943. Here are the figures:

Fund—	From Net Investment Income	From Realized Profits	Total
UBA	3.63%	2.89%	6.52%
UBB	3.98	2.42	6.40
UBC	4.40	5.73	10.13
UPS	4.27	1.44	5.71
UCSA	3.29	--	3.29
UCSB	3.20	--	3.20
ABS	3.07	2.05	5.12
ACES	2.30	3.08	5.38

* * *

A new booklet entitled "Professional Investment Management" has been published by **National Securities & Research Corp.** The booklet reviews the need for professional investment management and introduces by means of pictures and short biographies the executive personnel of **National Securities & Research Corp.**'s Economics and Investment Department. A series of pictures showing the general offices of the management round out the presentation.

National Low-Priced Stock Series is recommended "for profit" in the current issue of **National Notes.** A series of price comparisons between the performance of the Dow-Jones Industrial Average and National Low-Priced Stock Series support the statement: "Low-priced common stocks are characteristically fast movers marketwise, they have market velocity far beyond the average."

The current issue of **Investment Timing** devotes considerable space to a discussion of the Fifth War Loan. All pertinent details of the securities being offered are given. The sixth and seventh in a series of articles on "Scientific Developments from the Investor's Viewpoint" are also contained in this issue. Article VI is entitled "Air Conditioning, Refrigeration and Food Preservation." Article VII discusses "Plywood and Insulation."

* * *

Hugh W. Long & Co. uses charts in the current issue of **The New York Letter** to demonstrate that "Averages Tell Only Part of the

(Continued on page 2486)

The Future Of American Exports

(Continued from first page)

declined to such an extent that we sold abroad $873,000,000 worth—less than we had in 1913.

Before joining the ranks of the enthusiasts who see enormous profits to be made from post-war export trade, it may be well, therefore, to examine these prospects somewhat critically.

We should seek an answer to the following questions:

What are the prospects of our foreign trade?

What problems may arise?

What may we do so that our export trade may develop according to sound lines, so that our foreign activity may benefit ourselves and accrue as well to the benefit of the world outside the United States?

No one can deny that the needs of the world will be fantastically large once the war is over. The destruction on the continent of Europe will be written not in billions but in terms of hundreds of billions of dollars. Port installations, rail and water transportation facilities, highways and bridges, will be severely damaged if not totally destroyed. Factories will have been wrecked, and many plants in the occupied countries have been dismantled and transported into Germany.

Entire cities have been wiped out; water works, electric power plants, gas works will need to be rebuilt. Agricultural machinery will need to be supplied and cattle herds will be almost non-existent. As far as civilian supplies are concerned, they will be largely destroyed or worn out.

A tremendous vacuum will exist on the continent of Europe and the demands for reconstruction in Asia will further increase the need for equipment.

But even the countries that have not suffered from the direct effects of the war will need to be supplied.

Most of the countries of Latin America have been deprived of goods normally imported from abroad. Like our own consumers, they will be in the market for radios, automobiles, refrigeration, typewriters, and a long list of other products they cannot as yet produce themselves. Indeed the demand will be fantastic. It is well, however, to distinguish between a potential demand and an effective demand.

A potential demand exists without doubt. People will need and will want to buy many goods which we are in a position to supply. But that does not mean that they will be able to buy. Only adequate purchasing power can translate this potential demand into an effective demand.

What purchasing power will be available? Because of the freezing of the assets of the countries occupied by the Axis, we can make a fairly accurate estimate of the liquid funds held in this country by the countries of the European continent. Not all these assets can be used for purchases. I believe it is reasonably correct to state that not more than ten billion dollars will be available.

Compared with the needs of the countries involved, that is only a drop in the bucket. The damage done to the industrial and economic life of Europe during the first World War was extremely small as compared with today—and yet during the first year of peace, Europe imported more than twenty billion dollars worth of products. The ten billions which will probably be available seem very inadequate in the face of these facts.

Moreover, if our government measures intended to control prices should, for some reason, prove ineffective, the purchasing power of the European countries would decline in proportion to the rise in prices in the United States.

The situation today is much less favorable that after the last war since the industries of Europe at that time were in reasonably good shape and could at once begin to produce goods for domestic consumption and for export. This meant that the need for imports was reduced and the ability to pay for the needed imports through bank balances created by means of exports existed almost from the start.

Today things are different. It will take some time before the industries of the continent will have sufficiently recovered. This means that for quite some time the purchasing power of the continent will be limited to the liquid assets held outside of Europe and to the loans the countries can secure.

To a large degree, this will not only limit purchases but will also determine the character of these purchases. Since funds will be limited, purchases must be carefully managed so that first of all, the most essential rebuilding can take place. Many of the governments in exile are now drawing up plans for this reconstruction.

And first on the list are of course, highways, ports, electric services, and housing.

These come first not only because without their restoration, industry could not function, but also because this type of construction will give the maximum of employment for the money expended and will do so without undue delay.

Now it is well to note that this initial construction is all of a public character. The purchases will be made by governments for the completion of public works. The same reasoning applies to Russia, China, and other territories in the Far East. Russia will first of all demand capital goods, such as machinery and machine tools, to rebuild its industries. Recent information received from London tells us that orders in excess of two and one-half billion dollars have already been placed in the United States and Great Britain. But again, the bulk of these purchases represents not consumers goods but capital goods. Unless Russia's policies have changed completely, consumers will be expected to make great sacrifices in order that the rebuilding of the industrial life of the country may be accomplished in the shortest possible time. As in the past, these purchases will be made by government agencies.

Not all purchases for the reconstruction of the continent will be made by the governments. Some will be made by private enterprise but such private buying must of necessity take place under the strictest government control.

Strict control over imports, and over foreign exchange, will be inevitable since purchases must be limited at first to the more essential items and to such industrial reconstruction as will create in the shortest possible time exportable goods. All this means that, as far as the European countries are concerned, private enterprise will for some time play a relatively small part in foreign trade. And even where private concerns operate they will do so subject to government control.

Many authors and speakers on the subject of foreign trade in this country have, of late, come forward with the message that we must quickly return to an uncontrolled economic life. "We want foreign trade on a private business basis," said one. The editor of "Fortune" in the issue of May, 1944, goes further: "The present drift of mankind is all the other way, and the free enterpriser if he is to breast it, must become a crusader in the medieval sense of the word."

All I can say is: "medieval is right." It is indeed the height of folly for us to think that by preaching we can change the course of the world. We, living in a country that has not suffered from the war, with factories and cities and transportation facilities intact, can easily dream of crusades. But devastated Europe is not likely to regard our message as applicable to their situation.

We may as well face it, whatever we might like to see. Government control over trade abroad will exist, not from choice, but from necessity. The way in which the necessary credits will need to be obtained may still further emphasize the necessity for government control. Not many industries abroad will be in a position to offer sufficient security to make them attractive credit risks, especially not since these credits at first will be long-term transactions. In order to enable industries to offer more acceptable security, the governments have begun to assist their industrialists in a number of ways. An interesting development is the establishment last fall of the Netherlands Textile Center, Ltd. All the shares of this new company are held by the Netherlands government. The administrative board consists entirely of textile manufacturers. The purpose of this corporation is to purchase machinery and supplies for the rebuilding of the textile industry in the Netherlands.

This may well become the pattern for the reconstruction of many industries on the continent. There seems therefore to be no doubt that a large portion of the buying and selling to be done by the liberated countries will be done for a considerable period of time by government agencies.

In the Netherlands East Indies, the Emergency Export Office will be in charge of the selling abroad of all the exportable products of the Indies.

No one knows how long this office will function; but it is felt that for a considerable period, the government will be in a more advantageous position to dispose of the products of the Indies than will be the completely disorganized private concerns.

But even in England we can observe the same tendencies. Recently the chairman of the Board of Trade announced that the United Kingdom Commercial Corporation will continue to function after the war. This body was formed in 1940 to counteract the economic warfare measures by means of which Germany was driving the British exporters out of the Near Eastern markets. These are all indications that post-war world trade will not soon develop along the lines of free enterprise.

Government control over trade will be considered necessary for yet another reason. If the rebuilding of European countries is to progress in an orderly manner, some international coordination must be established. 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. This means that unless the rebuilding program of Germany is carefully controlled and the relative needs of other European 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.

Finally, the European program will need to be coordinated with the American program. Road building and other public works form an important part of the many post-war plans of American states and cities. The demands for materials and machinery for these programs will be very similar to those which will be made by the European countries. It would seem therefore that some form of international rationing should be agreed upon.

The European program must be coordinated with the American program. All this cannot be accomplished by free uncontrolled private initiative. It means government control—and agreements between governments or between private combines under government supervision.

There is one problem that has received comparatively little attention, especially from those most enthusiastic about the post-war foreign trade expansion. And this is, the problem of how we are to receive payment from abroad for the goods we will sell to them on long or short credit. This was a problem that received no attention at all after the first World War, with disastrous effects to our pocketbooks.

The disturbing fact is that the early purchases from abroad will be made largely for the construction of public works. These are all productive investments, but they are productive only in the sense that they are useful. They are not productive in the sense that they create exportable products and transferable funds. Our customers cannot begin to pay until their industries have sufficiently recovered so that they can produce goods for export, nor until they have rebuilt their sales organizations and are able to find markets for their products abroad.

Russia may be a notable exception to this. The USSR will probably be quite ready to pay us with gold for which they have no use, in return for the goods we send them, and of which they can make profitable use. But with respect to the other countries which have no gold to send us, the transfer problem may soon become a really serious problem.

The Chinese News Service reported last February that the Chinese government is drafting a post-war industrialization program that might call for a foreign investment of nearly ten billion dollars, most of which would come from the United States. I am not inclined to regard China as a very good commercial risk in the foreseeable future. China is now in the throes of a disastrous inflation. Since 1937, prices have increased 250 times, and they are still rising at the rate of 10% a month. If the war in China should stop today, that country would probably be in complete financial chaos. Add to this the very uncertain political situation and the very great possibility that the foreign war may be followed by another period of civil war and China no longer appears as a very attractive field for the American investor.

But even if all these disturbing factors did not exist, the wisdom of investing twenty billion dollars in China is not apparent. Suppose we do so and hope to obtain the relatively modest return of 5% annually: This would mean that in addition to the exports needed for already existing obligations, China would need to export another $500,000,000 worth of goods annually. Can China accomplish this miracle in the near future? It seems extremely doubtful.

Prior to the war the highest figure attained by the Chinese exports during any one year was $600,000,000. This means that China in order to meet its new obligations, would be compelled to practically double her export trade. The products that have thus far formed the major portion of China's exports face a very difficult time.

Silk is now meeting the competition of rayon and nylon. Tungsten resources have been developed in other countries. Tung oil will still be needed but we have begun to develop a domestic supply while the increased use of synthetic paints and varnishes make tung oil less necessary. This means that the traditional export products of China will prove hardly sufficient to take care of already existing foreign obligations.

The additional foreign payments of $500,000,000 will need to be made in large part by the export of industrial products that will be produced by the factories we would help them to build. But in the world's markets these industrial products will be as unwelcome as were similar products produced in Japan. Unless, therefore, the industrialization of China takes place along carefully planned lines and with constant reference to the problem of international transfers, the proposed industrialization may lead to serious international complications and to serious losses to our exporters and investors.

We may, in fact, repeat the experience the world has had with industrialized Japan, with this difference, that Japan has about 72,000,000 inhabitants, while China would start on the road of industrialization with more than 400,000,000 people.

Other enthusiasts point toward the countries of Latin America and they tell us that our great opportunity lies in that direction. Now there is no doubt that trade expansion in that direction will be possible, but again the future is full of pitfalls.

Most of these countries have at present large foreign balances, probably about three billion dollars in all. These result from the fact that they are now able to export their products at fancy prices, but are not able to buy goods abroad because of the various export restrictions and transportation difficulties. But their financial future is by no means secure. They too are passing through a period of inflation, and the various governments have been only moderately successful in controlling it. We do not know what the ultimate effect will be upon the countries themselves and upon their relations with the United States, but it introduces an element of great uncertainty. Once the war is over a good portion of these foreign balances will be used to make purchases in this country. Some of them will be for consumers' goods. But purchasing power built upon savings does not last forever. In the long run they, too, will discover that their ability to buy abroad will depend upon their ability to export quantities adequate to pay current obligations.

Now it would seem that the competitive position of some of these countries is not going to prove very favorable. Take Bolivia as an example. In order to encourage production of tin, sorely needed in the United States after we had lost access to the Far Eastern resources, we have been paying 63 cents a pound for what is rather low grade ore. But how is Bolivia going to compete under normal conditions with the tin ore of the Far East where high grade ore can be produced at prices varying between 35 and 45 cents per pound?

Under our policy of economic warfare, many raw material resources have been developed with our financial and technical assistance in other Latin American countries. Many of these newly developed enterprises are high cost producers who will be unable to meet the competition of the more efficient low cost producers they temporarily replace. Another factor that will enter in to disturb post-war Pan American relations is found in the remarkable progress of industrialization.

Brazil is now operating a new $100,000,000 steel plant. The textile industry has developed to the point where it cannot only supply most of the local needs, but is leaving a surplus for export. Once the war is over and these young industries are faced with the competition of older and probably more efficient producers in other countries, these manufacturing industries may also find it difficult to maintain themselves. It is most likely that tariff and other restrictions on trade will once more be called in to aid these countries in their difficult position. If they cannot sell, they must restrict imports.

Import duties will give assistance to the new industrial enterprises which the governments will want to protect, since they are giving these countries a diversified economic life and are therefore regarded as of great national importance. But not only Latin America will tend in the direction of trade restrictions. Other sections of the world where new industries have been built during the war will develop the same urge to protect them from foreign competition.

In Australia Mr. H. J. Hendz, President of the Associated Chamber of Manufacturers of Australia, last September launched a campaign for high import duties to protect the newly established industries. I do not see the end of trade restrictions, and of tariff wars in the post-war period unless something very drastic is done to prevent them. In fact I see that the post-war world still probably contains all the elements of economic conflict that existed after the first World War and in very much exaggerated form.

The European countries, who will be in desperate need of developing their export trade as rapidly as possible in order to be in a position to buy abroad the goods they will need, are well aware of the difficulties they are likely to meet in selling abroad. In fact they have begun to organize in order to meet this situation. Great Britain will more than ever depend upon exports.

The foreign investments that countries owned before the war broke out, have to a large extent been liquidated. This means that the income of these investments is no longer available for purchases abroad.

The income of the British Merchant Marine will not be large. The British fleet has been greatly reduced in size and efficiency as a result of the war. On the other hand, the United States will emerge from the conflict with the largest merchant marine the world has ever seen.

Almost exclusive reliance must be placed upon exports to create the foreign balances Great Britain will need. In order to meet the evident need for cooperative effort, there was formed last August the British Oversea Cotton Company, a cooperative export undertaking financed by means of levies upon manufacturers of textiles. Similar cooperative export bodies are being formed in other industries. Thus the kind of world in which we must do business is already taking shape and it is most decidedly not a free competitive world nor a world of "free enterprise." Unless something drastic is done we may again enter upon a period of cut-throat competition and a competition between government bodies or cooperative enterprise. It may well mean another race of ever-increasing retaliatory measures and trade restrictions which will once again lead all of us toward the abyss of economic ruin — toward another world-wide collapse like that of 1929.

Fortunately such a development is not inevitable. In fact we are now being told that nothing of the kind will occur this time. Far from it; we are all going to cooperate!

The Atlantic Charter expresses the determination on the part of Great Britain and the United States to "bring about the fullest collaboration between all nations in the economic field" and the Republican Post-War Advisory Council has announced that: "each nation of the United Nations ought to consider both the immediate and remote consequences of every proposition with careful regard for . . . its bearing upon the foreseeable international relations." This makes it practically unanimous. But we would be oversanguine if we concluded from this that a world of peaceful and mutually friendly and profitable relations will now be built. It takes more than wishing to bring this about. The tragedy is that we all seem to know what must be done, but we do not know how to do it.

We all seem to agree that cooperation would be a fine thing, but we do not seem to understand what it implies. Many who speak approvingly of cooperation speak at the same time of a free economic system, a free competitive system. Others speak of cooperation and apparently think that all that is required is to lower somewhat some excessive tariff barriers.

Now it is undeniably true that in the past high tariffs have not only stood in the way of our collecting the debts that were owed to us abroad, but have caused unemployment, have resulted in monetary disintegration and have ultimately led to war. It is also true that a lowering of tariff barriers all around will contribute greatly to all around prosperity and will facilitate the flow of capital.

But all that does not therefore mean that the lowering of tariff barriers is the panacea for all economic ills in the international world. And one problem in particular cannot be solved that way and that is the problem of excess capacity or over production when the war is over. There will be many products produced in quantities far exceeding peacetime demands. We are today producing more than 90,000,000 tons of steel. But as Walter S. Tower, President of the American Iron and Steel Institute, stated last Friday (May 26) the best available statistics show that no more than 70 or 75% of this will be required in times of peace.

Our export trade enthusiasts tell us we shall find markets for the surplus abroad. But they completely overlook the fact that steel is now being produced in Brazil, British India, Australia, Canada, and in Europe in quantities far exceeding peacetime requirements. A similar condition will prevail in rubber, in aluminum, in magnesium, and a number of other products. And many manufactured products may find themselves in a similar position. The textile production of British India is today six times as large as it was when the war broke out. Latin America has increased its production of textiles, and so has Australia and South Africa.

Here we have all the elements of cut-throat competition with its inevitable aftermath of international friction and financial loss.

Such situations cannot be remedied by a lowering of tariff walls, nor can they be cured by free unhampered competition. Here indeed are situations that can be remedied only by cooperation.

What could cooperation accomplish? A friendly agreement among the producers of the world to establish a division of markets and to produce only according to agreed upon quotas. Thus all may share to some extent in the available markets, all will make certain sacrifices for the sake of peace and stability in the economic world.

I cannot discover any other interpretation of the term cooperation that can have any practical meaning. But here we face a serious difficulty. This intelligent planning of world production, this substitution of cooperation for cut-throat and disastrous competition cannot be brought about by chance. Some one has to do it. And it does not appear that we in the United States have at our disposal the machinery to make this cooperative effective.

We do not want our government to undertake this task. Our government is not constituted so as to enable it to control economic activities effectively. Moreover, if our government should enter into international agreements with respect to a division of markets and to a limitation of production, it would mean that the government would then be compelled to enforce its decisions upon our domestic business concerns. Thus industry would increasingly become a slave of government. We would indeed secure international cooperation but we would pay the price in a government-controlled economic life.

This we do not want. Unfortunately the door is closed at present to any other solution. In every important industrial country, in Belgium, Holland, Sweden, Norway, and Great Britain, to mention only the democratic countries, the government allows, encourages, and sometimes even compels business interests to combine. The last constitutional revision of 1938 enables the government of the Netherlands to form industrial combines and to delegate to them regulatory functions. Great Britain since 1930 has encouraged such combines in the steel industry, in shipbuilding, in the chemical and textile industries —often aiding them by means of government subsidies. This means that these important industries can face the world as a unit. They can make agreements with respect to foreign markets with other similar national combines in other countries. Agreements which they can then enforce upon the domestic producer members of the combine. And all this takes place with government approval, under government supervision.

But in the United States we are by law forbidden to organize along these lines. Our Department of Justice has recently started a campaign to attack not only all domestic attempts to bring order out of chaos but the Department has even engaged upon a futile campaign to compel other countries to become like us.

We may be right in our attitude, but it would perhaps be well for us to make certain that we are before we go much further. We are face to face with facts which we cannot ignore. We are the only nation of importance which is struggling to return to enforced competition.

In a world forced by necessity to organize and to coordinate its industrial activities, we shall be at a distinct disadvantage.

International economic cooperation will be impossible for us as long as we insist on preventing cooperation at home. We cannot effectively cooperate abroad if we continue to fight each other at home. This it seems to me is one of the most important issues before American business today. We must choose and we must do so soon.

Once the war is over, we must have a clear international foreign trade policy. The choice before us is definite. If we decide to make good on our often voiced determination to cooperate then we shall find it necessary to so organize ourselves at home as to make this cooperation possible.

If, on the other hand, we decide to enforce competition upon our business concerns and to prevent them from cooperating at home, then we must realize that we effectively isolate ourselves economically and that international cooperation will remain an empty phrase.

It is an important decision. In choosing we may choose between a world in which peace may become possible, and a world in which economic conflict and ultimately war may become inevitable.

Canadian Securities

By BRUCE WILLIAMS

That great mass of rock and muskeg in the northern areas of the fabulous Laurential Shield, which has for so long been dismissed as a desolate wilderness, and which has been hitherto a formidable obstacle to normal geographic expansion within the Dominion, has already changed the pattern of the Canadian economy and there are clear indications that it will assume far greater importance in the future.

Aviation and extraordinary achievements in these northern regions induced by wartime exigencies have broken down the natural barriers to this northern empire. Ultimately, it can be foreseen that the Alaskan Highway and the Northwest Air Staging Route will be supplemented by a railroad, conceivably from Edmonton, the gateway to the North, through the fertile Peace River country, which also is richly underlaid with coal, and then onwards up the Mackenzie River valley past the mineral rich Great Slave and Great Bear Lakes with a possible terminus at Aklavik on the Arctic Beaufort Sea.

Already Port Churchill on Hudson Bay the nearest port to Europe in North America, is connected to the Manitoba grain centers by a railroad that will ultimately open up the mining country of Northern Manitoba. From Edmonton, within a few years, it is inevitable that air routes will extend over the top of the world to Russia and Asia, the nearest neighbors to the Canadian North, and Canada's claim to be at the center of the air map will commence to be justified.

Thus, although it is generally assumed that the wartime achievements of the Dominion are in the nature of peak efforts, this glimpse into the future suggests that Canada can expand to a degree hitherto unimagined.

To revert to current events, our confident predictions of the past few months concerning the knotty problem of double estate and succession levies, have been finally realized. A convention for the avoidance of this double taxation was signed on June 8, between Canada and the United States.

A further welcome development was the extraordinary change in Canadian crop prospects. During the past two weeks a series of rains have swept the prairie provinces and whereas before a subnormal harvest was anticipated, now hopes run high for a bumper crop year. This is important not only for the prairie provinces and Canada but also for the whole world, in view of the imminent liberation of European occupied countries, as the Dominion is the worlds greatest exporter of food grains.

It is not generally realized that in the past four years the Province of Alberta alone produced more wheat than the whole of Australia, while the production of the one province of Saskatchewan was only a little less than that of all Argentina for the same period. Also between Aug. 1, 1943, and the end of May, 1944, Canada's prairie provinces provided us with over a quarter of a billion bushels of urgently needed feed grains.

With regard to the market for the past week, as anticipated, there was a slight reaction from the recent high levels. Liquidation was not on a heavy scale but there was a slight reaction from down of prices in most sections. Replacement operations, however, still continued in short-term Canadian Nationals which yielded

(Continued on page 2485)

"China Wants To Trade"

(Continued from page 2467)

paving the way for this trade after the war.

The China-America Council of Commerce & Industry was launched last October by a group of leading American business concerns to foster trade and industrial relations between our two countries. As a result of our preliminary studies and investigations we have come to the conclusion that the time to start building for post-war trade with China is now. There is a great need for competent business analysis of economic changes, legal and tariff conditions, government economic policies, transportation, and other basic factors involved in commercial relations with China. To know the new China and the great possibility it offers requires continuous study and appraisal of all the relevant economic and political developments. This task can be successfully tackled only on a cooperative basis; if each American concern interested in trade with China were to duplicate the research and development activities of the Council, this would indeed be a wasteful and ineffective procedure.

Wartime China has emerged from a semi-colonial status. Through blood and toil she has earned the right to take an independent place among the great nations of the world. Her leaders know, however, that political independence can be secured only if it is accompanied by economic independence. They know, therefore, that their country's future depends on the development of industry, agriculture, transportation, and communication. They know that in order to achieve this end and to raise the standard of living of their people they must spread education among the masses and improve standards of health and hygiene.

The war has opened wide the eyes of the Chinese. It has shown them that an undeveloped country is at the mercy of covetous and aggressive neighbors. When 50,000,000 Chinese were forced to make their great trek several hundred miles into the interior, to escape from the war areas, they found out things about their own country that they had never known before. They learned of hitherto unknown natural resources. They mastered the production of products they had never made before. With an acute lack of transportation facilities and a vast area, a large proportion of the Chinese people were ignorant not only of what was going on in other parts of the world, but also of what was taking place in the remoter areas of their own country. This awakening of the Chinese mind and their unshakeable will to develop their country has provided the foundation for the development of a greatly expanded trade with other countries after the war.

As you exporters know from long experience, it is the industrialized countries that provide the best markets. China has committed herself to a firm policy of economic development on an unprecedented scale. If American business studies and follows up the implications of this policy in a sound and vigorous manner, it will find that China will offer countless opportunities in nearly every field of industry. China can become a great field for the expansion of America's overseas trade for many years to come. China can provide a profitable field of activity for thousands of American business concerns, including even those that have never before participated in this trade.

In this brief talk, I cannot begin to give you an adequate idea of China's needs. It will take months of thorough investigation by business organizations and government agencies to cover this subject adequately. For all practical purposes, however, they are virtually limitless.

Let me give you a brief idea of what the immediate needs will be for a few items. The first necessities in any country after a prolonged and devastating war are food, clothing and shelter. I would like to discuss briefly the textile situation, because that is the field in which I have spent most of my business life. A recent report to the United Nations Relief and Rehabilitation Administration contemplated providing 84 million Chinese war victims with the minimum requirements of food, clothing, shelter and transportation for the moving of supplies. The estimated textile needs for emergency relief during the first six months of the post-war period has been put at 840,000 tons of cotton and cotton cloth, equivalent to 3,200,000 bales of raw cotton. It must be remembered that the entire pre-war textile industry in China was located on the Eastern Seaboard and is now in the hands of the Japanese, with the probability that it will be seriously damaged by the time the war is over. If half of the 3,200,000 bales of cotton were to be shipped as raw cotton and the other half made into cotton goods in this country, the part processed in American textile mills would keep 125,000 looms and over 6,000,000 spindles busy for an entire year. It would provide a year's employment for 70,000 workers. The amount of farm labor to produce the raw cotton would be equivalent to an entire year's labor for 350,000 workers.

Remember, please, that this would be only sufficient to take care of the textile needs of the worst sufferers of the war for a few months. It would provide each war victom with only one suit of cotton underwear, one suit of cotton stuffed clothing, one cotton blanket and one cotton padded quilt. It does not take much figuring to realize what a tremendous market for American products will exist beyond the rehabilitation period.

Take the question of emergency housing requirements for China. It is estimated that at least 12,000,000 homes will have to be built quickly in the fifteen most devastated provinces in order to provide some kind of shelter. These simple shelters, which essentially will be small one-room frame huts, in themselves will require hundreds of thousands of tons of nails, hardware, small tools and other equipment.

Medical supplies and equipment for acute emergency needs will total many millions of dollars in value. The same will apply to the flour, powdered milk, and other food supplies which China will need until her ruined agriculture is again restored.

All of this applies only to the most immediate relief needs after war. Beyond that, we must think of the tremendous quantities of equipment which will be required when the industrialization and development program gets under way. This will mean the importation of great quantities of textile machinery, electrical equipment, machine tools, locomotives, steel rails, structural iron, mining machinery, road building equipment, facilities for water, motor and air transportation. Furthermore, China is, and for a long time to come will continue to be, a predominantly agricultural country. What the modernization of Chinese agriculture would mean in developing a new market for farm machinery, equipment for irrigation projects, machinery to develop production of fertilizers, etc., can well be imagined.

I have, of course, mentioned only a few of the high spots as the limited time at my disposal will not permit me to do any more than this. It is clear beyond a doubt, however, that the market presented for American products is almost unlimited.

When the war is over, China will be in the position to start her industrialization program in rather short order and to carry it through rapidly. She already has a solid nucleus of trained business administrators, competent engineers, and good mechanics. Her people are alert and intelligent and open to new ideas.

I can tell you from my own experience as the representative in China of several of the leading American manufacturers of textile machinery that Chinese workers are extremely clever and adaptable. Time and again I saw complicated American machinery which had been brought over from this country quickly assembled and installed by Chinese mechanics who had never seen that type of equipment before. As a rule, it took not much longer to put up the mill and get it started than would be required in this country. I saw peasant women, who had never been near a factory before, trained in a short time to operate this machinery about as efficiently as it is operated in this country. The textile industry had been fairly rapidly developed in the years before the war, and some of the mills could compare favorably with ours as regards efficiency of management and operation.

Contrary to the ideas held by many persons, China has also developed a good many successful business leaders who started from the very lowest ranks just as so many of our most successful industrialists have done. I recall one good Chinese friend of mine who was reared in a humble family in Boston. Being ambitious and wishing to do something for himself as well as his country, he returned to China and established his own factory for weaving cloth for shirts and under-clothing. Today he is one of China's outstanding businessmen.

The man who became known as the flour king of China, also began as a humble worker.

A few years ago there was a house servant in Shanghai who became interested in his American master's shoe business. Today this former servant is the only manufacturer of high-grade shoes in China, with an ambition to build shoe factories throughout the country when the war is over.

But while China has many able mechanics, administrators, technicians, and scientists, she of course will need many times more. In embarking upon the development of a vast area containing one-fifth the population of the world, she is tackling one of the biggest educational jobs in history. For many years to come she will need technical assistance from the advanced industrial countries and in particular from the United States. She will send many thousands of students and technicians to this country to master American technique and methods, and she will encourage the widespread participation of American engineering and administrative talent in the development of her industries. Already, the most detailed plans have been laid out for utilizing American and other foreign technique in the development of China's industries and in the training of the young generation of Chinese who will have the job of building up the country.

In any discussion of foreign trade, particularly with undeveloped countries, the question naturally arises: How are they going to pay? This is indeed a pertinent question and one that requires very serious study. For many of her immediate needs, China will pay with the proceeds of her export sales to the United States and other countries. China has exported and can export many valuable raw materials and other products that we and other countries need. Most people are surprised, for example, when I tell them that for a long time China has been exporting cotton even to this country, because there is a certain grade that we require for use in cotton blankets. It may surprise you also to learn that before the Japanese war Chinese exports to this country totaled well over $150,000,000 a year. This is a fairly respectable total. In the opinion of many authorities, however, it represents only a small part of the value of the commodities that China will be able to ship to us when her natural resources are further developed and her industry and agriculture modernized.

This brings up the question of long-term credits. During the earlier period of rehabilitation and reconstruction, trade with China in any amounts approaching the possibilities will have to be stimulated by means of long-term credits. In the very first year of the war 90% of China's industry was captured or destroyed by the enemy. Since that time destruction of China's physical resources and manpower has continued apace. It is obvious, therefore, that insofar as trade will be based on cash sales and purchases, it will be greatly restricted in amount. China played an important part in the preliminary discussions leading to the draft plan for international currency stabilization. Her representatives will no doubt take a correspondingly active part in the forthcoming International Monetary Conference to which President Roosevelt has recently issued the invitations to the United and Associated Nations. It is to be hoped that these discussions among the representatives of the governments of the United Nations will lay the foundation for the expansion of sound loans and the making of sound investments in China after the war.

While the United States undoubtedly has a good position so far as the possibilities of trade with China are concerned, it must be remembered that we will have plenty of competition. As you all know, England has long regarded China as an extremely important outlet for her merchandise. So far as my own industry is concerned, I recall that it was only beginning with about 1919, after the British trade had been disrupted by World War I, that we were able to introduce textile machinery into China on a large scale. No doubt, it will take England some time to restore her export trade after this war, but restore it she will. And it must be acknowledged that British businessmen are studying conditions in China and making preparations for the opening up of channels of trade after the war far more intensively and thoroughly than we in America are doing.

We must remember also that sooner or later defeated Japan and Germany will again enter the family of civilized nations, and begin to engage in normal foreign trade activities. When this happens, the experience they have gained in dealing with China in the past will be put to good use.

We in America, therefore, cannot afford to sit back and wait. We cannot afford to rely on the strength of our economic and financial position and on the fact that China will want to follow our lead in many lines of industry as a guarantee that the trade will fall into our lap. To make the most of the enormous potentialities for a sound two-way trade with China we shall have to plan for it and work for it.

We shall have to deal with China on the basis of cooperation and equality. Nations can no longer selfishly exploit the resources of other nations. To prevent this in the future is one of the reasons we are fighting this war. We shall have to make every effort to understand the Chinese, their psychology and their difficulties. When we hear criticism and fault-finding regarding the conditions and future prospects in China we shall have to remember what they have gone through. We shall have to realize that China's present situation after her long years of a terrible war is not a fair criterion of what she is really capable of accomplishing. We shall have to appreciate her achievements in standing off the invader and in facing repeated critical emergencies. We shall have to remember how she coped with the situation created by the disruption of virtually all of her industries by moving machinery great distances inland and establishing plants in the interior.

Many persons are skeptical of China's future because of the apparent lack of unity among her people. To this I can only answer that steady progress is being made. Under the leadership of Generalissimo Chiang Kai-shek, the nation is more unified than ever before. They realize that they must perfect their unity in order to exist. The war has speeded up this process, and we who have spent many years in observing conditions in China have no doubt that the program of industrialization after the war will complete it.

China does not want charity and kind words. She wants cooperation and good will. She will be honorable enough to repay any debt she incurs during her period of rehabilitation and reconstruction.

After the war China may be able to make a quick comeback and trade relations can be established fairly rapidly if the ground has been prepared. Unless American industry is fully prepared for immediate action, important competitive advantages may fall to other nations who already have realized the necessity of cementing their position in the China market. The Council will act as a clearing house for information on the numerous complicated matters involved in the development of economic relations between the two countries. Within the limits of its powers, it will work with American and Chinese industry and with the two governments in order that sound policies may be laid down as a basis for these relations. It invites the participation of every American business concern interested in its objectives.

The Chinese have a warm feeling of friendship for America and appreciate the goodwill we have shown toward them. If we build solidly on this foundation, the investment will pay us rich dividends. It will enable us to develop a flourishing post-war trade with China that will not only be of benefit to both countries but will also help to assure a more orderly and prosperous world.

Reserve Banks Permitted Notation on War Bonds

Breaking a traditional regulation, Under Secretary Daniel W. Bell of the Treasury Department notified all Federal Reserve banks on June 8 that permission is granted to use a specified commemorational notation on War Bonds issued during the week. The Treasury advices said:

"The notation, 'Issued During Invasion Week,' must be carefully placed on the margin of the bonds so as not to interfere with textual matter, inscription or dating. Moreover, the Under Secretary stated in his message, the authority to place this special message in the place designated does not modify the requirement that bonds bear the imprint of the issuing agents' stamp with current date."

Cuban Rail Position

Byfield & Co., 61 Broadway, New York City, members of the New York Stock Exchange, have prepared a discussion of the present financial position of Cuban Railroads. Copies of this interesting discussion may be had from the firm upon request.

Post-War Planners Have 16-Point Program

Fred I. Kent, President of the New York University Council, announced on June 5 a proposed 16-point national legislative program, the results of 18 months of concentrated study by the 25-member Post-War Planning Committee of the Commerce and Industry Association of New York, Inc. Mr. Kent, the Committee Chairman and author of the report, had the following to say, according to the New York "Sun" of June 5:

Declaring that following the war we wish to be at peace with all the nations and to have the nations at peace with each other, Mr. Kent called for relationships between all nations that will stimulate international trade. This is a condition, he said, that is not only desirable but necessary, so that the natural resources of the earth, which are unevenly distributed, can be so utilized as to benefit all peoples.

Emphasizing that the effectiveness of a democracy depends upon the productiveness of unfettered labor, Mr. Kent said that the American people will prosper if they are free from monopolistic domination and from Government tinkering with economic processes.

"Government should be the servant of the people and not its master," he asserted. "Government regulation of business to prevent unfair competitive practices and to curb private monopolies is a recognized function which should be performed by a democratic government. Regulation, however, should not be interference with private enterprise; the Government should be the referee of the free enterprise system and not its competitor."

Following is a summary of the 16-point program set forth in the report:

1. Without jeopardizing the war effort, Congress, the President, and the Army and Navy should keep war expenditures as low as possible, with expenditures for other Federal purposes reduced drastically.

2. Congress should drastically revise the present Federal fiscal policy to further the winning of the war, first, through the reduction of expenditures, and second, through the development of a system of taxation that will not handicap our war effort nor impair the future economic prosperity of the nation.

3. Federal, State and local tax systems should be co-ordinated to prevent an unwise duplication of taxes.

4. Congress should eliminate now all Federal Government bureaus, departments, agencies and activities which are not essential to the war effort or which will not contribute substantially to the future economic welfare of the nation.

5. Congress should stop the expansion of government into the field of private enterprise and should eliminate certain Federal agencies, bureaus, departments, commissions and activities which compete with private enterprise.

6. Congress should study and, where necessary, redefine the powers, functions and activities of all Federal agencies, commissions, bureaus and departments operating under broad powers which include or permit the authority to govern by directive or order.

7. War emergency agencies should be closed out after the war and not converted to non-essential peacetime uses.

8. Labor legislation should be amended immediately or, preferably, new legislation should be enacted to replace present laws that will also facilitate co-operation between labor and management, so that a high rate of employment will be possible in the post-war period which will assure economic prosperity.

9. The whole Social Security program should be studied by Congress and revised so that it will, as intended, contribute substantially to the future economic welfare of the people.

10. Laws affecting agriculture should be studied, amended, and, where necessary, new legislation should be enacted.

11. State legislatures should repeal laws which set up uneconomic interstate trade barriers, but Congress should exercise its authority under the Constitution and prohibit such barriers.

12. If the methods under which the Department of Justice has been, and is, bringing suits against American business corporations under the anti-trust laws are not in accord with the intent of Congress, the laws should be clarified immediately.

13. International agreements on monetary policy should be entered into when conditions permit.

14. As soon as feasible, gold should be restored to its proper place in the monetary systems of the world.

15. As rapidly as foreign economic conditions will permit, international trade agreements should be entered into for the purpose of encouraging foreign trade and promoting the economic peace of the world.

16. The unpaid portion of Allied debts of World War I due the United States should be canceled by legislation.

Other members of the committee are W. Foster Banks, President, the Motor Haulage Co., Inc.; Herbert L. Carpenter, President, Carpenter Container Corp.; Russell V. Cruikshank, President, Real Estate Board of New York; Victor Emanuel, President, the Aviation Corp.; Edward P. Farley, Chairman of Executive Committee, American-Hawaiian Steamship Co.; Thomas S. Holden, President, F. W. Dodge Corp.; Prof. O. B. Jesness, Department of Agriculture, University of Minnesota; Dr. William I. Myers, Dean, New York State College of Agriculture; George Le Boutillier, Vice-President, the Pennsylvania Railroad; Dr. John W. McConnell, New York University; Clark H. Minor, President, International General Electric Co.; Gilbert H. Montague; John C. Parker, Vice-President, Consolidated Edison Co. of New York, Inc.; Col. Allan M. Pope, President, the First Boston Corp.; Stanley Resor, President, J. Walter Thompson Co.; George Roberts, Winthrop, Stimson, Putnam & Roberts; George B. Roberts, Vice-President, National City Bank of New York; John F. Royal, Vice-President, National Broadcasting Co.; Edgar W. Smith, Director of Research in Public Affairs, General Motors Corp.; E. O. Sowerwine, Assistant to the President, Anaconda Copper Mining Co.; O. A. Taylor, Vice-President, S. H. Kress & Co.; Francis L. Whitmarsh, President, Francis H. Leggett & Co.; George W. Wolf, President, United States Steel Export Co. and William D. Winter, President, Atlantic Mutual Insurance Co.

Our Post-War Banking System?

(Continued from first page)

these five or six years of devastating war with some measure of freedom restored in our forms of government, but with freedom of enterprise gone and with real freedom in the fields of banking and finance only a memory?

Again, while the main purpose of this article is to consider the post-war outlook for banking in the United States, I am of the opinion that such developments as may take place here will not be independent of or wholly different from those which are taking place in neighboring countries; for in banking, as in every other phase of our modern economic life, no nation "liveth unto itself or dieth unto itself." A brief review of what has been taking place in the immediate pre-war years and during the war's duration in such countries as Great Britain, Canada and France may throw some light on possible future developments in these countries as well as our own. What happens in each of these countries, including the United States, will undoubtedly have a bearing upon what takes place in each of the others.

Comparative Banking Developments

The one outstanding and unmistakable trend in banking in the four countries in the years immediately preceding the outbreak of World War II was that toward "nationalization" or "socialization" of banking institutions, especially in the field of central banking. Nationalization in this field may be defined as the assumption of the control and direction of the policies of the central bank by the government of the country in question. Control of the policies of the central bank, as evidenced by conditions in our own Federal Reserve System, may be brought about without formal nationalization. The government may exercise control by its influence over the personnel of the central bank, particularly if they are appointed by the government, as is the case in France and the United States, and through the support of public opinion for the government against the bank and its officials. Formal nationalization may be brought about in one or both of two ways.[2] The government may take over the ownership of the bank by purchasing all or a majority of the shares of capital stock outstanding. The other method is that of giving the government the right to appoint the principal officers of the bank and a majority of the directors, while leaving actual ownership in private hands. Real and effective nationalization represents changes in the legal and constitutional relationships between the bank and the government, giving the government a type of control having legal permanency.

In Canada and France complete, or virtually complete, nationalization of the central banking institutions took place between 1934 and 1938, but by different methods, as will be shown later. In Great Britain this trend toward nationalization took the form of a revival of the avowed aim of the left-wing Labourite groups — the so-called Independent Labour Party, or "the socialism in our time" groups—to nationalize the Bank of England and the powerful joint stock banks, five of which—the "British Big Five"—do about 87% of the commercial banking business of England and Wales. In the United States this trend was in evidence in connection with the various Patman Bills, particularly that of March, 1933—H. R. 7230—which provided for the government ownership of the twelve Federal Reserve Banks, and charged them with the responsibility of stabilizing the purchasing power of money; also in connection with the Jerry Voorhis Bill in January, 1941—H. R. 160—"To buy Capital Stock of 12 Central Federal Reserve Banks"; and in similar proposals both inside and outside of Congressional circles.

In Canada an act was passed in July, 1934, under a Conservative Government, known as "An Act to Incorporate the Bank of Canada," which, more or less, superimposed a central bank upon the system of chartered banks in that country which had successfully operated throughout the Dominion for many decades. This act followed a report of the Royal Commission on Banking and Currency in Canada, headed by Lord Macmillan of London, and known as the "Macmillan Commission." Both the Conservative Party and the Macmillan Commission felt that the new bank should be privately-owned and controlled by its stockholders, with the Deputy Minister of Finance or some other officer of the Department of Finance serving as an ex-officio member of the Board of Directors, but without voting power. The Bank was to be the fiscal agent and banker for the Dominion Government and might serve in the same capacity for the Provinces if requested to do so.

The entire capital stock of the Bank of $5,000,000 was sold to the public, but restricted to British subjects resident in Canada, and no officer, director, or employee of any of the chartered banks was permitted to own shares. The Ministry of Finance had been given the right to subscribe for shares only in case the whole amount was not taken by the public, but was required to dispose of such shares as soon as possible thereafter at not less than par. Thus, the Bank of Canada was set up as a privately-owned and privately-operated institution, but with due regard to the public interested involved in its policies and operations.

In 1935, however, the Liberal Party came back into power in Canada through a general election, with a party platform pledge to nationalize or to bring under effective public control this newly founded institution.

Nationalization of the Bank of Canada

Some officials of the Bank of Canada were somewhat uncertain as to whether this pledge would be carried out by the Liberal Party when it assumed office. On June 1, 1936, following the October election, the Canadian Minister of Finance introduced a resolution in the House of Commons, which, when passed resulted in the partial nationalization of the Bank. Its capital was increased to $10,100,000, with the Government subscribing to 102,100 of the $50 shares, with the stated aim "to assure ownership of a majority of the shares by the Government, and to increase the number of directors in such manner as to assure voting control of the board by the directors appointed by the Government."[3]

Among the arguments presented in favor of such control was that of the alleged influence of the Bank in mitigating the fluctuations in the general price level, and in the level of production, trade, and employment, in such a manner that through monetary action it might "do something to level off the peak of the boom and to fill the valley of the depression. . . . But mark you," continued the Finance Minister in urging this resolution, "it will be affecting the life and income of every man, woman and child in the Dominion, and it will be affecting various groups and individuals unequally." This bald and candid statement of the possible results of such control might be well pondered by those who advocate such controls and such powers for our own Federal Reserve Banks, especially in regard to responsibilities in connection with stabilizing the purchasing power of money through central bank action.

Not content with this partial nationalization, however, another measure was passed in 1938, reducing the capital stock of the Bank back to $5,000,000, by paying off, at a premium, and cancelling all of the shares previously held by the public, thus giving complete ownership and sole control to the Government. "Thus, in the short space of four years, we find Canada advancing in rapid succession from a banking system with no central bank to a system headed by a privately-owned and privately-controlled central bank; then a partially government-owned by government-controlled central bank; and, finally, to a wholly government-owned and controlled central bank. In all of this development one finds an admixture of groping for a way out of depression; meeting the demands of an ever-increasing number of inflationists and money experimenters; following the current fashion in banking; conscientious attempts to improve the banking system; and, perhaps, a very considerable leaven of pure politics."[4] Canada thus followed in the nationalization of her central bank the first of the two methods mentioned above, that of acquiring through purchase the ownership and control of the voting stock of the Bank.

In the period just before the war and during the recent war years many officers of the 10 chartered banks of Canada have either expressed or implied the fear in their utterances that similar measures for the nationalization of all banking and credit in the Dominion may be proposed and urged in the period of post-war reconstruction. While expressing the sentiment that closer relationships between the banks and the Government may be necessary after the war, they hope that nationalization of banking may not be the way by which it is brought about. Recent provincial elections in Canada have indicated a heavy ground swell back to the Conservative Party. If, in the next general election which is due soon, the Conservatives should be returned to power with an overwhelming majority, the question as to whether the Bank of Canada should then be "de-nationalized" would probably come to the fore. It is doubtful, however, that any changes would be made in the Bank affecting its fundamental organization during the remaining months or years of the war.

Nationalization in France

The recent nationalization of the Bank of France under the Communist - Socialist Premier, Leon Blum in 1936 was carried out by the second method referred to above—that of **giving** to the Government, or the Government **taking** the right to appoint the principal officers of the Bank and a majority of the board of directors, while leaving the actual ownership of the Bank in the hands of its stockholders, mainly the "Two Hundred Families" who formerly constituted the General Assembly of the shareholders of the Bank. Both in organization and legal framework the Bank of France remained virtually unchanged for 130 years, from 1806 to 1936. Although the stock of the Bank of France was owned by approximately 40,000 individuals, the General Assembly was, until 1936, limited by Napoleonic decree to the 200 shareholders, "who, according to the Revue de la Banque, will be deemed to have been its most powerful shareholders, resident in France, for the six months previous to the time of the election." These 200 stockholders, usually referred to as the "200 families," elected the 15 regents of the bank and in this way they were largely responsible for the policies of the Bank. Membership in the "200 families" was a highly coveted honor and was passed down from generation to generation. George Boris, writing on "Reforming the Bank of France," in **Foreign Affairs** for October, 1936, said that these "200 families," some of which remained unbroken from the decrees of Napoleon in 1803 and 1806, consisted of leading capitalists, large corporations, and 21 large insurance companies. They thus represented "families" only in the broad sense. He also stated that of the six members of the Council of Regents who were bankers before 1936, five of them were descendants of the great financiers of the First Empire.

Not all was "peace and light," however, between the Bank and the Government during these 136 years. As early as 1814 one of the three censors, or auditors, of the Bank urged modification of the law governing the Bank because he said "the law gave the state power to govern and direct the Bank and reduced the powers of the shareholders to mere surveillance."[5] Proudhon, the French radical, and author of the book "What Is Property?", in which on almost every page he answers his own question with the statement "Property Is Robbery"; proposed in 1848 that the Bank of France should be nationalized or socialized. His pamphlet on "Organization of Credit and Circulation," published that year and later included in his book on "Resume of the Social Question; Bank of Exchange," maintained that such a bank, controlled by the State, should make no profits, since it should have no stockholders, and which, consequently, should discount commercial paper without interest, charging only a commission sufficient to defray its running expense. This suggestion is not surprising in coming from a man whose solution to the whole question of property in general was the final "abolition of capitalistic property, — property incomprehensible, contradictory, impossible and absurd."[6]

In 1935-1936, however, the Popular Front group waged a political campaign against the alleged oligarchial control by the shareholders of the Bank of France, on the ground that their more or less complete control deprived the Government of certain of its rights in the field of credit. Before 1936 the General Assembly had the right to elect the Council of 15 regents and three censors or auditors. The Governor and the two Deputy Governors were appointed by the President of the French Republic. Each of the leading 200 shareholders had but one vote no matter how many shares he held.

The election of April 26, 1936, changed all of this. The Popular Front, made up of all of the leftist groups who saw in the growth of fascism the end of democracy, was led by the Communist Leon Blum, who later was called upon to form a socialist Government from a combination of the communist, socialist, and fascist groups. Some of the popular slogans of the day were "Down with the Regents," and "The **Banque de France** should become the **Banque de la France.**" The Bank was looked upon as a center of conservatism, as it, with industry, supported the curtailment of expenditures and the deflationary moves of the Flandin, Laval, and Doumergue governments. The election was a sweeping victory for Blum and the Popular Front. As Socialist Premier he felt he had a mandate from the people to reduce the power of the Bank of France. On June 6, 1936, the Premier proposed in the Chamber of Deputies an amendment to the statutes of the Bank of France, which had remained virtually unchanged since 1806, "guaranteeing in its management the preponderance of national interest." The power of the "200 families" was to be destroyed by making the General Assembly consist of all of the stockholders of the Bank, and by changing the method of election of regents so as to guarantee a government majority in the Council.

A Strong France Needs a Strong Bank of France

We know now that France was greatly weakened in the years immediately preceding World War II by internal strife, particularly after the rise and acquisition of power of the Popular Front in 1936. One of the outstanding symptoms of that weakness, in my opinion, was the weakening of the Bank of France through the uncertainties and insecurity of its position under a socialist government. By an act of July 24, 1936, the managing body of the Bank of France was brought under the complete domination of the Government through the appointment of the Governor and the two Deputy Governors by the President of the Republic, and the increase in the number of regents to 20, only two of whom were to be elected by the 40,000 shareholders of the Bank. The 20 regents and 3 censors were to be selected as follows: Of the 20 regents, one each is appointed by the ministries of finance, national economy, and the colonies; six heads of governmental departments are ex-officio members; six are chosen by the Minister of Finance from lists submitted by the labor unions, chambers of commerce, etc.; one is appointed from the National Economic Council from among its vice-presidents; and one from the Superior Committee of Savings Banks; then, interestingly for a socialist government, one is elected secretly by the employed personnel of the Bank. This leaves only two to be elected by the shareholders of the Bank. The three censors are also appointed by the Government. Thus, the Bank of France, while still privately owned, was managed and controlled, until the downfall of France, by the government of the day.

What the future of the Bank of France may be will be determined largely by what happens to France itself. But a strong, democratic France, in my opinion, needs a strong, democratic Bank of France. It might not be a return to a democracy in banking to restore in full the power and control of the "200 families," but made up as such "families" were, it would be a better form of control than that brought about by the socialization of a privately-owned institution by the socialist-communist group in power under Blum and his associates.

British Developments

Numerous suggestions have been made in Great Britain from time to time about the socialization of credit and finance in that country through the nationalization of the Bank of England and the Joint Stock banks. Since its formation in 1694, however, the Bank of England has remained a privately-owned corporation, under its official and legal title, "The Governor and Company of the Bank of England." It has always had close relationship with the Government, acting as fiscal agent and banker of the Government, as "Commissioner" of the Public Debt, and since 1928, as the sole issuer of paper money for England and Wales.

2 I am indebted for part of this and later phraseology to the unpublished doctoral thesis of Dr. W. Edward Alley, now Acting Head of the Department of Economics at Drake University, written under my direction at the University of Illinois in 1941, on "The Nationalization of Central Banks."

3 Debates, House of Commons, Canada, 1936, p. 3257.

4 Alley, W. Edward, *op. cit.*, p. 118.

5 Boff, Karl R., in an article in the *American Economic Review, Supplement*, March, 1944, on "Central Banking at the Crossroads," p. 260, quoting from a Report of the General Assembly of the Bank for January 27, 1814.

6 Proudhon, P. J., "What Is Property?" p. 457.

This close relationship has been rather facetiously described by one writer[7] recently as follows: ". . . When the Bank of England was founded . . . a penalty was imposed on the directors should they lend to the Crown or buy Crown lands without Parliamentary consent because the Whig Parliament wished to tie the purse strings of the King, not to protect the Bank. For although Parliament closed the doors of the Bank to the King, it periodically visited the institution on behalf of its own finances. After the Bank moved its premises, it became known as the 'Old Lady of Threadneedle Street'; and a significant part of its history touches the courting of the rich Old Lady by impecunious ministries in search of loans, and conversely the courting of sovereign ministries by the Old Lady desirous of favors. Advantages were gained by the ministries when they gave her a new lease on life by renewing her charter. Advantages were gained by the Old Lady when she enabled ministerial suitors to stave off financial embarrassment."

Frequently the Bank has acted as spokesman for the Government in connection with monetary and financial policy. As an example of this I recall a conversation one day in the summer of 1929 with two important officials of the Bank. The London "Times" had carried in its "City Notes," i.e., financial page, a statement to the effect that the Bank of England looked with disfavor upon any extensive export of capital at that time by large individual and institutional investors, such as the huge life and general insurance companies, and they were particularly urged not to invest in American and South American securities. I asked whether this was simply the view of the officials of the Bank of England or did it have Government backing as well. The rather ambiguous reply was that "Well, you can put that item more or less in the category of the attempts your Federal Reserve System used to make in using 'moral suasion' in connection with desired credit control in the United States." By reading between the lines of their statement and from other aspects of the conversation, I knew the Bank was speaking in this instance both for itself and the Government.

Nationalization of banking was one of the avowed aims of the Independent Labour Party, the left wing element of the British Labour groups, which has not been sidetracked or forgotten. Its chief advisor, Professor Harold Laski, was speaking before an American university audience shortly before the present war began. In the question period which followed his address he was asked the question, "What would happen if in the next war in Europe, or in its aftermath, the British Labour Party again came to power, with the left wing group or Independent Labour Party in the saddle? What would be the first step in carrying out its plans for social reconstruction?" Without a moment's hesitation he replied, "The nationalization of the Bank of England and the Joint Stock Banks."

During the present war this question has been raised again by the Archbishop of Canterbury, through his advocacy of the "socialization" of all credit in Britain in the post-war period. And while British financial journals have intimated that the Archbishop was speaking outside the realm of his competency in making such suggestions, the fact that such suggestions keep re-occurring indicates that the issue is by no means dead. Some of the recent writings in Britain on banking shortly before the war devote considerable space to the question of arguments against the nationalization of banking in that country. (Cf. Sayres, **Modern Banking**, 1938; and Mackenzie, **Banking Systems**, 1935, for examples of this.) Thus, while British banks and all other financial institutions of that country have been brought under rigid government surveillance and substantial control for the war period, the bankers of that country look forward hopefully with confidence to a return to a system of free enterprise, which involves, of course, a return of freedom and individualism in banking. Whether this is simply wishful thinking or a reality will depend upon what form of government prevails in England after the war and its objectives.

British bankers suggest that while many forms of government control have been willingly accepted as an absolute essential during wartime, such controls should be gradually diminished when the war is over, for a system of free enterprise can flourish only in a real atmosphere of freedom. The nationalization of banking in that country would be, therefore, a further encroachment upon the free enterprise of individuals and an extension of controls, rather than a gradual lessening of the wartime controls under which British industry and banking have operated.

What of the United States?

Mention had already been made of the Patman Bills and the Jerry Voorhis Bill which had the common purpose of having the Government take over the ownership of the Federal Reserve Banks, particularly the Patman Bill of 1938, and the Voorhis Bill of 1941. When some published reports from Washington indicated that Chairman Marriner S. Eccles of the Board of Governors of the Federal Reserve System favored some aspects of these bills, especially that of the Treasury acquiring the stock of these banks which is now held by the member banks of the system, another important Federal Reserve official, whose name I will not mention, said to me, "If this bill passes, and the Government thus acquires ownership as well as control of these banks, that means the end of democracy in banking in the United States."

Even before these developments, other "straws in the wind" during the early days of the New Deal, should have indicated the general trend of the wind and the current in such matters. The late Senator Bronson Cutting of New Mexico, announced on the floor of the Senate on May 14, 1934, shortly before his death, that he expected soon to introduce a bill "to nationalize the country's banks and credit system," contending that commercial banking and the issuing of credit must thereafter be exclusively a government function. That sounds very much like the recent pronouncement of the Archbishop of Canterbury in England regarding his proposal for the socialization of credit in that country. About the same time as Cutting's statement, Raymond Moley, still at that time a trusted adviser rather than a severe critic of the President, wrote an article in the Magazine **Today**, on Feb. 3, 1934, on the pertinent question, "Must the Government Take Over the Banks?". Even more recently A. A. Berle, Jr., an early New Dealer moved over to the Department of State, made proposals that the Government should establish banks to supply credit to "the little business man." Surely with all of this smoke there must be some fire in this trend toward the nationalization of banking in this country.

Thus, in the years just before World War II, we in the United States, stood, **and still stand today**, at the crossing of the ways in banking and finance. On the one hand those who believe in a return to a system of free enterprise urge that we return commercial banking to bankers, and allow the banks of the country, in the light of experience and sound banking tradition, to work out their own destiny. The other way leads to increased and more greatly concentrated Government control, if not even to complete nationalization or socialization, in the French and British sense of the terms, of our whole banking structure.

The answer to the question as to which of the roads banking in the United States will take, depends in no small degree, in my opinion, to the extent to which the general apathy of the public to what is happening to banking is overcome. Public opinion on banking in this country is not articulate, and many bankers and banking officials are somewhat reluctant, after their days "in the doghouse" in the early 'thirties, to speak out their convictions on such matters. Such reticence must be overcome, and bankers, businessmen, and sound banking economists must unite in making their opinion felt in the country that a system of free enterprise cannot be free if our banks, both commercial and reserve, are to be dominated, regimented, and controlled by a bureaucratic government. They must stand ready to speak out and act against any further attempts to bring about ownership by the Government of the Federal Reserve Banks; against any type of intermediate investment credit banks, as proposed recently by Jerome Frank while serving on the SEC, for taking care of the investment credit needs of "small business"; and against the handling by government banks of all of the credit needs of the "little businessman."

Reform of the Federal Reserve System

If space permitted within the confines of this article I would like to show that there are but four fundamentals or essentials of a sound monetary and banking system. All four of these pertain, directly or indirectly, to our monetary system, while two are concerned with banking as well. Here I shall have time to mention briefly only one of these — the need for a **free** banking system, free in a very real sense in both the functions of commercial and central banking.

It is a fairly generally accepted principle of central banking that "A central bank in its management and policy should be free from government control and the influence of politics."[8] Our Federal Reserve system has never met and does not now meet this qualification. The original Federal Reserve Board as designed by the present Senator Carter Glass and the late Professor H. Parker Willis, and approved by President-elect Woodrow Wilson, was to be a non-partisan board. But when William Jennings Bryan, an ardent supporter of the spoils system in politics, saw the proposed set-up, with all of these potential jobs that might go to "deserving Democrats," he was successful in securing a change in the bill to have all board members appointed in the usual manner for poltical appointees—"by the President, by and with the consent of the Senate." Hence, from the outset the Federal Reserve Board became a political body. It has never been free from "the influence of politics," and particularly has this been true since the formation of the New Board of Governors of the Federal Reserve System in 1936, following the passage of the Banking Act of 1935. What of the future?

Before we can entrust this institution with greater credit control powers, which it should have; before we can entrust it with the exclusive right of note issue for the country as a whole, which, under proper safeguards, it also should have, we shall have to see to it that in its organization, purpose, and policies it is to serve the financial and credit needs of the nation on a non-partisan, non-politics basis.

Certain monetary and banking changes or "reforms" are long overdue and should be made as soon after the war as possible, even perhaps in part before the war ends. One of the most important of these is that of taking the Federal Reserve banks out of politics and out from under political control. There is, of course, a public interest and a Government interest in these institutions which should and must be protected. But, to my mind, this can be accomplished by returning greater control of this central banking system to its owners — the member banks of the system— and by reducing rather than increasing governmental control over our banks and other financial instituitions. In other words, a return to democracy in fact as well as in theory in banking.

To bring this about I would suggest, among other things, that the Board of Governors be increased to 11 members, five appointed by the banks of various sizes of the country, five appointed by the President, by and with the consent of the Senate, on, as far as possible, a non-partisan or at least, a bi-partisan basis. These 10 should then select the eleventh member who would also be Chairman of the Board. Machinery already exists for the selection of the banker representatives in that the banks of each Federal Reserve District now select the "Class A" members of the Board of Directors of each of the Federal Reserve Banks in such a manner. Two of the five banker representatives might be selected by member banks having resources, or deposits, above 10 millions; two by member banks with resources or deposits of between one and 10 millions; and one by the smaller banks with deposits or resources of less than one million. The creation of such a board, if properly chosen, would be but one of many steps necessary to restore democracy to our banking systems, but it would be a step in the right direction away from this insidious trend toward government ownership and government operation of our financial institutions.

[7] Bopp, *op. cit.*, p. 262.

[8] Harvey, Sir Ernest, "Central Banks," covered in detail by the writer in an article in *Barron's* for Dec. 3, 1928, on "The Bank of England—Its Influence on Central Banking Systems."

Canadian Securities

(Continued from page 2481)

little ground. Montreals also met with scattered support. Internal issues also were very firm and the Canadian dollar "free" rate touched the official selling level at 9⅛% discount. Popular interest in this section of the market continues to increase partly on the belief that the Canadian dollar will ultimately be restored to parity, and partly as a result of growing confidence in Canada's post-war prospects.

Turning to possible future developements, the expectation of a reaction in the market was based mostly on the following technical factors. The market had to digest an unexpected late supply of bonds offered in connection with the Sixth Victory Loan. This coincided with the commencement of our own loan drive. In addition, the impending elections in Saskatchewan have caused some uncertainty.

However, when Victory Loan activity subsides and Saskatchewan results produce no unpleasant shocks, the replacement operations in connection with the call on July 1 of the Canadian Nationals, of July 1, 1969, should be sufficient alone to restore the market to its previous state of buoyancy.

Fashion Park Attractive

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

Chicago Stock Exch. Committee Members

CHICAGO, ILL.—At the annual organization meeting of the Board of Governors of the Chicago Stock Exchange held June 7, Harry M. Payne, Webster, Marsh & Co., Chairman of the Board, appointed the following standing committees to serve for the ensuing year, which were confirmed by the Board:

Executive—Homer P. Hargrave, Chairman, Merrill Lynch, Pierce, Fenner & Beane; F. Fletcher Garlock, Vice-Chairman, F. S. Moseley & Co.; George E. Barnes, Wayne Hummer & Co.; Lyman Barr, Paul H. Davis & Co.; Joseph P. Brown.

Admissions — Barrett Wendell, Chairman; Alfred W. Mansfield, Vice-Chairman, Thomson & McKinnon; John R. Burdick, Jr.; Ralph Chapman, Farwell, Chapman & Co.; Chancellor Dougall.

Finance—James A. Cathcart, Chairman, Harris, Upham & Co.; Charles R. Perrigo, Vice-Chairman, Hornblower & Weeks; Clarence J. Bridgen, Paine, Webber, Jackson & Curtis; Walter J. Buhler; Frederick J. Stannard.

Floor Procedure — Edwin T. Wood, Chairman; John W. Billings, Vice-Chairman; John R. Burdick, Jr.; Harry C. Daniels, Apgar, Daniels & Co.; John J. Griffin; Elmer A. Kurzka, Fred. W. Fairman & Co.; Frank E. McDonald, Frank E. McDonald & Co.

Judiciary—Emmett G. Barker, Chairman, James E. Bennett & Co.; D. Dean McCormick, Vice-Chairman, Kebbon, McCormick & Co.; Clarence J. Bridgen; Morton D. Cahn; Alfred E. Turner.

New Business and Public Relations—Joseph E. Dempsey, Chairman, Dempsey-Detmer & Co.; Frederick R. Tuerk, Vice-Chairman, Cruttenden & Co., Walter J. Buhler; Chancellor Dougall; Norman Freehling, Norman Freehling & Co.

Mr. Payne also announced the reappointment of the four present Advisors: Shelden Clark; Charles Y. Freeman, Lee Higginson Corp.; Edward B. Hall, Harris, Hall & Co.; and Bentley G. McCloud.

Kenneth L. Smith was reelected President for his sixth consecutive term; Lt. Sidney L. Parry, on leave of absence, serving with the United States Naval Reserve, Raymond M. Day, and James E. Day were reappointed Vice-Presidents; Walter R. Hawes was renamed Treasurer; Carl E. Ogren, Secretary; Martin E. Nelson, Treasurer Emeritus; and Loretta Kemp, Assistant Treasurer.

Jess Halsted of Scott, MacLeish & Falk was reappointed counsel.

St. Regis Paper Offers Interesting Situation

A booklet outlining the various products and business outlook of the St. Regis Paper Company, together with a statement comparing that company's new 5% cumulative prior preferred stock, $50 par value, with the preferred issues of other industrial concerns, has just been issued by White, Weld & Co., 40 Wall Street, New York City, members of the New York Stock Exchange.

Copies of this interesting and comprehensive booklet may be had from White, Weld & Co. upon request.

Sugar Stocks Attractive

Amalgamated Sugar Company and Utah-Idaho Sugar Company offer attractive possibilities, according to detailed financial analyses of the situations prepared by Edward L. Burton & Company, 160 South Main Street, Salt Lake City, Utah. Copies of these interesting studies may be had from Edward L. Burton & Company upon request.

The Trend In Reconversion Policy

(Continued from page 2467)

vidually large, but they aid the peacetime type of production to mount slowly upward, and they point the way to the much more rapid rise possible after partial or complete victory.

These reconversions have been so far, and can reasonably be expected to be in the future, of two general kinds. The first is that of a whole industry or of a group of companies in it resuming at the same time. The other is that if the individual company beginning or increasing civilian production without regard to other companies. The rate at which given companies are to operate; their starting time as related to that of other companies; whether or not the unproduced quota of a company prevented by war work or other causes from resuming is is to be accumulated and added to its current rate at a future date; what if any advantage is to be given to small companies, and if so, what determines that a company is small for this purpose; when shall the new company, not previously a producer in the industry be permitted to begin production and at what rate—these are considerations of the very greatest emotional and economic concern to the ownership and the employed personnel of all the plants concerned, to the communities in which the plants are located, to the vendors to these plants, to the distribution and service organizations in the field and to the consumers whose dollars are customarily spent in accordance with certain very decided brand preferences which may call for proportions of goods by individual makers quite contrary to what might be planned by a public agency.

Wrapped up in this problem are all the old animosities typical as between one region or community and another, as between the little and the big, as between the old and the new. Needless to say, your public servant in this situation must have a sound policy, accurate information, calm judgment, and unquestioned strength of character in making decisions from the standpoint of the public interest. He must have, then, patience and an open mind toward the inevitable appeals against his decisions—this is to be doubly sure that all the facts are as previously thought and that justice is done.

The most common conception of reconversion is that of all the companies in a given industry resuming production at a given time either at the rate prevailing in some nearly normal base period or at some given percentage of that rate. In the absence of other more compelling considerations, that is the policy. Every effort will be made to so influence cutbacks and cancellations that the plants of all the companies in a given industry, and the plants of all their component makers and other suppliers, will be cleared equally for civilian production at the same time. This would result in the fairest treatment to owners, workers, distribution and service organizations, the individual communities involved, and the public.

But war production, which comes first, must not be warped to its harm to fit, however, desirable post-war production patterns. And it is almost too much to expect that, in more than a relatively few of the more than 100,000 concerns to be reconverted, the so-called "historical quota" basis can be used without modification to fit some more compelling necessities of the situation. In the minor reconversions by whole industries tried so far, the War Production Board has accomplished them with substantial adherence to this principle of putting an industry back in business in about the same position it was when taken out of civilian production. A significant example is the electric flat iron industry which, after careful study and the exercise of considerable commendable ingenuity, had the quota of 2,000,000 irons distributed among the companies with only minor adjustments to the original quota calculations.

While relatively few industries can be expected immediately to resume as a whole on any given percentage of a base period, the study of all of them continues in the WPB industry divisions and in the appropriate ones of the 750 industry advisory committees. This will bear real fruit when production capacity in more substantial amount is available for conversion.

Meanwhile there are increasing opportunities for individual companies, either within or without recognized industry patterns, to absorb surplus materials and idle time—and even to utilize some controlled materials and components—in the making of their old products or others that may be suggested to them by lists of consumer items indicated by WPB surveys as being currently desired. Application to the nearest WPB field office or to the appropriate WPB industry division in Washington will develop what the possibilities are of proceeding now with proposed production, which, of course, must be accomplished without interference with the war effort.

In this connection the possibilities are being by no means exhausted of making simple things from surplus and otherwise available materials, on equipment not being used on war work, in areas where war production is not absorbing the efforts of all the usable personnel there. Critical components naturally have to be avoided for the time being, but I believe the combined abilities of our marketing research and manufacturing people can do a lot more than is being currently done to stimulate socially and economically valuable activity along these lines.

Groups such as yours, for instance, can properly add your power to the effort that is being made by others to disseminate the knowledge of this opportunity and to develop ability in this country quickly to absorb every usable bit of productive capacity as it becomes available.

I believe the private enterprise system, which with all its faults has done so much for us, has never been so weighed in the balance as it will be, and is now, in this matter of prompt absorption in peacetime activities of the facilities and personnel released from war work. It is a colossal job. Between now and the end of war production, American business to accomplish this end must gradually or precipitately, as the character of the cutbacks make necessary, increase its output of peacetime goods and services to a point two-thirds to three-fourths above the 1935-1939 average. This is after taking into account those who will voluntarily leave the labor market with the disappearance of the war need for their services.

There is no way in which Government can hand to business on a platter this very desirable result—if the element of choice is really to be present in taking up an occupation and if that same element of choice is to be preserved to the consumer in making a purchase.

It would be presumptuous indeed for me to try to prescribe all the measures the business community should take to met this great obligation to humanity and to itself. But as this is a gathering here tonight of marketing executives, I wonder if it is not appropriate for us to examine some of the phases of this obligation that are inescapably ours.

First, it is obvious that we must set our volume sights higher than most do now—in things people want or are likely to want—if we are going to utilize the services of anything like all the people who want to work and most of whom must work. Too many sales managers in the consumer field are taking for granted a post-war volume that will utilize substantially fewer people than now employed in their particular plants on both war and civilian production. Many industries peculiar to the war will all but disappear. Since some of these are among the very largest, it is evident that those plants with peacetime outlets must on the average provide employment for even more people than at present.

Second, these goods have got to represent an acceptable value, and that is going to be a tough job. The current estimates by the industry advisory groups coming to Washington are that production costs of civilian items in the hard-goods field will at the time of resumption have in general increased from 25% to 35% above those being realized at the time production was discontinued. There is presumably a vast seller's market for most of these products, but not at prices that are far out of line with old conceptions of value. If greater than former peacetime volume can be attained quickly on individual products, it will aid some in getting the over-all costs down. Two great contributions can be made in this connection by marketing executives. One is getting the volume itself and the other is getting the cost of distribution down. I realize that cost of distribution must be to sales managers what the weather is to everyone — something everyone talks about but no one ever does anything about. Yet this time something must be done about it —first, by the industry to make people willing to buy its product, and second, by the individual sales manager to make people buy his company's product in the proper proportion to that of his competitors. There is a great accumulated demand for many things that formerly had to be sold—and undoubtedly will have to be again. In the early stages of resumption many of the individual functions that formerly made up the total marketing effort may not be necessary. Likewise, there should be a fresh examination of many of the features and model variations formerly included in the line on account of a presumed need springing from consumer demand or competitive practices.

The third phase of the obligation that is ours as marketers is to realize the degree to which dependence must be put in the early stages of resumption on old products, and to act accordingly. There are many startling developments of the war that will be adapted to consumer purposes in the post-war period. However, in the early stages before tools can be built, demand established, and cost gotten down on these new products, the primary—if not the almost entire — dependence for commercial activity and employment opportunity must be on the old pre-war products or on minor variations of them. This emphasizes all over again how high the sights must be set in post-war as compared with pre-war volume in the products with which we are already familiar.

Meanwhile, as the accumulated flush demand from old and new customers inevitably tapers off, there must be an accompanying further broadening of the market to make it possible and desirable for still more new classes of customers to own the product. It is to be hoped that there would also begin to be felt by then some of the expected expansion of employment and commercial activity in connection with the new consumer products based on the technical developments of the war.

There was never such a challenge to any group as this problem presents to marketing executives. Full employment, an adequate standard of living for all, security, choice in jobs and purchases, the preservation and improvement of the private enterprise system that has made us great—in fact, the winning of the peace—all depend in great measure on how accurate is the market information on which we act, how clear is our judgment, how prompt and bold and vigorous our action as to products and plans, how honest and thorough and persuasive our selling.

Yet there is nothing in the size or nature of the task that will not respond to the experience, ingenuity and energy American marketing executives have proved so often they possess. I am confident that, with a full knowledge of what is at stake, the job will be done.

Mutual Funds

(Continued from page 2479)

Story." A chart of the Dow-Jones Industrial Average reveals that it is currently about where it was at the start of the war in 1939. During this same period, three series of **New York Stocks, Inc.**—Automobile, Electrical Equipment and Railroad Equipment — have advanced 30.6%, 13.1% and 11.1%, respectively.

From the start of the war to date the Dow-Jones Railroad Average shows an advance of approximately 48%. In the same period the New York Stocks Railroad Series is up 80.3%. Another interesting factor brought out by the charts is that leading individual stocks (Chrysler, General Electric, American Car & Foundry and Union Pacific) didn't do as well as the respective series of New York Stocks during the period under survey. From these facts are drawn the three following investment axioms:

"Axiom No. 1: It is unwise to purchase a stock without attempting to determine the outlook for the industry it represents. The stocks of favorably situated industries can and do make progress even in a general market that gets nowhere.

"Axiom No. 2: It is easier to forecast the outlook for an industry than for an individual stock.

"Axiom No. 3: The selection of a 'leading' stock gives no assurance of superior or even average performance."

Hugh W. Long & Co. has prepared a tabulation showing the performance of all 20 series of New York Stocks, Inc. compared to well-known individual stocks in their respective industries from the "Pearl Harbor" lows to Jan. 1, 1944. Copies of this report are available on request.

* * *

"It's June Again," writes **Vance, Sanders & Co.** in the current issue of **Brevits.** The significance of this fact is revealed in a table entitled "Summer Market Advances 1919-1943." Over that period of 25 years—through bull markets and bear markets alike — the market has not failed to stage an advance in summer months. In all but three of these 25 years, the advance began in June and in 16 of the 25 it ended in August.

Brevits points out that, "As the stock market, of course, does not respect a precedent, it would not be well to rely too heavily on the ability of June to produce a stock market rise. At the same time, the consistency of the record through all types of markets in the past lends some weight to the implications, particularly if considered in conjunction with the longer-term trend of security prices."

* * *

Comparative figures on the bonds held in **Keystone Low-Priced Bond Fund** (B-3) are presented by means of charts in the current issue of **Keynotes.** In the comparisons the changes in the companies represented by **Keystone B-3** between 1936 and 1943 are shown. During this period total assets increased $870 million. Total funded debt was reduced $449 million. Net working capital increased $863 million and average interest coverage on the bonds rose from 1.23 times to an estimated 2.30 times, an increase of 87%.

* * *

In a memorandum from the Management Staff of **Commonwealth Investment Co.** "An Organization Chart for War or Peace" is portrayed. The line runs from "Your Customer" through "You—the Dealer" and the shares of **Commonwealth Investment Company** to the various segments of American industry. This broad diversification thus achieved for the investor provides factors of safety and future profits.

* * *

The current issue of **Calvin Bullock's Bulletin** summarizes the semi-annual report of **Dividend Shares** for the fiscal period ending April 30, 1944. On that date total net assets of Dividend Shares were $43,394,272.

* * *

First Mutual Trust Fund, in its annual report to shareholders for the year ended April 30, 1944, reveals total net assets of $2,242,036, equal to a net asset value of $5.39 per share. This compares with $4.59 per share a year earlier.

* * *

Scudder, Stevens & Clark Fund reports total net assets of $17,670,842 on May 31, 1944. This compares with total net assets of $16,405,165 at the close of May, 1943."

* * *

"My ventures are not in one bottom trusted,
Nor to one place; nor is my whole estate,
Upon the fortune of this present year."

With this quotation from the "Merchant of Venice," **Hare's Ltd.** introduces its new folder, "D-Day and Peace Stocks," in which pertinent data on **Stock & Bond Group Shares** of **Institutional Securities** are presented.

* * *

George Putnam Fund reports total assets at a new high, exceeding $9,400,000 as of June 1, 1944, compared with $7,500,000 a year earlier. The trustees, commenting on the current portfolio position, report: "We continue to maintain a strong common stock position, this portion of the Fund amounting to 58% of the total on June 1. At the same time the Investment Backlog portion was strengthened somewhat during the past month through the sale of certain medium grade rail bonds which have advanced substantially in price, and the purchase of additional high quality defensive bonds."

Mutual Fund Literature

Distributors Group — A Special Month-End Price Comparison on **Group Securities, Inc.,** showing percentage changes in net asset value for all classes of shares from the end of 1941, 1942 and 1943. . . **Keystone Custodian Funds** — Revised portfolio folders on **Preferred Stock Series K-1** and **K-2** and **Common Stock Series S-1, S-2, S-3 and S-4.** . . . **New York Stocks**—A portfolio folder, as of June 1. . . . **Lord, Abbett**—A Composite Summary folder of the Lord, Abbett sponsored companies revised to June. Also revised portfolio folders on **Union Bond Fund "B"** and **Union Bond Fund "C".** . . . **Selected Investments Co.**—A current issue of Selections and also the folder "These Things Seemed Important."

Dividends

Affiliated Fund, Inc.—A dividend of 3¢ per common share, payable July 15, 1944, to stock of record June 30.

Group Securities, Inc.—The following per share dividends, pay-

The Electric Utilities Situation

(Continued from page 2472)

22% and the maximum demands on our systems from 29.3 to 40.75 million kilowatts, or 39%. A simple calculation indicates that the sources of the great increase in energy of the last four years were: 42% from higher load factor and 58% from increased demand. While the process has involved drawing to the extent of 2.6 million kilowatts on the reserves of generating capacity, those reserves today still aggregate 8¾ million kilowatts, 21.5% in excess of the highest peak load of the current year, and throughout the four years there has always been a sufficient supply of electricity, as to time, place and magnitude, for all war purposes. The performance has therefore been adequate in every respect.

Costs Up

Inevitably, these huge changes in physical development have been accompanied by corresponding financial burdens. In the four years ending with 1943 the taxes paid by our industry have increased $336,000,000, or 95%. The average hourly earnings of our employees have gone from 86 cents to $1.09 (27% increase) during the four war years, a cost partly offset by a reduction from 239,000 to 204,000 (or 17%) in the number of employees.

Rates Down

While these changes in cost were occurring, the average gross amount received for a kilowatt hour sold went down steadily throughout the war period. In the last prewar year (1939) the average unit price at which electric energy was sold countrywide was 30% above the average figure of 1.66 cents per kilowatt hour for 1943. This marked decrease in average charge might be supposed to have resulted from the greater preponderance of power load during the war; however, the average unit receipts went down throughout the period in all three main classifications of electricity—residential, commercial and industrial.

Taxes

The tax problem of the utilities is principally a Federal tax matter. It has arisen partly because the Federal revenue acts have failed to take into account the two basic ways in which we differ from the average industry: (1) Our rates are regulated by government, and (2) since we require seven times as much in fixed plant investment for a given volume of business as the average industrial concern, apparent excess profits are not true excess profits unless reduced by the charges on the additional plant required to produce them. The first of these differences the Federal Government claims to have equalized by its War Price Control; the second Congress evidently tried to cover by the allowance, in Section 722 of the 1942 Act, of the right to deduct charges on additional facilities needed to produce the larger wartime revenues. If this was their intention, they took it away in the next breath by the provision in the same section that such additional facilities could count only if they were planned before the end of 1939.

In addition, there are other changes in the tax laws that consistency and fairness would call for:

(1) It is very much to be hoped that a practical way may be found, and one which the Congress will adopt, to correct for the continuing discrimination, in the levying of corporate income taxes, between the slow-turnover, high-investment companies and those in which the reverse is the case. (2) The double taxation of dividends, both against the stockholder who receives them and the corporation that earns them, is a long-standing evil, acting as a brake on corporate activity which will be a continuing deterrent to business development in the post-war period. (3) Finally, the complete exemption from Federal taxes enjoyed by our government-owned competitors, represents a tax burden transferred from one relatively small group of citizens to the shoulders of our 32½ million customers throughout the nation.

These inequalities will not be cured by the cessation of the war since our huge national debt will make for relatively high Federal taxes during an indefinite future.

War Effect on Earnings

The way the electric utilities have met the deadly combination of lower average earnings from what they sold and higher prices for what they bought is one more demonstration of the great inherent flexibility of the business, arising from the breadth and infinite diversity of the demands for its service. This basic quality is the despair of our enemies and the satisfaction on the whole of our security holders. A glance at the financial results of the four war years is most instructive. If we take the division of the dollar received from our customers, we find that the proportionate part required for operation, maintenance and depreciation has varied hardly at all during the four war years. (The average annual deviation from the mean was less than 1%.) The proportionate part left after taxes has, of course, decreased, but the actual amount in dollars left for paying a return to the holders of our bonds and stocks has yielded only gradually to the terrific economic forces incident to financing the cost of the war. Gross corporate income, representing the amount available for return on all securities in 1943 was $46,000,000 (or 5¼%) below the corresponding figure in 1939. The balance for common stock was off $27,000,000 or 6⅔% in the same period. Both of these decreases are the measure of the failure of the utilities (heretofore mentioned) to obtain the tax relief to which their special characteristics fairly entitle them. The disparity is likely to be still greater in 1944 due to the increase in the excess profits tax rate.

Painful as present excess profits taxes are, they must be recognized as a cushion against the shock to earnings likely to result from the inevitable future curtailment in war industrial production. In our confidence in the justice of our claim that the Federal tax laws do not allow properly for the special conditions surrounding our business, we must not lose sight of the fact that our great taxes are to finance a great war and that the manufacturing companies of the country as a class have suffered a decrease of 14% in net earnings from 1940 to 1943, compared to 7½% decrease for the electric utilities in the same period.

As Others See Us

It is always instructive to note how our industry looks to competent observers on the outside. For this purpose, the investment policy of the life insurance companies, as disclosed by the make-up of their portfolios, represents a highly expert opinion. During the decade from 1933 to 1943 wherein the total assets of 49 legal reserve life insurance companies grew from 19 to 34 billion dollars (or about 76%), their investment in all public utility bonds (not, of course, all electric light and power) grew 193% to a total of $4,872,000,000. This was even in the face of the needs of war financing which, during the decade, raised the proportion of their assets represented by U. S. Government Bonds from 4 to 34%. This expert endorsement of the soundness of utility bonds is so broad in scope as to be most convincing.

Municipal Ownership Elections

Another available form of external appraisal of our industry is that by the people through the elections which occur from time to time on the subject of municipal ownership of electric utilities. The present national administration, with its frankly socialistic trend, stirred up at first a lot of interest in the subject of municipal ownership. During its first three years, voters, representing population averaging 4,662,000 per annum, went to the polls and voted (on the average) 66% for municipal ownership. During the three years ending 1943, however, not only was the average population affected by such elections less than one-fifth as large, but the proportion of this smaller number favoring municipal ownership had fallen to less than one-tenth of what it was in the earlier triennium. That is, 1/59 as many people voted for municipal ownership in the last three years as in an equal period eight years earlier.

This drastic change in public sentiment on this basic problem was in the face of the obvious large saving in cost which can be obtained from municipal operation through the tax exemption such enterprises enjoy—a saving whose magnitude has greatly increased in the last two years. Possibly the voters feel instinctively that this tax exemption for municipal operation is so manifestly unfair that it cannot long endure.

Depreciation

The past year has brought important developments in the subject of Depreciation Accounting and Practice. For nearly five years a Committee on Depreciation of the National Association of Railroad and Utilities Commissioners has been working on a report. Throughout this period a parallel study has been carried on by a joint accounting committee of the Institute and of the American Gas Association. Last September a form of report by the NARUC committee was presented to the annual convention of the Association and ordered printed. This report comes out for straight-line depreciation, based on theoretical age-life tables, and claims that depreciation reserves so computed should be retroactively applied and should be deducted from plant account to arrive at a rate base.

One or more of these tenets are refuted by committees of the completely independent American Institute of Accountants and of the equally detached American Society of Civil Engineers, and by studies of the record of actual experience of typical electric light and power companies over long periods of years carried on by our own Committee on Depreciation Principles. They are also contrary to the established practice of many State regulatory bodies over long periods.

The depreciation program as set forth by the NARUC Depreciation Committee would serve to weaken the position of investors in electric utility securities and thereby to make the acquisition of such securities by public bodies easier and cheaper. The studies of our committees have been aimed to develop and bring out the facts so that depreciation can be handled on a factual rather than a theoretical basis and so that depreciation accounting will be recognized simply as the process of recording experience and judgment.

Engineering

Furnishing electric service is essentially an engineering problem. It is only after the engineer has done his work that the commercial forces can take hold. In the development period of the electric utility industry our engineers performed so effectively that there came to be a feeling that the commercial aspects of our business are now predominant and that the problems needing solution were not engineering ones. Developments in recent years have, however, tended to offset this notion. In that close relationship with economics, which is the very essence of good engineering and of good commercial development, we are on the threshold of further important developments. Sales promotion has been and will continue to be effective in reducing unit costs to our customers, but only through keeping in the forefront of engineering progress can our basic costs be reduced or held down to keep our industry in a competitive position with respect to the services offered by other industries.

Ours has always been inherently an industry with relatively high fixed plant investment per unit of output. So, while engineering is naturally concerned with the most efficient production of electricity, it can be equally effective when it reduces our fixed plant investment. Out of this war are coming new developments in metals and insulating materials which engineers will take advantage of to hold down the cost of power stations and the cost of transmitting power. One development we will hear discussed in this meeting is the prospect of extending distribution lines at higher voltages and in another paper we will hear a discussion of the possibilities of building substations for less money. Other engineering questions will also be covered in the papers that will be presented which tend to prove that the engineering part of our job is by no means finished and that we cannot yet afford to let well enough alone.

Standardization

Progress is being made in utilizing the possibilities of repetitive manufacture to reduce investment costs in the fields of steam turbine design, power transformers, switchgear and distribution transformers. It is important that these possibilities of price reduction should be fully realized, as otherwise the gain might not be sufficient to offset that loss of freedom in design which is a danger constantly present in all standardization practice.

Production Plant

The potentialities of the gas turbine are being closely followed. Recent studies indicate that no gain in operating efficiency, compared to large steam turbines, can be obtained by gas turbines with temperatures below about 1100 degrees Fahrenheit. So that the problem of higher efficiencies is essentially a metallurgical one of finding materials which will hold their strength when operating at high temperatures. In connection with existing high pressure steam installations, the Institute is collaborating with the Association of Edison Illuminating Companies in research on graphitization of carbon-moly steam piping. This is making progress, but another year's work is indicated by the results so far.

Commercial Work

The continued growth throughout the war in the use of electric energy in home and office, in spite of blackout and dimout regulations and the cooperation in the Government conservation program, has demonstrated how great is the public need for electric service. This need, plus the inability to manufacture new equipment due to restrictions on the use of raw materials, has produced great activity in the maintenance of appliances and in the activating of formerly idle equipment.

Looking ahead to peacetime and the availability of equipment, we may expect all-time sales records through the replacement of overworked electrical servants. There should also be great demand arising from the electrification of several hundred thousand new homes that will be constructed each year. New developments in heating and cooling of the home, in refrigeration and food storage, are but reminders of the coming expansion of electric services. In the commercial classification of our business, higher levels of illumination, commercial cooking expansion and air conditioning add to the possibilites of development. In the power field, many new uses of electricity have been developed during the war for saving time and cost in manufacture, notably in electronics and heat applications to industrial processes.

All these considerations have led to the general belief that the end, or even the decrease, of hostilities will bring on a need for commercial activity by the utilities never before equalled. This was the theme of the Institute's Commercial Conference in Chicago in April, which evidenced more interest than any similar past conference in our history. The diminution of the forces in our commercial departments incident to the war, contrasted with the increased promotion tempo that will soon be needed, presents a problem not only of reemploymetn but also of restraining to which our companies are very much alive.

Power Available

The trend of basic economic factors seems to indicate that we are already past the peak and trending downwards with respect to war activities. The dates of some such peaks show:

Construction Activity: August, 1942; employment in all non-agricultural establishments: December, 1942; Wholesale Commodity Prices and Cost of Living Index: May, 1943; Industrial Production: November, 1943; and National Income Payments: February, 1944.

The relative magnitude of civilian compared to war activities is now much smaller than it was in the last war. The total Industrial Production Index at the end of 1943 was three times the civilian total and was twice as large as the highest civilian level in our nation's history. The record of the last ten years shows a substantially constant ratio between the Industrial Production Index and total electric energy output. Even if, therefore, we visualize obtaining after the war the highest level of civilian industrial production the country has ever enjoyed, the decrease in war production should leave large amounts of electric energy for sale.

---

able June 30, 1944, to holders of record June 16:

Class—	For Second Quarter Regular	Extra	Total
Agricultural	.06	.05	.11
Automobile	.07	.07	.14
Aviation	.16	.01	.17
Building	.03	.06	.09
Chemical	.04	.03	.07
Elect. Equip.	.07	--	.07
Food	.05	--	.05
Fully Admin.	.05	.08	.13
General Bond	.10	.05	.15
Industrial Mach.	.11	--	.11
Institu. Bond	.11	--	.11
Investing Co.	--	.04	.04
Low Priced	.05	.04	.09
Merchandising	.07	.03	.10
Mining	.03	--	.03
Petroleum	.06	.04	.10
Railroad	.05	.04	.09
Railroad Equip.	.05	--	.05
Steel	.05	--	.05
Tobacco	.05	--	.05
Utilities	.03	.02	.05

Selected American Shares, Inc.—A dividend of 19¢ per share, payable June 30, 1944, to stock of record June 20.

Union Trusteed Funds, Inc.—The following per share dividends payable June 20, 1944, to stock of record June 13:

UBA	$.46 per share
UBB	.45 per share
UBC	.25 per share
UPS	.35 per share
UCSA	.16 per share
UCSB	.13 per share

Common Sense About Profit Control

(Continued from First Page)

of peace that we all hope will follow victory in the bloody conflict now raging around the globe.

If the OPA should be empowered to clamp down a rigid limit on profits during the postwar era, it would be a major disaster not only to industry, but to labor which wants jobs in industry, and to agriculture which looks to labor and to industry for markets for its products.

Let us see just what is involved in this question of Profit Control.

From War to Peace

Some day, we hope soon, this war will be over. Some day, the drums of war will roll out only to give cadence to the steps of our boys as they swing up Main Street through cheering throngs in final victorious review before doffing uniforms for "civies," and returning to their homes, their families and the jobs they left behind.

Before that day comes, this country must be ready. The millions who left jobs to go to war, or to do work in air craft plants and shipyards, expect to find those jobs, or adequate substitutes, when they return. The nation's economy must be made ready to provide those jobs. It must be made ready also to give work to millions of others who went to war as boys without a place in the economic scheme of things, but who will return as men who have earned the right to have jobs. And there will be a third large group for whom jobs will be needed—the dependents of those who won't be coming back or who will come back permanently disabled. These dependents will have to become breadwinners.

Jobs—The Big Postwar Problem

Basically, no discussion of the reconversion period or the postwar period to follow can be separated from the really fundamental problem that must be solved —the problem of postwar employment.

In plain language, if we hope to have a peaceful peace at home when the war ends, we must plan our reconversion to a peacetime economy so that it will be lush with employment opportunities for the more than ten million veterans who will be seeking them, along with the other millions who will be released from war plants or who will have to change over from "dependent" to "breadwinner."

This problem cannot be written on a blackboard and solved with a few strokes of a piece of chalk. It is a problem in human lives; it is etched in broken hearts, blasted careers, mangled limbs, orphaned children, widowed young matrons, bereft parents of missing sons, blood, sweat and tears.

Profits Make Jobs

You cannot separate profit from the free enterprise system. The two are inseparable. As Professor John V. Van Sickle of Vanderbilt University aptly put it:

"The capitalistic engine is built to operate with the fuel of profits and the lubrication of confidence."*

Take away profits, and you take away the incentive to produce. Take away profits, and you take away jobs. Take away profits, and you take away the urge to keep costs down and to offer better quality at lower prices. Take away profits, and you take away the private enterprise system. Regulations unduly limiting profits thus go to the heart of our economic system.

The profit motive has been widely recognized in both peace and war. When we wanted an expanded output of agricultural products, what did we do? We permitted farm prices to rise, and we fixed high support prices so that it would be more profitable to produce the required items. When we desired to expand the output of war goods, workers were induced to migrate to war production centers by offers of higher wages. Contract renegotiation officials of the Armed Forces have allowed profits up to 20%, and more, to war contractors. No matter where we turn in our economy, we find evidences of the catalytic role played by profits in stimulating production.

Price Control, Profit Control and Congress

The main objective of wartime price control is to prevent inflationary increases in the cost of living. Inevitably, such control over prices has some incidental effect upon profits.

But profit control has been made, in certain directives of the office of Economic Stabilization and orders of the Office of Price Administration, an end in itself, rather than an incident. When the OPA undertakes to control profits, rather than prices, it hits at the heart of the free enterprise system, to which we look for the millions of postwar jobs that will be needed after victory has been won.

These attempts to control profits do not stem from the law itself. Congress has shown a full understanding of the key role of the profit motive in expanding output and lowering costs.

Again and again, the Congress and its committees have acted to conserve and safeguard the profit motive. At the same time, Congress has permitted no profiteering in this war. It passed an excess profits tax to take away 95% of profits above a level specified as "normal." On sales to the government, prices are subject to renegotiation where they produce "excessive" profits. As previously noted, however, profit margins up to 20% have been allowed in individual renegotiation cases because of extraordinary efficiency, inventive contributions or the assumption of unusual risks.

Uncertainty for Business Men

The desire to control profits for their own sake, manifested by OES and OPA, has created an unhealthy tension in business circles everywhere, particularly among manufacturers of consumer goods.

Business men have become convinced that government directives and orders which seek to control profits are inspired or written by employees of government bureaus who want to change our economic system in essential respects, who want to substitute bureaucratic regimentation for our free economy. Profit control, they think, would be one way to do this.

Now, we are not going to solve the thorny problems that lie ahead if our manufacturers become jittery, fearful from day to day of new efforts to squeeze profit margins by government decree. Yet that is exactly what is happening. Business men, large and small, who must provide the know-how and the venture capital for enterprise, must be able to see and plan ahead, so that they can take steps—if they are efficient—to recover their costs and earn a reasonable return. Profit control by Government makes this impossible.

Some people say: "Suppose business men are jittery. What of it? Who cares?"

The answer is that when business men are unable to make a profit, no matter how well they run their enterprises, they will be forced to curtail or abandon operations, because management is the trustee of capital. This means fewer jobs and less goods. Unemployment and a falling standard of living will result.

The business that makes profit, and uses this profit for further expansion, employs more labor and expands the national production. Such a business is the benefactor of labor. On the other hand, a business that fails must of necessity reduce employment, the supply of goods and services, and is thus a factor in raising the cost of living.

2% or Nothing—Vinson

The much discussed Vinson Directive, the most inclusive profit control measure yet issued by a government agency, had its origin in the disappearance of many low-priced textile lines from the market because manufacturers could not keep pace with rising costs except by concentrating upon higher-priced lines. The result was hardship for low-income consumers, who had to buy higher-priced goods or do without certain products. Under these conditions, there developed pressure to expand output of the disappearing low-priced lines.

A program was finally evolved under which the WPB would make available the materials required to produce low-priced items, and the OPA would permit adjustments in price ceilings so that manufacturers would not lose money on such production.

Since a rise in ceiling prices was involved in this plan, approval of the Office of Economic Stabilization was required. Director Vinson issued a directive to WPB and OPA on Nov. 16, 1943, laying down the principles to govern such price ceiling adjustments. This directive limited profits to 2%, before taxes, in all such ceiling adjustments. This provision was not made public at that time, although excerpts of the directive were released to the public on December 13. The published excerpts revealed the amazing fact that, instead of being confined to low-priced lines, the directive applied to all "essential civilian goods." Clearly, advocates of profit control for its own sake had scored a great victory within the Office of Economic Stabilization.

The directive caused such consternation in business circles that Director Vinson issued a "clarification" on Jan. 26, 1944. In this second statement, he explained that the first order:

"was intended to apply primarily if not exclusively to the field of basic textiles and apparel. At the suggestion of the WPB officials . . . it was broadened to include other essential consumer goods. This has served, however, to create so much misunderstanding that I am constrained to revert to the original purpose and intentment of the directive. Therefore, it will in the future apply only to textiles and apparel."

But, after thus seemingly narrowing the troublesome term "essential consumer goods," Director Vinson then went on to say:

"Problems arising in connection with shortages of other consumer goods where price adjustments are involved shall be presented to this office on an individual basis, for treatment which is consistent in principle with that provided for textiles and apparel."

With one hand, Director Vinson sought to reassure manufacturers of civilian goods other than textiles. With the other, he gave profit control right back to them —in spades.

The Vinson directive made 2%, before taxes, the maximum profit in such price ceiling adjustments. But where a manufacturer reports profits, once again, before taxes, more than double those earned in the 1936-39 base period, no profit whatever over costs would be allowed. Here was profit control with a vengeance.

Manufacturers, naturally, were profoundly disturbed, particularly the thousands of smaller concerns for whom civilian goods manufacture had become an urgent, immediate problem. As large prime contractors increased their efficiency, and as they received notice of cutbacks on their war orders, they tended more and more to pull in their sub-contracts. This hit smaller manufacturers who were working on these sub-contracts. Considering the substantial investment required for reconversion and the risks involved, these smaller manufacturers could not see how they could undertake to return to their peacetime operations under a 2% or no profit maximum rule.

Just Nothing—Bowles

The Vinson Directive tried to limit profits to a maximum of 2%. In April, the OPA decided to go the OES one step better by providing that price ceilings for many products could allow no profit at all.

An important price order applicable to many consumer durable goods is MPR 188, which covers such products as household furniture, office equipment and machines, dental supplies, commercial kitchen utensils and similar items. The amendment to this order issued in April provides that, when setting ceiling prices on these products to permit resumption of their manufacture, the Office of Price Administration will make them high enough to cover only manufacturing, packing and shipping costs. Where a manufacturer's entire operation is actually being conducted at a loss, the ceiling price could be high enough to cover selling and administrative costs as well.

Here, profit control for its own sake reaches its logical end—the elimination of profits. What would this mean to our postwar economic system? How can industry be expected to provide millions of new jobs if it can only recover costs, and no more, regardless of how good are the products sold or how econonomically they are manufactured and distributed?

Let's Be Sensible About This

We don't want to have postwar inflation. We don't want to have a postwar depression. We don't want to have postwar unemployment.

Rigid profit control creates conditions that may bring on all of these evils. By discouraging reconversion and curtailing production, profit control curtails the supply of goods, thus paving the way for a runaway price rise. Reduced production, also, spells depression and unemployment.

It is axiomatic that if we are to avoid inflation we must have adequate production. We are not going to get production if capital and management are scared away through fears instilled in businessmen by efforts to make control of profits an end in itself.

Let's not trifle with this. It is too important. The nation must not permit personal differences, political differences, ideological differences, and other clashes of viewpoint to take our eyes off the ball. Our country's problem is to see that there is full opportunity for employment for all who want to work when the war is over. Anything that even threatens to impair the solution of that problem must be discarded in the common cause.

Our country's war production triumph which followed conversion from a peacetime economy has been the industrial miracle of the ages. It has been praised as such even by Marshal Stalin. This triumph was not accomplished by rigid profit control. It was made possible by the incentive of reasonable profits and the patriotic appeal which caused both labor and capital to turn out the best that was in them.

Let's take a leaf out of the book of **conversion** in solving our **reconversion** problems, particularly since the patriotic motive necessarily becomes less potent once hostilities cease.

Let's be sensible about this thing!

* "Has Private Enterprise a Future?" Trusts and Estates, May 1944.

The Business Man's Bookshelf

Air Transport Industry, The—A Study—The National City Bank of Cleveland, Cleveland, Ohio—paper.

Food Rationing and Supply, 1943-1944—League of Nations Publication 1944, II. A. 3—Columbia University Press, Morningside Heights, New York City—paper—$1.00.

Indexes of Retail Sales in Alabama—John P. Gill and Allene Smith—Bureau of Business Research, School of Commerce and Business Administration, University of Alabama, University, Ala.—paper.

Regulations Relating to Foreign Funds Control in the United States—Bank for International Settlements, Basle, Switzerland—paper—10 francs (Swiss).

Economics of Control, The—Abba P. Lerner—The Macmillan Company, 60 Fifth Avenue, New York City—cloth—$3.75.

Fifteenth Report to Congress on Lend-Lease Operations (for the period ended March 31, 1944)—Supt. of Documents, U. S. Government Printing Office, Washington 25, D. C.—paper—30¢.

Freedom from Fear—Louis H. Pink—Harper & Brothers, 49 East 33rd Street, New York 16, N. Y.—board—$2.50.

Into a Second Century With Procter & Gamble—Procter & Gamble Company, Cincinnati, Ohio—cloth.

Manipulation of Our Federal Reserve Bank Notes—Walter E. Spahr—Economists' National Committee on Monetary Policy, 70 Fifth Avenue, New York 11, N. Y.—paper—free.

Public Spending & Post-War Economic Policy—Sherwood M. Fine—Columbia University Press, Morningside Heights, New York 27, N. Y.—cloth—$2.50 (publication date: June 9, 1944).

This Is the Road to Stock Market Success — Seamans-Blake, Chicago, Ill.—fabrikoid.

Our Job in the Pacific—Henry A. Wallace—American Council of the Institute of Pacific Relations, 1 East 54th Street, New York 22, N. Y.—paper—25¢.

Railroads and Public Welfare, The—Emory R. Johnson—Simmons-Boardman Publishing Co., 30 Church Street, New York 7, N. Y.—cloth—$3.00.

Telecoin Div. Announced

Eugene Farny, Chairman of the Board of The Telecoin Corporation, announces that an initial dividend of 25 cents per share has been declared on the $5 par preferred stock of the Corporation, payable July 1 to holders of record June 15. The Telecoin Corporation operates coin-operated Bendix Washing Machines in apartment houses, Coast Guard Stations, and Army camps.

Mr. Farny is also a director of the Bendix Home Appliance Co.

Railroads in 20th Century

The Association of American Railroads, Transportation Building, Washington, D. C., have prepared a most interesting booklet entitled "Railroads in this Century," a summary of the facts and figures with charts. Copies of this booklet and an attractive brochure containing four hundred quiz questions and answers on railroads and railroading may be obtained from the Association on request.

Eugene W. Castle Sees A Gradual Conditioning For State Socialism

,lm Company Executive Warns Bureaucratic Trends, With Federal Governments "Colossal Payroll," Will Lead To Dictatorship

In an address before the Advertising Club of New York, on June 7, Eugene W. Castle, President of the Castle Films, Inc. discussed what he called "the vital need for good Federal Government now." After pointing out that "heavily financed minorities in this country are attempting to by-pass or to openly refute" our form of government, he stated "the need for good Federal Government now is not an issue between liberty-lov- years, been 'conditioned' for death and inevitable defeat.

Eugene W. Castle

"In our land, for the past 12 years—before Pearl Harbor and since—Americans have been gradually 'conditioned' for state socialism, regimentation, and one-man rule to replace our constitutional form of government.

"Not long ago, Vice-President Wallace, speaking in Seattle, declared that Americans, whether they like it or not, are destined to accept parts of the Soviet system —a system which he believes and says would be a worthy substitute for our form of government that has over a period of 150 years made us the greatest, the freest, and the most powerful nation on the face of the earth.

"Today, while millions of Americans are fighting, and tens of thousands have already died in Europe and in Asia to preserve ing Americans. It is not an issue between the rank and file of labor, and the rank and file of management. It is not an issue between Democrats and Republicans. It is not a partisan issue. It IS a patriotic issue.

"In saying this, I want to make it clear that, like most of you, I am just an American businessman. I am not influenced by any political group or individual, nor am I seeking any political office, either elective or appointive.

"Let us recall that in Hitlerland the German youth and the German people have, for the past 12 and to protect our inherited freedoms here, power-hungry politicians and their alien-minded appointees and followers at home are now openly and defiantly engaged, under the camouflage of winning the war and the peace, in the now familiar 'conditioning' process. If the majority of Americans do not repudiate it, this could result in the loss of most of our freedoms at home even before our fighting legions return from victories on foreign battlefields.

"Are we the inheritors of, not four, but full freedom for Americans, to lose and perhaps lose permanently, all that has been handed down to us through the years? Are we to lose our free and accepted way of life in a matter of months, days, and finally hours?

"If this happens, then the businessman, the professional man, the man who labors in factory, field, or mine—all American men and women—will, in time to come, no longer be able to assert themselves as free citizens.

"Instead, as subjects of the state, all will go meekly, all will go with the indescribable feeling of fear and of hopelessness that I have seen in lands where millions of men and women have no rights at all. All will go to a Hillman, to a Browder, to a Bridges or to a Wallace. All will go to their appointed bus boys and bell hops for regimentation; to a Hopkins, to a Frankfurter, to a Niles, to a Kelly, to a Hague, or to a La Guardia, and to their appointed successors.

"All will go to these power-entrenched bureaucrats and to those who sponsor them for the right to think, for the right to speak, for the right to work.

"If under the umbrella of winning the war and the peace, Americans permit this, then these bureaucrats and their successors will decide for each and every one of us how our lives shall be lived, what we shall earn, and how we shall spend whatever money they decide we shall retain after their arbitrarily imposed taxes have been paid.

"They will rule. We will obey; —from the cradle to the grave. Let us not deceive ourselves. Power begets power. The dictators of Europe and of Asia have proved this to all of us."

Speaking of the tremendous growth in the number of Federal employees and size of the Federal payroll, Mr. Castle continued "in these critical and momentous times, too few of us seem aware of, or sufficiently concerned about, the growing danger to our fundamental rights and privileges, and to the fact that one of the widest gateways leading straight toward regimentation is the world's most colossal payroll — our Federal Government's.

"On this payroll, which is so huge that it is actually impeding the winning of the war, there are now more than 3,300,000 Federal employees, — more than one for every three men in our armed forces.

"Today, our Federal Government provides an employee for every 41 citizens, and at a cost to us, the citizens of this country, of a cool eight billion dollars a year in salaries alone. Too few of us realize that this vast army of Federal employees is in addition to the already adequate local, city, and state governments.

"In World War I, Woodrow Wilson's administration employed 917,000 people. Since Wilson's time, our Federal payroll has increased nearly four-fold.

"The present number is at least 1,500,000, too many for the job to be done and for the already overburdened taxpayers to continue to support.

"The size of the present Federal payroll is really the beginning of bureaucratic government, which is a polite name for the first step toward dictatorship.

"The public opinion of our nation should be fully mobilized to demand immediately that work be so streamlined and so consolidated, that 1,500,000 Federal payrollers can be dropped and put to work to relieve critical manpower shortages in industry and in agriculture."

Urging that businessmen take more action to counteract radical alliances and tendencies, Mr. Castle declares that "if the business men of this country, both those who are well known and those who are not known, do not begin now to put the welfare of their country and their freedom above their temporary dollars, all of us may find that in the difficult post-war era ahead we will have neither dollars nor freedom to protect.

"How, you may properly ask, can we as individuals do our share towards preserving our constitution and our traditional way of life, both during war time and during the post-war era ahead.

"If ten or twenty thousand business people will use every means at their command to impress upon their friends, their associates, their employees, and their fellow Americans the urgent need for good government, we will achieve a unity that will hasten the winning of the war and the time when the men and women of our armed forces will come home, and we will take first constructive steps to assure the winning of the peace for ourselves.

"Free and fearless government for all cannot be obtained by wishing and by hoping for it. It can only be obtained by working for it and demanding it.

"I believe that business people —and we are all business people, whether we work in the front office, in the store, at the work bench, or in the field, are now seeking specific ways and means to personally aid in obtaining good Federal Government both presently and in the future."

Morris Trust Officer Of LaSalle Nat'l Bank

CHICAGO, ILL.—C. Ray Phillips, President of LaSalle National Bank, announced the appointment of Clifton E. Morris as trust officer. Mr. Morris was formerly trust officer and director of the Geneva Trust Company of Geneva, New York, is a law graduate and a graduate of the Graduate School of Banking at Rutgers University, class of 1938. He was formerly a member of the Executive Committee of The Trust Companies Association of the State of New York.

Clifton E. Morris

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.

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.

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.

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.

Broker-Dealer Personnel Items

If you contemplate making additions to your personnel please send in particulars to the Editor of The Financial Chronicle for publication in this column.

NEW YORK, N. Y.—**Harold O. Schneider**, formerly connected with Delafield & Delafield, is now associated with **Cyrus J. Lawrence & Sons**, 115 Broadway.

(Special to The Financial Chronicle)

ATLANTA, GA.—**George Paul Wells** has joined the staff of **Hancock, Blackstock & Co.**, First National Bank Building. For the past 15 years Mr. Wells has been affiliated with the Fulton National Bank.

(Special to The Financial Chronicle)

ATLANTA, GA.—**E. F. Willis** has rejoined the staff of **Norris & Hirshberg, Inc.**, Citizens & Southern Building.

(Special to The Financial Chronicle)

BOSTON, MASS.—**Charles M. Swett** has become connected with **Blyth & Co., Inc.**, 75 Federal St. Mr. Swett in the past was with Newton Abbe & Co.

(Special to The Financial Chronicle)

BOSTON, MASS.—**Reginald T. Pratt** is with **Chace, Whiteside & Co.**, 24 Federal St.

(Special to The Financial Chronicle)

BOSTON, MASS.—**Luther P. Smith** has been added to the staff of **Perkins & Co.**, 31 Milk St.

(Special to The Financial Chronicle)

BOSTON, MASS.—**Fred M. Roberts** has been added to the staff of **William H. Coburn & Co.**, 68 Devonshire St.

(Special to The Financial Chronicle)

BOSTON, MASS.—**Edward L. Gates** is with **Kenneth B. Hill & Co.**, 80 Federal St.

(Special to The Financial Chronicle)

BOSTON, MASS.—**John P. Donnelly** is associated with **Salomon Bros. & Hutzler**, 75 Federal St.

(Special to The Financial Chronicle)

BOSTON, MASS.—**Jeane W. Churchill** is connected with **Union Securities Corp.**, 75 Federal St.

(Special to The Financial Chronicle)

CHARLOTTE, N. C.—**Thomas W. Haynes** has been added to the staff of **McAlister, Smith & Pate**, Johnston Building.

(Special to The Financial Chronicle)

DENVER, COLO.—**Ronald Welsh** has become affiliated with **Otis & Co.**, First National Bank Building.

(Special to The Financial Chronicle)

DENVER, COLO.—**Charles B. Elder, Jr.**, is now with **Sidlo, Simons, Roberts & Co.**, First National Bank Building.

(Special to The Financial Chronicle)

GREENVILLE, S. C.—**Earnest Robert Eckley, Jr.**, is with **McAlister, Smith & Pate, Inc.**, Woodside Building.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Mrs. Margaret D. Turner** is with **Russell M. Anderson**, 559 S. Figeeroa Street.

LOS ANGELES, CALIF.—**John F. Egan** and **Edward J. Mayner** have become associated with **Cruttenden & Co.**, 634 So. Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Lloyd R. Arnold** and **William T. DeGraff** have become affiliated with **Fewel & Co.**, 453 So. Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Laurence F. LeBaron** is now with **Crowell, Weedon & Co.**, 650 South Spring Street. He was previously with Norman B. Courteney & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Fay C. Marchant** has joined the staff of **Mitchum, Tully & Co.**, 650 So. Spring Street.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Vernon W. Janney** is now affiliated with **Akin-Lambert Co.**, 639 South Spring St. Mr. Janney was previously with Protected Investors of America, Quincy, Cass Associates, and Hopkins, Hughey & Anderson.

(Special to The Financial Chronicle)

LOS ANGELES, CAL.—**Ralph D. Lovendale** has joined the staff of **Blyth & Co., Inc.**, 215 West Sixth St. He was formerly with Bankamerica Company and in the past with Wulff, Hansen & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Vera E. Alexander** is with **Wyeth & Co.**, 647 South Spring St.

(Special to The Financial Chronicle)

MACON, GA.—**William C. Barnwell, Jr.**, has rejoined the staff of **Merrill Lynch, Pierce, Fenner & Beane**, Dempsey Hotel Building.

(Special to The Financial Chronicle)

MILWAUKEE, WIS.—**Gilbert Schumacher** has become affiliated with **F. M. Ayres & Co.**, 152 West Wisconsin Avenue. In the past Mr. Schumacher was connected with R. Alger Dake, Inc.

(Special to The Financial Chronicle)

OALAND, CALIF.—**J. Warren Dooley** and **Frederick Stirton Weaver** are with **Merrill Lynch, Pierce, Fenner & Beane**, Central Park Building. Mr. Dooley was formerly in charge of the firm's office in Rockford, Ill., and was with the Washington, D. C., office of Fenner & Beane. Mr. Weaver was with Bankamerica Company and the Pacific Company.

(Special to The Financial Chronicle)

ORLANDO, FLA.—**Thomas S. Denton** is now associated with **Merrill Lynch, Pierce, Fenner & Beane**, 218 North Orange Avenue. Mr. Denton was for many years with Thomson & McKinnon in Atlanta, Ga., and Palm Beach.

(Special to The Financial Chronicle)

PORTLAND, ME.—**Paul E. Murphy** has become connected with **Coburn & Middlebrook**, 465 Congress St. Mr. Murphy was previously with F. L. Putnam & Co.

(Special to The Financial Chronicle)

PORTLAND, ME.—**LeRoy B. Jordan** has become connected with **Coffin & Burr, Inc.**, 120 Exchange St. He was previously with Townsend, Dabney & Tyson.

(Special to The Financial Chronicle)

PORTLAND, ORE.—**Harold Hershner** has become associated with **Fordyce & Co.**, Porter Bldg.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—**Roy G. Thompson**, previously with Stephenson, Leydecker & Co., has become connected with **Davis, Skaggs & Co.**, 211 Montgomery St.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—**Donald M. Haseltine** has been added to the staff of **Dean Witter & Co.**, 45 Montgomery Street.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—**Jordan K. Bell** has become associated with **Walston, Hoffman & Goodman**, 265 Montgomery St. He was formerly with Dean Witter & Co.

(Special to The Financial Chronicle)

WORCESTER, MASS.—**Benjamin S. Chase** has become associated with **H. L. Roberts & Co., Inc.**, 390 Main St.

American Foreign Policy Alternatives

(Continued from page 2470)

who remain in civilian life in this war. So far we have managed on the civilian side, with some notable exceptions which I am sure will occur to all of you, on the basis of voluntary cooperation with government controls and directives, always with the big stick of vast and ill-defined war powers to force compliance in the background. For more than a year there have been demands from leaders in government that voluntary cooperation be abandoned in favor of direct and complete federal control of manpower and production. That will not be done in this war. But in the next great war, if we permit it to happen, it will be done without any question, because only with such totalitarian controls could any nation hope to fight successfully in that next war. Once adopted, such controls will not easily be abandoned. The political leaders in history who voluntarily relinquished great power are few and far between. George Washington is the one outstanding example in our own country.

The United States does face some grave domestic problems. But their solution will depend in large measure on how well we solve this international problem of security against future world wars. Furthermore, our democratic system can and will survive considerable bungling and fumbling on domestic issues, as it has in the past. But I am convinced that it will not survive another great war.

We are in this war today because of the failure of our foreign policy and those of the other democracies that wanted peace and stability in the world. Why did we and our allies in the last war fail to build a peace that would last?

Today we hear a great deal of talk and many commitments to United States cooperation and collaboration in maintaining peace after this war. I wonder just how effective cooperation is likely to be? Let's take a look at the record after the last war.

True, we did not join the League of Nations, but we certainly "cooperated" in a great many attempts to solve international problems. As a matter of fact, over 200 Americans served in the League secretariat, we constantly maintained a large delegation of "observers" at Geneva and were consulted on all major League actions.

Looking back, we can recall one international conference after another, during the twenties and early thirties, on disarmament and other problems, in which the United States participated. Some were held here. We certainly were all mixed up in Europe's problems. The Dawes and Young plans on German reparations bear the names of Americans who headed the commissions which worked them out. An American was coauthor of the Kellogg-Briand pact outlawing war. We joined the League in declaring Japan an aggressor against Manchuria and Italy an aggressor against Ethiopia. In fact, we cooperated and collaborated all over the place during the twenties and early thirties. So did the other democracies. And all through that period nationalism and isolationism were on the upsurge in every nation. All of them talked peace, condemned aggression and did nothing effective about either one. Every nation, ourselves included, insisted on retaining complete freedom of action to do as it saw fit in any specific case of aggression. The result was that no one did anything, and the aggressors thrived. It might be well to keep that fact in mind when judging the qualifications of candidates who are for international cooperation, but insist that the United States retain complete freedom of action. If we retain it, so will all other nations, and we'll be back just where we were in the twenties.

The United States abandoned its policy of talk in favor of action by the destroyer-bases trade in the summer of 1940 and by passage of the lend-lease act in March of 1941. It was too late for the change in our policy to prevent the World War and our inevitable involvement, but at least we woke up and acted in time so that we fight against the aggressors with allies instead of alone.

Now the question is what can we do to prevent it from happening again. I believe there are four alternatives the United States can follow.

One alternative is to go back to a policy of nationalism or isolationism. Call it whatever you like, and dress it up with whatever meaningless promises of "cooperation" you like, it still means the same thing. It means that we go it alone, depend solely on our own armed strength for security, withdraw from Europe and Asia in so far as any binding commitments on our part are concerned. It means that while we may participate in many international conferences, as we did in the twenties, we'll always consider ourselves a free agent to do as we please, accepting only such commitments as suit our own exclusive national interests (short-term interests I might add) and no others.

Most of you here would quickly reject that alternative, probably scoff at the possibility of our adopting it after the bitter lesson of this war. I do not scoff. There are very powerful groups and leaders in this country who, apparently having learned nothing from the experience of the past 25 years, want the United States to do exactly that. They have become more articulate in the past six months. While I believe they are a minority of our people, they are organized and they exert at the polls an influence out of proportion to their numbers. Because of that fact, the consequences of a straight nationalistic policy are worth examining.

It would mean, of course, that we must maintain indefinitely a huge army, navy and air force, since our own armed strength would be our only security. Maintaining an armed force of five million men at $2,000 per man, would cost ten billions a year. Maintenance and replacement of equipment — ships, planes and guns—would double that to twenty billions a year for defense. To expect any substantial revival of world trade under such a policy would be folly. We and other great powers would all have to go in for economic self-sufficiency, ruthlessly controlling our economy so that we would be independent of any distant source of raw materials. What that would mean in the way of subsidies for various synthetics and government control of production, no one can now say, but it is certain that free competition and enterprise as we know them would be a thing of the past. The cost of such a program could be paid in only one way, through lowered living standards, just as Germany paid for Hitler's rearmament program in the thirties. With this lowering of living standards would go in all probability universal military training and a degree of militarization of our national life never dreamed of before.

Whether such a policy would avoid our involvement in another war would depend on whether we remained so strong that no other power or combination of powers would risk attacking us. History shows that such a policy has never in the past prevented war, and its cost would be terrific, both in wealth and in sacrifice of our individual liberties. I believe such a policy would mean the eventual liquidation of the value for which we are fighting this war.

Our second alternative is to join with Russia and Britain in an alliance to police the world. The argument for this policy, and it has proponents in high places, is that the military power to control the world at the end of this war will reside in the United States, Britain and Russia, that authority divorced from power is unrealistic and unworkable, and that therefore the Big Three, since they must supply the power, should also wield the authority and between them run the world. Generally, a division of the world into spheres of influence, not too clearly defined, is envisaged with each power having primary responsibility for keeping the peace and authority to determine conditions in its particular sphere.

We seem today to be drifting toward this alternative, behind a facade of international organization comprising the tattered remnants of the Atlantic Charter and the Moscow agreements. The facade is necessary to make this policy palatable to America. The alliance would have to be unwritten and operate behind some organization shield, because a formal treaty of alliance would not command twenty votes in the United States Senate, let alone the 64 necessary for ratification.

The reason for that situation is the best argument against this alternative. It is quite true that major world power after this war will reside in the Big Three and it is also true that authority without power is meaningless and unworkable. It is also true that for a dictatorship, where all authority and power are combined and exercised arbitrarily, the conclusion that the Big Three should run the world is perfectly logical and valid. But for the United States and Britain, where power to govern may be exercised only with the consent of the governed and within limitations prescribed by the people from whom authority flows through legislatures and laws, the conclusion is completely fallacious. It goes against our most fundamental political beliefs and it is unthinkable that the American people would support knowingly any such policy.

Actually, such a pattern for the world would differ only in degree from that New Order which the Axis sought to impose on Europe. The peoples of occupied Europe and Asia are not likely to take any more kindly to being dominated by the Big Three than by the Axis, and the police powers in their respective spheres of influence would be likely to have their hands full.

In addition, there would be the constant danger of clashes of interest among the Big Three, some of which already are occurring. Alliances in the past have been about the most unstable of all international institutions, and they have always tended to breed counter alliances.

The cost of such a policy to the United States in terms of military expenditures would be about the same as for a policy of straight nationalism. We would have the choice of paying that cost ourselves, or forcing the peoples in our sphere of influence to pay it by adopting an imperialistic policy. Indeed, some degree of both economic and political imperialism must inevitably accompany any spheres of influence arrangement.

My own conviction is that future wars are almost inevitable under this balance of power policy, and that of all alternative policies, it is the worst for the United States. By adopting it, we would abandon every ideal for which we profess to fight and earn the hatred of the world in place of the friendship and confidence with which most nations now regard us.

The third alternative is to revive the League of Nations or set up a new international organization along similar lines. In other words, an international organization with authority to make findings, decisions and recommendations, but with no power to enforce them. This is what is meant by an organization of sovereign nations. Some would even oppose inclusion of Article Ten of the League covenant, which committed member nations to go to war against a nation found by the assembly to be an aggressor—a commitment which no member honored. The essential point, however, is that member nations of such an organization would retain complete freedom of action, to accept or reject decisions as they saw fit, and the organization itself would have no power at its disposal to enforce compliance.

I believe that many leaders in this and other countries envisage a combination of the second and third alternatives — an international organization to settle disputes with the Big Three furnishing the power, either individually or jointly, to enforce the decisions, probably only when the decisions suited them.

While this alternative offers more hope of really maintaining peace than either of the first two, particularly if Britain and the United States remain strong and alert, I believe that unless it evolved into an organization having both authority and power, the same thing that happened to the League would eventually happen to the new organization. Because the organization proved impotent in test cases, nations would lose confidence in it and international problems would be settled elsewhere and by power politics and force. Certainly experience argues against its success. Such an instrument failed miserably in the twenties and thirties, and it seems the height of optimism to expect it to succeed in the forties and fifties, when international problems are likely to be far more dynamic and complicated.

The fourth alternative policy for us is to support an international organization having both the authority and the power to enforce the peace. An organization that cannot only settle international disputes, but enforce its decisions, that not only outlaws aggression, but has the power at its command to stop aggression.

The authority of such an organization could and should be closely circumscribed in the beginning. If its authority and power to act were limited solely to stopping military aggression, it would be a tremendous step forward. On all other international problems — colonies, raw materials, currency stabilization, air routes—the organization could function as a clearing house, with authority only to seek agreements and make recommendations. But it should have the authority and power to act against the occasional outlaw nation that attempts aggression.

The structure and mechanics of the organization, the principles by which it attempts to settle international disputes—these are important, but not vital, in this discussion. In any event it would be futile for one nation alone to try to blueprint them, because they can be developed only in the give and take of international conference. Likewise, organization and type of military power possessed by the organization can and must be worked out in conference. It might be the assignment of rotating units of national forces to the international organization, with the Big Three in the beginning furnishing the bulk of the force.

Or perhaps we could persuade our Allies to join in establishing an international military force, the preferable method to me. However, we will face that decision the day Germany collapses. Military power will be required to police Germany and her disarmament. That would be an ideal opportunity to test the feasability of an international force. Certainly, there must be continuing supervision of both Germany and Japan for the next twenty years, and it would be far better both for the United Nations and for those countriees, to have the policing done by an international force rather than by national forces.

There are two major arguments against adopting the principle of international organization with power as our policy. One is that it would involve relinquishment of some of our national sovereignty. Perfectly true. We would relinquish the sovereign right to wage aggressive war. We would agree to be bound by decisions of the organization in the limited fields in which we had agreed it was to have authority. We would commit ourselves to support its decisions with our own national forces if that became necessary.

It seems to me that our friends who insist that the United States must retain complete freedom of action fail to examine the inevitable corrollary to that policy, which is that then every other nation also must have the same complete freedom of action. And we are right back where we started. Under the concept of some sixty-odd completely sovereign nations in the world, we have had and will continue to have international chaos instead of international law and order. If we really want international law and order instead of recurring wars, it is time to do something realistic about writing and enforcing the law.

When we spetak of freedom of the individual in America, we do not mean absolute freedom to do as one pleases, but freedom under law—laws designed to protect and safeguard the greatest range of freedom for the greatest number of individuals. Absolute freedom would mean anarchy, just as clinging to the outworn concept of complete national sovereignty or freedom has meant a large degree of anarchy in international relations.

The other argument against international organization with power is that it would mean a super state. I would prefer myself to call it a limited government on the world level, but I won't quibble over words. A super state. So what. If it makes sense, if it offers a better hope than any other proposal for peace and stability and sanity in the world and for us, are we going to let words scare us away from it?

But I am inclined to think there is a little more dangerous doctrine back of the sneering at a super state. It reveals itself when we are asked what is to keep the international organization from abusing the power given to it, of perverting its force into an instrument of aggression? That argument reveals a basic distrust of democratic procedure. Democratic government could not function except on the premise that the great majority of people are decent, want to be law-abiding, and respect their neighbor's rights as the only sensible way to preserve their own. It is the small minority of outlaws against whom society protects itself through laws and police forces. If we carry that premise into the international field, then we must proceed on the assumption that the great majority of nations and peoples want to be decent and law-abiding, want peace and not war, want to respect the rights of other nations, and that it is the small minority of outlaw nations that we must guard against.

Certainly in the twenty years of

Secretary Perkins Urges Post-War Social Security Expansion

(Continued from page 2469)

peace and well-being and when there exists this fair and proper machinery for the settlement of disputes, no strike is justified. Industrial peace is essential when we are fighting a war for the preservation of all that we Americans hold dear.

"I know your organization, like so many others in all fields of American activity, is looking to the challenging future we all must face. Your members and your officers have long been interested in social security for working men and women and their children and you have put into practice many advanced ideas. I know you have an interest and concern in the proposed expanded social security program because of its great value to workers and to the national economy in the post-war period. There should be no disagreement—and I do not think there will be—that a comprehensive system should be set up now so that benefits will be immediately available at the war's end to assist in easing the hardships of the readjustment period.

"Leaders of organized labor, representatives of management and Government experts all cooperated with the President's Committee of which I was Chairman on making the original recommendations upon which the Social Security Act was based. I am sure you will agree that it stands as a monument of sound achievement in the economic interest of the American people. It can be expanded in the light of experience and need and it will be a further and more effective bulwark against individual want and a preventive against community depression.

"Expansion now would provide protection to individuals and families against the loss of income which they may suffer for one reason or another after the war, when a decline from the high levels of wartime employment would increase greatly the incidence of risks leading to such losses. On the other hand, from the standpoint of the economic system as a whole, social insurance can aid in maintaining consumer purchasing power when national income exhibits a tendency to shrink and thus can assist in maintaining employment and business at higher levels.

"If such extension is undertaken now and if the services are able to provide for disability, unemployment retirement, retraining benefits, specialized protected employment benefits from public works operations, and a strong and developed employment placement service for us in the period of demobilization, it can be of inestimable value.

"The sense of security which returning soldiers and sailors will have because their families are protected as well as themselves, if such a system is put into its beginning operations now, will do much to stabilize our political and social development in the future. The demobilization of those now employed in the wartime industries and their reassignment to peacetime production would be cushioned against doubt and dread, fear and uncertainty. Our fighting men need assurance that they are not to lose the benefit rights they have already accumulated. That is one of the important reasons for the extension of our social insurance system at this time.

"Under an expanded program, larger benefits would be available to support the temporarily unemployed and their dependents until they can get located in peacetime production. Larger annuities would be paid to the aged workers who, though normally they would have retired in 1940, remained at work until the end of the war. Permanently disabled persons, cripples, chronically sick, injured (non-industrial), too young to be eligible for old-age benefits, would for the first time be able to obtain similar benefits. Workers who are temporarily disabled by illness would be eligible for weekly benefits. When sickness entails hospitalization, payments would be available to ease the heavy burden of the cost. Finally, the widows, orphans, and other survivors of workers who die could receive benefits which would to some extent replace their loss of support.

"The general sense of security, which the ordinary man would get from continuity of income provided by needed types of social protection, would provide a better life for the great mass of the people. Knowledge that these programs are in operation would give a sense of security to all, a sense of security which is the most potent antidote to fears and worry over the uncertainty of the times. Therefore, the post-war period can be anticipated as a period of steady economic and social improvement when the standards of living can go up, when families can improve their homes, plan for the education of their young, the development of their culture and their comfort.

"There is no question of our ability to pay for an adequate system of social security at this time. Indeed, we can hardly envisage an equally propitious time to introduce postponed spending. The funds paid into social security contributions flow back to those who pay and to the improvement of the social fabric. This is a period when for reasons of preventing inflation it is desirable to withdraw purchasing power from the market. The post-war period will be a time when we want to release purchasing power promptly, to prevent too severe deflation. The income of workers and the income of employers can today bear the cost of this increased contribution.

"American workers are concerned with the social security program expansion and they are concerned too, as we all are, with plans for the post-war period. I know the International Ladies' Garment Workers' Union is studying the problem and that it will develop a program that will be realistic, constructive and of practical value to all of you. Yours is a progressive and forward looking organization of which you are justly proud.

"In the post-war period it may be necessary for the Government to develop at least a temporary public works program on a sound and reasonable basis, probably a local basis, as unemployment is likely to be spotty rather than general in the transition period. The main reliance for industrial recovery is in the development and manufacture for sale by private industrialists of goods for which there is a pent-up need by the consuming public. This includes publicly and privately financed housing developments to meet the needs of the public, for good housing will be of extreme importance as a stimulant for the revival of business generally, as well as meeting a great consumer need.

"A variety of public works programs have been developed on a local and regional basis, much of the program engineered and audited, making it possible to put it into operation quickly. The Department of Labor has contributed both to the planning of these programs and to the prediction of the areas where they are most likely to be needed.

"Within the post-war programs in the United States already set up (tentatively), either in the Department of Labor or other agencies of Government, there are a number of actions which can be taken as soon as peace comes, which will facilitate the orderly return of the industrial population to normal peacetime ways. Many of these functions are in the field of financing and business development. A number of them, however, have at least some machinery in the Department of Labor or the agencies closely allied to it. Among the actions which should be taken promptly when peace comes are the following:

"Revocation of all permits which have been issued for the employment of minors for more than 8 hours a day, or the employment of minors in ordinarily prohibited occupations.

"Revocation of all permits for the work of women beyond 8 hours and for the work of women on the graveyard shifts.

"Promote the reduction of hours of labor under the Fair Labor Standards Act to 40 hours a week to spread the work.

"Revocation of Executive Order 9240, and abolish Sunday work, holiday work, and overtime work so far as possible.

"Make appropriate adjustments in existing stabilization program established under War Manpower Regulations.

"Make the U. S. Employment Service a strong and effective labor exchange for transferring war workers and veterans to civilian activities.

"Enable the U.S.E.S. to operate a nationwide clearance machinery to facilitate the transfer of workers from surplus areas to areas where jobs exist.

"Encourage the immediate retirement of those over 65 on their old-age benefits.

"Encourage the return to education of any person under 20, to school or college or vocational training institutes.

"Advise and assist women who are merely pin-money workers who came into the labor market only because of the war need to leave the labor market and make opportunity for girls who must work regularly.

"Provide for proper Government assistance for loans to businesses which can reconvert quickly for the manufacture or distribution of civilian goods for which there is a market and which will provide large employment.

"Encourage and revive the luxury, transportation, and amusement industries and trades which are healthy and good for the public judged by normal standards.

"Develop Government aid for settling certain qualified groups on the land with a scientific program of assistance in crop planning and marketing and supervision.

"Open up the planned public works in those localities where there appears to be a considerable pool of permanently resident people for whom no immediate private employment is available.

"Renew all the techniques of stabilized employment which were partly developed during the last depression, such as orders in advance; extension of rural electrification, manufacturing, Government and other capital industry orders on a regular basis, etc.

"Release the housing programs now found to be necessary and give appropriate Government assistance to provide construction, as well as to public programs for housing improvements.

"Encourage normal purchasing by the public through use of war savings on a regular and systematic basis than speedy, reckless spending.

"Encourage purchasing of permanent consumers' goods, like refrigerators, vacuum cleaners, furniture, kitchen utensils, automobiles, necessary textile, etc.

"These are merely suggestions for what could be done immediately. The long pull requires vision, persistence, and fidelity to the ideas of unity and human values.

"You can be assured that a workable post-war program will be developed. We in America will avoid the pitfalls of the last period of adjustment to peacetime living because we know what they are and how to provide against them. Labor, management and Government, out of past experience can, and will cooperate in stimulating the production, distribution and sale of goods and articles for a peacetime market. I know the International Ladies' Garment Workers' Union will be a helpful and constructive force in solving the problems that lie ahead."

The Securities Salesman's Corner

When Was the Last Time You Surveyed Your Market?

Plans and planners for the post-war world abound in profusion today—there is one sort of planning though that can be relied upon to produce something more than mental exercise—that is the planning WE DO FOR OURSELVES.

There must be a good many accounts in every dealer's territory that are waiting for someone to call upon them and intelligently present the reasons why they should buy securities at this time. As far as individual investors are concerned they must be uncovered by advertising—either direct mail campaigns or newspaper ads or both. Then there are institutional investors—many of them are overlooked by salesmen who may be calling upon a few individual investors in a certain locality and never have taken the time to check up and see if there are some larger estates, trust funds, lodges, church funds, charitable organizations, attorneys who invest for individuals, etc., that would make excellent prospects for development.

Why not then, make a survey of the territory covered by the sales organization? This can be done by a check up of the telephone directory when it comes to uncovering institutional prospects. Assuming that a salesman covers a territory with a number of towns and smaller cities in a certain locality, why not pick out all likely looking institutions, assign them to that salesman for a call and report? If the prospect of future business looks promising the name should be kept on the prospect list—otherwise discarded. Several good pre-approach letters which stress the firm's ability to service the accounts of institutional investors **should precede the salesman's call.**

Incidentally when writing such letters it is advisable to stress the point that the firm is PARTICULARLY WELL SITUATED TO HANDLE INSTITUTIONAL BUSINESS SINCE IT HAS BEEN SPECIALIZING IN THIS FIELD. One method of eliminating non-prospects to a certain extent at least, is to offer an interesting article of special interest to this type of investor. This offer should be made in the second letter and a return card should be included. Articles photo-offset from the "Chronicle" which deal with monetary, post-war, and general investment problems, especially when they are by world-renowned authorities, would make attractive subject matter for this purpose. THOSE INSTITUTIONS WHICH REPLIED WOULD PROVIDE PROSPECTIVE CUSTOMER MATERIAL UPON WHICH THE SALESMEN WOULD BE ABLE TO CALL. Assuming that a salesman covered ten different towns, it is possible that this type of systematic covering of the institutional investors in his territory might provide him with several additional accounts in each of the localities on his route.

As far as individual investors are concerned, they must be uncovered by plain old-fashioned digging. Some salesmen can take a list of names of the holders of a certain security and just make the calls and DEVELOP ACCOUNTS. Others must have a certain amount of preparatory work done before they approach their prospects. Regardless of how it is done, it is first necessary to procure lists of security buyers. If a list of bondholders or stockholders of a certain security can be procured where there has been information released which is unfavorable or disturbing, so much the better. If a security looks like it is in a weakened position and a good exchange can be offered, this is also to the good. Many a salesman who has had the perserverance to go right through a stockholder's or bondholder's list from beginning to end has built himself the nucleus of a real clientele from just one such list.

Combining individual names with institutional names and assigning them to the sales organization for a systematic going over, and then seeing to it that the names are followed up and actually interviewed should eventually add to every salesman's personal production—especially in rural and semi-urban territories where there is a good opportunity for making more calls (individual) in each town or city.

The planned, systematic campaign will bring results because the law of averages has an opportunity to operate. It may seem like the longest way home to put on such a campaign but in the end it is bound to be productive.

---

my adult life that has been true. There were only three aggressor nations — Germany, Japan and Italy. At any time up to 1936, the combined power of the nations which wanted peace far exceeded that of the aggressors, but it was never mobilized effectively, because there was no governmental organization on the world level with power to mobilize it.

It seems axiomatic to me that if we are to proceed on the premise that a majority of nations favor war instead of peace, we might as well fold up now and begin preparing for the next war. No solution is possible on that basis.

The fourth alternative—international organization with power and freedom of nations under international law—offers our best chance of winning the peace as well as the war. I believe it is the policy the United States should now be sponsoring.

In the final analysis, our government will adopt the policy which is supported by the greatest number of people who make their support manifest through the election of a president and members of congress.

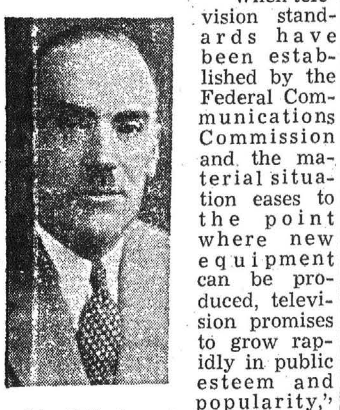
I have had many persons tell me they agreed on the importance of our foreign policy but add "what can I as a single individual do about it?"

Single individuals can do everything. I am convinced that our rabid nationalists, our would-be imperialists, and our timid thinkers, who shrink from world realities, are a minority in America today But they are a vociferous, active minority, and they may very well decide our policy unless you who believe in a courageous, realistic policy get into politics, demand that candidates go on record and help defeat those who are wrong and those who straddle.

World peace is democracy's greatest problem today, and also its greatest political test. Let us at home meet that test with the same courage as our fighting youth are meeting theirs on the battlefield.

Television Development Should Duplicate Or Surpass That Of Radio, Says Philco Executive

Much of the fundamental work to form the basis for the post-war television industry has now been completed, and over the years television should duplicate and indeed surpass the remarkable record of growth and progress of radio, it is predicted by John Ballantyne, President of Philco Corp., in a letter to stockholders accompanying June 12 dividend checks.



John Ballantyne

"When television standards have been established by the Federal Communications Commission and the material situation eases to the point where new equipment can be produced, television promises to grow rapidly in public esteem and popularity," Mr. Ballantyne believes. "Philco plans to be fully ready to participate in and contribute to these developments."

A New York to Philadelphia television relay transmitter link, connecting the two cities for video broadcasts, was officially dedicated with appropriate ceremonies on May 25th, Mr. Ballantyne pointed out. This new link, installed near Princeton, N. J., replaces previous experimental installations and marks the beginning of the first regularly-scheduled television relay system capable of providing commercial service in the United States. It is now in operation every Monday night to make the New York programs of Station WNBT available to the audience of Philco Television Station WPTZ in Philadelphia.

"The new television relay, developed by Philco engineers, is the first of its kind, and is capable of providing dependable, high-quality service at all times and under all atmospheric condition," Mr. Ballantyne states. "It is entirely possible that similar links, which can be constructed at a cost of about $15,000 each located approximately 50 miles apart, may form the basis for a nation-wide television system in the post-war period."

As previously announced, net income of Philco Corporation in the first quarter of 1944 totaled $946,326 or 69 cents per share, after estimated Federal and State income and excess profits taxes and after provision for adjustment and renegotiation of war contracts. In the first quarter of 1943, adjusted earnings amounted to $708,702, or 51 cents per share.

Hearing Held Before SEC---Dealers Oppose "5% Spread"

(Continued from page 2467)

the passage of the "5% rule" the NASD Board of Governors had exceeded its powers.

Frank J. Maguire, in behalf of S. C. Parker & Co., Inc., of Buffalo, N. Y., also voiced his opposition to the rule.

The session held forth to a crowded hearing room. Important personnel in the securities field was present, including Wallace Fulton and Henry G. Riter, 3rd, of the NASD.

The Commission, by order, had limited the hearing to a determination of whether the "5% spread" constituted a rule, and if so, "whether the Commission should take any action pursuant to Section 15 A (k) of the Securities Exchange Act of 1934 as amended."

ALL WHO WERE HEARD ADVOCATED THE ABROGATION OF THE RULE.

At the close of the hearing leave was given to all counsel to exchange and file briefs within two weeks, with one week additional for replying briefs.

Besides Mr. Kole, the Securities Dealers Committee was also represented by A. M. Metz.

Management's Stake In Collective Bargaining

(Continued from page 2470)

method of solving these problems, and required by law that collective bargaining should be carried on in good faith.

Thus management's stake in collective bargaining is to make it work so that Government can be forced to the sidelines.

But if Government is to be pushed out of active participation in our industrial relations and the nation is to return to its pre-war policy toward the affairs of labor and management, I do not anticipate that there will be anything like a return to all of our pre-war practices.

It is my belief that public opinion will insist on more harmonious and more constructive relations between management and labor, as the alternative to Government interference. When I say we should get the Government out of industrial relations, I do not mean we should clear the decks for a free-for-all.

It occurs to me, trained in the physical sciences, that when the Government moves out of its war-time place as a direct participant in industrial affairs, a vacuum will be created if management and labor have found nothing to fill its place. And a whirlwind—in the form of chaotic labor relations—will rush in to occupy the vacuum. The American people have no desire to undergo an industrial tornado because management and labor have insisted on creating a vacuum.

To me, sound collective bargaining is the natural choice to replace the Government's wartime influence in the nation's industrial cosmos.

Granting then that management's stake in collective bargaining is to substitute it for governmental direction—what is it that deters so much of American industry from utilizing collective bargaining? That makes management and labor reluctant to accept collective bargaining and its final step, written contracts clearly defining the limits of agreement with arbitration of disputes arising within the limited field defined by the contract.

Perhaps it is fear of the unknown. Mankind's basic desire is security. Both management and labor are fearful to risk whatever undefined degree of security they now possess by binding themselves to a final decision they do not make but are pledged to accept.

How then can we persuade American management and labor to bind themselves to settlements reached under collective bargaining? Well, it should be done primarily by reducing the area of the unknown, by exploring the field of industrial relations and laying out an area of mutual agreement, which both management and labor have accepted and which defies what is to be included in and what is to be excluded from collective bargaining.

There is no complete freedom in a civilized society. Every person sacrifices a portion of his individual sovereignty when he consents to live as a member of a social group. In the field of industrial relations, it seems to me to be far sounder and safer that management and labor should be bound by bargaining limitations of their own choosing, rather than by curbs imposed upon them. Since some freedom must be surrendered, let it be defined by the parties rather than by a Governmental unit, which may be less interested and less informed on the circumstances of each situation.

Perhaps by thoughtful consideration we could all be reassured about the unknown area in collective bargaining, which appears to terrify a portion of American industry.

There is little about collective bargaining or arbitration that needs to be unknown. It is a part of Democracy itself, and Democracy, like a milking-stool, stands firmly on three legs:

(1) Recognition of the essential dignity and worth of the individual.

(2) Recognition of the creative powers of persuasion.

(3) Recognition of the value of truth.

Thus the process of collective bargaining imposes upon both parties the necessity of recognizing that the other fellow also is an individual, with certain basic human rights. Mutual respect and confidence are necessary as a prelude to successful negotiation. That is the first leg.

The second leg of collective bargaining substitutes the creative powers of persuasion for the arbitrary use of coercion or force. Through the process of persuasion the parties are prevailed upon to accept certain limitations upon their demands—a field of mutual agreement is created within which negotiations can be carried on confidently and constructively, without corroding suspicion of the other fellow's motives or methods.

Although the limitations sometimes may be accepted through expediency, still it is acceptance without force and not an imposition of conditions upon either party.

Since each party has participated in determining the conditions and limitations under which he will operate, he is not continually hounded by the questions: "Is there something hidden here I don't see? Am I surrendering something I don't know about?

To seek an answer to these questions beforehand is the function of collective bargaining. To explore the situation, determine the needs, and then define the limits of negotiation and arbitration, thus clearing the air of nebulous fears and suspicions.

Neither party to a dispute surrenders its freedom of action by agreeing to submit the issues arising under the contract to arbitration, because the parties themselves have set the limits within which arbitration will be supplied. It is where collective bargaining does not function effectively, and the Government has to step in, that conditions and terms of employment may be imposed from outside.

Which brings me to the third leg of Democracy's milking stool—recognition of the value of the truth. In the process of using persuasion, you must of necessity get at the truth, since you can obtain agreement only through persuasive facts, and not by the imposition of arbitrary conditions or the use of force.

Every dispute is compounded of a mixture of fact and opinion, truth and prejudice. The bargaining process explores the issues in dispute, distinguishes between facts and opinion, and sets the alternatives side by side, so that the parties may put aside the worse and select the better.

The process of negotiation serves as an emotional purgative, recognized long ago by the Greeks, who as usual had a word for it—katharsis.

Having exhausted their arguments and cleared the air of emotional attitudes, the parties are more likely to use their heads instead of their hearts and reject the worse and choose the better alternative.

What are our prospects for successful development of a collective bargaining relationship which can shoulder the heavy burdens indicated for post-war industry in America?

The negotiating process is not an easy one. There is a need for patience, knowledge and skill if union and employer are to be brought into agreement at the conference table. But it is the only constructive, civilized way.

The first step lies in utilizing existing grievance machinery to the fullest extent. Unions and management must become accustomed to settling their daily differences between each other across the table, rather than turning to the War Labor Board or any Governmental agency that may be in existence in peacetime.

Both industry and labor are becoming more aware of the danger in the wartime attitude many of their members have taken, under which they refuse to settle disputes and tell their employees: "Take it to the War Labor Board." Negotiation is refused in an effort to discredit the union with its own members by making it impotent in handling routine shop disputes.

In the same fashion, some leaders refuse to compromise on a dispute in plant negotiations. They attempt to hold over management's head the threat: "Give in or we'll take it to the WLB."

The more alert members of both aides see the danger in such an attitude. It forces the Government to assume more and more a direct participation in labor relations, rather than to retire from the field. If labor and management turn to the Government for solution of their differences they must expect to swallow decisions which frequently will not be favorable or pleasant.

The Board has decided more than 6,700 dispute cases involving 8,500,000 workers since it was established Jan. 12, 1942, to settle major wartime disputes between management and labor. But it could never hope to arbitrate all the thousands of grievance cases arising in American war plants every day.

For this reason the Board has insisted that employers and unions write arbitration clauses into their contract grievance machinery, and that grievance procedures be used day to day as much as possible, so that the production of war material may go on unhindered.

There is another reason why the Board wants to strengthen orderly in-plant handling of labor grievances, so that our collective bargaining system can assume heavy post-war responsibilities which I believe are inevitable after the no-strike pledge has been dissolved and the wartime pressures for industrial peace have relaxed. Looking ahead to that day, industrial and labor leadership should strive now to build up knowledge and skill in handling in-plant grievances which can be carried to the conference table.

Such a backlog of associations and experience cannot be built overnight. American industry must start its post-war planning now, if it is to be prepared to assume the responsibilities that will be created rather suddenly with the end of the war.

There is likely to be a demobilization of discipline at the same time there is a demobilization of men with the coming of peace. Industry, along with the rest of the nation and the world, must be prepared to exercise restraint and influence now being supplied by the Government.

So let me suggest several steps both industry and labor can take right now as an immediate war-time preparation for this trying period:

(1) Live up to your contracts and make them work.

(2) Install arbitration as the final stage in your contract's grievance procedure.

(3) If you already have grievance arbitration machinery, be sure you utilize it on all disputes.

(4) If your contract is about to terminate, extend it by agreement of union and management until a new one has been negotiated.

(5) Employers should not needlessly disrupt labor relations in their plants by challenging the right of a duly-certified union to represent their employees in collective bargaining.

(6) In the same fashion, unions should not engage in raiding tactics which upset labor conditions in a plant.

(7) Make a sincere effort to reach a settlement in negotiating new contracts or revising old ones. Reliance on the War Labor Board to direct a settlement starts the merry-go-round again, keeping the Government in the field of industrial relations.

American industry and labor have been able—with a few noisy exceptions—to settle their differences during the war, either at the conference table or through the War Labor Board. They have learned that it is possible to do this without the tremendous losses which accompany strikes and lockouts.

The task that lies before them now is to adapt their wartime experiences to the needs of peace-time industrial relations, so that we can avoid drastic readjustments when the pressures of war have been removed and the Government has, I trust, stepped out of the field of labor arbitration.

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.

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.

Soya Co. Attractive

Reynolds & Co., 120 Broadway, New York City, members of the New York Stock Exchange, have prepared an interesting report on Central Soya Co. common. Copies of this report are available upon request from Reynolds & Co.

Municipal News & Notes

City Commissioner Daniel S. Bader, who is also Director of Revenue and Finance, has made known the fact that Atlantic City, N. J., contemplates the refunding of $22,199,000 of outstanding callable general and water bonds. Ordinances providing for the refunding were approved by the Board of City Commissioners on June 1 and set over for public hearing and final adoption on June 29.

The refunding will be carried out in accordance with a plan prepared for the municipality by Stifel, Nicolaus & Co., Chicago investment bankers, and Wainwright, Ramsey & Lancaster, municipal bond consultants of New York City. It is expected that the refunding will result in a saving of interest charges to the city of $3,250,000, Finance Director Bader advised. Additional large savings will be possible in the event of further improvement in the city's credit or if excess funds become available, he stated, as more than two-thirds of the new bonds to be issued will be subject to call at par, at various times.

The bond ordinances provide for the issuance of $20,433,000 general refunding bonds and $1,686,000 water refundings and the average interest cost will be 3.185%, a reduction of over 1% from the current average of 4.221%, according to Mr. Bader. The new general bonds will consist of general and term obligations. The serial bonds, amounting to $12,933,000, will bear 3% interest for the first two years and 3¼% thereafter to final maturity in 1967, and all maturities will be callable at par after Dec. 1, 1959. Term bonds in the amount of $7,500,000 will bear 3¼% interest and mature in 1967. While retirement schedule for the term issue provides for an annual levy of $375,000 for principal, it is provided that $750,000 become callable each year "so that if there are additional funds available, that amount may be retired either by call at par or by tender at less than par if the market for the bonds is below par."

The proposed new $1,686,000 water refunding bonds will bear "the low rate of 2½%," Mr. Bader pointed out, and will mature serially to 1963. The outstanding water bonds mature in 1973 and bear 4% to 1967 and thereafter 4½%. The outstanding general refunding bonds bear 3½% through 1945, then 4% through 1951 and thereafter 4½% to 1973. They are callable at par up to July 1, 1952, after which they become callable at 103.

In announcing the projected operation, Director of Finance Bader commented as follows:

"The refunding plan will give the taxpayers the benefits of not only a very large saving over the life of the bonds, but an immediate and continued reduction in debt costs, which will undoubtedly be reflected in further improvement in property values throughout the City.

"Prior to final approval of the ordinances, the plan, as required by New Jersey law, will be submitted to the local government board in Trenton, which has authority over all aspects of refunding in New Jersey, including maturities, interest rates and costs."

New Move Reported To Permit Commercial Banks To Underwrite Revenue Offerings

A further effort to amend the banking act of 1933 so as to permit commercial banks to again underwrite revenue bond issues is currently underway, it was recently reported by the Municipal Finance Officers Association. While possibilities in that direction have been discussed in the past, the current move has attracted considerably more interest, it was said. At the present time, commercial banks are prohibited from engaging in revenue bond underwritings, but are permitted to purchase such instruments for their own portfolios. The restriction is found in the clause of the 1933 statute which says that the banks can handle "general obligations" of the States and their local subdivisions.

Thus in order to include revenue bonds within the scope of the activities of such institutions, it would only be necessary to eliminate the word "general" from the act, it is pointed out.

In view of the increased use of the revenue bond by the States and municipalities, also quasi-municipal agencies, and the prospect for far greater expansion of this type of financing after the war, it is easy to understand the reasons underlying the present efforts to allow commercial bank participation in such issues. Whether investment banking houses and bond firms look with particular favor on the suggested bank act amendment is a moot point, in light of the new element of competition that would thus be injected into the revenue bond field.

With reference to the present efforts to bring about the change in the banking act, the Municipal Finance Officers Association is reported to hold that "such a liberalization of the banking law would broaden the market and stimulate competition between local banks and dealer syndicates" on revenue bond offerings.

Revenue Bonds Discussed By Cleveland Attorney

Revenue bonds was the subject of a recent address by Robert F. Denison of Squire, Sanders & Dempsey, well-known municipal bond attorneys of Cleveland. In addressing the annual conference in that city of the Municipal Finance Officers Association of America, the Cleveland attorney made the point that, as a result of the performance of this type of security in the depression period, "many of the assumed disadvantages of revenue bonds have disappeared."

In those days, Mr. Denison said, there were "many instances where revenue bonds were not in default," although this was not true of general obligations of the issuing community.

Due to lack of investment standards, as the attorney noted, considerable difficulty attended sale of revenue bonds during the early stages of such financing. In most instances, a very high rate of interest and/or price discounts were required to interest investors. The degree to which the pendulum has moved in the opposite direction is vividly attested by several recent revenue issues, including, of course, the $56,000,000 California Toll Bridge and the $41,533,000 Consumers Public Power District, Neb., refundings.

Many other examples could be cited to demonstrate the marked favor now accorded revenue issues by investors, institutional and otherwise. Indeed, there are some instances where the investment standing of revenue debt is equal to and even better than general obligations of the issuing community.

Getting back to Mr. Denison's address, press accounts quote him as saying that "municipalities must face the possibility of having to pay Federal income taxes on the net earnings of their utilities." Such an eventuality, of course, could possibly change the complexion of the present operating results of projects financed by revenue debt. For one thing, payment of Federal taxes would serve to materially narrow the coverage of debt service charges from earnings, after allowing for such requirements in addition to operating expenses, provision for reserves, etc. In addition, the income available for general purposes of the municipality as an offset to tax income lost through transition from private to municipal ownership would be proportionately less.

However, in light of the pronounced favor of the present administration in the direction of municipal ownership of public utility systems, it is not logical to expect that any action likely to handicap such undertakings will ensue.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 2470)

will let any of the pending bills become laws. There is the possibility that any veto can be overridden. But this at best is only a possibility.

So far as the market is concerned, it seems to feel that whatever is in the cards is worth higher stock prices. Experienced traders know, however, that a strong market with the public either in, or on the verge of coming in, is hardly the time to start new buying. On the contrary it is the period when selling should occupy one's thoughts.

For, in the final analysis, it is in the selling of stocks, not in their buying, that money is made.

* * *

As this is being written stocks are approximately 145 (D-J industrials) and volume is showing a healthy increase. The secondary stocks such as Mullins, Hayes and Murray to which attention was called last week, have advanced and the leaders have at long last also joined the parade. Another day or so of strength and everything on the board will be able to boast a substantial plus mark. A market such as painted above is not an easy one to stay out of. The bullish talk and what seems bullish action is difficult to resist. But that is exactly what I advise.

* * *

Meanwhile you still are long of two stocks: Crane bought at 22½, now about 26; National Gypsum bought at 9¾, now about 12. There is little point in getting out of either with the market inching up. But a lifting forward of stop levels to protect profits is warranted.

* * *

Crane should be stopped at 23. National Gypsum should be stopped at 11. So far as new buys are concerned the position of the market outlined in the opening paragraph doesn't look too promising.

* * *

Even if the column turns out to be wrong a reaction of some kind will give opportunities to buy stocks at lower levels than obtain now.

* * *

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.]

Chicago Bond Traders Announce Field Day

CHICAGO, ILL.—The Chicago Bond Traders Club announces that its annual field day and outing will be held on June 24 at the Mohawk Country Club at Bensonville, Illinois.

A full program of activities has been scheduled by the Entertainment Committee, which will provide for gold, tennis, horseshoes and baseball. In addition, there will be a bridge tournament during the late afternoon.

Reservations should be sent to Peter J. Conlan, c/o Hornblower & Weeks. The guest fee is ten dollars.

Interesting Situation

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

B & O Situation Interesting

The current situation in Baltimore & Ohio Railroad offers interesting possibilities according to a comprehensive analysis prepared by DuBosque & Co., 72 Wall St., New York City. Copies of this analysis may be had from DuBosque & Co. upon request.

New England Power Offers Interesting Possibilities

G. A. Saxton & Co., Inc., 70 Pine St., New York City, have prepared an interesting memorandum on New England Power 6% preferred. Copies of the memorandum discussing the situation in detail may be had from the firm upon request.

Interesting Situation

Aeronautical Products, Inc., offers an interesting situation according to a memorandum issued by Mercier, McDowell & Dolphyn, Buhl Building, Detroit, Mich., members of the Detroit Stock Exchange. Copies of this memorandum may be had from the firm upon request.

What "Q" War Means To Banks And Business

(Continued from page 2468)

Federal agencies, reaffirm the long-established right of bankers to charge for services **including** exchange, prevent strangulation of **one** type of service charge with resultant destruction or regulation of other types. Free correspondent relationships would at the same time be safeguarded and banking facilities for at least 25,000,000 people be preserved with no existing law or custom contravened. Defeat of the bills, their proponents assert, would mean some 2,000 non-par banks going out of business for lack of sufficient income, with peril to all unfettered enterprise.

Contrawise, foes of the measure see "chaos of competition" for country-bank balances, rising exchange fees, increasing number of non-par banks, wholesale withdrawals from the Federal Reserve System as results of "absorption." They prophesy that if this practice is sanctioned, "the old days of catch'em exchange fees and 1,000 mile wandering checks" will reappear; that shifting balances due to correspondent-competition will breed heavy Government bond offerings, which in turn may bring about a de-stabilization of the Federal bond market. Anti-absorptionists prepicture "smart money" flitting from bank to bank, concealed toll charges levied indirectly on all types of production and distribution and, finally, paradoxical enactment of laws prohibiting **all** service charges. As for those banks which "canot exist without this subsidy" of exchange, "their depositors have no right to expect them to carry on at the expense of the nation's other banks," one absorption enemy group asserts. Non-par banks are scored for their alleged refusal to replace exchange income by installing "proper service charges, through which their own customers will pay expenses and profits" allocated to "honoring checks as they are presented."

"To par or not to par" is thus the question at issue. The line-up on both sides is impressive. **For** par clearance are the Federal Reserve Board, a preponderance of Eastern banks and large banks elsewhere, many State and other banking associations, the National Association of Credit Men. **Against** (compulsory) par clearance are the Federal Deposit Insurance Corporation; a majority of southern banks,—particularly the smaller ones in rural districts—numerous country banks in the Northwest, the Independent Bankers Association, the American Business Congress. **Neutral** but opposed to "the forcing of universal par clearance by Federal law or regulation" is the American Bankers Association, which finds the Brown-Maybank bills inadequate. It seeks legislation better defining the payment of interest and permitting absorption of exchange "in incidental and minor amounts." This last quoted phrase is doubtless inspired by a recent supplementary Federal Reserve ruling, which permits absorption of exchange as mere routine service provided this is done on the quiet and is not used as an argument in soliciting accounts.

The Association of Reserve City Bankers likewise courts neutrality but from another angle—opposing anything that might "break down par clearance."

The Federal Reserve Board reiterates that it has neither approved nor disapproved the principle of par clearance, and does not forbid members from charging exchange. As a matter of fact, 4,800 non-member banks, some of them non-par, do not come under its ruling. The dictum affects only those member banks which have been "absorbing" for their country correspondents. Its practical result, however, is to range the Board on the side of par clearance and in opposition to the Brown-Maybank bills.

Outstpoken support of the bills by the Federal Deposit Insurance Corporation seems to be motivated by a solicitude for the welfare of its smaller policy holders. Chairman Leo T. Crowley believes that the proposed measure would keep more than 2,000 independent banks in 27 states from being forced out of business, thereby depriving many communities of banking facilities. He fears that present institutions would be replaced by Chain or Branch banks. He likes the bills because they "recognize the validity of normal correspondent relationships." Failure of passage, he warns, will invite progressive restriction on correspondent banking. Mr. Crowley calls attention to the fact that the bills reverse an Administrative ruling which he deems erroneous and contrary to the Act of 1917 legalizing exchange charges. The ruling, he contends, negates the U. S. Supreme Court's decision that Federal law imposes no duty of enforcing universal par clearance.

Though not all the non-par banks are small, and some have branches, the plight of the smaller banks is stressed by Brown-Maybank allies. Loss of income from exchange charges, reports a majority of the House committee, would prove particularly disastrous to many small banks. Profits of the average non-par bank would be "reduced two-thirds"—to levels far below those of other member banks. Half of the non-par insured banks, the committee's report estimates, would either be stripped of their entire profits or have them seriously reduced.

Contending forces on both sides face a dilemma. They must choose between exchange and service charges, no matter what the outcome for banks can no longer depend upon interest as a source of earnings. Exchange, par-clearance friends admit, is "easier on public relations"; yet it is being labeled an "outmoded and discredited forerunner" of "true" service charges. Already the total income from service charges probably exceeds that from domestic exchange, the latter being about $10,000,000 yearly. This is a critical sum for 2,500 small banks but only 1/1000th of 1% of aggregate United States check clearings. On the other hand, since service charge schedules are generally tied in with "credits" on loanable balances, such credits would tend to absorb the charges should commercial interest rates again climb. A point might be reached where interest on demand deposits, reappearing in fact if not in name, would present legal problems and invite sweeping Federal regulation.

Causes of the current struggle are twofold. The more immediate and spectacular is the scramble for country bank deposits by banks in reserve cities. One such bank, through exchange absorption, ran its deposits up in a 12-month from $800,000 to $8,000,000.

The profounder cause is Government guarantee of income on swollen deposits, which has made this whole condition possible. By investing in Federal securities, almost any bank can take on fresh deposits, virtually without limit and without risk.

Basis of the entire "Q" war is the fundamental issue between "par" and "non-par" schools: What is a check? Is it a negotiable instrument to be discounted? Or is it a piece of "money," to be circulated at face value, come what may?

There is something to be said for either view. A thousand years of banking custom and the whole body of commercial law have considered a bank check a negotiable instrument. As such, it is subject to discount. The discount covers cost of handling the paper itself and of transmitting the value it represents, plus compensation to the banker for use of his credit facilities. There is nothing inherently unsound in a banker's deducting exchange from a check drawn on himself and presented through the mails. In such case he is called upon to effect payment at a distance, out of his balances in Federal Reserve or correspondent banks—not to pass cash over his counter. The local banker maintains that if the payee wants the check cashed without expense it should be presented at the teller's window of the drawee bank.

In reality, no check is cashed without expense, whether that expense be ticketed "exchange" or "service charges." When neither appears as a specific item, it is because the cost is "absorbed," openly or otherwise, by earnings on loanable balances to the credit of drawer or payee or by reciprocal considerations. Pro-exchange partisans would have the receiving end bear at least a portion of the expense.

Universal par clearance admirers believe that the burden of check cost should lie upon the drawer. They assert: "The American banking system was built up on the premise that a bank check was issued at face to pay an obligation. If the recipient must discount it to the extent of paying exchange . . . he actually is forced to discount his bill so that the debtor can avail himself of banking service." They would make the cost a charge against the recipient of service rather than exchange against parties who accept the check at its face value. Extremists in the par-clearance camp have stigmatized exchange charges by non-par banks as "clipping the currency."

Whether a check be discountable instrument or money, whichever view prevails, the effect will be radical. If a check is **discountable**, the expenses of handling are borne in one way or another by the payee—the **seller** of goods and services—in the form of exchange. If on the other hand, a check is par paper (like currency) then all charges and expenses will be borne by the drawer—the **buyer**—in the form of service charges.

Buyer and seller are thus arrayed on opposite sides. Large sellers to many relatively small, out-of-town buyers are particularly vocal for universal par clearance because they want the buyers to pay remittance expenses. Typical is the reaction of a Texas wholesale credit manager who says, in sum: The fact that a practice "is as old as banking" does not prove that it should be perpetuated; non-par bankers are "weak-kneed" and prefer to load charges upon people they will never meet rather than to assess a service fee upon their own customers; the "avaricious" practice of such bankers "constitutes a burden upon commerce—one that will not long be endured." He suggests that businessmen protect themselves by making customers add exchange to their checks, or by charging the deduction back, or even by demanding cashier's checks or money orders.

The buyer-vs.-seller tableau places credit men's associations in their quite understandable pro-par clearance position—because such position favors the seller. Buyers have seemingly not yet developed their own mouthpiece in the discussion.

A manifest tendency towards the definition of a bank check as money rather than an order to pay money, may necessitate general re-orientation of commercial and legal relationships. If checks are treated as currency their status will have to be clarified by legislation or directive, and they will share currency's strict subservience to the Government. Banks may tend to become, more than ever, Federal fiscal agencies and Government paymasters. Service charges, rather than loanable balances, may loom yet larger upon depositors' ledgers. At the same time a channel would be opened for further Federal regulation, including limitation of the service charges themselves. Small banks would be at a growing disadvantage due to curtailed interest earnings and restricted compensations. An inclusive result might well be a progressively dwindling independence, both of banks and business.

Congress Completes Action on GI Bill Of Rights —Provides Benefits For Veterans Of This War

The GI Bill of Rights was sent to the White House for Presidential action on June 13, after the House on that day had accepted the conference report on the bill, which embodies a broad legislative program of benefits for veterans of this war; the Senate approved the conference report on June 12. All differences between the Senate and House measures were adjusted on June 10 by the conferees named by the two branches of Congress; on that date (June 10) the Associated Press in advices from Washington said:

Only one provision, dealing with job placement, was in dispute when the Senate-House conferees met this morning. Fearing a deadlock over that, American Legion representatives had sent an urgent message to Representative John S. Gibson, one of the conferees, at his home at Douglas, Ga., to cast what might be the deciding vote.

Mr. Gibson arrived by plane early this morning. But no stalemate developed, for the first ballot was 13 to 1 to accept the Senate's idea of putting job placement under the United States Employment Service to avoid setting up a whole new agency in the Veterans Administration.

To obtain Senate provisions on job placement, the conferees had to accept a House proposal that any benefits a veteran gets under the "G. I. Bill of Rights" be deducted from any bonus granted to him after the war.

Here are some of the major things the bill would do:

If the veteran should be out of a job during the first two years after his discharge, he could draw $20 a week unemployment compensation for 52 weeks.

If his education was interrupted when he put on a uniform, the bill establishing a presumption of interruption if he entered service before the age of 25, he could get a year's schooling, and in some instances a complete college education. The Government would pay $500 for the year's tuition, laboratory fees, books and similar expenses, and $50 a month for subsistence, plus $25 for dependents.

If he needed a job, he could enlist the help of the United States Employment Service.

If he needed hospitalization, he would get it through the Veterans Administration.

The bill also provides for private loans to veterans at 4% interest, with the Government guaranteeing 40%, up to a $2,00 maximum, of the amounts of individual loans.

Attractive Situations

Laclede-Christy Clay Products Co. common, which is listed on the St. Louis Stock Exchange, offers an interesting situation, according to a memorandum issued by Herzog & Co., 170 Broadway, New York City. Copies of this memorandum and also circular on Bartgis Bros. and Federal Screw Works may be obtained from Herzog & Co. upon request.

Attractive Situations

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

Du Mont Laboratories "A"; Merchants Distilling; Crowell-Collier Publishing; P. R. Mallory; General Instrument; Long Bell Lumber Co.; Great American Industries; Mid-Continent Airlines; Massachusetts Power & Light $2 preferred; Majestic Radio; Magnavox Corp.; Brockway Motors, Mohawk Rubber, and American Export Airlines.

Oxford Paper Interesting

Oxford Paper common and preferred offer interesting possibilities according to a circular on the situation prepared by Goodbody & Co., 115 Broadway, New York City, members of the New York Stock Exchange. Copies of this circular may be had from Goodbody & Co. upon request.

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.

Post-War Possibilities

Du Mont Laboratories offer interesting post-war possibilities according to a circular on the situation issued by J. F. Reilly & Co., 111 Broadway, New York City. Copies of this circular and also a comprehensive release on Moxie Co. may be had from J. F. Reilly & Co. upon request.

Interesting Situation

Common stock of Federal Water & Gas offers an attractive situation, according to a memorandum issued by Boenning & Co., 1606 Walnut Street, Philadelphia, Pa. Copies of this interesting memorandum may be had from Boenning & Co. upon request.

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.

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.

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.

Calendar Of New Security Flotations

OFFERINGS

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.

Offered at 107 and int. by Central Republic Co.

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.

Preferred stock offered by above bankers at 105 per share. The common stock first offered to common stockholders at $6.50 per share, unsubscribed portion to public by above bankers at $7 per share.

SUNRAY OIL CORP. has filed a registration statement for $13,000,000 sinking fund 3¾% 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 Eastman, Dillon & 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.

SATURDAY, JUNE 17

EXCESS INSURANCE CO. OF AMERICA has filed a registration statement for 43,981 shares of capital stock (par $5). Shares are to be offered for subscription to present stockholders of record May 31, 1944, on a pro rata basis at $8 per share. Net proceeds will be added to company's capital and surplus funds. Not underwritten. Filed May 29, 1944. Details in "Chronicle" June 8, 1944.

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. Policyholders of Mutual Fire Insurance of Germantown 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. Bioren & Co. are underwriters. Filed May 29, 1944. Details in "Chronicle," June 8, 1944.

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 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. 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. Hornblower & Weeks are principal underwriters. Filed May 31, 1944. Details in "Chronicle," June 8, 1944.

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. Mokan will offer to the holders of its common stock and class B stock, of record July 3, the right to purchase, pro rata, 163,710 shares of common stock of Panhandle, at $30 per share, on 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.

Net proceeds will be used to pay off $5,050,000 indebtedness to banks and insurance companies. After payment by Mokan of the indebtedness, it will offer to each holder of its common stock or class B stock according to a plan adopted by the stockholders on March 27, 1944, 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. Filed May 31, 1944. Details in "Chronicle," June 8, 1944.

THURSDAY, JUNE 22

FLEMING COMPANY, INC., has filed a registration statement for 2,500 shares of preferred stock, 5% cumulative ($100 par). Price to public $103 per share. Proceeds will be used to increase working capital through the reduction of bank loans. Beecroft, Cole & Co., Columbian Securities Corp. and Seltsam & Co., Inc., are underwriters. Filed June 3, 1944. Details in "Chronicle," June 8, 1944.

WEDNESDAY, JUNE 28

HOWARD STORES CORPORATION filed a registration statement for 27,736 shares 5¼% cumulative preferred stock, par value $100, and 50,000 shares common stock, par $1. The shares registered are issued and outstanding and do not represent new financing by the company.

Address—170 Tillary Street, Brooklyn, N. Y.

Business—Operation of a chain of 38 retail men's and boys' ready-to-wear clothing stores and the manufacture of substantially all of the men's clothing so distributed.

Underwriting—Underwriters are A. G. Becker & Co., Inc., Chicago; Merrill Lynch, Pierce, Fenner & Beane, New York; H. M. Byllesby & Co., Inc., Chicago; Central Republic Co., Inc., Chicago; Graham, Parsons & Co., Phila.; Hallgarten & Co., New York; Shields & Co., New York; Stroud & Co., Inc., Phila.; A. E. Masten & Co., Pittsburgh; Milwaukee Company, Milwaukee; Moore, Leonard & Lynch, Pittsburgh; William R. Staats Co., Los Angeles; Stein Bros. & Boyse, Baltimore; Edward D. Jones & Co., St. Louis; Singer, Deans & Scribner, Pittsburgh; Frank B. Cahn & Co., Baltimore, and Newhard, Cook & Co, St Louis.

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

Proceeds—Proceeds go to the selling stockholders.

Registration Statement No. 2-5393. Form S-1. (6-9-44.)

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.

CARPENTER PAPER CO.—15,000 shares of common stock (par $1). Price to public $29 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.

HAWAIIAN ELECTRIC CO., LTD., filed a registration statement for $5,000,000 first mortgage bonds, series D, 3½%, due Feb. 1, 1964. Proceeds will be used to pay company's $3,500,000 3% collateral promissory notes due June 1, 1948; to pay for additions, improvements and betterments of plant and properties to be made prior to the close of 1945. Dillon, Read & Co., New York, and Dean Witter & Co., San Francisco, underwriters. Filed May 23, 1944. Details in "Chronicle," June 8, 1944.

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.

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 $7.83⅓ a share on the 7% stock and $2.66⅔ 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.

MORRISON-KNUDSEN CO., INC., has filed a registration statement for $200,000 series K 5% preferred stock and $300,000 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. Company in an amendment filed June 10 proposes to offer $100,000 4% series F demand certificates and $100,000 4% series Y certificates at $100. Proceeds for working capital. Details in "Chronicle," May 31. Filed May 23.

NORTHERN INDIANA PUBLIC SERVICE CO. has filed a registration statement for 220,078 shares of 5% cumulative preferred stock, par $100 per share. Company plans to issue the 220,078 shares of 5% preferred stock to effect the retirement by exchange or redemption of an equal number of shares of its 7%, 6% and 5½% preferred stock, the exchange to be on a share for share basis plus a cash payment to be filed by amendment. Stone & Webster and Blodget, Inc., and Harriman Ripley & Co., Inc., New York, are principal underwriters Details in "Chronicle" April 27, 1944.

Exemption from competitive bidding rule denied by SEC in opinion issued May 5, 1944. Company on May 12 filed an amendment with the SEC proposing invitation of competitive bidding on the stock under rule U-50.

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

STERLING ENGINE CO. has filed a registration statement for 304,075 shares of common stock, of which 23,225 are being issued by the company through underwriters and 180,850 shares by three present stockholders. Offering price to public on 204.075 shares is $3.75 per share. An additional 100,000 shares is reserved against the exercise of warrants to purchase 100,000 shares of common, at $4.50 per share, prior to three years from and after the effective date of registration statement. Proceeds for working capital. Burr & Co., New York are principal underwriters. Filed April 24, 1944. Details in "Chronicle," May 4.

VERTIENTES-CAMAGUEY SUGAR CO. OF CUBA.—696,702 shares of common stock ($6.50 par), U. S. currency. Of shrs. registered, 443,850 are outstanding and owned by the National City Bank, N. Y Several underwriters have agreed to purchase $1,663,500 of first mortgage (collateral) 5% convertible bonds of company due Oct. 1, 1951, owned by National City Bank, N. Y. Underwriters propose to convert these bonds at or prior to closing and the 252,852 shares of common stock which are received by the underwriters on such conversion, together with the 443,850 shrs previously mentioned, will make up the total stock to be offered. Harriman Ripley & Co., Inc., N. Y., principal underwriter Filed Mar 29, 1944. Details in "Chronicle," April 6, 1944.

The News Behind The News

(Continued from first page)

their wages, their employment, their security rather than encouraging the individual to do it himself on his own initiative. That is the kind of peace and post-war planning they want.

But we have campaigned this war through to a point near victory on the basis of bringing liberty and democracy for the individual both here and abroad. Is their thinking now not as confused and as far wrong as it was a few months ago when they were campaigning for a quart of milk a day and labor-wage standards to be fixed throughout the world?

What is liberty? What is democracy? What is freedom of the individual? If we do not first decide that, how can there be anything but confusion about post-war planning?

To me an individual enslaved to a State economically by taxation or otherwise is no less a slave if controlled politically. In a dictatorship his life is no more free than the conscience and ability of the man who happens to be running the State at any given time.

If he has a democratic form he is still no more free than by whatever degree his President and Congress are free from domination by minority class groups and interests. In the religious sense, he is not free if he is dominated by any class group either. Domination by one religion or by atheism is equally far from any democratic ideology.

The radicals see this, but this part of it only. How can they expect anyone to believe domination brings economic freedom when they see so well it does not bring religious freedom? They could not consider the world politically free if it was dominated by one world imperial power, at least no one else would. Oneness domination never yet has achieved freedom or liberty or democracy in any way.

What we would like to have is complete freedom for all peoples in all ways, economically, politically, religiously. This always has proved too idealistic a goal for the world to achieve entirely, but by whatever further progress we make in that direction the peace will be successful. By whatever measure we compromise it the peace will fail.

We were drawn deeper into what measure of collectivism we already had before this war only to meet failures. The ideal was not voluntarily espoused as the proper way of life. It was not what we wanted. It was what we had to take. Entering the war we assumed the additional collectivism only for war.

Our course in that direction should be pursued in the post-war peace only to whatever extent it will bring true justice to the individual. The star of individual freedom should never be eclipsed one inch by collectivism as our ideal.

Our success in this war was not due to collectivism but to voluntary democratic cooperation by all hands. To whatever extent labor sacrificed its rights to strike it expects to get that right back, and so with all of us.

Internationally we did not win by collectivism either, but by truly democratic cooperation. One nation did not dominate the military decisions of how to proceed with the fighting. This democratic way is working well against a nation which practiced collectivism and preached subservience of the individual to the State.

These are rudiments of simple common sense for peace. If we wish to dispel confusion and plan our way we must first define our words and understand our goals We must decide that, internationally or domestically, the star of real liberty must be maintained as indispensable.

We must abhor collectivism as an ideal and compromise with it reluctantly and temporarily only to the extent truly necessary to bring justice to the individual.

We must abhor oneness domination, totalitariansim, dictatorship and remember always that an individual enslaved to the State by any means whatever will have no more liberty and democracy than the fluctuating goodness and justice of that controlling force.

Men do not take well that kind of power either as heads of world or any of the subdivisions of society including nations, State, countries, cities or even labor unions.

The Price Index Controversy

(Continued from page 2469)

association duly complied, and appointed a select committee under the chairmanship of Prof. Frederick C. Mills, Professor of Statistics at Columbia University. This committee went through the routine of a detailed investigation, and rendered a report entitled "An Appraisal of the United States Bureau of Labor Statistics Cost of Living Index." This was published in the December, 1943, issue of *The Journal of the American Statistical Association*. The report, though pointing out the limitations and shortcomings of index numbers of prices as a whole, concludes that the Bureau of Labor Statistics' Index of Retail Prices is "a satisfactory measure of the rise in prices of living essentials."

But an opposite view is held by the labor members in their report to the chairman of the President's Committee on the Cost of Living! These gentlemen, who made an investigation of recent price fluctuations on their own account, as well as delving into the methods and processes used in the Government's estimates, claim that the cost of living since the "Little Steel" formula went into effect has risen 43.5%, instead of the 23.4% rise reported by the Bureau of Labor Statistics. They supported their contentions with their own figures, and with data presumably taken from the records of the Labor Department itself.

In answer to the Meany-Thomas contentions, Mr. A. T. Hinrichs, Acting Commissioner of Labor Statistics, submitted on Feb. 25 to Chairman William H. Davis of the President's Committee "A review and appraisal of the labor members' report." This reply is most enlightening not merely because it points out the errors and inaccuracies put forth by the trades union leaders, but also because it sets forth frankly the difficulties and shortcomings which are inescapable in any system of price collection and price indexing under present wartime conditions. These difficulties, which are largely responsible for the widespread public criticism, are clearly and concisely pointed out by Mr. Hinrichs, in the issue of the "Chronicle" of April 13 on page 1502. Briefly, they may be summarized as (1) the unlikelihood that storekeepers do not report price ceiling violations; (2) the use of average rather than actual prices in the index; (3) the disappearance of low price merchandise, and quality reductions; and (4) the higher living costs arising from labor migrations.

These are problems which are fundamental in every statistical analysis of price fluctuations and changes in wage rates. They are present in attempts at measurement of non-physical and heterogeneous phenomena, in which, in addition to the quantity factor, there must be considered qualitative and other factors, not measurable in quantity units. The character, quality and form of almost all kinds of commodities and services produced and exchanged are continuously undergoing changes. Moreover, the use and consumption of goods and services are also in a state of flux. In the tabulation of phenomena relating to a time series, such as price changes, there are, therefore, many factors to be considered outside of the bare figures themselves, and the relative values of these factors are constantly changing. No computation can reduce their effects to a common denominator. All progressive modern nations desire a satisfactory guide to changes in price levels, by which the stability of the monetary unit, the adequacy of wages, the justice of taxation, and the flow of credits can be gauged. But a compilation of "averages," covering an endless variety of goods, objects, and services, which are continuously undergoing changes in character both in their production and consumption, cannot form a wholly reliable basis for judgment. Yet, without some system of statistical measurement along these lines, we would be without the crudest instruments to direct economic and political actions; and all scientific attempts to trace trends and future developments would practically cease, or become mere guesswork and intuition.

Rockwell Plan Would Establish Post-War Unemployment Benefits

A plan for withholding a percentage of present war production profits for the post-war benefit of returning veterans and unemployed war workers, was outlined today by Col. Willard F. Rockwell, Pittsburgh and Detroit industrialist, during a luncheon at the Waldorf-Astoria on June 9, attended by business leaders, labor representatives and members of the press.

Col. W. F. Rockwell

Rockwell, whose companies have produced more than $500,000,000 worth of war goods since Pearl Harbor, disclosed that he has petitioned President Roosevelt and Congress for permission to institute this post-war plan in his own companies.

In essence, the "Rockwell plan" provides that war producers shall be permitted to withhold from profits, after taxes and dividend or interest requirements, but before renegotiation, sums ranging up to one week's average wages or salary for each month an employee has worked in a war plant, with a maximum withholding of 24 weeks' wages for each employee who has worked a minimum of two years.

A similar provision is included for all members of the armed services who left gainful employment in factories now engaged in war work.

These funds are to be disbursed if and when contract terminations and reconversions result in substantial unemployment, and until such time as the participating plants can reemploy their workers or the dismissed employees shall have found other work.

The entire plan would be under the supervision of the Social Security Board, with all unpaid balances remaining in these reserves two years after final settlement of terminated war contracts, to be returned to the government in the form of windfall taxes. Companies operating under this plan, it is envisioned, would have the use of unexpended reserves for reconversion purposes until the balances were due the Treasury.

Many rumors and some distorted versions of the "Rockwell plan" have been in circulation since the author three weeks ago first disclosed his intention of presenting such a proposal. This is the first authentic disclosure of the details of his plan.

The "Rockwell plan" contains six basic points dealing with the formula for withholding and disbursing funds from war profits. In addition it contains a strongly worded suggestion that the government establish a board of businessmen to survey the complicated surplus property and production facility inventories now in the hands or under control of government procurement agencies, for the purpose of recommending immediate steps to reduce these surpluses so as not to dislocate the national economy when the war ends.

Citing the many plans and proposals now under consideration by Congressional committees, Rockwell pleaded for a return to practical common sense in planning for the future of industry and labor.

"Industry and labor both face a bewildering variety of plans, from blue sky blueprints that call for a '$50 every Friday' form of government-guaranteed weekly wage to fantasies bordering on the brand of economic scarcity by executive decree that almost ruined this country in the mid-thirties," Rockwell stated.

"Bernard Baruch clearly states, in his report on post-war operations, that the government cannot guarantee prosperity. However, there are many who would like to see our government make the attempt to do so.

"Labor and industry have a vital interest in the maintenance of production and consumption in this country. Labor and industry have a vital interest in seeing that common sense and practicality are the measures that guide our thinking in the projection of any post-war plans.

"I firmly believe in the principle of renegotiation," Rockwell remarked emphatically. "However, I do disagree with the present application and administration of this law. When it is used as a punitive weapon it then defeats its own purpose. War profits, channelled into useful reserves to protect our national economy, will accomplish the maximum useful purpose."

Rockwell was severely critical of the huge stockpiles of materials, finished goods and facilities controlled by procurement agencies and cited several instances brought out by Congressional inquiries where surpluses were revealed to have been literally "plowed under" by procurement agencies.

"Under private enterprise, if management understates costs or overstates market demands resulting in severe financial losses, stockholders demand a change in that management. But during the war we have seen government agencies underestimate costs on hundreds of projects and overestimate requirements so that billions of dollars have been lost. However, because these figures are so astronomical, there has been little demand for drastic change in government agencies as the average taxpayer does not realize the extent of his individual loss. Someday the nation's taxpayer will realize that the country's increased debt, caused in part by this extravagance and mismanagement, has mortgaged one-half of our total national assets.

"We did not plan for war so we were utterly unprepared for it. It would be shameful if the end of the war finds us unprepared to cope with the problems of peace and the severe readjustments that will follow," Rockwell emphasized.

Rockwell also pointed to the tremendous sums now in process of appropriation for such groups as the International Labor Organization, the United Nations Relief and Rehabilitation Administration and the World Bank, and declared that "someone must think about our own country and the millions of workers who have a right to look for the maintenance of their own high standards of welfare, earnings and opportunities for self-advancement. I do not think the American people will welcome an international WPA supported by the U. S. A."

Col. Rockwell is at the present time vice-chairman of the Industry Associations Committee of the War Manpower Commission. He was, until Jan. 1, 1944, Director of Production of the U. S. Maritime Commission and was also a member of the Executive Committee of the Army and Navy Munitions Board and the Material Requirements Committee of the W.P.B. He is chairman of the boards of the Timken-Detroit Axle Company, the Standard Steel Spring Company, the Pittsburgh Equitable Meter Company, the Hupp Motor Company, and the Merco-Nordstrom Valve Company. He is also a director of a long list of banks, insurance companies and other concerns.

Preliminary Work Is Under Way To Effect Reduction In Income Taxes After War

Declaring that corporate and individual income tax rates will have to come down when the war ends, Senator George (Dem.-Ga.), Chairman of the Senate Finance Committee, added on June 13 that preliminary work is under way to bring them down. This is learned from Associated Press advices from Washington June 13, which added:

"Mr. George, whose Committee handles tax matters for the Senate, said:

"(1) Both corporate and individual tax rates now are so high that they would discourage investment of capital and remove the profit incentive if carried over into the post-war period.

"(2) Placing them on a 'reasonable, moderate level' should encourage business and stimulate investment, thereby permitting high peacetime production and employment.

"War Mobilization Director James F. Byrne yesterday called on the Senate Finance and House Ways and Means committees, as part of legislative preparations for demobilization, to put their tax experts to work this summer and fall on tailoring the tax system to fit needs of the post-war economy.

"Probably nothing will be done before the election, Mr. George said—not that tax revision will be a partisan matter but because Republicans think they have a chance of winning control of the House."

Attractive Situation

The current situation in Stromberg-Carlson Company offers interesting possibilities according to a circular issued by White & Company, Mississippi Valley Trust Building, St. Louis, Mo. Copies of this interesting circular may be obtained from White & Company on request.

INDEX

	Page
Bank and Insurance Stocks	2476
Broker-Dealer Personnel Items	2489
Calendar of New Security Flotations	2495
Canadian Securities	2481
Mutual Funds	2479
Municipal News & Notes	2493
Our Reporter on Governments	2473
Our Reporter's Report	2479
Public Utility Securities	2472
Railroad Securities	2471
Real Estate Securities	2472
Security Salesman's Corner	2491
Tomorrow's Markets—Walter Whyte Says	2470