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Invasion Trends

Roger W. Babson Discusses Effect of Invasion Upon Our Principal Markets

BABSON PARK, MASS.—Readers of this column are already asking me what effect the Invasion will have on the prices of stocks, bonds, commodities and real estate. Frankly, it is too early to tell what will happen. . . . The early fall of Paris is essential to the Allied psychological phase. It may be the signal for the underground Continental army, estimated at 12,000,000 to begin action.

Roger W. Babson

The Allies must also secure, almost immediately, a number of good ports. Undoubtedly these will be Le Havre and Cherbourg and Brest. These three ports have

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IN THIS ISSUE

Pictures of the NEW YORK SECURITY DEALERS ASSOCIATION OUTING at North Hills, held on June 15th will be found on pages 2594, 2595, 2596 and 2597.

OHIO dealer activities featured in this issue will be found on page 2590.

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Peak War Production Has Passed

Leonard P. Ayres, Cleveland Trust Company Economist, States A Slowly Declining Trend Is Under Way—Holds Problems Of Readjustment To Decreasing Production Are No Longer Matters Of Mere Discussion

Brig. Gen. Leonard P. Ayres, War President of the Cleveland Trust Co. of Cleveland, Ohio, writing in the recent issue of the bank's publication, "The Business Bulletin," states that "a great turning point has been reached and passed," and "it is well to consider what has been the nature of the business trends that have been under way during the months of the first half of 1944." Continuing his analysis Gen. Ayres states that "business activity is still of boom proportions, but it is clear that a slowly declining trend is under way. Industrial production reached its greatest volume last November, and by April it had declined by about 3%. The same is true of nonagricultural employment which reached its greatest numbers last July, and had shrunk by about 3% by April. The output of munitions, as measured by value, reached its peak last November, and by April it had declined by a little more than 3%. Factory payrolls and inventories both reached their highest levels last November, and the latest figures show that payrolls have declined by about 4%, and inventories by 2%.

Leonard P. Ayres

"Problems of post-war planning, and of readjustment to decreasing productive activity, are

(Continued on page 2587)

Sound American Policy

By HON. BURTON K. WHEELER*

Democratic Senator Urges The United States, In Concert With Other United Nations, Or Alone, To State What Our Policies Are Or Will Be For Victor And Vanquished Alike—Condemns Permanent Military Alliances

It is a distinct honor to have been invited to speak before this Economic Leadership Conference and Dinner, sponsored by the American Tariff League. After all, it is no secret that I am regarded by some people in this country as a provincial from the back country, a man of narrow nationalistic views, an "isolationist." It may even be that the thought behind my being invited here was to look over a specimen of genus Americanus. But let me assure you that more than a quarter of a century's experience in public life convinces me that not infrequently I react to public questions in pretty much the same manner as do very substantial numbers of plain American people—people who do not do much talking or writing, but whose franchise is largely de-

Burton K. Wheeler

*Address delivered by Senator Wheeler, Montana Democrat, at Economic Leadership Conference and Dinner, sponsored by the American Tariff League, Waldorf-Astoria Hotel, June 15, 1944.

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Britain's Advantages In United Nations Stabilization Plan

By LORD KEYNES*

British Economist Lists Five Advantages To Britain; (1) The Recognition Of The "Special Arrangements" In The Sterling Area; (2) The Restoration Of The International Position Of The British Pound; (3) The Increase In World's Monetary Stocks; (4) The Placing Of Responsibility For Exchange Equilibrium On Creditor Nations, and (5) The Preservation Of Orderly Exchange Rates—Holds Plan Does Not Reestablish Gold Standard Or Interfere With Domestic Monetary Policies

My Lords, it is almost exactly a year since the proposals for a Clearing Union were discussed in your Lordships' House. I hope to persuade your Lordships that the year has not been ill-spent. There were, it is true, certain features of elegance, clarity and logic in the Clearing Union plan which have disappeared. And this, by me at least, is to be much regretted. As a result, however, there is no longer any need for a new-fangled international monetary unit. Your Lordships will remember how little any of us liked the names proposed—bancor, unitas, dolphin, bezant, daric and heaven knows what. Some of your Lordships were good enough to join in the search for something better. I recall a story of a country parish in the last century where they were accustomed to give their children Biblical names—Amos, Ezekiel, Obadiah and so forth. Needing a name for a dog, after a long and vain search of the Scriptures they

Lord Keynes

*Speech in the House of Lords, London, England, on May 23, 1944.

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Post-War Policies

By HON. JOSEPH P. KENNEDY*

Former U. S. Ambassador to Great Britain

Former Ambassador Holds, In Spite Of Pent-Up Demands To Be Satisfied, Normal Business Cannot Give Full Employment To Sixty-Five Million People Now In Industry, On Government Payroll And In Service—Fears "Deflation" More Than "Inflation"—Feels Enduring Peace Possible Only By Abandonment Of "Ruinous Economic Competition" Among Nations — Predicts Control Will Continue

At this hour when the country breathlessly awaits the fortunes of battle, anything we say here must, perforce, sound empty and dull. Heartened and strengthened as we are by the realization of what is transpiring, our personal views seem pitifully unimportant.

Joseph P. Kennedy

Yet, however inadequate our efforts, the one thing everyone must do for those actually engaged in the struggle, is to lend a hand when asked, to the job of getting some shape and form for the post-war world. That is the excuse I offer for presuming even at your invitation to discuss a public question at a time like this.

Our subject—post-war monetary policies—is timely and pertinent, if anything except the battle itself can be so regarded.

Concerning money matters, one of the outstanding editorial writers of our time, the late Arthur Brisbane, once wrote that not over 20 people know anything about money, and 15 of **them**

*An address delivered by Mr. Kennedy at the Annual Dinner of the American Gastroenterological Association at the Drake Hotel in Chicago, Ill., on June 12, 1944.

(Continued on page 2594)

Bankers Bond Co., Inc. Adds Fetter To Staff

(Special to The Financial Chronicle)

LOUISVILLE, KY.—James M. Fetter has become associated with the Bankers Bond Co., Inc., Kentucky Home Life Building. Mr. Fetter was formerly Vice-President of Dering & Co., Inc.

F. G. Steiner To Join Wertheim Co. July 1

Wertheim & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that Frederic G. Steiner will become associated with them on July 1, 1944. Prior to the outbreak of the war, Mr. Steiner was managing director of Dillon, Read & Co. Ltd. of Paris and London. He came to America in 1939 and became associated with Arnhold and S. Bleichroeder which firm he has been with until his recent resignation.

What Will Come Out Of United Nations' Monetary Conference?

By IVAN WRIGHT

Professor of Economics at Brooklyn College
Formerly Visiting Professor of Political Economy at the University of Toronto
Sometime Special Executive of the New York Stock Exchange

In looking at the delegates named for the United Nations Monetary and Financial Conference, opening July 1 at Bretton Woods, New Hampshire, the first impression is that the British delegation is strong and an outstanding group of experienced economists and practical men schooled in the intricate affairs of international exchange and finance.

The British delegation will include Lord J. M. Keynes, economic adviser to the British Treasury; Robert H. Brand, British Treasury representative in Washington; Sir Wilfrid Eady, second secretary of the British Treasury; Nigel B. Ronald, Assistant Undersecretary of the Foreign Office; Professor D. H. Robertson of the British Treasury; Professor Lionel C. Robbins Head of the Economic Section of the British War Cabinet Offices; and Redvers Opie, Counselor of the British Embassy at Washington. Advisers to the British delegation will be William E. Beckett, Foreign Office Adviser, G. F. Bolton, of the Bank of England and Charles H. Campbell, First Secretary of the British Embassy.

Dr. Ivan Wright

The American delegation does not seem to match the British in either economic or practical ex-

(Continued on page 2597)

Vilas & Hickey Admit Three New Partners

Vilas & Hickey, 49 Wall Street, members of the New York Stock Exchange, announce that George E. Richardson, John H. Printon and Royden E. Jacobus, who have been associated with the firm for many years, have been admitted to partnership.

Admission of the three new partners was previously reported in the Financial Chronicle of June 8th.

J. Bert Easley Forms Own Investment Firm

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—J. Bert Easley has formed Easley & Co., with offices at 639 South Spring Street, to engage in the investment business. Mr. Easley was formerly Vice-President of O'Melveny-Wegenseller & Durst and its predecessor firm. In the past he was assistant director of mortgage insurance of the FHA and was with the Bankers Trust Company in New York.

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Bank and Quotation Record—Mth. $20 yr.
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NOTE—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Lauds 'Chronicle' Stand On NASD '5% Rule'

Editor, Commercial and Financial Chronicle:

As Chairman of the Securities Dealers Committee, I take this opportunity to thank the "Chronicle" for its fearless policy which opposed the 5% spread philosophy of the NASD. The fearless and forthright fight you have waged thrilled my Irish blood.

Of particular assistance was the poll which your paper conducted.

Those who attended the hearing on June 13, 1944, before the Securities and Exchange Commission will long remember the incisive and compelling logic used by Mr. Edward A. Kole and Mr. A. M. Metz and the attention with which the Commission gave audience.

Our Committee has received support from 84 security

(Continued on page 2607)

Public And Securities Dealers Let Down By A "Protective" Set Up

Need For A Pungent Pamphleteer

These are extraordinary days. Most of us get our news and comments on world and national affairs between the breakfast egg and coffee, or whilst being transported to and from work.

It was not always thus. There was a time when life proceeded at a leisurely pace. Meditation came in for a more generous share of people's time, and men pondered upon their rights, and looked to the ramparts of their liberties.

Those were days when reason was the yardstick of justice. Pamphleteers flourished to point the way. Neither the 19th hole, nor the bolsters of business, were regarded as a substitute for the right, nor an inducement to veer from a straight course.

Simplicity prevailed. Laws were made in language readily understandable, devoid of difficult formulae.

Today, as always, we are presumed to know the law which is so complex, much of it escapes the expert.

A case in point is its complexity in the securities field.

Although Blue Sky Laws already existed in most of the states of our Union, the conception that the public needed further protection resulted in the legislative creation of the Securities and Exchange Commission. Given large and embracing rule making powers, it was supposed to "fill the bill."

Then came the Maloney Act and the National Association of Securities Dealers, placing upon dealers in securities fetters which we may be years in removing and threatening

(Continued on page 2607)

Will Rail Credit Be Restored?

By ARTHUR JANSEN*
Partner, W. E. Burnet & Co.

Investment Broker Holds Improved Prices Of Railroad Securities Reflect The Effect Of Debt Retirements Through Company Purchases Rather Than Restoration Of Railroad Credit—Says Permanent Credit Restoration Requires Confidence That Whatever The Level Of Fixed Charges They Will Be Earned With A High Degree Of Regularity — Sees Railroad Competitive Situation "On The Mend" With Revenues Attaining Satisfactory Levels And Operations More Efficient


Arthur Jansen

Much has been said within the last year on the question of the restoration of railroad credit. Among students of railroad finance, opinions are as far apart as the poles. On the one side there are those who are rampantly enthusiastic and contend rail credit already has been restored, only the market has not yet taken full cognizance of the change. On the other side, there are those who look for revival of all the ills of the railroad industry again as soon as war production ceases. As I see the situation, neither of these diametrically opposite views can be supported by either statistics or prospects. My own opinion falls somewhere between these extremes and I venture to say is more realistic from the standpoint of savings bankers interested primarily in values, rather than speculation. Precisely what shade of opinion I hold be-

*An address delivered by Mr. Jansen before the fourth annual Management Conference of the Massachusetts Savings Bank Association at Wellesley College, Wellesley, Mass. on June 15, 1944.

(Continued on page 2604)

Keynes On Int'l Monetary Fund

By HERBERT M. BRATTER

Now that the text of Lord Keynes' speech of May 23 in the House of Lords is available here [see cover page of this issue: Editor], we may take a look at the United Nations experts' plan as seen in London. First, Keynes points out, the British "are entitled to retain any of those wartime restrictions and special arrangements with the sterling area and others." This means that one goal of the original White plan is postponed, if not entirely given up.


Herbert M. Bratter

Second, the British "can look forward to trading in a world of national currencies which are inter-convertible," despite the fact that sterling or any other currency is to be rigidly controlled or managed at home. Lord Keynes sees the international plan as "an indispensable means of maintaining this tradition" of a system of currencies centered in London.

Third, the Fund will provide "a great addition to the world's stock of monetary reserves, distributed, moreover, in a reasonable way." Since the Fund will not add to the reserves of the USA, this means that have-not countries, through the Fund, acquire claims on reserves of the have countries, chiefly the United States. Keynes rightly terms this a "so comfortable aid in time of trouble." This aid is to be "an iron ration", to be supplemented by other forms of international cooperation.

(Continued on page 2606)

R. V. Mosley Heads NSTA Nominating Group

Wm. Perry Brown of Newman, Brown & Co., New Orleans, President of the National Security Traders Association, Inc., announced that R. Victor Mosley, Stroud & Company, Inc., Philadelphia, has been named Chairman of the organization's nominating committee which will select a slate of officers to be voted on at the annual business meeting in Chicago August 25 and 26. The report itself will be submitted to members 30 days before the meeting. Other members are Mrs. Ora Ferguson, Merrill Lynch, Pierce Fenner & Beane, Louisville; Willis Summers, Troster Currie & Summers, New York; J. Wallace Kingsbury, Kingsbury & Alvis, New Orleans; and H. Russell Hastings, H. Russell Hastings Co., Detroit.

R. V. Mosley

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.

Attractive Situation

Panama Coca-Cola offers an interesting situation according to circular being distributed by Hoit, Rose & Troster, 74 Trinity Place, New York City. Copies of this circular may be had from the firm upon request.

Arthur V. Grace Forms Own Firm In Cleveland

(Special to The Financial Chronicle)

CLEVELAND, OHIO — Arthur V. Grace has formed Arthur V. Grace & Co., with offices in the Union Commerce Building, to engage in the securities business.

Mr. Grace was formerly a partner of Cunningham & Co., with which he was associated for a number of years. In the past he conducted his own investment business in Cleveland.

Hutchinson & Flint With Schwabacher Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — Wendell A. Hutchinson and George A. Flint have become associated with Schwabacher & Co., 600 Market Street at Montgomery, members of the New York Stock Exchange. Mr. Hutchinson was formerly with Bankamerica Company, and in the past was manager of the trading department for William A. Lower & Co.

Wurts, Dulles & Co. To Admit Schimminger

PHILADELPHIA, PA.—William F. Schimminger, Jr., will become a partner in Wurts, Dulles & Co., 1416 Chestnut Street, members of the New York and Philadelphia Stock Exchanges, on July 1. Mr. Schimminger has been with the firm for some time as Manager of the trading department.

Terry Thompson With Grande & Co. In Seattle

(Special to The Financial Chronicle)

SEATTLE, WASH. — Terry Thompson has become associated with Grande & Co., Inc., Hoge Building. Mr. Thompson was formerly an officer of Harris, Lamoreux & Norris, Inc.

Barbour Named To Head N. Y. Municipal Forum

Phillips T. Barbour, of First Boston Corporation, has been nominated for the presidency of The Municipal Forum of New York to succeed John Rust, of Equitable Securities Corporation. Elmo P. Brown of United States Trust Company, Secretary of the Forum, has been nominated for the vice presidency; Albert Milloy, also of First Boston Corporation, has been nominated for Secretary and William G. Bond, of Coffin & Burr, for Treasurer.

Phillips Barbour

Melbourne S. Moyer, of Fulton Trust Company, and Leander I. Shelley, of the Port of New York Authority, have been nominated to serve on the Board of Governors for three years.

The annual meeting of the club, at which the new officers and governors will be elected, is scheduled for Thursday, June 22, at Block Hall Luncheon Club. Following the routine business meeting, David M. Wood, of Wood, Hoffman, King & Dawson will address the meeting on "The Boren Bill," a proposed amendment of the Securities Exchange Act of 1934, now pending in the House of Representatives.

New Jersey Bond Club Elects Campbell Pres.

Wilbert H. Campbell of Campbell & Company, Newark, was elected President of The Bond Club of New Jersey. Other officers elected include James B. Kirk of Harris, Upham & Company, Vice-President; Carl A. Preim, R. W. Pressprich & Company, Secretary, and J. William Roos, MacBride, Miller & Company, Treasurer.

Folger Nominated For Re-Election By IBA; Annual Meeting In Chicago Nov. 27-29

John Clifford Folger, president of the Investment Bankers Association of America, has been nominated for relection to the presidency, it was announced by the headquarters office of the association. Only on three other occasions during the past 32 years has a

John Clifford Folger

Julien H. Collins

H. H. Dewar

Henry H. Egly

Charles S. Garland

Edw. Hopkinson, Jr.

president of the association served for more than one year. Mr. Folger is head of Folger, Nolan & Co., Washington, D. C., investment house.

In accepting the nomination, Mr. Folger stated that "In the present strenuous times and for the post-war period, it seems apparent that many of our problems will stem back to Washington. It is our hope to break the log jam in private investment capital and to get people to put their money to work. We hear a great deal about the importance of venture capital. At the present time, there is more money awaiting investment than ever before in our history. This money should be put to prudent use. The small business man requires easier access to the capital markets. The securities acts need some streamlining. Under the present set-up the small investor and the small securities dealer are being pushed farther and farther away from the ball game in which they should be playing."

Officers of the association are nominated by the board of governors and elected at the annual meeting. It was also announced that the meeting this year will be held in Chicago at the Edgewater Beach Hotel, November 27 to 29. Nomination is considered tantamount to election, as the selections of the board have always been approved. In addition to Mr. Folger's nomination, five vice-presidential nominations have been made, as follows: Julien H. Collins of Harris, Hall & Co., Chicago; Hal H. Dewar of Dewar, Robertson & Pancoast, San Antonio; Henry H. Egly of Dillon, Read & Co., New York; Charles S. Garland of Alex. Brown & Sons, Baltimore; and Edward Hopkinson, Jr. of Drexel & Co., Philadelphia. Messrs. Collins and Hopkinson are serving as vice presidents at present and have been nominated for reelection.

Pressurelube Interesting

B. S. Lichtenstein & Co. have prepared an interesting discussion of Pressurelube, Inc., which the firm believes offers attractive possibilities. Copies of this discussion may be had upon request from B. S. Lichtenstein & Co.

Interesting Speculation

William S. Baren Co., 42 Broadway, N. Y. C., has issued a special study on Pressurelube, Inc., which the firm believes offers an interesting low-priced, post-war speculation. Copies of the study may be had from William S. Baren & Co. upon request.

Cross Elected Director

CHICAGO, ILL. — Louis J. Cross, partner of the New York Stock Exchange firm of Paul H. Davis & Co., was elected a director of Domestic Industries, Inc., at the annual meeting of stockholders. All other directors were re-elected.

Mr. Cross is in charge of the investment department of Paul H. Davis & Co., and was the first Chairman for District No. 8 (Middle West) of the National Association of Securities Dealers. He is also a director of the South Coast Corporation and the River Forest State Bank in suburban Chicago.

Why Spokesmen At SEC Hearing Held NASD "5% Spread Philosophy" Constitutes A Rule And Should Be Abrogated

Complete Official Report Of Hearing Held At Philadelphia On June 13, 1944, Before The Securities And Exchange Commission Panel, Consisting Of Commissioners Ganson Purcell, Chairman; and Robert E. Healy, Robert H. O'Brien, and Sumner T. Pike.

Prepared Statement Read By Frank Dunne

Frank Dunne, President Of New York Security Dealers Association Says His Opposition To "5 Per Cent Rule" Is "Not Based Upon Dissatisfaction With The Degree Of The Profit Ceiling," But On The Methods Employed By The NASD In The Adoption And Promulgation Of The Rule. Critical Of NASD Because It Has Not Carried Out Its Avowed Objective Of Voluntary Democratic Self Regulation In The Industry. Says Belief That NASD Is Run "As A Private Club Must Be Eliminated."

At the outset may I express my appreciation of the Commission's granting our little organization, the New York Security Dealers Association, of which I happen to be President, an opportunity to be heard once again on a subject that affects the vital interests of its membership.

The problem we are considering stems from a letter of the National Association of Securities Dealers to its membership of Oct. 25, 1943, and supplemented by a directive to members of the District Business Conduct Committees of the NASD dated Nov. 9, 1943, having to do with profits and commissions in the industry. As you are well aware, there has been much discussion in the trade, press and elsewhere about the subject, centering around whether the letter of Oct. 25, 1943, supplemented by the directive of Nov. 9, 1943, should ultimately be indexed as an interpretation, or as a rule.


Frank Dunne

I would like to make it clear that I am here to present only the views of the New York Security Dealers Association and not those of any other Committee, group or organization.

At this point I want to limit, in one respect, the scope of my comments. It has come to my attention recently that some believe our opposition in this matter is based upon our dissatisfaction with the degree of the profit ceiling—that is not so. I do not question the authority of the Board of Governors of the NASD, in a proper way, to put a ceiling on profits. In our endeavor to do something constructive for the curbing or elimination of overcharging in the over-the-counter business, our association submitted a memorandum under date of March 6, 1943, entitled "Suggestions made by New York Security Dealers Association to facilitate over-the-counter trading in the interest of public investors and broker-dealers." While it is true that the main burden of this memorandum was an overhauling of quotations in the press and elsewhere as a single most important factor in protecting the public from overcharging, we also submitted in conjunction with the revision of quotations the idea that if a profit exceeded a specified per cent, the burden would be upon the dealer to prove that he was justified in making the profit. My feeling was summed up in a statement I released to the press on Feb. 9, 1944, in which I emphasized that the New York Security Dealers Association on that occasion did not approve or disapprove the principle of the ceiling or mark-up, but took ex-

(Continued on page 2600)

Oral Argument Of Edward A. Kole

Edward A. Kole, * Counsel For Securities Dealers Committee, Declares Labeling Of Mark-Up Policy As "Interpretation" Constitutes "Preconceived Notion To By-Pass Franchise Of NASD Membership." Points To Provisions Of Maloney Act In Arguing That "5% Spread Philosophy" Is In Fact A Rule And Therefore Was Illegally Adopted By Association's Governing Board. Demands That SEC Revoke Measure And Cites Danger That Principle Of Profit Ceilings In Securities Business May Be Forerunner Of Adoption "Of System That Will Permeate" All Types Of Business "With Wholly Un-American Rules and Doctrines."

Mr. Chairman and members of the Commission: I referred in one of my opening objections to the partnership that you have saddled upon me, and I am going to revert to it again to indicate that I am happy Mr. Dunne said that he represents only the New York Security Dealers Association, and has no connection with any other group, because some of the matters he has asserted are matters with which we are absolutely in disagreement.

For example, it has been said that 5% philosophy places a ceiling upon profits. Now, I don't think that that is the fact at all in the broad sense because many of the over-the-counter dealers, when they open their doors, have more than a 5% overhead, so that if their spread was limited to 5%, there would never be any profit, strictly speaking.


Edward A. Kole

The Board of Governors of the National Association of Securities Dealers could not possibly have taken the profit motif into consideration. It refers to it correctly as a spread and only a spread, and the unfortunate thing about that subject of the spread is that the philosophy which was established was so established upon a questionnaire containing some 50 most recent transactions. The result of that survey was arrived at without any declaration or publication or submission to the membership of the National Association of Securities Dealers and these were the alleged facts upon which it, the 5% philosophy, was established.

In it, there participated over-the-counter dealers, members of the Stock Exchange, members of the Curb, municipal dealers. Of necessity, the problems involved in some of these branches are not the problems involved in others at all, but I think one observation of Mr. Dunne was important and crucial, and that is that the District Business Conduct Committees so exercised their functions in effect that the 5% spread philosophy is in effect the 5% limitation rule, because where that is exceeded that, to them, is a questionable transaction.

Directly within the bounds and circumscribed within the bounds of your order, gentlemen, is the question of rule or interpretation;

* While the above views were expressed by Mr. Kole before the Commission, it is our understanding that they represent the joint product of both Mr. Kole and Mr. A. M. Metz, who is also an attorney for the Securities Dealers Committee and appeared before the SEC at the hearing.

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Introduction And Preliminary Proceedings

Edward A. Kole, Associate Counsel for Securities Dealers Committee, Moves That If Any Of The SEC Commissioners Have Had Anything To Do With Promulgation Of "5%" Mark-Up Policy "They Should Disqualify Themselves."

After Messrs. Frank Dunne, Edward A. Kole and Frank J. Maguire, Buffalo, N. Y., attorney, representing S. C. Parker & Co., Buffalo, N. Y., had signified in reply to SEC Chairman Ganson Purcell that they wished to be heard in the matter, Mr. Kole declared that there are "certain preliminary exceptions that I would like to record, which I think it is my duty to record before the proceeding goes ahead." With the approval of Ganson Purcell, Mr. Kole proceeded as follows:


Ganson Purcell

Mr. Kole: My first objection is addressed to the Panel and it is not based on any knowledge, so that I shall have to depend upon the hearing Commissioners themselves on the subject.

I make the point that, since the Securities and Exchange Commission and the National Association of Securities Dealers are required by the Maloney Act to have an interlocking arrangement for the purpose of enforcing rules of fair practice, it is reasonable to suppose—I don't know that this is a fact at all—that some of the Commissioners may have had something to do with the promulgation of the 5% spread philosophy. Now, they know that and I do not, and if they had anything to do with any conferences that resulted in the promulgation of that philosophy or in any way participated therein or counseled its promulgation, then I challenge the Panel and say as to those Commissioners, they are not qualified to sit.

My motion is, that if any of the Commissioners have had anything to do with the promulgation of the 5% spread philosophy, that they disqualify themselves.

I shall assume, if they continue to sit, in the absence of any statement from the Hearing Commissioners, that they had nothing to do with promulgation of that philosophy.

That is my first application.

The Chairman: The question

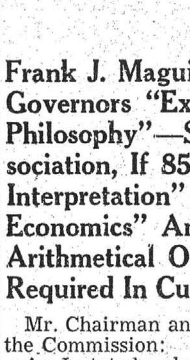
(Continued on page 2602)

Oral Argument Of Frank J. Maguire

Frank J. Maguire, Attorney For S. C. Parker & Co., Of Buffalo, N. Y., Holds NASD Governors "Exercised Power That Did Not Exist" In Promulgating "5% Spread Philosophy"—Says "It Is Not Self-Discipline, Avowed Object And Purposes Of Association, If 85% Of Members Oppose A Rule And Have It Forced Upon Them By Interpretation"—Maintains "Rule On Its Merits Is Not Good Morality, Nor Good Economics" And Says That Dealer In Securities "Cannot Be Compensated On Any Arithmetical Or Arbitrary Percentage Rule Of Spread" In Multitudinous Services Required In Customer's Behalf.

Mr. Chairman and gentlemen of the Commission:

As I stated, when I registered my appearance, I come here on behalf of S. C. Parker & Co., Inc., of Buffalo, N. Y., a member of the NASD and interested in the matter before you.


Frank J. Maguire

My client is interested in the subject from two angles, first as to the subject matter of the so-called 5% rule, and second as to the method of its adoption by the Board of Governors of the NASD.

First, let me say, that my client is unreservedly opposed both to the content of the rule and to the method of its adoption, and, in making that statement, let me add that my client also seeks no license to make unreasonable or unconscionable profits.

As to the merits of the subject matter, and entirely apart from the measure itself, we feel that an arbitrary ceiling on a spread is almost certain to be wrong, whether it be 5% or 1% or 10%.

Any arbitrary measure cannot apply uniformly to situations and circumstances which in themselves necessarily are not uniform.

In a Stock Exchange transaction, a member renders a service which is limited to filling an order on a price basis. No representation is made and no responsibility taken or implied as to the intrinsic quality of the merchandise itself.

Now, of course, as we all know, only a minority of corporations is listed on the Stock Exchanges, and yet investors should buy and want to buy and they do buy the securities of unlisted companies.

Making that possible is one of the important functions of the over-the-counter markets.

Now, a dealer over-the-counter at times may limit his service also to the bringing together of a buyer and a seller, both of whom are available and matching the buy order and sell order; perhaps in such cases a 5% or even a lower limit on a mark-up would be entirely reasonable.

Also, we think it very likely in such a case that no rule would be required to limit the spread to 5% or even less. Economics itself would do that entirely apart from the character of the ethical viewpoint of the particular dealer involved. But the fixing of a price has many other relevant elements. The expense to which the dealer

(Continued on page 2602)

Tomorrow's Markets Walter Whyte Says—

Market confirmation attracts large number of new buyers. Participation at current prices dangerous. Side slip signs are in the offing.

By WALTER WHYTE

Last week's column was barely in print when the market, instead of topping off, took a deep breath and went up. Not only did the leaders take their rightful position but the secondary stocks climbed on better volume than they have seen in many a long month.

* * *

Boardrooms, which up to a few days ago were grand places to catch up on one's sleep, suddenly became beehives of activity. Tape moved along at a gallop and the order clerk who for a long time looked like just another guy in the back office, became quite popular.

* * *

The public, after being on the sidelines for so many months, was all agog at the grand "opportunities" offered by the market and stepped on each other's heels to get in and buy them before they got out of sight. That old business of buying 'em at a price was forgotten. It was "buy at the market." The wonder isn't that the tape was almost steaming at the sales that came over it. The wonder is that it didn't run way behind.

* * *

Staying out of a market such as this, when it has all the characteristics of an old fashioned bull swing, takes a lot of intestinal fortitude; more than most of us who watch the tape have. Yet this very hysteria, this call to the mob, is the very thing that often acts like the Lorelei calling to sailors. It is doubly hard for the man who has been watching the market patiently to see it suddenly take wings and soar. The desire to overtake it is difficult to resist. Yet it is this inability to say no that adds flames to a market. For as one group, impatient with delay hops aboard, another group seeing more tape activity also clambers aboard. And then another group. And so it goes, until the whole

(Continued on page 2605)

Railroad Securities

The inconclusive nature of the court hearings on the St. Paul plan last week were a considerable disappointment to many speculators in the road's securities, as evidenced by the wide fluctuations during the day last Friday and final prices below those of the preceding close. There had been a feeling that most of the uncertainties might be cleared up at the initial hearing, and particularly it had been expected that the question of payment or non-payment of the RFC loan would be settled.

The plan itself largely represents a compromise between the main creditor groups, which had been one reason for expecting speedy approval by the court. Nevertheless, there were a number of objecting junior bondholders' groups as well as the trustees for the Adjustment bonds and the Chicago, Milwaukee & Gary lien. Also, as is generally to be expected in Section 77 proceedings, the management of the road objected to the entire proposal. It was contended that development of the Pacific Northwest had resulted in the likelihood that future earning power of the properties would be such as to give value to the old common stock. It is apparently characteristic of the managements of reorganization railroads that they are convinced of the future bright prospects of their properties, either because of territorial growth or increased economies of operation, no matter what the record may show.

Be that as it may, the objections raised on Friday are not considered as carrying any serious threat to expeditious approval of the plan, at least in its broad principles. Judge Igoe himself said he had one objection to the proposed plan, and that was the provision calling for ICC approval of the voting trustees. The case was continued to June 30 and, according to press reports, Judge Igoe indicated that he would have an order ready at that time. If the order approves the plan it is likely that when-issued trading in the new securities will start immediately.

The biggest surprise of the hearing was the objection by Henry A. Scandrett, on behalf of the trustees of the road, to the payment of the RFC loan. The loan amounts to only $10,442,828, which appears as a modest sum in relation to the road's cash resources. A little less than a year ago, in hearings before the Interstate Commerce Commission, the trustees of the road made an estimate of cash at the end of the year, and the road's probable requirements. On the basis of these estimates it was determined that it would be possible to distribute some $52,000,000 of cash to bondholders under the plan. Actually, the cash position of the road at the year-end was somewhat better than had been estimated, if one considers Government bond holdings set up as a reserve for undermaintenance but not included among current assets.

Income this year was estimated at over $31,000,000 by Mr. Scandrett at the hearings last week. Total fixed and contingent charges and preferred dividends under the plan amount to less than $15,000,000, so that even if reserves for this entire amount were set up there would still be an excess of $16,000,000 released from 1944 earnings. Nevertheless, Mr. Scandrett feels that payment of the $10,000,000 RFC loan would reduce cash below the minimum necessary for the reorganized company. It was stated that only $19,777,830 cash would remain on Jan. 1, 1945, over treasury requirements and that if the RFC were paid off this would be reduced to below $10,000,000. In arriving at these figures it was estimated that gross cash would be increased only $6,723,000 during the year despite the earnings of over $31,000,000.

The testimony tends to highlight once again the mystery of reorganization railroads' cash. It seems in all cases to build up very rapidly under the stimulus of war-swollen traffic. On the other hand, it seems to dissolve rapidly when receivers or trustees are called upon to decide what funds are available for distribution to bondholders. If actually the cash available for distribution is not accumulating at a more rapid rate under present boom conditions than admitted in many of the estimates that have been made in the past year it would appear that the ICC has overcapitalized rather than undercapitalized these reorganizations. In many quarters it is felt that these estimates should be subject to more expert review before being accepted by the courts as a true picture of what can be disbursed.

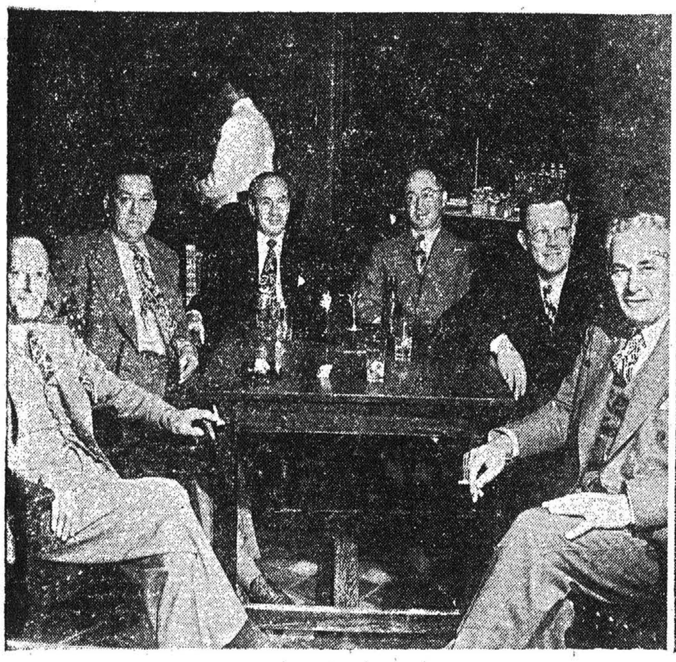
Sulzbacher Granger Partner

Sulzbacher, Grange & Co., 111 Broadway, New York City, members of the New York Stock Exchange, will admit Albert Ulmann to partnership in the firm as of July 1. Mr. Ulmann was a partner in the past.

H. O. McDonald With Midland Securities

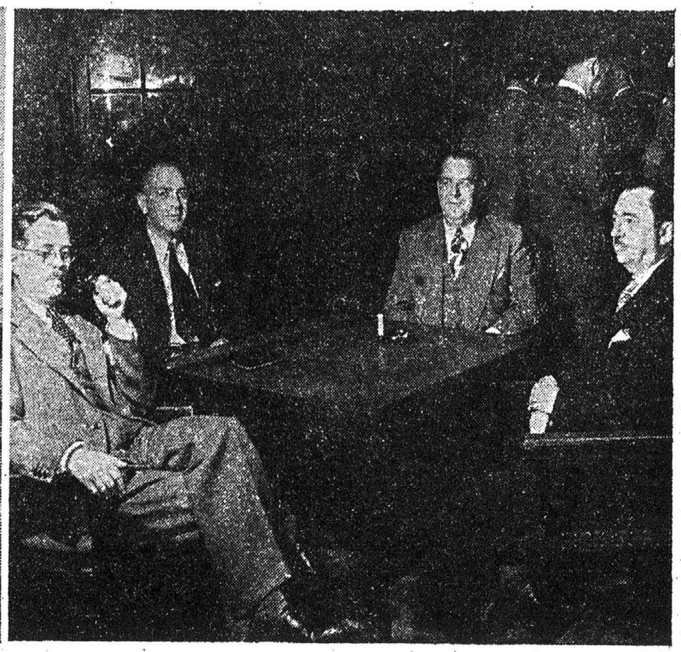
TORONTO, ONT.—Group Captain H. O. McDonald, formerly commanding officer of No. 1 Manning Depot, Toronto, has been appointed manager of the Toronto office of Midland Securities, Ltd., Dominion Bank Building. Captain McDonald was formerly with Cochran, Murray & Co., and prior thereto with Bell, Gouinlock & Co.

New York Security Dealers Association Annual Outing



P. J. Steindler of P. J. Steindler & Co.; Murray Lerner of Adler, Coleman & Co.; Irving Greene of Greene & Co.; Joseph Wolfe of Elliot & Wolfe; Pete Ross of National Quotation Bureau; Meyer Willett of Bristol & Willett.

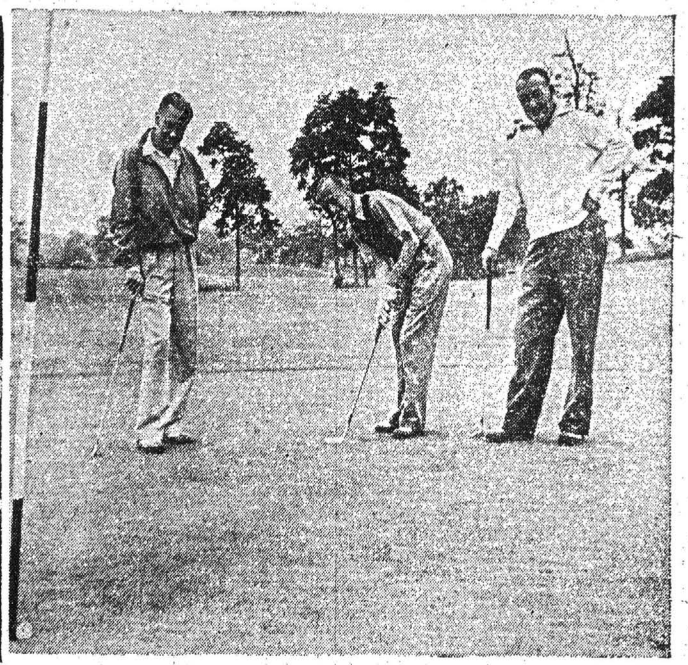
Reginald J. Knapp of Geo. B. D. Bonbright & Co.; S. Watson Maxwell of J. F. Reilly & Co.; Douglas R. Hansel of Wertheim & Co.



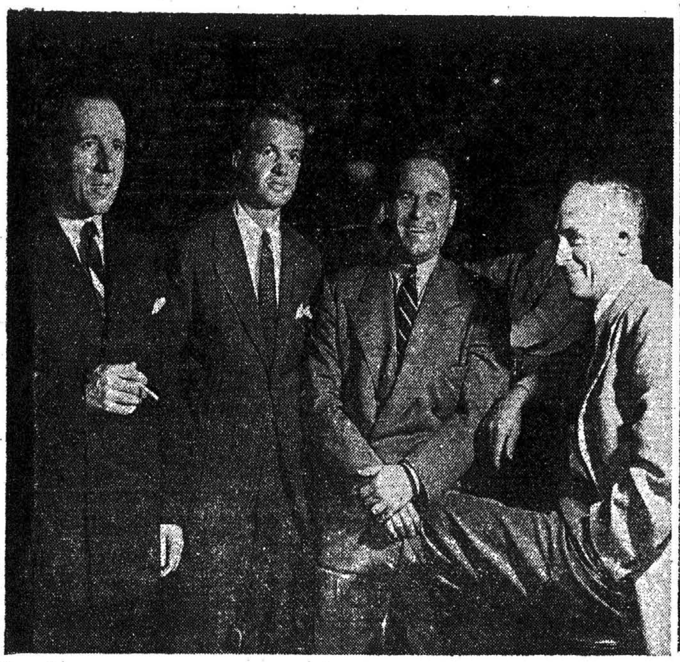
Hanns E. Kuehner of Joyce, Kuehner & Co.; Philip C. Kullman, Jr. and John J. O'Kane, Jr., both of John J. O'Kane, Jr. & Co.; Mel Wein of M. S. Wein & Co.

Irving Gordon of Gruntal & Co.; Gerry Kane of Luckhurst & Co.; Joseph Lann of M. S. Wein & Co.; Arthur Hatz of Arnhold & S. Bleichroeder, Inc.

Jeanne Girard, Entertainer, playing the Star Spangled Banner before dinner.

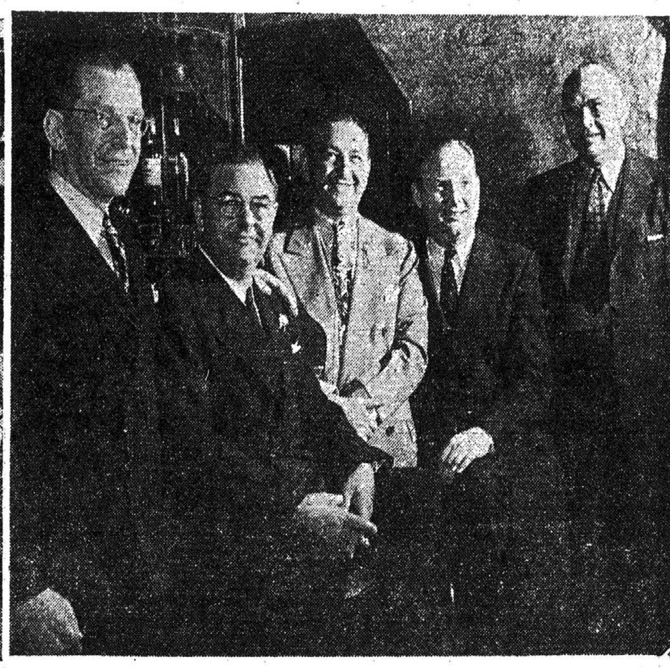


Walter Rhone, Guest; P. J. Steindler of P. J. Steindler & Co.; L. A. Shea, Guest.



John H. Stevenson of Ward & Company; John Wolforth of Central National Corp.; Bertram Seligman of Ward & Company; Russell P. Williams of Kearns & Williams.

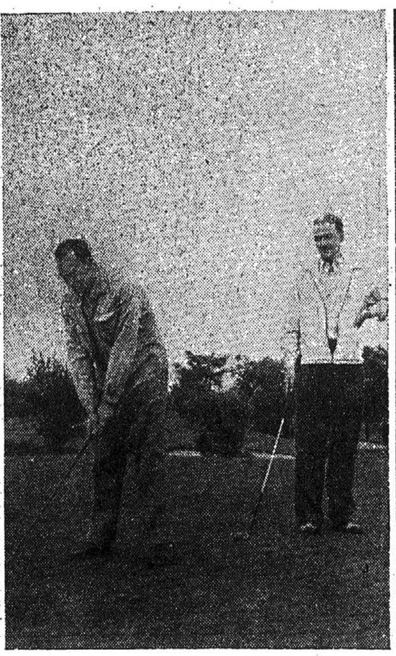
Standing—Rob Lienhard and Walter Filkins, both of Troster, Currie & Summers; *Seated*—Jules Bean of Luckhurst & Co.; Edwin L. Beck of Financial Chronicle; Bob Mackie of Luckhurst & Co.



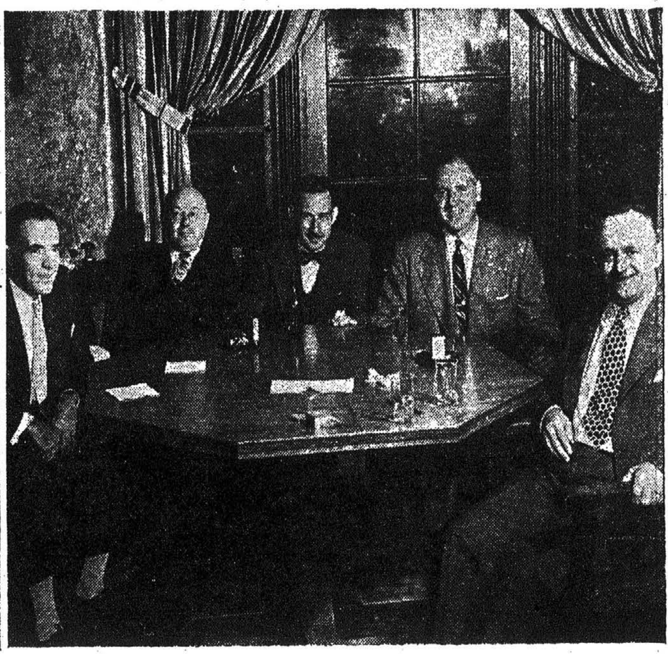
Lou Walker of National Quotation Bureau; Chet De Willers of C. E. De Willers & Co.; Gene Stark of Merrill Lynch, Pierce, Fenner & Beane; Cy Murphy of Mackubin, Legg & Co.; Philip Kullman, Jr. of John J. O'Kane, Jr. & Co.

Which Was Held At North Hills Golf Club June 15th

R. H. Johnson of R. H. Johnson & Co.; Richard G. Horn and Peter P. McDermott, both of Peter P. McDermott & Co.; E. B. Breen of R. H. Johnson & Co.



Lou Singer and Jim Currie both of Troster, Currie & Summers.

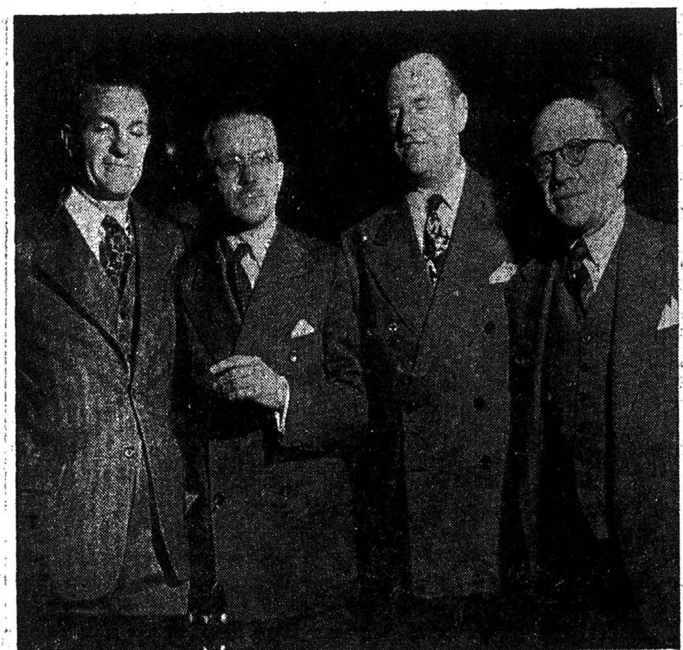


J. F. Reilly of J. F. Reilly & Co.; Irving Ittleman of Strauss Bros.; Jay Duga of Merrill, Lynch, Pierce, Fenner & Beane; C. E. Unterberg of C. E. Unterberg & Co.; H. R. Schmitt of Pulis, Dowling & Co.

John McLaughlin of McLaughlin, Baird & Reuss; Charles Jann of Estabrook & Co.; Stanley Roggenburg of Roggenburg & Co.; Mike Heeney of Jos. McManus & Co.

Martin King of King & King; Harold Smith of Collin, Norton & Co. (N. Y. C.); Bill Kumm of Dunne & Co.

Arthur H. Larson, Guest; Jim Durnin and Roy Larson, both of H. D. Knox & Co., (N. Y. C.); Roger McMann of W. E. Burnett & Co.



Erwin Stugard of Bond & Goodwin, Inc.; William Summers of Troster, Currie & Summers; Frank Dunne of Dunne & Co.; Otto Steindecker of New York Hanseatic Corp.

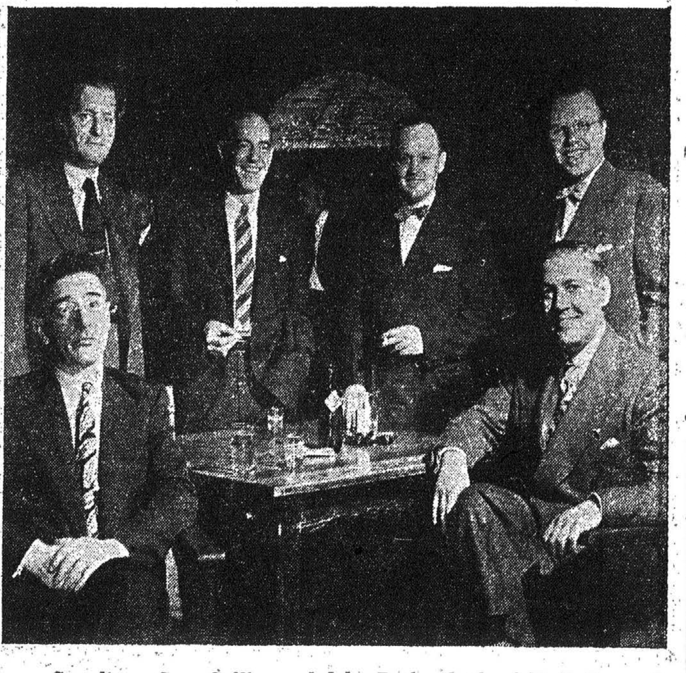
F. J. Rabe of F. J. Rabe & Co.; Wm. Hart Smith of Hart Smith & Co.; Charles H. Dowd of Hodson & Company, Inc.

Frank Dunne of Dunne & Co.; James Currie, Jr. of Troster, Currie & Summers; J. F. Sammon of J. F. Sammon & Co.; Richard Horn of Peter P. McDermott & Co.

Affair Was Most Enjoyable With Record Attendance

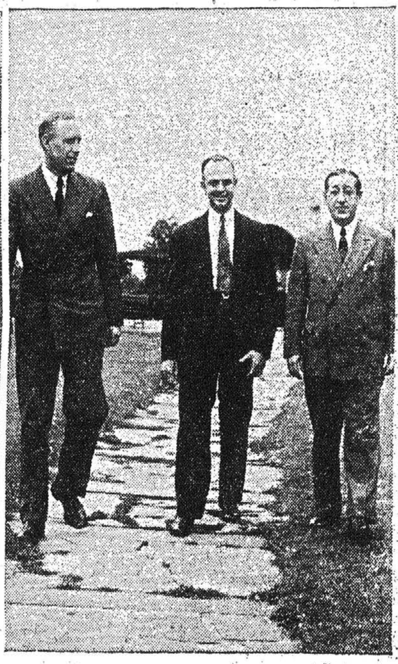
Lew Singer of Troster, Currie & Summers; Leo Schlussel of Salomon Bros. & Hutzler; Chas. F. Bryan of Spencer Trask & Co.; Lester Greenwald of Wellington & Co.; Mortimer Gartman of Josephthal & Co.

R. A. Kester of Frederic H. Hatch & Co.; Tracy R. Engle and Chas. E. Doyle, both of Buckley Brothers (N. Y. C.)



Standing—Geo. Collins and John Butler, both of Huff, Geyer & Hecht; Milton Pincus of Troster, Currie & Summers; Geo. Geyer of Huff, Geyer & Hecht; *Seated*—Robert Franklin of M. S. Wein & Co.; Martin King of King & King.

Softball Winners (Bulls)

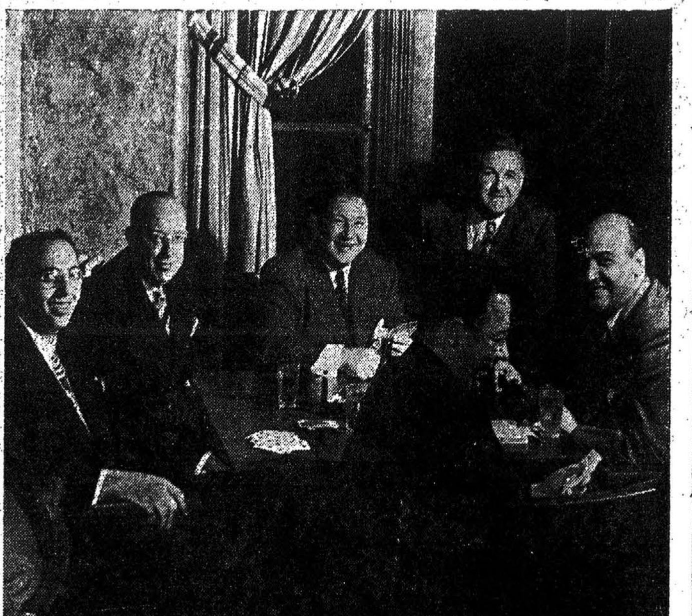


Arthur Burian of Strauss Bros.; William F. Moss of National Quotation Bureau; Sam King of King & King.

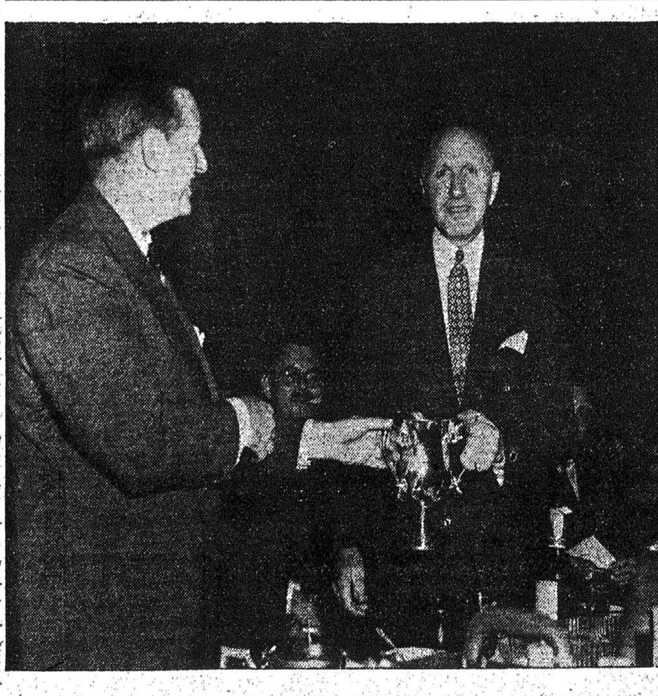
Softball—Also Ran (Bears)

Charles M. Kearns of Kearns & Williams; Al. Ritter, Guest; Charles M. Kaiser and Otto H. Berwald, both of Berwald & Co.

Duke Hunter of Hunter & Co.; Otto H. Steindecker of New York Hanseatic Corp.; Herbert Allen of Allen & Co.; Leroy Klein of Lebenthal & Co.



Nathan A. Krumholz of Seigel & Co.; Chas. Ogden of L. J. Goldwater & Co.; Abe Strauss of Strauss Bros.; Dave Sindel of Josephthal & Co.; Sidney Mendelson of Shaskan & Co.; Arnold Wechsler of L. J. Goldwater & Co.



Presentation of President's Cup to Stanley Roggenberg (low net of 78) by Frank Dunne.

Standing—Stanley Schlussel and Hank Serlen, both of Josephthal & Co.; *Seated*—Tom Greenberg of C. E. Unterberg & Co.; Hal Murphy of Financial Chronicle; S. H. Junger of S. H. Junger Co.

Mr. Alfred E. Loyd, Secretary of New York Security Dealers Association—with door prize and golf trophies.

Gen. Leonard P. Ayres Holds Peak War-Time Production Has Passed

(Continued from first page)

no longer matter for mere discussion. They are moving into the realm of pressing reality. This does not mean that production for war is less imperatively important than it has been, but it does mean that we must expect the declining trends to become accelerated, and we must shape our plans with that prospect in mind. Meanwhile our present big task, in which we dare not fail, is the Fifth War Bond Drive.

Industrial Production

"According to preliminary estimates, the index of industrial production compiled by this bank has declined in April. The index was 38.3% above the computed normal level in January. It rose to 40.0 above normal in February and declined to 39.3 above in March. The preliminary figure for April is 38.3% above normal. These figures may be used to bring up to date the long diagram of business activity published by this bank.

"The reduction in the volume of production is widely distributed throughout industry and is not concentrated in any particular field. Of the 28 indexes so far available for April in which a change from March occurred, 18 showed decreases and 10 showed advances. Nine of the declines occurred in durable goods industries, eight in nondurable goods industries, and one in mining. Factory employment has likewise continued to decline. April is the fifth successive month of decrease in the number of workers."

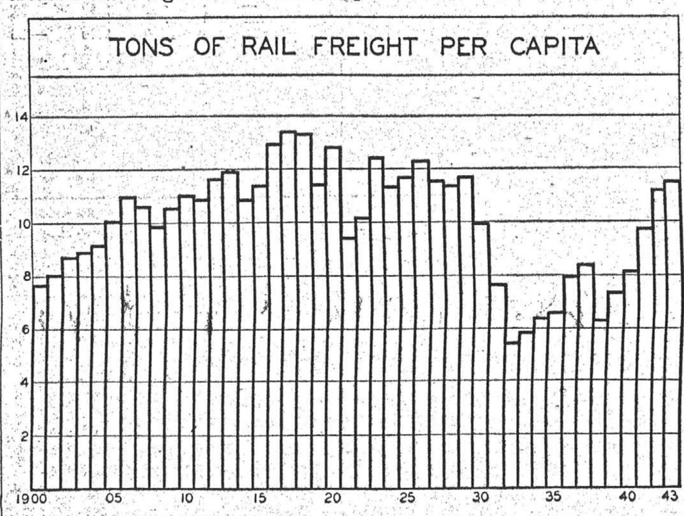
Wartime Incomes

Turning to the subject of wartime incomes, Gen. Ayres remarked that "incomes of farmers have increased by greater percentages than have those of wage and salary workers since war began in Europe in 1939, and both of those increases have been more rapid than have the net profits of corporations. These findings are based on revised data of national income recently published by the Department of Commerce. If the average quarterly incomes of each of the three groups in 1939 are taken as being equal to 100 those that they received in the last quarter of 1943 are found to be 213 for the corporations, 242 for the employees receiving salaries and wages, and 284 for the farm proprietors."

Gen. Ayres next analyzes the relative changes of income received by workers in the mechanical industries as compared with the income of the so-called "white collar" groups, and concludes that "in 1943 the average income of the workers in the mechanical industries was 169% as great as it had been in 1939, but the average income of the 'white collar' workers was only 129% as great as it had been four years earlier. The 'white collar' workers have been steadily losing ground in their relative income status. In 1939 their average incomes were 85% as great as those of the workers in the mechanical industries. In the following year they were only 82% as great, and they fell to 76% in 1941. By 1942 they were down to 67%, and in 1943 their incomes were only 65% as large as those of the workers in the mechanical industries."

Concerning railroad operations, as affected by the war, Gen. Ayres points out that "one of the astonishing facts about the record of the railroads last year is that they originated less freight per capita of the population than they did in most of the years from 1911 through 1929, and far less than they did in the war years of 1917 and 1918. In the accompanying diagram the columns represent the tons of freight originated per capita of the population in each of the 44 years from 1900 through 1943. These tonnages increased irregularly, but rapidly, from the beginning of the period through the first World War. They held their high level fairly well through 1929, and then were greatly decreased in the years of the Great Depression. They reached their lowest level in 1932.

"In the diagram the columns represent the number of tons of freight, per capita of the population, originated by all roads in each year. By using the data for tons originated, each ton is taken into account only once, and there are no duplications, nor is any attention paid to the distance the freight was hauled. In the earliest part of the 44-year period the tons of freight originated were from eight to nine per person per year. From 1900 up to the first war period there was an irregular but rapid advance that greatly increased these figures and carried them up to well over 13 tons per person in the population in 1917.



Compiled by The Cleveland Trust Co.

"Decreases during the Great Depression were very severe. In 1932 the tons originated were only 5.4 per person. In the recovery year of 1937 they increased to 8.4 tons, and then slumped back to 6.3 tons in 1938. Since then there has been an unbroken series of increases, and it may well be that another will follow in this year of 1944. In the five-year period from 1916 through 1920 the average number of tons originated per person per year was 12.8, but in the five depression years from 1931 through 1935 the average was only 6.3 tons per person per year, or less than half as much. In the seven prosperity years from 1923 through 1929 the average was 11.7 tons of freight originated per person per year.

"We have repeatedly been told that all previous records for the moving of railroad freight were broken in 1943. The reason why that is true is that the unit of measurement is the ton-mile, or the hauling of one ton of revenue freight over the distance of one mile. In 1943 the average ton of freight was carried a much greater distance than in previous years, and it is the long hauls that are responsible for setting up the new records. Of course it is also true that the population has been increasing. The actual number of tons of railroad freight originated was greater in 1943 than it was in any earlier year, but it was only about 9% more than in 1929."

In the Armed Forces

The Boston Securities Traders Association reports that the following are now in the armed forces:

H. Hale Atherton, Frank S. Breen, John L. Daley, and John H. Lawson.

Forty-nine members of the Association are now in the services.

Fred Busbey Links CIO With Communists

WASHINGTON, D. C.—Fred E. Busbey, Representative (R) from Illinois, in a speech prepared for delivery in the House linked the leadership of the Political Action Committee of the CIO with the Communists and urged opponents to "take a leaf from its book" in combating it in the elections this year.

Representative Busbey, citing the P. A. C.'s intensive drive to register voters, showed, by a state-by-state roll call, the millions of voting age who did not vote in 1940.

"The failure of our people to vote in the various states in the coming election may be a direct contribution to the downfall of our government," he declared.

F. V. Nixon Now With Buckley Brothers

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Francis V. Nixon has become associated with Buckley Brothers, 530 W. Sixth St. Mr. Nixon was formerly with Hopkins, Harbach & Co. and Quincy Cass Associates. In the past he was in the investment business for himself in New York City, and was an officer of Distributors Group, Inc.

J. P. Morgan & Co. Appoints Assistant Treas.

At the regular meeting of the board of directors of J. P. Morgan & Co. Incorporated, held on June 31, Messrs. John E. Hopkins and Renville A. Yetman were appointed Assistant Treasurers.

Real Estate Securities

By JOHN WEST

N. Y. City's New Basic Realty Tax Lowest In Seven Years

The New York City Council on June 21 adopted a basic realty tax rate of $2.74 per $100 of assessed valuation for fiscal year 1944-45. The new rate contrasts sharply with the current impost of $2.89, highest in the city's history, and is at the lowest level since 1937, when the figure was $2.64.

However, despite the fact that it represents a reduction of 15 points from the current level, some members of the municipal Council expressed the view that the new rate could have been even less than the $2.74 figure.

Regardless of the merits of their contentions, the sharp reduction actually effected is bound to react to the advantage of the market for securities outstanding against local properties. While there is reason to believe that a reduction was in order, and perhaps even overdue, the extent of the decrease compares more than favorably with the general trend toward lower realty taxes in communities throughout the country.

In addition to the $2.74 basic rate, the City Council also fixed borough assessment rates for local improvements, the effect of which is reflected in the following tabulation indicating the total rate applicable to property in each of the five boroughs:

	Basic Tax 1944-45	Assessments	Total	Diff'nce from 1943-44
Manhattan	2.74	.18	2.91	—.13
Bronx	2.74	.15	2.89	—.14
Brooklyn	2.74	.20	2.93	—.12
Queens	2.74	.20	2.93	—.20
Richmond	2.74	.17	2.90	—.16

The change involves three-point increases in borough assessments for Manhattan and Brooklyn and a four-point decrease for Queens, which, with a $3.13 tax rate in the current fiscal year, has had the highest rate of the five boroughs.

New Yorkers Elected By Special Libraries

Walter Hausdorfer, Librarian, School of Business, Columbia University, who was elected

Walter Hausdorfer

President, Special Libraries Association, Philadelphia, Pa., June 21, 1944.

Anne Mendel, Librarian, Bank of the Manhattan Company, who was elected Chairman of the Financial Group of the Special Libraries Association, Philadelphia, Pa., June 21, 1944.

Anne Mendel

Britain's Advantages In United Nations Stabilization Fund

(Continued from first page)

called the dog "Moreover." We hit no such happy solution, with the result that it has been the dog that died. The loss of the dog we need not too much regret, though I still think that it was a more thoroughbred animal than what has now come out from a mixed marriage of ideas. Yet, perhaps, as sometimes occurs, this dog of mixed origin is a sturdier and more serviceable animal and will prove not less loyal and faithful to the purposes for which it has been bred.

I commend the new plan to your Lordships as being, in some important respects (to which I will return later), a considerable improvement on either of its parents. I like this new plan and I believe that it will work to our advantage. Your Lordships will not wish me to enter into too much technical detail. I can best occupy the time available by examining the major benefits this country may hope to gain from the plan; and whether there are adequate safeguards against possible disadvantages. We shall emerge from this war, having won a more solid victory over our enemies, a more enduring friendship from our Allies, and a deeper respect from the world at large, than perhaps at any time in our history. The victory, the friendship, and the respect will have been won, because, in spite of faint-hearted preparations, we have sacrificed every precaution for the future in the interests of immediate strength with a fanatical single-mindedness which has had few parallels. But the full price of this has still to be paid. I wish that this was more generally appreciated in the country than it is. In thus waging the war without counting the ultimate cost we—and we alone of the United Nations—have burdened ourselves with a weight of deferred indebtedness to other countries beneath which we shall stagger. We have already given to the common cause all, and more than all, that we can afford. It follows that we must examine any financial plan to make sure that it will help us to carry our burdens and not add to them. No one is more deeply convinced of this than I am. I make no complaint, therefore, that those to whom the details of the scheme are new and difficult, should scrutinize them with anxious concern.

What, then, are these major advantages that I hope from the plan to the advantage of this country? First, it is clearly recognized and agreed that, during the post-war transitional period of uncertain duration, we are entitled to retain any of those wartime restrictions, and special arrangements with the Sterling Area and others which are helpful to us, without being open to the charge of acting contrary to any general engagements into which we have entered. Having this assurance, we can make our plans for the most difficult days which will follow the war, knowing where we stand and without risk of giving grounds of offense. This is a great gain—and one of the respects in which the new plan is much superior to either of its predecessors, which did not clearly set forth any similar safeguards.

Second, when this period is over and we are again strong enough to live year by year on our own resources, we can look forward to trading in a world of national currencies which are inter-convertible. For a great commercial nation like ourselves this is indispensable for full prosperity. Sterling itself, in due course, must obviously become, once again, generally convertible. For, without this, London must necessarily lose its international position, and the arrangements in particular of the Sterling Area would fall to pieces. To suppose that a system of bilateral and barter agreements, with no one who owns sterling knowing just what he can do with it—to suppose that this is the best way of encouraging the Dominions to center their financial systems on London, seems to me pretty near frenzy. As a technique of little Englandism, adopted as a last resort when all else has failed us, with this small country driven to autarchy, keeping itself to itself in a harsh and unfriendly world, it might make more sense. But those who talk this way, in the expectation that the rest of the Commonwealth will throw in their lot on these lines and cut their free commercial relations with the rest of the world, can have very little idea how this Empire has grown or by what means it can be sustained.

So far from an international plan endangering the long tradition, by which most Empire countries, and many other countries, too, have centered their financial systems in London, the plan is, in my judgment, an indispensable means of maintaining this tradition. With our own resources so greatly impaired and encumbered, it is only if sterling is firmly placed in an international setting that the necessary confidence in it can be sustained. Indeed, even during the transitional period, it will be our policy, I hope, steadily to develop the field within which sterling is freely available as rapidly as we can manage. Now if our own goal is, as it surely must be, the general inter-convertibility of sterling with other currencies, it must obviously be to our trading advantage that the same obtains elsewhere, so that we can sell our exports in one country and freely spend the proceeds in any other. It is a great gain to us in particular, that other countries in the world should agree to refrain from those discriminatory exchange practices which we ourselves have never adopted in times of peace but from which in the recent past our traders have suffered greatly at the hands of others. My noble friend Lord Addison has asked whether such an arrangement could be operated in such a way that certain markets might be closed to British exports. I can firmly assure him that none of the monetary proposals will do so provided that if we find ourselves with currencies in a foreign country which we do not choose to spend in that country, we can then freely remit them somewhere else to buy goods in another country. There is no compulsion on us, and if we choose to come to a particular bargain in the country where we have resources, then that is entirely at our discretion.

Third, the wheels of trade are to be oiled by what is, in effect, a great addition to the world's stock of monetary reserves, distributed, moreover, in a reasonable way. The quotas are not so large as under the Clearing Union, and Lord Addison drew attention to that. But they are substantial and can be increased subsequently if the need is shown. The aggregate for the world is put provisionally at £2,500,000,000. Our own share of this—for ourselves and the Crown Colonies which, I may mention, are treated for all purposes as a part of the British monetary system (in itself a useful acknowledgment) — is £325,000,000, a sum which may easily double, or more than double, the reserves which we shall otherwise hold at the end of the transitional period. The separate quotas of the rest of the sterling area will make a further large addition to this. Who is so confident of the future that he will wish to throw away so comfortable a supplementary aid in time of trouble? Do the critics think it preferable, if the winds of the trade cycle blow, to diminish our demand for imports by increasing unemployment at home, rather than meet the emergency out of this Fund which will be expressly provided for such temporary purposes?

I emphasize that such is the purpose of the quotas. They are not intended as daily food for us or any other country to live upon during the reconstruction or afterwards. Provision for that belongs to another chapter of international co-operation, upon which we shall embark shortly unless you discourage us unduly about this one. The quotas for drawing on the Fund's resources are an iron ration to tide over temporary emergencies of one kind or another. Perhaps this is the best reply I can make to Lord Addison's doubts whether our quota is large enough. It is obviously not large enough for us to live upon during the reconstruction period. But this is not its purpose. Pending further experience, it is, in my judgment, large enough for the purposes for which it is intended.

There is another advantage to which I would draw your Lordships' special attention. A proper share of responsibility for maintaining equilibrium in the balance of international payments is squarely placed on the creditor countries. This is one of the major improvements in the new plan. The Americans, who are the most likely to be affected by this, have, of their own free will and honest purpose, offered us a far-reaching formula of protection against a recurrence of the main cause of deflation during the inter-war years, namely the draining of reserves out of the rest of the world to pay a country which was obstinately borrowing and exporting on a scale immensely greater than it was lending and importing. Under Clause VI of the plan a country engages itself, in effect, to prevent such a situation from arising again, by promising, should it fail, to release other countries from any obligation to take its exports, or, if taken, to pay for them. I cannot imagine that this sanction would ever be allowed to come into effect. If by no other means, than by lending, the creditor country will always have to find a way to square the account on imperative grounds of its own self-interest. For it will no longer be entitled to square the account by squeezing gold out of the rest of us. Here we have a voluntary undertaking, genuinely offered in the spirit both of a good neighbor and, I should add, of enlightened self-interest, not to allow a repetition of a chain of events which between the wars did more than any other single factor to destroy the world's economic balance and to prepare a seed-bed for foul growths. This is a tremendous extension of international co-operation to good ends. I pray your Lordships to pay heed to its importance.

Fifth, the plan sets up an international institution with substantial rights and duties to preserve orderly arrangements in matters such as exchange rates which are two-ended and affect both parties alike, which can also serve as a place of regular discussion between responsible authorities to find ways to escape those many unforseeable dangers which the future holds. The noble lord, Lord Addison, asks how the Fund is to be managed. Admittedly, this is not yet worked out in the necessary detail, and it was right that he should stress the point. But three points which may help him are fairly clear. This is an organization between governments, in which Central Banks only appear as the instrument and agent of their Government. The voting power of the British Commonwealth and that of the United States are expected to be approximately equal. The management will be in three tiers—a body of expert, whole-time officials who will be responsible for the routine; a small board of management which will make all decisions of policy subject to any overriding instructions from the Assembly, an Assembly of all the member-governments meeting less often and retaining a supervisory, but not an executive, control. That is perhaps even a little better than appears.

Here are five advantages of major importance. The proposals go far beyond what, even a short time ago, anyone could have conceived of as a possible basis of general international agreement. What alternative is open to us which gives comparable aid or, better, more hopeful opportunities for the future? I have considerable confidence that something very like this plan will be in fact adopted, if only on account of the plain demerits of the alternative of rejection. You can talk against this plan, so long as it is a matter of talking—saying in the same breath that it goes too far and that it does not go far enough; that it is too rigid to be safe and that it is too loose to be worth anything. But it would require great foolhardiness to reject it, much more foolhardiness than is to be found in this wise, intuitive country.

Therefore, for these manifold and substantial benefits I commend the monetary proposals to your Lordships. Nevertheless, before you will give them your confidence, you will wish to consider whether, in return, we are surrendering anything which is vital for the ordering of our domestic affairs in the manner we intend for the future. My Lords, the experience of the years before the war has led most of us, though some of us late in the day, to certain firm conclusions. Three in particular are highly relevant to this discussion. We are determined that in future the external value of sterling shall conform to its internal value as set by our own domestic policies, and not the other way round. Secondly, we intend to retain control of our domestic rate of interest so that we can keep it as low as suits our own purposes, without interference from the ebb and flow of international capital movements or flights of hot money. Thirdly, whilst we intend to prevent inflation at home, we will not accept deflation at the dictate of influences from outside. In other words, we abjure the instruments of bank rate and credit contraction operating through the increase of unemployment as a means of forcing our domestic economy into line with external factors.

Have those responsible for the monetary proposals been sufficiently careful to preserve these principles from the possibility of interference? I hope your Lordships will trust me not to have turned my back on all I have fought for. To establish those three principles which I have just stated has been my main task for the last 20 years. Sometimes almost alone, in popular articles in the press, in pamphlets, in dozens of letters to the "Times," in textbooks, in enormous and obscure treatises I have spent my strength to persuade my countrymen and the world at large to change their traditional doctrines and, by taking better thought, to remove the course of unemployment. Was it not I, when many of today's iconoclasts were still worshippers of the Calf, who wrote that "gold is a barbarous relic"? Am I so faithless, so forgetful so senile that, at the very moment of the triumph of these ideas when, with gathering momentum, governments, parliaments, banks, the press, the public, and even economists, have at last accepted the new doctrines, I go off to help forge new chains to hold us fast in the old dungeon? I trust, my Lords, that you will not believe it.

Let me take first the less prominent of the two issues which arise in this connection. Namely, our power to control the domestic rate of interest so as to secure cheap money. Not merely as a feature of the transition but as a permanent arrangement, the plan accords to every member-government the explicit right to control all capital movements. What used to be a heresy is now endorsed as orthodox. In my own judgment, countries which avail themselves of this right may find it necessary to scrutinize all transactions, so as to prevent evasion of capital regulations. Provided that the innocent, current transactions are let through, there is nothing in the plan to prevent this. In fact, it is encouraged. It follows that our right to control the domestic capital market is secured on firmer foundatons than ever before, and is formally accepted as a proper part of agreed international arrangements.

The question, however, which has recently been given chief prominence is whether we are in any sense returning to the disabilities of the former gold standard, relief from which we have rightly learnt to prize so highly. If I have any authority to pronounce on what is and what is not the essence and meaning of a gold standard, I should say that this plan is the exact opposite of it. The plan in its relation to gold is, indeed, very close to proposals which I advocated in vain as the right alternative, when I was bitterly opposing this country's return to gold. The gold standard, as I understand it, means a system under which the external value of a national currency is rigidly tied to a fixed quantity of gold which can only honorably be broken under force majeure; and it involves a financial policy which compels the internal value of the domestic currency to conform to this external value as fixed in terms of gold. On the other hand, the use of gold merely as a convenient common denominator by means of which the relative values of national currencies—these being free to change—are expressed from time to time is obviously quite another matter.

My noble friend, Lord Addison, asks who fixes the value of gold. If he means, as I assume he does, the sterling value of gold, it is we ourselves who fix it initially in consultation with the Fund; and this value is subject to change at any time on our initiative, changes in excess of 10% requiring the approval of the Fund, which must not withhold approval if our domestic equilibrium requires it. There must be some price for gold; and so long as gold is used as a monetary reserve it is most advisable that the current rates of exchange and the relative values of gold in different currencies should correspond. The only alternative to this would be the complete demonetization of gold. I am not aware that anyone has proposed that. For it is only common sense as things are today to continue to make use of gold and its prestige as a means of settling international accounts. To demonetize gold would obviously be highly objectionable to the British Commonwealth and to Russia as the main producers, and to the United States and the Western Allies as the main holders of it. Surely no one disputes that? On the other hand, in this country we have already dethroned gold as the fixed standard of value. The plan not merely confirms the dethronement but approves it by expressly providing that it is the duty of the Fund to alter the gold value of any currency if it is shown that this will be serviceable to equilibrium.

In fact, the plan introduces in this respect an epoch-making innovation in an international instrument, the object of which is to lay down sound and orthodox principles. For instead of maintaining the principle that the internal value of a national currency should conform to a prescribed de jure external value, it provides that its external value should be altered if necessary so as to conform to whatever de facto internal value results from domestic policies which themselves shall be immune from criticism by the Fund. Indeed, it is made the duty of the Fund to approve changes which will have this effect. That is why I say that these proposals are the exact opposite of the gold standard. They lay down by international agreement the essence of the new doctrine, far removed from the old orthodoxy. If they do so in terms as inoffensive as possible to the former faith, need we complain?

No, my Lords, in recommending these proposals I do not blot a page already written. I am trying to help write a new page. Public opinion is now converted to a new model, and I believe a much improved model, of domestic policy. That battle is all but won. Yet a not less difficult task still remains, namely, to organize an international setting within which the new domestic policies can occupy a comfortable place. Therefore, it is above all as providing an international framework for the new ideas and the new techniques associated with the policy of full employment that these proposals are not least to be welcomed.

Last week my noble friend Lord Bennett asked what assumptions the experts might be making about other phases of international agreement. I do not believe that the soundness of these foundations depends very much on the details of the superstructure. If the rest of the issues to be discussed are wisely settled, the task of the Monetary Fund will be rendered easier. But if we gain less assistance from other measures than we now hope, an agreed machinery of adjustment on the monetary side will be all the more necessary. I am certain that this is not a case of putting the cart before the horse. I think it most unlikely that fuller knowledge about future commercial policy would in itself make it necessary to alter any clause whatever in the proposals now before your Lordships' House. But if the noble Viscount meant that these proposals need supplementing in other directions, no one could agree with him more than I do. In particular, it is urgent that we should seek agreement about setting up an International Investment Institution to provide funds for reconstruction and afterwards. It is precisely because there is so much to do in the way of international collaboration in the economic field that it would be so disastrous to discourage this first attempt, or to meet it in a carping, suspicious or cynical mood.

The noble Lord, Lord Addison, has called the attention of your Lordships to the striking statement made by Mr. Hull in connection with the National Foreign Trade Week in the United States, and I am very glad that he did so. This statement is important as showing that the policy of the United States Administration on various issues of political and economic preparation forms a connected whole. I am certain that the people of this country are of the same mind as Mr. Hull, and I have complete confidence that he on his side will seek to implement the details with disinterestedness and generosity. If the experts of the American and British Treasuries have pursued the monetary discussions with more ardor, with a clearer purpose and, I think, with more success so far than has yet proved possible with other associated matters, need we restrain them? If, however, there is a general feeling, as I think that there is, that discussion on other matters should be expedited, so that we may have a complete picture before us, I hope that your Lordships will enforce this conclusion in no uncertain terms. I myself have never supposed that in the final outcome the monetary proposals should stand by themselves.

It is on this note of emphasizing the importance of furthering all genuine efforts directed towards international agreement in the economic field that I should wish to end my contribution to this debate. The proposals which are before your Lordships are the result of the collaboration of many minds and the fruit of the collective wisdom of the experts of many nations. I have spent many days and weeks in the past year in the company of experts of this country, of the Dominions, of our European Allies and of the United States; and, in the light of some past experience I affirm that these discussions have been without exception a model of what such gatherings should be—objective, understanding, without waste of time or expense of temper. I dare to speak for the much abused so-called experts. I even venture sometimes to prefer them, without intending any disrespect, to politicians. The common love of truth, bred of a scientific habit of mind, is the closest of bonds between the representatives of divers nations.

I wish I could draw back the veil of anonymity and give their due to the individuals of the most notable group with which I have ever been associated, covering half the nations of the world, who from prolonged and difficult consultations, each with their own interests to protect, have emerged, as we all of us know and feel in our hearts, a band of brothers. I should like to pay a particular tribute to the representatives of the United States Treasury and the State Department and the Federal Reserve Board in Washington, whose genuine and ready consideration for the difficulties of others, and whose idealistic and unflagging pursuit of a better international order, made possible so great a measure of agreement. I at any rate have come out from a year thus spent greatly encouraged, encouraged beyond all previous hope and expectation, about the possibility of just and honorable and practical economic arrangements between nations.

Do not discourage us. Perhaps we are laying the first brick, though it may be a colorless one, in a great edifice. If indeed it is our purpose to draw back from international cooperation and to pursue an altogether different order of ideas, the sooner that this is made clear the better; but that, I believe, is the policy of only a small minority, and for my part I am convinced that we cannot on those terms remain a Great Power and the mother of a Commonwealth. If, on the other hand, such is not our purpose, let us clear our minds of excessive doubts and suspicions and go forward cautiously by all means, but with the intention of reaching agreement.

A Bank's War-Time Challenge

Indicative of the part the nation's banks are playing in the sale of United States War Bonds is a giant painting, on canvas, 14 feet square, installed on the east wall of the main lobby of the Chase National Bank of the City of New York at Pine and Nassau Streets for the fifth war bond drive. The canvas depicts an American flyer pointing to his own record of 15 Japanese planes knocked out of the air and asking all who enter the bank to augment the score by buying more war bonds. Incidentally, the Chase alone is credited with entering subscriptions for more than $4 billions of war bonds in the four drives preceding the present one.

Ohio Municipal Comment

By J. AUSTIN WHITE

Despite the oft-mentioned but doubtfully effective "invasion jitters" of several weeks ago, the municipal market has taken the long awaited news in stride. In fact, it seems the market is actually stronger now that the invasion has started, and has met with at least initial success. And well it might be thus.

Several weeks ago many buyers were talking of the possible, or probable lower prices which might be seen in the municipal market if a successful invasion would bring the end of the war into more immediate view. This talk was, and probably still is, based largely upon two considerations: (1) that the end of the war will bring a larger supply of municipals into the market as subdivisions again resume the issuance of bonds held up during the war because of lack of materials for proposed improvements; and (2) that the end of the war would bring lower taxes and, therefore, less value for tax exemption.

J. Austin White

There is probably truth in both these considerations. Albeit, in Ohio at least, it is quite doubtful that there will be a material increase in the issuance of high grade municipals, and it is especillay doubtful if there will be issued enough such bonds to equal the maturities that will be paid off in the next several years.

Moreover, it is doubtful if the tax rates that have made mu-

(Continued on page 2591)

Lamb To N. Y. Office Of Merrill Lynch Co.

CLEVELAND, OHIO—Ray L. Lamb, resident partner of Merrill Lynch, Pierce, Fenner & Beane, 216 Superior Avenue, N. E., is leaving Cleveland the first of July to become associated with the company's New York office at 70 Pine Street. He has resigned as a governor of the Cleveland Stock Exchange.

Mr. Lamb announced that he will continue to give special attention to the company's six Ohio offices in addition to regular duties in New York. He hopes to return to Cleveland following the war when several of the company's partners now in armed services resume their former places. Guy W. Prosser of Lamb's firm, has been elected an exchange governor to serve out Lamb's unexpired term.

Cleveland Bond Club Annual Party & Meeting

Candidates for Governors

CLEVELAND, OHIO—Members of the Cleveland Bond Club will hold their annual golf party and meeting tomorrow.

Members will play golf in the afternoon and following dinner James F. Lincoln, President of Lincoln Electric Co., will speak on "Incentive vs. Government Control."

The club's nominating committee announced names of four candidates to two seats on the board of governors. They are: David J. Barhyte of Hawley, Shepard & Co.; Walter B. Carleton of Fahey, Clark & Co.; J. L. Quigley of Quigley & Co., and William J. Mericka of Wm. J. Mericka & Co. Retiring from the board are A. H. Richards of Field, Richards & Co. and Emil A. Legros of First Cleveland Corp.

Wm. L. Strong Joins Blair Securities

CLEVELAND, OHIO—Blair Securities Corp., Union Commerce Building, announce that William L. Strong is now associated with them as trader. Mr. Strong who has been connected with the securities business for the past twenty years was recently with J. S. Bache & Co.

Ohio Municipal Price Index

Date—	*	†	‡	§
Jun. 14, 1944	1.31%	1.46%	1.16%	.30%
Jun. 7	1.33	1.48	1.18	.30
May 17	1.31	1.46	1.16	.30
Apr. 12	1.32	1.46	1.17	.29
Mar. 15	1.34	1.50	1.19	.31
Feb. 16	1.37	1.53	1.21	.32
Jan. 19	1.40	1.57	1.23	.34
Dec. 15, 1943	1.42	1.59	1.24	.35
Nov. 17	1.39	1.57	1.22	.35
Oct. 13	1.39	1.58	1.21	.37
Sep. 15	1.43	1.62	1.24	.38
Aug. 18	1.44	1.63	1.25	.38
July 15	1.50	1.63	1.32	.36
Mar. 16	1.76	1.97	1.55	.42
Jan. 1, 1943	1.83	2.01	1.65	.36
Jan. 1, 1942	1.92	2.13	1.70	.43
Jan. 1, 1941	1.88	2.14	1.62	.52
Jan. 1, 1940	2.30	2.58	2.01	.57
Jan. 1, 1939	2.78	3.33	2.24	1.09
Jan. 1, 1938	2.98	3.42	2.55	.87

Foregoing compiled by J. A. White, Cincinnati.

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

Otis & Co. Granted Review By High Court

CLEVELAND, OHIO—Otis & Co., Terminal Tower, has been granted its request for a review by the Supreme Court on a rule announced by the Securities Commission regarding treatment of securities of public utility holding companies forced to liquidate under the holding company act.

Otis' protest was based on commission's action in approving the United Power & Light Co. liquidation plan which called for distribution of assets to preferred and common stockholders on the basis of 94.52% and 5.48%, respectively. Otis contended the Commission decision failed to follow a rule of "absolute priority" dictated by the high court in bankruptcy proceedings.

Kessler Now President Of Southside Federal

CLEVELAND, OHIO — Arthur J. Kessler, Assistant Secretary-Treasurer of South Side Federal Savings & Loan Association of Cleveland, has advanced from First Vice-President to President of the American Savings & Loan Institute. He succeeds Walter McCaleb Jr. of Second Federal Savings & Loan Association of Cleveland.

Carl E. Ault of South Euclid Savings & Loan Co. was chosen First Vice-President and Henry S. Jablonski of Third Federal Savings & Loan Association Second Vice-President.

Ohio Brevities

Stockholders of Reliance Steel Corp. of Cleveland have approved merger of the company with Detroit Steel Corp. of Detroit. The management said the merger will be consummated effective at the close of business June 30 after which new securities will be issued.

The merger involves issuance of debentures and new $2 par common stock of Detroit Steel in exchange for presently outstanding shares of both companies. Reliance holders will receive $3.33 1/3 principal amount of 6 percent 20-year sinking fund debentures and 85/100ths of a share of new $2 common for each share of Reliance stock.

Detroit Steel holders will get $10 in principal amount of debentures and one share of $2 common for each share of $5 par stock. The merged company will continue the business of the constituent corporations under the name of Detroit Steel Corp.

* * *

Harvey O. Mierke has been chosen secretary of Higbee Co., large Cleveland department store. Mr. Mierke, who has been a director, succeeds President John P. Murphy as secretary. Directors declared a dividend of 75 cents a share on common stock, the third such declaration so far this year. It is payable July 15 to stockholders of record July 1.

* * *

Forde U. Steel of Central National Bank, placed third in the national public speaking contest of the American Institute of Banking at St. Louis early this month.

* * *

Wheeling & Lake Erie Railway is planning to purchase 1,000 gondola and box cars. It has mailed an application to the Interstate Commerce Commission for authority to issue $1,140,000 equipment trust certificates, series J, to be dated August 1 and maturing in 20-semi-annual installments, in part payment for acquisition of 500 steel sheathed 50-ton box cars to be built by Ralston Steel Car Co. Bids will be mailed July 1 and will be opened at noon July 19.

* * *

The railway said there will be another offering of $926,000 equipments, series K, to be dated September 1, 1944, maturing in 20 semi-annual installments in part payment for 500 all-steel 50-ton high side gondola cars to be constructed by Bethlehem Steel Co. Bids on this issue will be mailed August 1 and opened at noon August 18. The road said in neither issue will discount bids in excess of 1 percent of par be accepted.

Federal Reserve Bank Promotions For Three

CLEVELAND, OHIO—Promotion of two junior officers and a department manager to positions of greater executive responsibility in the official family of the Federal Reserve Bank of Cleveland has been approved by the Board of Directors, it is announced by President M. J. Fleming.

Clyde Harrell

Martin Morrison

Frederick J. Blake

The promotions, effective July 1, are:

Clyde Harrell, Assistant Cashier since January, 1942, was promoted to Assistant Vice-President.

Martin Morrison, Assistant Cashier since July, 1942, also was promoted to Assistant Vice-President.

Frederick J. Blake, Manager of the bank's personnel department was promoted to Assistant Cashier.

Mr. Harrell started with the bank 20 years ago as a page boy in the Cincinnati office. He attended school at night and was graduated from the University of Cincinnati. He is now enrolled in the Graduate School of Banking at Rutgers University. During the last year, Mr. Harrell has been in charge of the bank's rapidly-expanding War Savings Bond operations.

Mr. Morrison's banking experience dates from March, 1915, when he began work at the age of 14 in the DuPage County State Bank at Glen Ellyn, Ill. From 1918 to 1932 he was associated with the former Union Commerce National Bank and Midland Bank here. He joined the Federal Reserve Bank in 1932 and left six years later to become Executive Vice-President of the Lorain Street Bank, returning to the Federal Reserve in 1941.

Mr. Morrison has been in charge of planning, methods and expense accounting, and is credited largely with setting up the bank's highly efficient system for handling War Savings Bonds.

Mr. Blake obtained his master's degree in 1934 at the School of Business Administration, Harvard University, following his graduation from Westminster College. He was associated with the National Refining Co., Ernst & Ernst and the Simmons Manufacturing Co., Ashland, O., before coming to the Federal Reserve Bank four years ago.

Mr. Fleming also announced that the bank has granted a leave of absence to Miss Anne J. Erste, alternate assistant Federal Reserve agent, who has joined the staff of the Foreign Economic Administration. Miss Erste, after a month's training in Washington, will engage in confidential war work with the FEA, with headquarters in Cairo, Egypt.

When she was named alternate assistant Federal Reserve agent in November, 1942, Miss Erste became the first woman to occupy that position in a Federal Reserve Bank.

Kelsey Quits Red Star

CLEVELAND, OHIO—Raymond T. Kelsey, prominent in Cleveland financial district, has resigned as Vice-President of Red Star Products, Inc. Prior to going to Red Star about two years ago, Kelsey was statistician with Paine, Webber & Co., now Paine, Webber, Jackson & Curtis.

Ohio Municipal Comment

(Continued from page 2590)

nicipal bonds attractive will be reduced either materially or soon. Finally, by the time such reductions are made, there will probably be more investors than there are now, who will have come to appreciate fully the value of municipal income, even at present high prices.

But whatever merit these considerations may have, it is based upon an early end of the war—which in itself is certainly still subject to debate. Those who feel that such a development will have a bearish effect upon municipal prices, are, it seems, failing to consider a mot profound bullish effect that a quick end of the war would have upon all high grade bonds.

Each week, for months, the amount of money in circulation has risen by considerable proportions. Each week the Federal Reserve Banks have found it necessary to purchase additional large amounts of Government securities in order to pump money into the banking system to be used as reserves, against ever increasing deposits. Each week the ratio of gold, held by the Federal Reserve System to its note and reserve deposits, has declined. Each week the people of this country become more immune to appropriation of billions of dollars by their Congress. Each week the people of this country become more accustomed to think lightly of a billion dollars.

Each week these developments continue, the greater is the danger that the holder of any fixed income security will suffer from a decline in the true value of his income, as expressed in terms of what that income will buy. In short, each week these conditions continue, the greater is the danger of inflation.

The most important threat to the market value of high grade municipal bonds, and of all other high grade bonds, over the next several years, in our opinion, is not from a larger supply, nor from lower taxes, but from the far more profound danger of inflation, even if it be expressed only in an inflated price level in post-war years. Each week that the war lasts increases this danger. And for each week that the end of the war can be brought closer, the less is this very grave danger. Therefore, it would seem that a successful invasion, an early defeat of Germany and an early end to Japan, would, each and all, tend to diminish the gravest danger now existing to the value of the income from municipal bonds—whether that income be a yield of 3%, or a yield of 1%.

Perhaps the failure of the municipal market to decline when the invasion started, has brought some buyers to the conclusion that there is no merit to withholding purchases longer. In any event, now that the event has happened, and is progressing with success, the market is actually in stronger condition.

And this situation is true even though the country is absorbed in selling $16,000,000,000 in the Fifth War Loan Drive. In fact, the Ohio municipal market has even witnessed greater activity during these early days of the drive than in the weeks immediately preceding it.

Toledo has just borrowed $716,500 on the most favorable terms it has ever obtained. Bedford has just borrowed $430,000 on the most favorable terms it has ever obtained. Portsmouth has just borrowed $128,000 on the most favorable terms is has ever obtained.

And so the story goes—practically every sale these days is still setting a new record low cost for borrowing for the particular community — all attesting to the strength of the current municipal market.

The Toledos were due 1950-55, but with most of the bonds due 1954-55. They sold at 101.668 for 1½s. Second bid was 101.625 for 1½s. The Portsmouths were due 1950-54, but with most of the bonds due in 1953-54. They sold at 101.15 for 1½s. Second bid was 101.03 for 1½s. The Bedfords were due 1945-50 and sold as 1¾s.

Maturity schedules on refunding bonds in Ohio are now approved by the State Department of Taxation, and the Department is making an endeavor to fit the maturities of the refunding bonds into the existing maturity schedule of the other bonds of the subdivision with a view to making the requirements of the subdivision more uniform in amount over the years concerned. Thus the maturities of refunding bond issues in Ohio are usually no longer of "substantially equal annual installments."

Attractive Situation

The 6 cumulative preferred stock of Eastern Gas & Fuel Associates offers interesting possibilities according to a memorandum on the situation contained in the June number of "The Preferred Stock Guide," being distributed by G. A. Saxton & Co., Inc., 70 Pine Street, New York City. Copies of the "Guide," which also contains quotations on public utility preferred and common stocks, may be had from G. A. Saxton & Co. upon request.

Carl M. Loeb To Admit

Mark J. Millard will become a partner in Carl M. Loeb, Rhoades & Co., 61 Broadway, New York City, members of the New York Stock Exchange and other leading exchanges, effective July 1.

Branch, Cabell To Admit

RICHMOND, VA.—Branch, Cabell & Co., 814 East Main Street, members of the New York and Richmond Stock Exchanges, will admit Mason New to partnership in their firm as of July 1.

Bank and Insurance Stocks

This Week — Insurance Stocks

By E. A. VAN DEUSEN

So much has already been written regarding the Supreme Court's June 5 ruling which classes insurance as interstate commerce, that this column is reluctant to add to the clamor. Nevertheless, there are some points in connection with this matter which seem worthy of comment.

For instance, it is of interest to point out that although the insurance stock market went off quite substantially it did not decline as much as might have been expected. As a matter of fact the uncertainties in the situation had already been discounted to some extent, as manifested in a sagging insurance stock market for several months, which was pointed out in this column a few weeks ago. Standard & Poor's index of fire insurance stocks was 114.5 on May 31, five days before the decision; on June 7 it was 111.3 and on June 14, 110.4, or approximately at the February 1943 level. The decline from 114.5 to 110.4 is 3.6%. This index, however, is a weekly index and thus straddles the low point in the recent decline which occurred on June 10. The true situation is better illustrated in the following tabulation which shows the actual prices of 37 individual fire and casualty insurance stocks for June 3, the Saturday before the decision, and for June 10, the low point. Since June 10 there has been some recovery as will be noted in the column dated June 15.

	Asked Price 6-3-44	Asked Price 6-10-44	Depreciation	Asked Price 6-15-44
Aetna	51¾	48¾	—5.8%	50½
Aetna Casualty	142½	136½	—4.2	137½
Agricultural	74½	74	— .7	75
American Alliance	22¼	21½	—3.4	22⅛
American Equitable	17⅜	17⅛	—1.4	17⅜
American Surety	60¾	58½	—3.7	59¼
Bank & Shippers	85½	82½	—3.5	82½
Boston	580	575	— .9	575
Continental	46½	43½	—6.5	42½
Fidelity & Dep.	150	145	—3.3	145
Fidelity-Phenix	50¼	48	—4.5	45½
Fire Association	64	61	—4.7	63
Firemen's Fund	87½	86	—1.7	86¾
Firemen's (N. J.)	13⅛	12⅜	—5.7	12⅝
Franklin	26¾	24¾	—7.5	25½
Glens Falls	44½	43	—3.4	43½
Globe & Rep.	9⅜	8½	—9.3	8⅝
Great American	29⅛	28¼	—3.0	28⅞
Hanover	28¾	27¼	—5.2	28
Hartford	102¾	97¼	—5.4	98½
Home	29⅛	28¼	—3.0	28⅝
I. N. A.	85	83¼	—2.1	84½
Maryland Casualty	7⅞	7⅜	—6.3	8
National Fire	57½	56¾	—1.3	58¾
National Union	181	176	—2.8	175
New Hampshire	47½	45¼	—4.7	44¾
N. Y. Fire	13⅞	13⅜	—3.6	13⅝
North River	23⅜	22	—5.9	22⅝
Northern	92	87	—5.4	90
Pacific Fire	105½	101½	—3.8	102½
Phoenix	82¾	78¼	—5.4	80¼
Prov. Wash.	34⅞	33⅞	—2.9	35⅛
St. Paul F. & M.	66¾	65¾	—1.5	66
Security	36¾	35⅞	—2.4	35⅞
Springfield F. & M.	121	119	—1.7	120
U. S. Fire	50½	49¼	—2.5	49½
Westchester	32⅛	31⅜	—2.3	31⅞
Average			—3.8%	

It is of interest to observe that since June 10 only four stocks have declined further, viz: Continental, Fidelity-Phenix, National Union and New Hampshire. On the other hand, Agricultural, National Fire and Providence Washington not only have recovered all lost ground but have moved up above their June 3 levels, while American Equitable has recovered its June 3 price. The other 28 stocks have regained a portion of their lost ground.

The decision of the Court was radical and upsetting, but after the first shock the market appears to have taken a reasonable and realistic attitude. The very fact that it was a minority of the Court which repudiated a 75 year old precedent and that vigorous dissension was voiced by three members, including Chief Justice Stone, may well result in Congress acting favorably on pending legislation which proposes to exempt insurance from the Federal Anti-trust laws. Meanwhile, however, the Court's decision stands, and the companies appear to be placed in the paradoxical position of being permitted by the states in which they operate to follow certain business practices which are prohibited by the Sherman Anti-Trust law. A practical way out of this dilemma will surely be found.

According to an Associated Press report a few days ago, a spokesman for the Justice Department said that the case pending against the South-Eastern Underwriters Association, its member companies and their executives, will go to trial. A reply to this may be found in a letter to Attorney-General Biddle by representative Dave E. Satterfield, Jr., of Virginia, in which he urges that the prosecution be held in abeyance until Congress has acted on pending legislation. Mr. Biddle, in a recent public statement said: "The Department of Justice realizes that the insurance companies will need to adjust their practices so as to accommodate themselves to the Supreme Court's decision, and will be guided by this consideration." All things considered, therefore, it sems reasonably certain that no precipitate action will be taken.

It is well to bear in mind that for many years insurance companies have operated and prospered under state control and regulation, and have learned to adjust themselves to varied, and sometimes, conflicting requirements. Furthermore, State control has tended to expand and become more exacting and onerous with the passage of years. Most of the rules and regulations set up by the States, however, have been in the public interest and have been so accepted by the industry which has, generally speaking, co-operated fully.

In the event that Federal regulation should supersede state regulation, there is not the slightest doubt but that the insurance companies could adjust themselves to the new conditions. In some respects such control might result in simplification and standardization, and thus some reduction in the large number of reports and statements now filed with the various states. Mr. Biddle asserted that the Justice Department "has no desire or purpose to break down state regulations". If this is true, then a system of dual regulation might have to be set up, in which connection it is important to know that such a system appears to work satisfactorily in Canada.

Wide open competition is unthinkable, and would probably result in the business gradually being absorbed by the financially strong and powerful companies and fleets, and the elimination of the smaller companies. By its very nature, insurance must be regulated by the Government, and whether this be state or Federal or both, makes relatively little difference so long as it is done intelligently and fairly.

Financial solvency, soundness and responsibility constitute the very heart of insurance, and certainly nothing will be done to jeopardize this vital factor. In this connection, therefore, it is pertinent to remember that even if developments result, as they may, in the lowering of premium rates, this will be but the continuation of a downward trend that has already persisted for more than twenty years. Furthermore, underwriting profits are no longer the prime source of net earnings, and have not been for many years, as the following figures for a group of 21 representative fire insurance companies show:—

Eighteen Years: 1925 to 1942	
Aggregate underwriting profits	$227,683,000
Aggregate net investment inc.	611,214,000
Total net operating profits	$838,897,000

Underwriting profits, it will be noted, represented but 27% of total net operating profits. The most important division of earnings, net investment income, would be relatively unaffected.

The insurance business is fundamental and indispensable. It has passed through many vicissitudes in its long history, and has weathered wars, panics, depressions and booms. Its management is experienced, versatile and vital and has demonstrated, again and again, its ability to meet new conditions and, simultaneously, to expand and progress. This process indubitably will continue.

The Securities Salesman's Corner

Fire Insurance Stocks When Offered To Provide A Monthly Income Are Interesting Sales Idea

The high quality rating, from an investment standpoint, that is accorded fire insurance stocks by those who have studied their various strong points is well known by most retail dealers in securities. Their long records of unbroken dividend payments year after year make one of the most impressive selling arguments of any class of securities for retail distribution. Their other talking points are so well known that few security dealers today cannot reel them off like the proverbial experts.

One of the best methods of presenting these attractive investment stocks is to select three companies that taken together, on a combined basis, pay some income every month. For instance, select three companies that pay quarterly dividends, one beginning in January, the second February, the third March. This provides an income during every month in the year.

Some attractive combinations can be offered to investors when it comes to selection of companies. An interesting mailing can be sent out, or an advertisement prepared, offering a monthly income on securities that have paid dividends regularly every year for 25, 50 or more years. Yields available on such combinations start around 4% and some will provide a return as high as 4½%.

There are several advantages in selling monthly income securities in package form especially from a sales and customer building viewpoint. If such a sale is properly presented on a "package" basis, the monthly income feature strongly emphasized, and the investment throughly explained to the customer THE POSSIBILITIES FOR RADIATION ARE EXCELLENT. There is nothing more satisfying to investors who are primarily dependent upon their income, than to make an investment which provides them with a check every month. Most certainly the high grade, old line fire insurance stocks are the medium with which to provide such a consistent income—their record is unmatched in this respect. Once clients begin to receive these checks they can be the source of radiation and recommendation to others. It is almost axiomatic that people who are buyers of securities primarily for income ALSO KNOW OTHERS IN THE SAME AGE GROUP AND WITH THE IDENTICAL INVESTMENT NEEDS AS THEIR OWN. This is where a real business can be developed.

Another feature that is especially helpful in meeting the requirements of almost every sized investment fund is that most fire insurance stocks can be purchased to fit available funds as low as $1,000. Some of our oldest and best known fire insurance stocks even sell below $10 per share, others with excellent standings and consistent dividend records for many years are available in the $20 and $30 price range. It is thereby possible to offer the investor with very limited funds the advantages of monthly income on investment that are primarily great investment funds, administered by experienced managements, under legal restrictions which have been developed over the past century, and by companies engaged in a business that is so essential to the continuance of modern economic intercourse, both domestic and foreign, that industry and commerce, as we know it today, could not exist without it.

Investment dealers who are looking for a sales idea that won't go out of date, that will give neither themselves or their clients any headaches, and who want a sure way to interest customers and make news friends, should try selling their investment, income minded customers MONTHLY INCOME through an investment in old line fire insurance stocks. There are many individuals who would perk up their ears at the thought of a monthly income to yield 4% on investments with the excellent record of these securities. The fact is that very few know about them—but they should be told.

Winners At Outing Of N. Y. Security Dealers

The following were the winners in the golf tournament held at the annual outing of the New York Security Dealers Association on June 15th:

President's Cup was won by Stanley Roggenburg of Roggenburg & Co., with a low gross of 78.

Governor's Cup was won by W. M. Rhone, a guest, with a low gross of 78.

Kickers' Prizes for members were won by K. C. M. Kearns, Kearns & Williams, first prize; Otto Berwald, Berwald & Co., second prize; Joseph Lann, M. S. Wien & Co., third prize.

Kickers' Prizes for guests were won by: John McLaughlin, McLaughlin, Baird & Reuss, first prize; Roger McMahon; and B. Benson.

The following prizes were donated:

Two traveling bags—Allen & Company;

Merchandise order on Rogers Peet—Amott, Baker & Co., Inc.;

Bottle of liquor—Bristol & Willett;

Merchandise order on Spalding—Buckley Brothers;

Two bottles of liquor—Ward & Company.

Cash donations totaling $170 were received from R. H. Johnson & Co.; Joyce, Kuehner & Co.; Luckhurst & Company, Inc.; David Morris & Co.; Roggenburg & Co.; Hart Smith & Company; Strauss Bros.; and M. S. Wien & Co.

John J. O'Kane, Jr. of John J. O'Kane & Co. was Chairman of the Outing Committee. Melville S. Wien, M. S. Wien & Co., and Hanns E. Kuehner of Joyce, Kuehner & Co., were members of the Prize Committee.

Photographs taken at the outing appear elsewhere in today's Chronicle.

Invasion Trends

(Continued from first page)

excellent facilities and were used by the Americans in World War I. Hence, our men are familiar with them. After certain beach-heads are secured, it will be necessary to spend many weeks in getting supplies and men ashore before the real Berlin drive can be started. Of course, the Germans may be willing to easily give up Paris with the idea of saving their strength for resisting Allied occupation of the German Fatherland.

Is A Bullish or Bearish Position Justified?

In my talks with experts since the Invasion started, there seems to be two lines of thought which are quite different. Some feel that early Allied successes will bring about a "peace scare." This would be especially bearish on railroads, heavy industry and other war stocks; yet some market analysts are taking the opposite position. They are inclined to be bullish on everything whether the Allies are initially successful or meet with heavy reverses.

It may be that the pattern of this great Invasion will follow that set in the Italian Campaign. There it took months to land sufficient supplies and men, but once these were ashore progress has been most rapid. There will necessarily be many trial and error sorties in the Invasion plan. The markets took the initial news in their stride and in an optimistic manner. Naturally, the actual Invasion was discounted, but there was no way for the stock market to discount whether the initial move would be successful or not. Now, that we are over the first hurdle, the market must digest the first news, prepare itself for unforeseen contingencies and await the success or failure of the trial and error moves mentioned above. It may be some weeks before sufficient information is at hand to make any real forecasts.

Supply and Demand Continue to Function!

Without any qualifications, I can safely impress upon my readers at this time that prices of stocks, bonds, commodities or real estate will depend upon whether there is an excess of sellers or an excess of buyers. Irrespective of theories, or irrespective of precedents, and irrespective of wars, panics, politics or administration controls, when there are more buyers for stocks, bonds, commodities and real estate than there are sellers, then prices will go up; conversely, when there are more sellers than buyers prices go down.

There is, of course, one other factor in this situation, namely, the position which results when buyers and sellers are about equal. In such a case, neither Invasion nor any other factor would materially affect prices. Under this condition, however, the tendency would be for certain selected stocks to go forward. Bonds would remain about as they are. Commodities would decline and productive real estate would continue its upward move. The demand for residential real estate, I should also expect to continue in volume. Personally, for the time being, I am not inclined to see any great change one way or the other, although I continue extremely optimistic on the long-pull outlook for all except high-grade bonds.

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 comprehensive releases on Moxie Co. and Majestic Radio may be had from J. F. Reilly & Co. upon request.

Public Utility Securities

Consolidated Edison

Consolidated Edison, highest yielding of the old-line utility stocks (over 7% at the current price of 22½) now appears to be on slightly firmer ground with respect to the $1.60 dividend rate. In the 12 months ended March 31, parent company earnings were $1.55 and consolidated profits $1.66 per share. This would be considered "skating on thin ice" except for the company's healthy cash position and large earned surplus. Since October 1, long-term debt has been reduced $41,000,000, while cash declined only $8,000,000, which reflects present low construction requirements.

As with most other utilities, Edison's chief worry is over Federal taxes. Thus far the company has avoided the excess profits bracket, due to special charge-offs in its Treasury returns; moreover, it earns a low percentage return on book value, according to published figures. Late last year it became known that the company was running out of "carry-over" items which thus far had permitted it to keep out of the EPT bracket. It was estimated that earnings might perhaps drop to around the $1.40 level. A decline in the dividend rate to a "safe" figure, say around $1.35, was considered possible. The common stock dropped to around 21½—which price, on the basis of a $1.35 dividend rate, would yield 6.3%, or about the "going rate" for utility stocks.

Edison supplements its annual report with an interim publication entitled "News and Views for Stockholders." In the June 15th issue, President Tapscott stated: "It may well be that the System Companies will be liable for some excess profits tax for the taxable year 1944. The only word of comfort that I can give the stockholders on this is that, so far as can presently be estimated, any payments of excess profits taxes for this year will be relatively insignificant in comparison with the total tax burdens of the System Companies."

No excess profits taxes appeared in the March 31st statement and with the income tax rate unchanged, it appears likely that there will be no heavy increase in the tax burden. Hence the outlook for continuance of the 40¢ quarterly dividend rate (through this year at least) now seems more hopeful, though Mr. Tapscott refused to make any prediction, on the ground that conditions are changing rapidly.

A favorable management factor is the election of Hudson R. Searing as Executive Vice-President. However, as Mr. Searing has been Vice-President in charge of operations for several years, his promotion may not mean any substantial change in operating policies.

The company expects to recover in 1944 about one-third of the $10,000,000 annual loss of revenues due to the dimout and other wartime restrictions — now relaxed. However, no mention was made in the letter to stockholders of the probable loss of revenues resulting from the gradual closing down of the huge aluminum plant in Maspeth, Queens Borough. The huge amount of electricity sold to this plant in the 12 months ended March 31 is doubtless largely responsible for the increase of over $16,000,000 in electric revenues. To be sure the margin of profit was very small in the aluminum business, but nevertheless the company may feel the loss in the coming months (the Federal income tax will absorb 40% of any decline in net).

President Tapscott is worried about some new rules on depreciation instituted by the State Public Service Commission last November, but apparently not yet actually in effect. Many utility companies objected to the rules and the commission is reconsidering the matter. These amendments to the system of accounts provide for charging part of the loss resulting from property retirements to income or surplus rather than to the depreciation reserve ostensibly set up for that purpose. Just how this would work out is difficult to predict, but the Edison management is worried over "possible financial consequences."

There is also the possibility that at some time the commission may require a substantial increase in the depreciation reserve, as it is trying to do with the Niagara Hudson system. Also there is the question of plant write-offs. The Edison balance sheet is well bolstered to stand all such adjustments, however, unless the commission should "cut to the bone."

While the outlook for dividend payments at the old rate has brightened slightly, Edison still isn't "out of the woods."

Post-War Policies

(Continued from page 2578)

didn't know very much.

If Mr. Brisbane's arithmetic is correct then there are only five men alive who know much about money, and by the law of averages I am assuming that none of that five is in this audience. Thus reassured, I may safely proceed to interview myself on the subject of post-war money policies.

And I do so, speaking seriously, because I believe that the monetary policies adopted for the post-war world are a matter of very deep concern to you and to me and to every American citizen. Wars and the consequences of war are paid for by the Government Bonds that you buy and the taxes that you pay. We are all very conscious of our participation in bond campaigns and I have but to remind you of that fact in urging whole-hearted participation in the Fifth War Loan Drive now starting. Regardless of what progress may be made in the solution of post-war difficulties we must all be prepared to buy more bonds and in making this investment I urge you to buy with the intention and plan of holding them to maturity and not listen to the fanciful suggestion that directly the fighting stops you cash them in and spend the money on things you have been doing without. These bonds are designed to be held to maturity and to the extent that they are not held they will constitute a continuing problem which must result in continued high taxes and perennial new issues of bonds.

We must be prepared also to continue paying taxes not only those we are directly conscious of, like taxes on our income, but the invisible taxes on every article we buy and every service we receive. This is our task.

Apart from bonds and taxes, I would like to discuss the other pertinent questions in the mind of our typical American citizen. Public opinion surveys show that after wondering when the war will end he is thinking principally about three things. First, am I going to have a job after the war? Second, will the money in which I am paid have as much purchasing power as today's dollar? And, finally, will my children have to go to war all over again?

Stated in one-word language, the average American fears unemployment, inflation and another war.

It would be rash, under existing circumstances, for anyone to attempt a categorical answer to these questions. I have found it prudent in my own personal affairs never to attempt a forecast beyond the probabilities indicated by factors already definitely known, and I will say to you that, so far as I can see, and judging from anything anyone now knows, it can safely be said that even after several million women and children have been dropped from payrolls, a great many of the 53 million now employed must accept temporary idleness when 11 million now in service are assimilated into industry.

Conferences of experts and officials will doubtless devise ways and means to find work for many, but much of the increased productive machinery created by the exigencies of war is likely to be idle.

In spite of pent-up demands to be satisfied normal business alone cannot give full employment to 65 million people now in industry, on government payroll and in the services.

The output of our total plant capacity—which capacity enabled us to double the entire output of the Axis—is much more than the daily needs our population will require three to four years after the war. Even civilian output increased 15% during the war.

The volume of business we are doing today is creating a national income of $147 billion.

The highest national income in peacetime history was approximately $82 billion in 1929, only to decline with unprecedented and disastrous speed to $46 billion in 1932-33 — actually down to the level of 1916, the year before we entered the First World War.

In the eight years immediately preceding 1940 it never exceeded $72 billion and not until stimulated by defense and war preparation was the 1929 peak exceeded, which occurred in 1941.

It is obvious that we must do a business in this country capable of producing an annual national income of far in excess of normal if the 60 odd million employees are to have jobs. No one can now assure you business will be good continuously. Indeed no one can be sure how much business will drop from today's $147 billion during the five or six years following the war's conclusion. We saw it drop 44% in three years following the 1929 splurge.

Incidentally, if business were to drop to what was boom proportions in 1929 ($82 billion) it would mean depression today.

I see nothing to be gained by encouraging baseless hopes. I know that pledges are being given that employment shall be provided for everybody and maybe the yearners and planners who retail that kind of optimism know how it can be done. It clearly cannot be done by the government at the expense of the people through unlimited expansion of public debt. Our debt is now $196 billion and on the completion of this drive just started it will be well in excess of $210 billion. Conservatively it is being forecast to land somewhere between $250 billion and $300 billion before the war ends and, in fact, Congress on May 31, last expanded the legal debt limit to $260 billion. Frankly, I cannot comprehend the implications of such staggering totals. I know what a million dollars is and what it means and even what it takes to get it, but frankly I am lost in awe when that yardstick is multiplied by thousands.

I know all the spurious generalities and the loose talk that is indulged in about debt. "The size of the national debt" one of these planners recently said, "is of no consequence. After all, we just owe it to ourselves." I gave up trying to understand that one, except that I know perfectly well that when Government Bonds are outstanding in anyone's hands, American citizens or foreigners, a debt and an interest charge has been created which must be met. You, as a taxpayer, must furnish the means with which your government meets its obligations. The transfer of funds creates less friction when distributed at home instead of abroad but in no other way does the fact that the national debt is owned by American citizens reduce the burden.

Furthermore, no government can guarantee full employment if such must depend upon unlimited expansion of the public debt.

Experience everywhere has shown that even industrialized nations cannot long endure an annual fixed charge in excess of 25% of national income. The total budgetary expenditures of this country with $250 billion net debt, and exclusive of debt retirement but including care of veterans we are fortunate enough to welcome home, will exceed $23 billion, a sum which is almost 30% of any national income enjoyed in any but war stimulated years.

Sensibly we must conclude, therefore, that there is no promise under normal peacetime conditions of a balanced budget and a national income safely permitting the government to find work for all the 30 million people whom former President Hoover, for instance, predicts must be demobilized from the war effort.

This debt and service burden is a contributing factor to the answer to our second question, namely, for those of us who will have work in the post-war world, what will the money with which our wages are paid be worth? And here you will say I am raising up the ugly head of inflation. Unfortunately for those who would enjoy what is called "a free ride" and "a silk shirt boom" such as followed 1918, I am frankly, with what knowledge I possess and with the facts and statistics that are available, unable to persuade myself that inflation is as real a danger as deflation. I appreciate that there is a tremendous purchasing power demand for goods that are now under government quota control and that once those controls are lifted the would-be purchasers have at hand the effective means of paying for what they want in the shape of enormous savings.

I would remind you, however, first, we are officially told that government controls are not going to be abandoned on most of the manufactured articles going into civilian consumption and, secondly, that no one knows what the frame of mind of the public will be, which during the progress of war with swollen war wages has seen fit to put so large a percentage of their earnings into savings and into Government Bonds. I am familiar with the spending spree that followed the First World War, but the attitude of mind which caused the individual civilian to spend his money recklessly then was generated by factors not in the present situation. For one thing, bank deposits doubled in two years. Of the $100 billion estimated liquid assets in the hands of the public today bank deposits are only 25% larger than a few years ago. European currency fluctuations scared our people into spending 25 years ago, whereas today steps are being taken as indicated by the forthcoming Bretton Woods monetary conference to forestall such possibilities.

Finally, we must recognize the fact that after five years of defense and war production, supplies of many raw materials actually exist in surplus creating a problem of distribution, and some agricultural items now seem to be unnecessarily rationed.

In answer to the question of what kind of commodity dollar are we going to have after the war, I say with some confidence that it will buy for you just as many of the necessities of life as it does today, because I fully expect that government controls and priorities are not going to be abandoned for some time.

I take it for granted also that our currency dollar is going to be good,—that the gold content of the dollar and its value in foreign exchange is not going to be changed. The traditional American policy is for stabilized currency. That was true, for instance, in 1862 when Abraham Lincoln in his second message to Congress said, "Fluctuations in value of currency are always injurious and to reduce these fluctuations to the lowest possible point will always be a leading purpose in wise legislation."

It was true on July 1, 1933 when President Franklin Roosevelt said that he planned to establish a dollar that would have the same purchasing power from generation to generation.

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Sound American Policy

(Continued from first page)

terminative of what final American policy shall be.

This evening, I intend to speak to Americans about American policies—foreign and domestic. I fully realize my shortcoming in this field—I am not a silk-hatted, spat-wearing diplomat; I do not speak a half dozen foreign tongues; I do not agree that fascism is good some places and bad in others, or that communism is fine when its adherents are our friends and dangerous only when they are our enemies. I think both are bad for the peoples' liberties and freedoms in any form wherever they are found. I am just a plain American citizen whose ancestors have lived here for more than 300 years and I confess that in my old fashioned way I believe that this country and its government and institutions are better than any other on earth. I shall try to tell you how I see the problems that now face the American people.

You people here, of course, are vitally interested in American foreign policy because today our domestic policies are so dependent upon our present and future foreign policies. Our's is the greatest industrial nation and I understand that your organization represents those industrial interests in our land who are concerned with selling American goods and services. I have read, with a great deal of interest, your "Declaration of Principles." I doubt if there can be any basic disagreement with its four major tenets. But the problems of unfair competition, monetary policy, international exchange stability, the provisions of the Reciprocal Trade Agreements Act, or Tariff rates—all sink into insignificance compared with what we do in the matter of a foreign policy. These matters can be adjusted to the betterment of national welfare when a secure and stable peace comes to the world; without that they are merely words on the sands of a beach washed away with each rise of the tide.

Since America's entry into the war, I have not participated in a great deal of public speaking. I have felt that the first job was to win the war—to win it fast with the least expenditure of life and treasure.

It is time that the United Nations did something definite and concrete in the way of hastening the end of the war by diplomatic as well as military measures, and something definite and concrete in the way of planning for the peace. And if the United Nations cannot at the moment reach complete agreement, that fact should not deter our Nation from itself doing something.

The foreign policy of a nation is dictated and motivated by the national aims of that state. It is relatively clear why Germany fights, or England fights, or Russia fights, or why Poland and Finland and Greece fought. What are we fighting for? It is not enough to answer — kill or be killed. That, like all half-truths, is misleading. We stultify our national heritage if we regard this merely as a war of survival. We betray our sacred honor and the lives of thousands of our countrymen if we admit for one moment that our objective is solely to whip the aggressor. That theory leads to the conclusion that wars are inevitable. They may be—none of us can be certain about that—but surely the military subjugation of the enemy must be only a means to an end if this Nation's principles and objectives are not to become suspected all over the world.

Are we spilling blood of American boys up and down Europe to crush national socialism, or monarchism, or limited democracy and pave the way for establishment of communism? Have we changed our role from that of protector of the weak to destroyer of minorities? What do we demand of the enemy before we stop killing them? What kind of governments do we want in Europe and Asia after the war? Are we to continue to fight interminably exhausting our financial and economic and natural resources, and even more important, the flower of our young manhood until we have become a nation of women, old men and cripples, bankrupt in men and materials? Isn't it time that we can do as Pope Pius said last week—"It (is) of the greatest importance that this fear (of a war of extermination) should give way to a well-founded expectation of honorable solutions, solutions that are not ephemeral or carry the germs of fresh turmoil and dangers to peace, but are true and durable; solutions that start from the principle that wars, today, no less than in the past, cannot easily be laid to the account of peoples, as such?"

These questions bring sharply into focus, it seems to me, the fact that we have failed to exploit a means of speeding the successful conclusion of the war. It is the absence of a simple, clearly understandable policy of what we fight for—what are our peace aims. Our war aims are clear enough—to destroy the enemy's will to resist—to uproot Hitlerism. Fears exist that a new dictatorship will replace the old. What every one wants is the disappearance of all forms of autocracy. That is the earnest prayer of distressed and police-ridden Europe. It is the prayer of the people of the United States as well. But it must be evident that there is no coordination between these war aims and the peace aims—and that lack of coordination may cost this Nation and our Allies precious lives that need not be lost.

It must be realized, of course, that it is no easy thing to bring quickly into being agreements on such major matters as the future fate of a conquered enemy. I am not unmindful that the leaders of the Allied governments face tremendous difficulties in solving mutually acceptable compromises. But throughout the world, among friendly and enemy nations alike, it is the United States of America which is regarded as the leader, the pace-setter, the arbiter, and above all, the friend of the downtrodden and the enslaved. We have a duty, therefore, I believe, to speak in concert with our Allies if possible—alone if necessary—but to speak forcefully and unequivocally on what our policies are and will be for victor and vanquished alike.

Regardless of the outcome of the war, there still will be German people in Europe, probably a German state. The war is not going to bring death to 60,000,000 Germans. A very substantial number of that German people are probably no more in love with fascism than we are. The last free elections in Germany proved that conclusively and everything that Hitler has done since has convinced some 20,000,000 Germans that he has brought them to disaster. Just as in France, Poland, Italy, Rumania and all the countries in Europe—there is doubt and worry and wonder as to their postwar government—so in Germany there must be ten times that sort of speculation. Will there be a nation—who will govern it—what territories will it comprise—who will control its political and economic and social policies—what will be expected of the people after the war? These are only a few of the questions that come instantly to mind. And from the Allies, the liberators from the yoke of fascism, is heard two words—unconditional surrender. Beyond that, ominous silence. What choice do many of these enslaved people have under those circumstances, except to fight on—bitterly and endlessly.

And what will happen in Europe the moment hostilities cease? Why, there will be a vacuum—the most tremendous vacuum in government in all recorded history. Most governments in Europe are puppets which will fall with Hitler, and even the others will totter in the political convulsions that will ensue. What an opportunity for power-hungry men, either within those lands or from other lands, to seize control! Under such a situation, war will never end; there will be revolution after revolution; the life and treasure we have expended so fulsomely to end dictatorship may well result in the creation of a series of dictators all over Europe, if for no other reason than to bring stability.

That is a result that we must at all costs avoid. We can do much to avert its initial coming into being by taking action now which will make clear to all the people of the world—the occupied lands, the enemy himself—what we propose to do. And the first immediate effect of any such action will be a definite weakening of the enemy's will to resist, despite all of Hitler's and Goebbel's propaganda.

That is the first problem. Now, what about the second—what do we expect in Europe—what kind of governments can reasonably be established with a chance of successful survival? It is not a question of what we desire—we may desire much, but we must face practical realities of what is possible, what will work in that conflicting religious, social, political and economic cauldron that is Europe.

It must be abundantly clear that, as Mr. Sumner Welles has said—the future of Europe is something which affects the future of every country. And it also follows that to bring stability continental Europe must be represented in the decisions which affect the future of Europe.

What we in this country are most interested in is the establishment of some kind of world order in which it will be difficult—I do not say "impossible" because nothing is impossible—the establishment of a world order in which it will be difficult for nations to become embroiled in warfare with each other. Today the United States still is the most powerful nation on earth—militaristically, economically, financially. Six months ago we had the unquestioned power and prestige to formulate the kind of peace program which we believed would stabilize Europe. Some of that authority and prestige has been frittered away, but it is not yet too late for this nation to use its authority to convince our Allies of the kind of a peace we want.

There are honest and conscientious people here and abroad who believe that such a world order is possible only through a single world government. But I do not believe that the American people will yield its sovereign right as a free people in these United States. I do not believe we want to be ruled, directly or indirectly, by any person, or any council, or any world government not under our direct control. The price we paid for our own freedom was too dear for that. That idea—it seems evident now, from the recent statements and views of our highest officials—has died aborning.

There are also other honest and conscientious people here and abroad who believe that a stable world order that will keep us out of future wars is possible only through a military alliance of the larger allied nations — Britain, Russia, possibly China, and the United States. But alliances of major powers in all history, and particularly since the Holy Alliance, clearly negates any such contention. Alliances, if history is any judge, tend rather to breed wars. Moreover, an alliance is bound inevitably to involve us more and more deeply in European and Asiatic power politics.

No, the answer in my opinion, is a federation of European States, a sort of United States of Europe. It is an answer that is buttressed by experience both in the United States and Europe; it is an answer that is practical and workable for Europe and holds out the best guarantee against future involvement in European affairs by this Republic.

Let us explore this idea of an economic federation of Europe—this United States of Europe; let us understand why it is necessary, and why it is more likely to work than any other plan yet considered.

When I returned from a European trip in 1923, I urged that we should take what action we could to help establish a European federation patterned after our own government. I thought then that it was an original idea—I learned later that many statesmen had advocated it, notably Briand of France. Today I find myself in the company of such men as Winston Churchill, Anthony Eden, Clement Atlee, and Sir Archibald Sinclair, all of whom both before and since the war have strongly urged the creation of a federated European State.

Before we look at Europe, let us consider these United States. What do you suppose would have been our history if each of our 48 States maintained exclusive sovereignty with the tariff barriers and business restrictions that flow from sovereignty. We have here the peoples of all Europe; we have customs, social problems and ideas, economic and industrial situations varying from State to State, and certainly from region to region. Yet, we have made a success of union largely because the social, political and economic problems are considered and treated as a national problem.

Basically the problem in Europe is not greatly different. The geographical area is far smaller; the agricultural and industrial problems are more homogenous; even the ethnic and religious differences are no greater than in our own country.

I see here in America the faces of people from all these European countries. I cannot believe that only the good people from those countries have come here and only the bad remain there. I believe these people can get along with each other as well on European soil as they do on American soil. I want to see them try to do so. I want to help them do so for the good of the peoples of Europe and for the good of the peoples of America.

I said a moment ago that we had experience in Europe as well as in the United States to guide us. The future organization of Europe could well be patterned after that of Switzerland. It is well to understand this seeming miracle—a nation made up of 25 little States with different nationalities, languages, traditions, customs, and

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Sound American Policy

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religions united into a pacific and democratic union in the very heart of this boiling and exploding Europe.

Like Switzerland, there is no basic reason why the countries of continental Europe cannot be united democratically into a single federation free of tariff barriers—a single political and economic entity. I have said this before and I shall say it again—the stabilizing effect upon a world that would be created by a great free trade area in Europe as a counterpart to the great free trade area of our own country cannot be over-emphasized.

Such a federalized Europe would negate the possibility of a new and resurgent Germany threatening the weaker neighboring States or even obtaining hegemony in Europe. In such a State, Germans would make up scarcely 20% of the total voting population; within it the vast majority of non-German Europeans would be an effective democratic check against Prussian or Junker control of national policies. Moreover, neither the army, the armament industry, the foreign policy, the currency, nor the national economy would be Germany's nor that of any other single European State. Germany, or any other European State, would cease to be a threat to the peace and security of the continent and to the world.

Men of great vision have dreamed for years of collaboration between nations—of peaceful adjudications of their differences. How better can this be achieved than through the creation of a great federalized State within Europe which may bring peace to lands which have been soaked for centuries with the blood of mankind in futile wars? When the European State reaches stability and strength and experience, what possibilities will then ensue for the formation of an international organization of nations juridically able to maintain world peace simply because the hothouse of most wars will have been eliminated!

The longer we wait to openly espouse the idea of such a democratic federation or united States, the more difficult and dangerous will the situation become. Already there are evidences that this policy of "wait and see" will bring us into troubled waters by war's end. While we "wait and see," Russia has not remained idle. I should, perhaps, interpolate here, that I am not criticizing Russia or its leaders. They are pursuing policies which they deem best for the welfare of the Soviet Union. From a purely Russian standpoint, its policy of a weak and disunited Europe with many of its States leaning heavily on the Soviet for economic and military support is readily justified. What Russia's policy will finally be—whether a Soviet-dominated federation, or an alliance of the border States with Russia, or complete integration within the Soviet of many of the smaller nations will depend largely upon whether we have the power we now have to bring about a peace that is in the interest of our people.

Russia, I believe, can be "sold" now on the idea of an economic European federation if it can be demonstrated that neither Britain nor the United States will dominate such a federation, and that it can be so constituted that a resurgent Germany will not be able to use it to build up a military power strong enough to threaten Russia.

Britain's problem is not dissimilar to that of Russia's, although in England there is already a substantial body of public opinion which favors a sort of United States of Europe. Britain, like Russia, throughout her history has been threatened by continental nations. And throughout history she has used the balance of power and disunity in Europe to save her. In Britain, like in the United States, there are men who oppose the impairment of British sovereignty by membership in a European union. The idea of the British Parliament being under the direction of a majority of continental nations is repugnant to them. And there is the even more ominous argument that such an involvement would lead to dismemberment of the Empire, simply because Canada, Australia, New Zealand and South Africa are unwilling to bind themselves to the European continent. These men in Britain are not unwilling, however, to sponsor a European federation which would not include Britain. There are, of course, others in Britain who fear the future with a united Europe and prefer a post-war Europe divided by a new balance of power. It is this segment of British public opinion which, if followed, must inevitably lead to a clash with Russia over the extent of the balance of power to be exercised by these two great States.

But there is hope in Britain for the more realistic and practical course. A year before the outbreak of the war, Churchill wrote:

"Why should Europe fear unity? As well might a man fear his own body. . . . I believe that Europe will be driven, sooner or later, to question the monstrous absurdity of its own organization. . . . The conception of a United States of Europe is right. Every step taken to that end which appeases the obsolete hatreds and vanished oppressions, which makes easier the traffic and reciprocal services of Europe, which encourages its nations to lay aside their threatening arms or precautionary panoply, is good in itself, is good for them and good for all."

Mr. Atlee, leader of the Labor party, has said that "Europe must federate or perish!"

It does not take a prophet to see that the situation being what it is in Europe, Britain cannot go it alone. Mr. Churchill made this clear when he said, speaking of the idea of a European federation — "All this will, I believe, be found to harmonize with the high permanent interests of Britain, the United States and Russia."

Unless the United States takes an active and forthright part in pushing the idea of a democratic union of Europe, we face at the end of the war, what will amount to a partition of the continent into British and Russian spheres of influence.

Is it so difficult to realize what a return to this balance of power means? Isn't it clear that regardless of Germany's military defeat, she will have won the war politically! For it must be plain that both Britain and Russia will woo the new Germany in an effort to keep her out of the other's sphere of influence. In effect, Germany will hold the balance of power. Am I conjuring up spooks and goblins? Well then, has not this bidding for Germany's favor already begun? How interpret Russia's "Free German" Committee already functioning in Moscow? How interpret the shrewd Russian propaganda which tells the German people that Russia does not seek the dismemberment of the German Reich? How far and how long can Britain remain quiet and not make counter-bids unless a definite European policy is decided upon now?

Do you believe that the American people are fighting the war for a new balance of power in Europe? Do you believe the American people are fighting the war to restore rubber, oil, tin and copra exploitations to a few individuals who have become members of the peerage through use of slave labor? Do you believe that the American people are fighting the war to establish communism in Yugoslavia or the other Balkan States? Do you believe the American people are fighting the war to give Russia a slice of Finland? Do you believe the American people are fighting the war to give trucks and tanks and railroads and airplanes to one nation so that it, in turn, can give them to another nation to build good will between these second and third recipients of our substance? Do you believe that the American people are fighting the war to wash every coral beach in the Pacific with their sons' blood for the right in the post-war world to pay rent for the use of airfields on such islands? Isn't it a sad commentary on affairs when in this democratic Republic the people do not know their own country's foreign policy?

War, it has been said, is but an instrument of foreign policy. Therefore, when foreign policy loses direction, war loses its meaning. The contrasts between the powerful military might of Britain and the United States and their unimpressive political effort, between their military resolution and their political irresolution are significant. Both here and in England people are asking—"What is the war about?" To defeat the Germans? Of course—that is our immediate objective. But that alone is not enough. The defeat of the foe is a necessity, but something far more fundamental must be accomplished, for the security, the well-being, the honor, prestige and principles of this Nation are at stake.

Any consideration of foreign policy and the stabilization of Europe to prevent future wars must necessarily include a consideration of our domestic post-war problems. They will be many and they will require the best efforts of every thinking American lest we lose here in this country the freedom, the economic security, the liberty, and the kind of government we are fighting for.

If it is sound judgment in time of peace to prepare for war, it is equally good sense in time of war to prepare for peace. We have much to learn from Britain on this score—the English are not idle. Even in the darkest days of the London blitz, English merchants and exporters continued zealously to guard their markets. Nor have they failed to take advantage of every opportunity since to prepare the way for British trade in the post-war world.

What have we done? Our Reciprocal Trade Agreements Act is still law. We are continuing to foster a "good neighbor" policy in Latin and South America. I sometimes have grave doubts of the degree of success of these programs to date. This may well be due to lack of proper administration or to the exigencies of war.

But it seems to me that the situation which will face us economically in the post-war world will be vastly more complicated than before the war while the policies and the plans which guide us are of a pre-war vintage.

It may be well to examine briefly the facts that have added to the complexity of the economic position in which the United States will find itself in the post-war era. For the past generation United States exports, expressed as a percentage of national income, have progressively decreased. Only during periods of war, or reckless foreign loans, have exports reached relatively high figures. But in many foreign countries exports constitute as much as 40% of their national income. It is obvious, therefore, why such countries seek to broaden their markets by every means including propaganda directed against all American tariffs. It may not be realized, but it is a fact nevertheless, that in the pre-war period United States tariffs were **on the average**—and I desire to emphasize the word "average"—among the lowest of the major exporting and importing countries. I have in mind, of course, that the word "tariffs" includes such devices as quotas, exchange controls and embargoes.

In recent months this propaganda stemming from abroad and echoed here for the elimination of tariffs has been replete with the words "equal" and "free" access to raw materials by all nations. Frankly, I do not know, and have not been able to learn, just what is meant by this "equal-access-to-raw-materials."

Again we hear some of our super international "do-gooders" say that because we are — they should say we were—the richest nation in the world we should enter into some kind of a "share the wealth" agreement with the other countries of the world. We should lend-lease — never to be returned — our manufactured goods as well as our raw materials.

Our country has about 6% of the world's population but in normal times possesses and produces about one-third of the world's income. Even if we were to re-distribute our wealth and our income on a come-one, come-all basis, the percentage increase for the remaining 94% of the world's population would be fractional. And what would happen to our own standard of living! I am not ashamed to argue that we owe our first duty to our own people—although it has become fashionable in some quarters to deprecate such a philosophy.

I fail to understand these men who on the one hand openly admire and praise Stalin for looking out for Soviet Russia first, and regard Churchill as the world's foremost figure because he says plainly that he has not become the king's first minister to dismember the empire and on the other hand sneer at those whose primary concern is the wellbeing of their fellow Americans. To me, it is self-evident that if we reduce living standards appreciably here, we jeopardize not only the national wellbeing of our population—but bankrupt our own government. I should like to impress upon you as forcibly as I can that dictators are but the trustees of bankrupt nations.

In analyzing this problem we must recognize that we already have owed to us some 30 billion dollars worth of reciprocal lend-lease, if the original understandings for repayment in "kind" are honored: we possess the bulk of the world's merchant shipping. Until recent years our greatest imports in value were such things as silk, rubber, sugar, wood pulp, and the like. We have now developed nylon, out of coal, air and water — which even before our entrance into the war was threatening to displace silk almost completely. And there are many other competing fibers of a more or less similar sort, waiting to find their way into the market. The cost of nylon is, for most purposes, well below that of the natural imported silk and this cost is continually declining. Never again will the American consumer have to pay five dollars or six dollars a pound for silk or its equivalent. Some other products that have also felt the hand of science are — newsprint, wool, rayon, vegetable oils, copper, aluminum and the even lighter magnesium metals. Laminated wood, tin, lacquers, plastics, dehydrated and frozen foods, drugs and synthetic products of all kinds. Never again should there be great fluctuations in the price of rubber. Whether or not the United States continues to import a certain quantity of crude rubber, the very fact that we have the artificial product which can be made at a competitive price, will put a ceiling on the price that can be charged for the crude. Thus the American manufacturer will be saved the losses and grief arising from speculation in vast inventories at rapidly fluctuating prices, and the American consumer will get his rubber tires at a price which can largely be predetermined. We used to think it impossible, because of the higher labor costs, to grow great quantities of beet sugar in this country. However, recent developments in machinery and technique have more than cut in two the labor cost of producing beet sugar, and only a beginning has been made.

A third factor involves the extent of our foreign trade. A recent careful examination of all imports into the United States during the year 1939, which were of an annual value exceeding ten million dollars leads to some conclusions which may surprise the uninformed. It appears that such progress has already been made that, if it were necessary, the United States could get along very comfortably under its own steam, importing not more than one-fourth or one-fifth as much in value as it actually imported in the year 1939. Under urgent war conditions, the figure of necessary imports could even be cut to a substantially lower point, provided we were importing only for the purpose of taking care of ourselves, and not for lend-leasing to the rest of the world.

I am not recommending as a policy, that the United States try to restrict its imports in this manner. I am merely stating that all the figures and facts, when properly analyzed, indicate that in normal times the rest of the world is not likely to have a great supply of commodities which we urgently need, and which could be counted upon to be used in payment for heavy exports from the United States.

These, then, are facts which would seem to compel a nationalistic self-sufficient economic policy for the United States. Added to them is a sharply evident desire on the part of the American people to cease all squandering of our money and natural resources.

On the other hand, do we want to revert to the policy of China and Japan prior to the 19th Century when a commercial contact with the outside world was forbidden? The result of that policy was ruinous to their people. It held those countries to a medieval economy while the rest of the world progressed through the industrial revolution into the machine age.

It would also seem desirable to have sufficient competition from foreign sources to insure at all times reasonable prices on all commodities for our consumers and insure efficient operation of our domestic production. Nor should it be forgotten that our merchant marine will be worthless without a flourishing foreign trade.

It is therefore imperative, it seems to me, that we avoid extremes. Let us exercise study, deliberation and caution in arriving at conclusions. Americans have never lacked in initiative or enterprise. If these are coupled with careful analysis plus a continued investigation of the facts not only by our Government but by each individual company, I have no fear of the outcome.

Our boys who are scattered throughout the world are returning and will return with first-hand knowledge of every country on the globe. This information alone will be invaluable. Armed with complete data and exercising the cautious courage which is attributed to all Yankees, we can follow victory at arms with victory at home.

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.

What Will Come Out Of United Nations' Monetary Conference?

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perience in the fields of international exchange and finance.

The American delegation will include Secretary Morgenthau, head of the delegation; Dr. Harry White, monetary adviser to Secretary Morgenthau; Senator Robert A. Taft; Senator Robert F. Wagner; Edward E. Brown, President of the First National Bank of Chicago; Congressman Brent Spence of Kentucky, Chairman of the House Banking and Currency Committee; Congressman Jesse P. Wolcott of Michigan, ranking minority member of that Committee, Dean Acheson, Assistant Secretary of State; Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System; Fred Vinson, Director of Economic Stabilization, and Dr. Mabel Newcomer of Vassar College, one of the three authors of the Treasury's report on Inter-Governmental Fiscal Relations.

While no one will deny that we lack the experience and knowledge in international exchange and finance for which the British are justly famous as a result of their long history as international bankers for the world, there are many outstanding American names in whom we would have confidence. To mention only a few of those names who are qualified, but conspicuous by their absence from this conference one might suggest Fred I. Kent, famous foreign Exchange Banker; Bernard Baruch, statesman, economist and brilliant adviser on both domestic and foreign affairs; Winthrop W. Aldrich, skilled and experienced banker; Leon Fraser, an experienced international banker; and B. M. Anderson, an able student of money and foreign exchange. But be the representation as it may, what may be expected to come out of this conference?

Dollars Versus Pounds

Will an agreement upon a world currency come out of the conference? And what will that world currency be, dollars, pounds, or some new name convertible into both dollars and pounds at the present rate of exchange, or at some new agreed on rate, or will the rate be left free subject to the political management of each country? This seems the heart of the problem. But the complexities are varied and multiple, and far transcend these simple questions or the scope of many large treatises on foreign exchange and international trade.

Some of the Complexities

What is to be the price of gold in terms of dollars, sterling or any other unit into which these are convertible? The world now has about 50% more gold in quantity than at the end of World War I. Then, in addition to the increase in the quantity of gold of 50%, the price of gold has been marked up in terms of paper money in the United States 40%, and while no legal action has been taken the price of gold has been marked up more than 40% throughout the British Empire, while in many other parts of the world the price of gold has risen from 100 to many thousands of percent over the price at the end of World War I. In the meantime price levels have changed, costs have changed, the standard of living has changed, debtor obligations and taxes have multiplied several times in every country in the world. Can any human mind conceive of a price of gold which will be a common denominator to all these myriads of changes without too much friction? What priced monetary standard will the rest of the world be able to accept and conform to in adjusting these complex monetary changes and relationships? Monetary parities are thoroughly distorted and any attempt to arrive at a practical equilibrium will require not only a thorough analysis of the many complex differences and problems but a long period of cooperative give and take in adjustments with a willingness to make some sacrifices on the part of every country. In thinking this problem through it seems that each country must work out its own unit of currency and its standard, and if this is done with the attitude of solving its own economic problem for its own best interest the solution must of necessity be in the best interests of the whole economic world. But if individual countries are going to seek temporary advantage of each other for domestic political expediency, because the mass of people are ignorant of these problems and how their individual interests are affected, then all concerned will be the losers in the long run.

Other complexities include the present and future settlements of international obligations. The old gold standard in a world not too fettered with restrictions and regimentation worked out this matter on an economic price and exchange fluctuating basis. Now with present tariffs and managed currencies the economic functioning of the gold standard with its automatic gold movements and price changes can not function. The results are clearly less trade, more management and regimetation, and a lower standard of living everywhere. But can the free gold standard be restored and with the lessons we have learned from the years of restrictions and incapable managements be put to work to make the gold standard function successfully as the real international currency again, and more successfully than in the past?

Inflations and deflations in any country must upset the exchange and trade relations with all other countries regardless of their causes. Shall any group of countries stand guard over these complex matters for the world? Or can any agreement between many countries or all countries end these conditions or even mitigate them? Certainly not without controling all other factors that lead to domestic maladjustments and this would not seem to me possible even with any accord that might be agreed upon for an international dictatorship.

Excessive movements of capital between countries or a sudden cessation of such movements, or a period of excessive speculation in the United States or any other country may completely upset exchange and trade relations with other countries and bring crises of many years duration in countries which are innocent bystanders.

The repudiation of debts, the change of political parties or the rise of new social ideologies in any country may upset the exchange relations with other countries for generations. Such examples are numerous in the past quarter of a century in Europe, Asia, and South America.

Under free trade conditions it would be quite possible for scientific developments, new discoveries and improved production at low costs to create unbalanced exchange relationships between the fortunate country and the rest of the world. Even such a maladjustment might bring about such economic disturbances that the usefulness of these new contributions might be destroyed for the present generation. Of course under free competition and free trade economic equilibrium would in time work itself out and the whole world would be the benefactor of these advanced improvements. Can such catastrophe be avoided and still have the benefits of freedom? It seems to me this can be done. But it is a management job of statesmen of great minds and free from individual, national or political selfishness.

It is only possible to mention in this limited space a few of the ordinary complexities of international currency stabilization which are well recognized by every student of the subject.

The Sterling Area and the Dollar

The Sterling Area as I remember it embraced the currencies of some 26 important commercial countries, all of which trade with both England and the United States. Will the Sterling Area be reestablished? What are its uses and what difference will it make?

In the first place it may be accepted without question that the Sterling Area served a useful purpose or it would never have come into existence and grown as it did. If it is reestablished it will be because it is useful. In my opinion it will be reestablished and will serve a very useful purpose for England, and could be equally useful to the rest of the world in stabilizing currencies and exchange relations.

The Sterling Area is in itself a complex affair and capable of many complexities in international finance and trade. In substance it seemed that the countries associated in the Sterling Area provided or accepted a mechanism whereby each country maintained a balance in London. Each country accepted payments in Sterling and made payment in Sterling to the rest of the world. When Sterling was on a convertible gold basis, the currencies of all of these countries were as good as gold in which Sterling was payable. But when Sterling was not convertible into gold or when England was off the gold standard all the countries of the Sterling Area were off gold. The effect of this arrangement in maintaining currency stability or uniformity throughout a very large number of the commercial countries of the world was distinctly beneficial not only to these countries but to all the rest of the world doing business with these countries. In short it furnished stability of exchange which was dependable and this is the first essential in all international credits, long or short. No doubt this Sterling Area cooperation had an important bearing upon the trade and financial relations between England and the associated countries. But it is hard to see how it could be adverse to the United States or any other country outside of the Sterling Area group as long as these outside countries maintained sound economic conditions in their domestic affairs and a sound money convertible into gold. Given these conditions exchange with the outside countries would be just as stable as in the Sterling Area. Gold would flow just as freely to settle balances as if all such countries were in the Sterling Area. There does not seem to be anything in the Sterling Area arrangement to restrict or regulate the flow of trade or capital between this Area and the rest of the world. In fact the stability of the currencies in this vast Area in the past seems to have been a great service to international finance.

On the other hand it is quite clear how the Sterling Area arrangement functioned to make London the paying and collecting center of the world's international exchange transactions. This advantage was also helped by the long period during which the world could depend on Sterling as a sound money, and even when off the gold standard confidence that in time convertibility at the established price for gold would be restored. Such prestige and value can only be established as a result of a long record of per-

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Mutual Funds

New Railroad Stock Fund

This week **Distributors Group** offered **RAILROAD STOCK SHARES**, a new class of **Group Securities, Inc.** The initial offering price is $5 per share and the dealer concession is 6%. Railroad Stock Shares is an investment in a diversified and continuously supervised group of railroad stocks—a 100% railroad stock fund.

The offering was made without fanfare and all advertising on it has been held up until the conclusion of the Fifth War Loan Drive. In this connection, the sponsor comments to dealers as follows: "We do not wish to distract your attention from the Fifth War Loan, but since our SEC clearance has been received we must, technically, send you the enclosed new Prospectus and offer the new class—Railroad Stock Shares."

A folder on Railroad Stock Shares and a portfolio memorandum showing the stocks presently selected for investment accompanied the offering letter. Also included in this mailing was a recent Kerr & Co. engineering report on "The Future of the Railroads."

The highlight of this literature is a series of estimates of post-war earnings of a group of leading railroad stocks having a current average price of approximately $50 per share. These estimates range from minimum average earnings after taxes of $8.24 per share to $14.88 per share, depending on the post-war level of national income and the extent to which excess profits taxes are rescinded.

In the judgment of the Investment Research Department of Distributors Group, "a number of our leading railroads will fully recover their investment credit. Their post-war earnings will . . . justify substantially higher prices for their common stocks."

Hugh W. Long & Co. has reprinted and made available to affiliated dealers an unusual address on the position of railroad securities by Fairman R. Dick, senior partner in the firm of Dick & Merle-Smith. With respect to this address, we can do no better than emphasize the statement of the Long Company: "His address is not a collection of generalities; it is a lucid and highly original dramatization of the facts and figures needed to appraise the outlook for the carriers and to explode some widely-held misconceptions."

Three of the funds sponsored by Hugh W. Long & Co. have a vital interest in railroad securities. For example:

1. Railroad issues—bonds and stocks—represent one of the principal group holdings of **Fundamental Investors, Inc.**
2. Railroad bonds form the larger part of the portfolio of **Manhattan Bond Fund, Inc.**
3. **The Railroad Series of New York Stocks, Inc.,** is composed entirely of railroad stocks.

* * *

An interesting chart in the current issue of **Brevits** shows "1929 in Reverse." Today bank deposits and cash are almost 2½ times the amount they were in 1929. And in contrast, the value of all stocks listed on the N. Y. Stock Exchange is now only slightly over one-

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Post-War Policies

(Continued from page 2594)

I take it that inflation is no part of anybody's agenda.

If it is, then there is no way of answering the third question, namely, what really are the prospects for a holiday from war.

What part are we to play in stabilizing international conditions? Our stake therein is great and it will undoubtedly be very much to our own interests that much of the aid we give Europe after the war shall be without any idea of repayment. It will be what President Roosevelt called, last week, an investment in peace. Such contribution, however, cannot be unlimited; because, strange as it may seem to say it, our resources are not unlimited. The contribution must remain within our means. And above all, the people, on whom the cost will fall, must be convinced that gifts made possible by their sacrifice are being used wisely. Otherwise there will be disillusionment, repulsion of sentiment and withdrawal of future cooperation.

People will watch for each sign in Europe and in Asia, of vigorous and courageous grappling with reconstruction; they will watch jealously the efforts made on currency stabilization, and if their funds are to be used as the New York "Times" stated "To support the currencies of China, Ethiopia and Iraq" and thereby "To support the internal economic policies of those countries," they are going to ask how long these burdens can be afforded by this country and why the same results cannot be attained by sound currency policies within each nation.

If we remember that no peace is durable which cannot be endured, if we remember Prime Minister Churchill's obligation on the part of the leading Allies "to keep within certain minimum standards of armaments for the purpose of maintaining peace" we will get some idea of why sound economic conditions are essential prerequisites of any formula for preventing war; for we cannot do even the minimum that Mister Churchill suggests if we are not economically sound.

No one can present a pattern for peaceful living, but it is absolutely essential that the principal Allied Nations must first settle their domestic problems, balance their budgets and strengthen their economic positions at home so that they may be free to assume a full share in the responsibility of establishing and maintaining peace for the world. I have no completed program to suggest, for it is much too early to be rigid about such things.

I recently said in a public address that "blueprints, but not contracts, should be in the briefcases of those who will meet in the conferences of peace. The contracts can be let after the designs have been carefully inspected for fundamental errors that can be corrected on the blueprint but not in a finished structure."

I think we on our part can do that best by restoring as fully as possible the American way of living and, as I also said in Boston a few weeks ago, leaving to the other fellow the talk about expansion of foreign trade. Not of course "discontinuing the traditional American system of trading with the rest of the world subject to some tariff limitations."

And American labor must also be protected by the maintenance of immigration quotas.

It is essential to European countries that they live by foreign trade and we may as well recognize the fact that the bottle-neck in foreign trade is our unwillingness to buy—not our ability to sell. Unless we give other nations an opportunity to acquire dollars, unless we are willing to take goods and services of others to the extent that we want them to take our goods and services, we are going to deprive them of an opportunity to make the living which we have sacrificed countless lives and spent billions to obtain for them.

Frankly, I can see vast business abroad during the period of necessary reconstruction and rehabilitation, until those immediate needs are satisfied. India and China, for instance, because of their teeming millions are heralded as a source of foreign trade for us. Briefly, the prospect of huge exports to these countries during our lifetime seems remote. Irrigation, housing, road construction, of course, — but it will be many years before the standard of living in those countries will improve enough to create a demand for our essential products. Let me remind you that the total of our exports for the last seven years before this war averaged $3 billion annually. We send twice as much as that out of our ports in war materials now every month. We cannot possibly expect under normal conditions demand sufficient to guarantee substantial foreign trade. We know perfectly well that if Lend-Lease isn't to continue indefinitely, foreign countries cannot afford to pay us for exports.

So that in answering the query "What are the prospects of an enduring peace?" I say to you that unless conditions after the war are such that the smaller nations of the world are not subject to the ruinous economic struggle for foreign trade, which could only be the prelude to chaos and political upheaval abroad fomenting the seeds of war, no peace prospect is durable because no such peace would be endurable.

At home, we must move surely and swiftly to see to it that capital, labor and government, separately and collectively, assume their obvious responsibilities in the post-war world.

I am confident that under government leadership a workable program can be developed.

I hold no brief for the view that private capital exclusively exhibits virtues of conduct; I am sure that government control can become irritating interference and I can see no sense in the labor policy that leads workmen to go on strike when a factory is faced with the inevitable discontinuance of war contracts such as occurred at the Brewster plant two weeks ago. How that procedure could help either the workmen themselves, labor, or the owners of the business, capital, or the government of the nation is another one of those things I am too dull to comprehend.

I think it is absolutely necessary immediately that businessmen recognize that no useful purpose could be served if all controls were to be lifted; that the government recognize immediately that complete control amounting to interference with American business enterprises is absolutely destructive of the initiative which is the hall-mark of our economy and that labor recognize immediately that, in the enormous work of industrial demobilization that lies ahead, it must assume some share of responsibility and that dislocation and relocation of workers is inevitable.

There is nothing more certain and in this I have no hesitancy to assume the role of prophet, than that if we wish to avoid unemployment and if we wish to make the dollar paid for labor's wage valuable, capital, labor and government must sit down together and do some pretty solid constructive thinking. And they had better begin thinking pretty soon because "cut-backs" and cancellations" are inevitable—because the invasion which has started marks the beginning of the end of our war-time economy. Demobilization of industries, adjustment of productive capacities to normal conditions or to peacetime conditions is not going to be done easily at best,—it is going to be stymied if capital, labor and government are at loggerheads.

In the adjustment from war to peace conditions our citizens too have an important role. They should develop the maximum of capacity for understanding and assuming their responsibilities. If they know enough about what is going on, and if they understand it, they have the power to exercise sufficient control over private initiative, government and labor alike to make certain that the problems facing us are not only solved in the common interest but are placed in the charge of the best people available irrespective of social status or party affiliations.

Similarly, in the international field cooperation is essential. We will have crisis after crisis leading up to a Third World War, if we do not, in accord with the other great powers like Britain and Russia, try to understand the problems of the smaller states. There is in the world everywhere today a very strong consciousness among the people of their nationhood. Today, after the scourge of German or Japanese or even Italian Fascism, the victims have one fundamental desire, merely that of being left alone. They do not wish to be bossed, even by their friends and liberators, and any attempt on our part to tell these nations what they are to do, or any scheme of making such economic help as we may be able to give them conditional on their obeying, would only antagonize them and promote further discontent in the world. If we wish to exchange not only goods and services but also ideas, inventions, and other matters of the spirit and the mind with these nations most of which are old civilizations, we must not approach them in a spirit of aloofness but rather as friends and partners in the most stupendous undertaking the world has ever seen.

To summarize: I do believe that in the post-war world most of our people who want to work will have a job. But common sense tells me that with the slow tempo of peace, following the fulfillment of temporary pent-up demands, it is not going to be possible to give continuous full-time employment to 65 millions of people now on private or public payrolls. I am not afraid that the laborer's wage dollar will be made valueless by ruinous inflation. I do believe that an enduring peace is possible if ruinous economic competition does not make small nations forget and larger nations ignore their international responsibilities — to live and let live.

I am confident a way will be found to maintain a decent post-war world; to make America strong and to keep it strong, thereby best serving the world. As Congresswoman Luce so aptly said, "There are no hopeless situations—only hopeless men." I am far from hopeless—I merely wish to be prepared.

Through the efforts of government, business and labor we can avoid depression; but not if we allow things to take their course. The government will have to encourage in every possible way an increase in the volume of national production usually referred to as national income and to the free marketing of an expanded production and these matters should receive attention before some of the desirable, but not urgent, social objectives. Government, for instance, while tiding over those who cannot immediately find jobs must create some jobs itself in public works, housing operations and particularly by liberal financing of home buying.

Business associations, in turn, can devise methods of employment and labor, by agreeing to remove building restrictions, can greatly accelerate expansion.

Self-reliant as the American people are, they will match with their savings any efforts made in their behalf; and as a consequence of these mutual efforts of government, business, labor and the people themselves will protect and maintain the American standard of living.

Five years ago I was opposed to having a nation that was then unprepared, rushed headlong into a war which it would be asked both to fight and finance. I now urge with all the strength I command that America keep strong industrially and financially and that we be not compelled by those who have the power to bind us to bear an onerous share of the expenses of world-wide social service, foreign trade and world currencies.

I have no objection to our share of the social bill necessary to promote tranquillity and world-wide decent existence for all who merit it by cooperation. I have no patience with the view that because our cities have not been devastated and gutted as I saw London scourged that therefore we have not suffered from this war. You can't tell that to the family whose boy is not coming home at the end of the war.

I am happy that we have been allowed to enjoy intact so many of the things that we consider our heritage and our daily needs. I think it would be cowardly to shrink from participation in the problem of straightening out this world wreckage. But it would be stupid in our generosity to forget ourselves. Help the rest of the world by all means—but don't commit America to endless burdens. Preserve internationalism but serve America. Out of all of this terrible turmoil some one nation should emerge strong enough to stand as a beacon of hope to the world.

Let America be that shining beacon.

But let us now agree on the message its flashes will send forth. And let us be certain that no man chosen to serve our people shall alter one word or letter in that message, which I hope will be:

"No inflation, either direct or by repudiating our bond. No deflation achieved through ruthless unemployment. Stabilization at home and all help to those abroad who do the same — but to those only."

This is the economic path to peace. No peace ever reached its goal, with strength to hold it, over any other path.

What Will Come Out Of United Nations' Monetary Conference?

(Continued from page 2597)

formance and overcoming obstacles that are at times costly.

The effect of this Sterling Area association upon the prices of commodities in international trade is a long and complicated analysis which we can not go into in this brief article. But it is important to point out that the prices of commodities in international trade have a close tie with Sterling and the fortunes of the Sterling Area.

But omitting the price problems the current questions of first importance seem to be:

Shall the dollar and the pound be pegged to gold at a definite price, and if so at what price?

Shall the dollar and the pound be pegged to each other for the reconstruction period or permanently, as they have been pegged at a definite price for the duration?

Shall the dollar and the pound be left free to find their own level both in relation to gold and to each other in the commercial warfare of exchange and trade which will follow the cessation of hostilities?

Shall the pound be reduced in gold content because England will have an unfavorable exchange and trade balance, and to ease the burden of debt and taxes, which rising prices would do?

Would the adverse effects of cheapening the pound offset its advantages of expediency? For example a lower gold value for the pound would set up a tariff against imports from the rest of the world and make exports from England cheaper to the rest of the world. Since England must import her raw materials the advantages seem no greater than the disadvantages. Besides other countries can juggle their currencies and tariffs also.

Shall the dollar be reduced in gold content for the same reasons that England might consider reducing the value of the pound? Would the disadvantages be greater than the possible advantages? If both the dollar and the pound are reduced a like amount in gold content there will clearly be no advantage or disadvantage gained between these two areas. The effect with respect to each other would be within their domestic economies.

Is a cheapening of the currency and rising prices the best solution of the vast increase in national debts, taxes, budgets, wages and costs of production? Evading these complex problems by cheapening the money, and inflating prices and the cost of living is only a method of charging the costs of the war up to Johnny Q. Public, and those who are thrifty and saving, past, present and future.

The Problems Do Not Admit of a Simple Solution

All the information possible should be had upon these complex monetary problems and exchange relationships which will affect the wellbeing of every one in the civilized world for generations. The best qualified minds in every country should be called upon to contribute unselfishly in supplying this information. If all the information and ideas are laid bare before the public a sounder appraisal will be made and economic conditions will adjust themselves and discount the best solution. The maintenance of secrecy and a flood of inside rumors will be most unfortunate in the processes of solving these vital problems.

The most that can be accomplished at the present time will be to present evidence, information, provide for research, and perhaps make a statement of principles for the greatest good of all cooperating countries, and upon which finance and trade can depend in the future solution of these complex problems.

New York Stock Exchange Weekly Firm Changes

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

Proposed transfer of the Exchange membership of Alan M. Limburg to John T. Collins will be considered on June 29th. Mr. Collins, it is understood, will act as an individual member.

Benjamin Stenzler, general partner in Bliss & Co., New York City, becomes a limited partner, effective today.

Irving Kent Fulton, special partner in Merrill & Co., died on June 2.

Kenneth B. Schley, partner in Moore & Schley, died on June 12.

Mutual Funds

(Continued from page 2597)

half their value in the big boom year of 1929. The bulletin adds that "the people of America also have invested over $70,000,000,000 in war bonds—a total amount of spendable money and Government bonds in excess of the money the Government has spent on the war to date."

All this leads to the conclusion that: "Whether people will buy automobiles, washing machines or whatever they feel they may need most remains to be seen; but it should not be overlooked that right now common stocks are subject to no priorities, to no ceilings and are still at approximately the same levels as before the war began."

* * *

A. W. Smith & Co. reports that in the period from May 10, 1940 to date, with the Dow-Jones Industrial Average showing a net gain of less than 1%, **General Investors Trust** is up 13.9%. Also in this period dividends have totaled $1.12 per share, an average of 28 cents annually to yield 5.3% on the May, 1940, offering price.

* * *

Ray Vance, Chairman of the Trustees of **New England Fund,** in a letter to shareholders, discusses the immediate significance of reconversion and its problems in the selection of securities. After discussing various factors having an important bearing on the period of reconversion, he warns investors not to "over-estimate the importance of any factor."

"Especially remember that market prices can rise to a point at which they over-discount the rosiest future and, similarly, that that low prices may over-discount difficulties."

* * *

Keystone Corp. devotes the current issue of **Keynotes** to a highly informative discussion of the 1944 personal income tax law. According to the bulletin, there have been significant changes in the law of which the public does not seem to be fully aware.

"While there is a widespread impression that the new rates do not represent a substantial increase over the already existing tax rates on 1944 income, they will result in an increase to almost all taxpayers over the rates which applied on 1943 income."

The general effects of the new tax law for various groups of taxpayers are then summarized briefly.

* * *

Lord, Abbett, in the current issue of **Abstracts,** analyses the relationship between bond yields and stock yields over the past 15 years. The conclusion reached is that despite the favorable relationship of stock yields to bond yields at this time, the investor should not be fully committed in either group but "might properly give consideration to relatively heavier purchases of stocks from this point on."

* * *

Selected Investments Co. makes some interesting contributions to statistical lore in recent bulletins. One computation, entitled "Ten Out of Eleven," shows that industrial stocks have moved upward in 10 out of the 11 Presidential election campaigns held in this country during the present century. The moves cover the June 15-Nov. 15 period of the election years and range from a decline of 16% in the one down-year to a gain of 42% in the best of the 10 up-years.

Another computation issued by this sponsor shows that **Selected American Shares** "made up its 'load' 11 times over a period of 26 months. The point made here is that while "a salesman, a security dealer, an underwriter must be paid for his services" just the same as anyone else **in periods of rising markets the load on a mutual fund is quickly made up.**

Mutual Fund Literature

National Securities & Research Corp.—A current issue of **Investment Timing** with an article on synthetic rubber. Also a revised portfolio folder on **National Low-Priced Series.** . . . **Hugh W. Long & Co.**—A current issue of **The New York Letter,** containing an excellent discussion of the need for professional security management. The record of **Fundamental Investors** is cited as an example of what can be accomplished. . . . **Calvin Bullock**—The June 15 issue of **Perspective,** containing an informative study of corporate taxes. . . . **Distributors Group**—A special memorandum from the Investment Research Department on "Steel—The Effects of Conversion." Revised portfolio folders on **Railroad (Bond) Shares, General Bond Shares** and **Low-Priced Shares.** A current issue of **Steel News,** "Measuring the Undervaluation in Steel Stocks." Also the June issue of the **Group Securities** monthly Investment Report. . . . **Selected Investments Co.**—A revised portfolio folder on **Selected American Shares.** Also an impressive seven-page memorandum, "Investment Company Shares for Trust Investment." . . . **Broad Street Sales Corp.**—A current issue of **Items,** comparing the market performance of **National Investors Corp.** with the Dow-Jones Averages for various periods since 1939. Also the current issue of **The Broad Street Letter.** . . . **Hare's Ltd.**—A folder, "The Decision of the Supreme Court that Insurance Is Interstate Commerce."

Dividends

American Foreign Investing Corp.—A dividend of 25 cents per share, payable June 22, 1944, to stock of record June 15.

Broad Street Investing Corp.—A dividend of 25 cents per share, payable July 1, 1944, to stock of record June 23.

Fundamental Investors, Inc.—Quarterly dividend No. 42 of 22 cents per share, payable July 15, 1944, to holders of record June 30.

General Investors Trust—A dividend of 6 cents per share payable July 20, 1944, to stock of record June 30.

OUR REPORTER'S REPORT

Dollar bonds of South American nations have responded, with few exceptions, to the recent signing of a pact between representatives of the Brazilian Government and the Foreign Bondholders' Protective Council, Inc., under which service will be resumed on the debt of that nation.

Only Argentine loans have really been laggard and the reason for their discouraging action is not difficult to find when it is realized that that country has been only lukewarm, if not actually cool all through the period of planning for hemispheric solidarity.

The Brazilian debt adjustment plan, involving a total of some $286,000,000 of dollar obligations, was well received in foreign bond circles and regarded pretty much as the forerunner of a series of such revisions.

All South American countries have been building up substantial dollar reserves in consequence of warborn prosperity and accordingly are viewed as being in good position to undertake negotiations looking toward resumption of interest on their foreign indebtedness.

The vast bulk of such loans are now selling "flat," that is in default of interest, but recovery from low levels of some years back are indicative of the rising hopes of speculative investors.

Current efforts to work out a settlement with the Peruvian Government have been suspended until next fall. A total of $86,000,000 is involved here.

Look for Quiet Summer

Aside from the current Fifth War Loan Drive, which is taking up the main efforts of the Street's security firms these days, the chief topic of conversation is the outlook for the new issue market when the Treasury's drive is completed next month.

For the moment the roster of prospective new issues is not particularly lengthy and the disposition is to look for a period of relative quiet until after the summer-end holiday.

But the Street evidently feels that there are several sizable projects which may reach market during late July or early August and those who lean to that view are making plans accordingly.

Ohio Edison Prospects

The largest prospective new offering currently in the discussion stage involves the refinancing plans of the Ohio Edison Co., calling for $31,000,000 of new bonds and $18,000,000 of new preferred stock.

Groups already have been welded together to seek the bonds when the company sends out its call for bids possibly within the next fortnight, and it is now indicated that at least three large banking syndicates will be in the field.

Meanwhile the prospects are that several other banking aggregations will seek the stock alone. At present it appears that only one group will make a "basket" bid for both bonds and stock.

Another Prospect

There is at least one other midsummer possibility of more than ordinary proportions namely the potential refunding by Kansas City Terminal Railway of its outstanding $49,000,000 of first mortgage 4s maturing in 1960.

For the moment there is nothing to suggest that such an undertaking is in immediate prospect, but as in the case of Ohio Edison bankers are making the necessary preparations.

Thus far talk is heard of the likelihood that the Terminal offering when as and if it materializes will be the center of bidding by at least three groups.

To Be Guests At NYSE War Bond Rally

Former Governor Alfred E. Smith and Captain Richard Lewis Harris, D.S.C., will be the guests of honor at a Fifth War Loan Rally to be held on the floor of the New York Stock Exchange on Monday afternoon, June 26, at 3 o'clock, Emil Schram, President of the Exchange, announced today. Also participating in the rally, to which the general public is invited, will be Nevil Ford, Chairman, New York State War Finance Committee, and William R. White, Director of the Committee's Banking and Investment Division. The program, which is being perfected in cooperation with the War Finance Committee, will be designed to intensify further the community's concentration upon the sale to the greatest possible number of individuals of the greatest possible amount of war bonds. Music will be provided and the floor of the Exchange will be appropriately decorated.

Schallitz On Business Trip

Walter G. Schallitz, President of Security Adjustment Corporation, 16 Court Street, Brooklyn, N. Y., is making a month's business trip to Chicago, Los Angeles, Mexico City and New Orleans.

Canadian Securities

By BRUCE WILLIAMS

What is the significance of the recent Saskatchewan elections? And what are the causes that have led to these not unexpected results?

The decisiveness of the election verdict does not represent so much a victory for the CCF party as a protest vote against the Liberal government which has failed to assess correctly the genuine grievances of the western provinces, and which has been hesitant to take decisive action to correct them.

What are these grievances? The basic cause of complaint dates back to the depression era of the thirties. Owing to an anomalous interpretation of the British North American Act, which is in effect the Canadian constitution, the relative rights and obligations of the Federal and Provincial governments in certain cases are not clear. The intent of the Act was to give Canada a more centralized form of government whereby the powers of the provinces were specified, and those which were not defined were vested in the Federal Government.

However, as in this country, the interpretation of the constitution was entrusted to the courts, and the decisions of the Canadian Supreme Court and the Judicial Committee of the British Privy Council have consistently favored the provinces. Thus, when the question of unemployment relief arose during the depression, the provinces apparently were responsible, but lacked the necessary revenues.

In this way, the western provinces were hit not only by the general economic depression, but also by an unprecedented drought which reduced farm incomes, their staple source of revenue, to an alarmingly low level. This critical situation was met in large part by Dominion Government loans to the provinces, represented by treasury bills. British Columbia, due to its wealth of varied natural resources, carried the increased debt burden in its stride; Manitoba, by deliberate diversification of its economy and superb financial management, stood on its own feet; Saskatchewan leaned heavily on the Dominion Treasury and thereby paid its way; Alberta succumbed to the wiles of specious monetary theory and left the path of orthodox finance.

Now Mr. Stuart Garson, Premier of Manitoba, and fearless spokesman for the West, heads a campaign for recognition of the Dominion Government's responsibility for this inequitable dead-weight debt carried almost entirely by the western provinces, which undoubtedly was caused by a national calamity that should have been borne by the whole country.

As Mr. Garson clearly states, the Central Government has the remedy ready-made in the shape of full implementation of the findings of the Rowell-Sirois Royal Commission which was appointed to examine this problem. The Mackenzie King government without question fully appreciates the justice of this demand, and, but for the exigencies of the war and previous political difficulties, would doubtless have placed the issue squarely before the country.

Now the Saskatchewan election results point the way, and Mr. King, the most astute and able politician in the country, has his great opportunity to set another milestone in Canadian history. Is it not significant that the Liberal government remained curiously aloof from the election struggle in Saskatchewan? Could it not be because Mr. King wished to bring rudely home to his supporters in

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Why Spokesmen At SEC Hearing Held NASD "5% Spread Philosophy" Constitutes A Rule And Should Be Abrogated

Prepared Statement Read By Frank Dunne

(Continued from page 2582)

ception to the methods employed by the Board of Governors of the NASD in the adoption and promulgation of the "rule."

Because the bulk of our memorandum of March 6, 1943, dealt with quotations, I would like to summarize very briefly the scope of our comments on quotations so that you will perhaps feel that we gave considerable thought and effort to this angle. We submitted to the Director of the Trading and Exchange Division copies of the annual reports of the Committee on Securities of the New York Security Dealers Association for the years 1931 to 1937, inclusive. This committee is the one that dealt with newspaper and press quotations on over-the-counter securities before the NASD took over the function from the New York Security Dealers Association in 1938. In addition to these reports, some of the headings of the ground covered are as follows:

1. The importance of quotations. That was supported by six exhibits.

2. The pioneering job done over 11 years by New York Security Dealers Association. That was supported by two exhibits.

3. The principle of mean quotations versus highest bid and lowest offering. That is retail versus wholesale quotations. That was supported by four exhibits.

4. Advocacy of SEC supervision of quotations. That was supported by one exhibit.

5. The financial burden of quotations. That was supported by four exhibits.

6. Former operation of Committee on Securities—quotations. That was supported by two exhibits.

7. Cooperation with other regional groups. That was supported by two exhibits.

8. Industry resistance to cutting down profits. That was supported by three exhibits.

9. Necessity of having quotations free of commercialism. That was supported by four exhibits.

10. Progressive improvement of quotations under New York Security Dealers Association. That was supported by one exhibit.

11. Recognition of problem of unwarranted profits. That was supported by one exhibit.

12. Retrogression of quotations. That was supported by two exhibits.

In order to develop the next point I have in mind, I find myself in the unhappy position of being critical of one aspect of the functioning of the NASD. I am sure it will not be too difficult for you gentlemen here to accept my statement that my record in the industry, as far as correcting ills and abuses in the industry are concerned, has been one of trying to work out our problems by the democratic process of give and take. Having served in the first group of Governors that was elected to the NASD, and being currently a member of District Committee No. 13 which embraces Connecticut, New Jersey, and New York, it is not an easy thing for me to be critical of the NASD, but I find it necessary. While I still believe in the avowed objective of the NASD, voluntary, democratic self-regulation in the industry, I must say, that as far as the democratic end is concerned, the hope has not squared with the performance. I do not think it necessary to go into voluminous detail to make this point. Apart from the instant case, may I remind you of the matter of minimum capital requirements which the NASD tried to bring about two years ago. Parallelling the matter of profit ceiling, the attitude of my associates and myself was that, we did not quarrel with the principle of minimum capital requirements, but the manner in which the NASD high command proceeded to bring it about. To be sure, they did go to the membership, there was a ballot, but it was not a secret ballot, and any fair sampling of the industry would have shown that even those that did vote were afraid to express their true convictions. You will recall that the Commission found it necessary to call off the minimum capital requirement rule.

Now we come to the matter that occupies us today, whether the letter of Oct. 25, 1943, and the supplemental directive of Nov. 9, 1943, in effect constitute a rule or an interpretation. If the former is the case, as I believe it is, then the NASD Governors have violated not only the spirit of voluntary democratic self-regulation, but have violated its own by-laws.

When I says it is my belief that the letter of Oct. 25, 1943, and the directive of Nov. 9, 1943, constitute a rule, I am not giving you one man's opinion—the majority of the members of the NASD District No. 13 in their discussions, if I understood them correctly, felt in the exercise of their duties that the letter and directive would have the effect of a rule. I cannot speak for the other District Committees, but I feel confident that they get the same reaction. More important, however, is the reaction of the rank and file of the membership of the NASD to the letter of Oct. 25, 1943. Almost without exception members that I have corresponded with throughout the country, or talked with on the teletype and the long distance telephone, have felt that the matter, for all practical purposes, would have the effect of a rule. On this point may I refer you to the letters that appeared in the "Commercial and Financial Chronicle" from dealer members throughout the country for the period beginning last October up to the present time.

After the New York Security Dealers Association had adopted its resolution of Jan. 26, 1944, in which it claimed the interpretation to be a rule, and requested the Securities and Exchange Commission to direct the NASD to submit the rule to its membership for a vote, I personally was severely criticised in some quarters for not having taken the matter up with the Board of Governors of the NASD in behalf of the New York Security Dealers Association before looking to the Commission for relief.

While it is true that the New York Security Dealers Association did not formally take the matter up with the NASD Board, my attitude and the attitude of the New York Security Dealers was well known to many, if not all of the NASD Governors. As far back as Nov. 16, 1943, or about three weeks after the issuance of the Oct. 25, 1943, letter, I expressed that attitude at a meeting of the District No. 13 Committee in a prepared memorandum which read as follows:

"In so far as the placing of a ceiling on profits is concerned, I believe it is constructive, and to my mind a very practical idea in keeping with the present-day philosophy of regulation of our business. As to the measure of profit that should constitute a ceiling, I believe this should receive most careful consideration, with a view to finding a formula under which all competent and useful members of our association may continue to conduct their business, not only fairly and equitably, but profitably as well, commensurate with market conditions and other factors inherent in the proper conduct of their business.

Now as the interpretation of Section I of Article III of the Rules of Fair Practice, referred to in the letter of the Association dated Oct. 25, 1943, which interpretation sets a ceiling of 5% on principal and agency transactions generally, I believe the Board of Governors has erred in considering their action as an interpretation. This may be due to misunderstanding or perhaps to too hasty action.

I am satisfied that regardless of what we call the action of the Board, it is in fact a Rule, and as such must be submitted to the membership for approval before we attempt to adopt it as part of our procedure. This thing is vital. It concerns the very reason for which we are in business. When we say to our members that they must limit their profits and commissions, we strike at the very heart of their business. I believe that that in itself is sufficient reason to consider the action as a Rule, and to submit it to the members for their approval. The tremendous importance of this question transcends the technical and legalistic aspects of it. Even these, upon close examination, I feel sure, will bear out my contention that here we have a Rule, and not an interpretation.

I know that the Governors of this Association recognize the responsibility that goes with their position, and that they seriously apply themselves to the work, and in most cases at personal sacrifice of time and money. It does not seem fair to have them accused of assuming arbitrary and dictatorial powers in attempting to foist their personal views on the entire membership without giving the members, at the very least, the privilege to pass upon the action. This is their right, and they should not be deprived of it. It also does not seem fair for the Governors to have to bear the burden of the disunity, the discontent, and general ill-feeling that this action has brought into being among the membership generally in all parts of the country. If nothing worse than a weakening of our association is the result, it is bad enough, and we should do everything possible to avoid it.

I have supported the NASD because through it we have the great privilege to regulate ourselves. That is really a great privilege, and let us move more than carefully to make sure that we retain it. Don't let us gamble with a possible serious disintegration in our ranks.

In conclusion, I have no positive formula to correct the harm already done, but I urge that the Executive Committee do everything at once in that direction.

What I have said here is not intended as criticism, but is said with a desire to be helpful in preserving and strengthening our Association.

Apparently my critics were not aware that among those that attended the meeting were the then Chairman of the Board of Governors and the Executive Director of the NASD.

I think that all reasonable people will admit that I tried my best to have this question cleared up within the industry, and only after my efforts in that direction failed did I formally appeal to the Commission for help.

I am not a lawyer, and I do not even have the benefit of legal advice. From the nature of our small organization and its limited resources, neither a paid president nor eminent counsel is possible. However, in looking at the Rules of Fair Practice I find in my own way:

1. The Board of Governors has the power to adopt rules for submission to members under Article VII, Section I of the By-Laws.

2. Article VII, Section 3, gives the Board the right to interpret rules — my understanding of the use of an interpretation is to make clear a rule that may not be clear and not in effect create a new rule and circumvent Article VII, Section 1, of the By-Laws.

3. The letters of Oct. 25 and the directive of Nov. 9 constitute a rule because Article III, Section 4, of the Rules of Fair Practice provide:

(1) In principal transactions members shall charge a price that is fair taking into consideration market conditions; and

(2) In agency transactions a member is allowed a fair commission taking into consideration market conditions, expense, value of services by reason of experience and knowledge.

Now the letters of Oct. 25 and Nov. 9 have done away with these standards, and state that:

(1) In principal transactions the mark-up must not exceed 5%; and

(2) On agency transactions regardless of expense and other factors commissions shall not exceed 5%.

The Chairman: Do you find that flat statement in the letter?

Mr. Dunne: That is my lay construction of it, Mr. Chairman.

The Chairman: I am referring, of course, to your 5% reference.

Mr. Dunne: Without the advice of counsel, Mr. Chairman, as a member of the Business District Conduct Committee, I would feel that where a man took more than 5%, his transaction should be criticized, or at least we should question it, and where the pattern of his business is distinctly 5% and over, we should penalize him. That is, have the usual complaint drawn and take action in accordance. For that reason, I feel very strongly that it means 5%. At least, that is what it means to me.

The Chairman: I see.

Mr. Dunne: And I find, as I said before, that nearly all of the members of the District Business Conduct Committee who have had legal advice, and a number of them have had legal advice, feel as I do.

It evidently was contemplated that a rule and an interpretation were different things. I find in Article VII Section 3(c) of the By-Laws that the Governors have the power to prescribe penalties for the violation of the terms, conditions, covenants and provisions of the By-Laws, or the Rules of Fair Practice, but there is no power given to prescribe a penalty for acting contrary to an interpretation.

It has been said that some of the members of NASD will be unable to continue "under the interpretation" and will be forced out of business. They should have an opportunity to express their approval or disapproval of the action that is so vital to them. As one who took part in the discussions in the setting up of the NASD from the inception of the Maloney Act, and the drafting of the framework under which the Association operates, I can state that it was the purpose of the framers of the Maloney Act to encourage self-regulation in the over-the-counter industry, and to set up an Association along completely democratic lines that would be all-embracing of those in the industry. As you know there are many registered broker-dealers who are not members of the NASD, and their number, it would seem, would be unquestionably added too, if this interpretation prevails. Further, because of the manner in which this matter was brought about by the Board of Governors, the disunity and ill-feeling within the business will continue unless the matter is set aside or submitted to the membership for approval. In order for the NASD to be successful and operate efficiently, the feeling that the Association is run by a certain group, and as a private club must be eliminated, and those in control must recognize that all members have an equal voice in the affairs of the Association.

Now, if the letter and directive constitute a rule, as I contend, it seems to me that the Governors have violated Article VII, Section 1 of the By-Laws of the NASD which requires that before a rule is adopted it must be submitted to the membership for approval.

I therefore respectfully ask the Commission to do as follows: Designate the letter of Oct. 25, 1943, and the directive of Nov. 9, 1943, as constituting a rule arrived at without the processes provided by the By-Laws of the NASD, and consequently pray that they abrogate this rule in order to conform with the purposes of the Securities Exchange Act under which the NASD is constituted—(Section (B) (2) of Section 15 A of the Securities Exchange Act of 1934.)

You are doubtless familiar with the "added starter" in the growing literature on this subject. I refer to the interchange of letters of Mr. Ralph Chapman, Chairman of the NASD and Mr. Irving Fish, Chairman of NASD District No. 13 Committee, the sense of which is to establish the policy, not as a rule, but as a yardstick. I put these aside because I do not think they change the matter. I also wonder if the timing of the release of these letters and the date of this hearing are purely coincidental. After the release of the letters I called a meeting of my Board to make sure of my opinion. Eleven of the 12 Governors attended and unanimously voted to have me attend this hearing.

In conclusion I want to say that I am greatly concerned with the larger subject of which this is just an example. The larger problem was ably stated by your Chairman less than two months ago at San Antonio, Texas, before the Texas Group of the Investment Bankers Association when he said among other things:

"The preservation of our democratic institutions as we have known them depends in large measure on our ability to maintain and strengthen the foundations of small and medium-sized independent enterprise."

Thank you very much, gentlemen, for your time.

The Chairman: Thank you, Mr. Dunne.

Mr. Kole, will you proceed?

Oral Argument Of Edward A. Kole

(Continued from page 2582)

and like the little school boy who starts with C-a-t, I thought it might be a wise thing to sort of go back and determine what the definition of "rule" is, and what the definition of "interpretation" is.

We are told that a rule is an authoratative direction or enactment, a concise direction respecting the doing or method of doing something.

We are also told that it is a prescribed guide for conduct or action.

The first definition is from Funk & Wagnall's Practical Standard Dictionary, and the second is from Webster's New International, the unabridged.

To interpret is to give the meaning of, explain, to give illustrative representations of, to construe; and another definition —to explain or tell the meaning of, to translate into intelligible or familiar language or terms; to expound, elucidate, translate.

Now, I think the evil of this whole situation is, as it has been presented from time to time to the NASD, to the SEC, the various organizations, that men have taken the position that the term "rule" and the term "interpretation" are mutually exclusory, that you cannot have a rule which is a mere interpretation and that you cannot have an interpretation which is a rule; and I mean to demonstrate to you that that is utterly unsound.

An interpretation involves a matter of individual volition. You and I may look at something and each have a different view of it. That is your interpretation, and if mine is different, that is my interpretation. But the moment that you establish an interpretation or a philosophy, and you send out a directive, and when I say "you," I mean a body with authority like the Board of Governors of the National Association of Securities Dealers, and you instruct the Business Conduct Committees to apply that one individual interpretation, that one philosophy, you do not leave room for individual volition, but you say that is to be applied as a yardstick; that moment that interpretation becomes a rule and I don't think I need labor the question that under the letters of Oct. 25 and Nov. 9, that is exactly what the NASD did. They instructed the Business Conduct Committees that they must apply that interpretation in proceedings before them; and therefore, in doing that, so long as it was an individual interpretation and opinion, they could have it and anybody else could have it, but when they ordered and when they directed that it be applied in disciplinary proceedings, at that moment it becomes a rule.

Now, gentlemen, I have given you a definition of a rule, in fact, two of them, but it is interesting to note the more liberal attitude that the Maloney Act takes with respect to what constitutes a rule in the National Association of Securities Dealers.

In Section 14 (a) (2) wherein is prescribed how an Association must register, and what it must do, it must file copies of its constitution, charter or articles of incorporation or association with all amendments thereto, and of its existing by-laws, and of any rules or instruments corresponding to the foregoing whatever the name, and may I interpolate (even if you call them interpretations), "hereinafter in this title, collectively referred to as the rules of the Association," so that you see in the provisions of the Maloney Act alone, the word "rule" is given even a broader interpretation that you find in the dictionary.

Now, what other index is there in this source material, and this is source material, the Maloney Act, that this interpretation is a rule.

When disciplinary proceedings are conducted, under the statute the Commission is obligated to state what rule has been violated. Now, of course, the Commission has been in the habit of referring to a Rule of Fair Practice, the general rule of the organization of the NASD. No unconscionable profits, fair and equitable trade; the broad underlying rule of the association is that it is general in its terms, and unfair practice may mean one of a hundred things or one of a thousand things. But what does the statute say must be done in the case where there are trials for the infraction of that rule? I read to you from subdivision 9 of the same section, and it is subdivision 9 (b):

"A statement setting forth the specific rule or rules of the Association, of which any such act or practice or omission to act is deemed to be in violation."

You will notice the term "specific rule" and therefore, as I see it, when anybody is being tried for acceptance of unconscionable mark-ups, the specific rule before the NASD would be the rule that, if there was more than a 5% spread, under those circumstances, there would be a duty on the part of the Trial Committee, the Business Conduct Committee in that instance, to so state in its findings, and if it is dubbed merely an interpretation, the effect of it is to by-pass the specific provisions of the statute of the Maloney Act. And yet, in another sense, speaking of by-passing, has there been a by-pass here?

Under the terms of the statute, the sole arbiter of the propriety of any rules that are established either initially or in the form of amendment or interpretation (because I conceive interpretation where it is so applied, merely, to be a rule), is the Securities and Exchange Commission. I think that the NASD may be called "your baby." You work together; you are bound to work together under the terms of the statute. You have that directive there. There is nothing wrong in that, and in anything I have said up to this point, there has been no intention to suggest at any time that there is anything wrong in that.

Hence, the responsibility with respect to the rules of the Association are directly yours, and cannot be evaded; for if they are improper in any sense, you may revoke them.

You must see that the passage of any rules comply with the source statute, the Maloney Act, and you have the power under that statute to direct the passage of certain rule. You can even do that.

Now, then, here there has been a definite by-pass, because the question of that 5% limitation is a matter that is one of the most vital things in the entire industry today. If anything, you should have had, I suggest, some hand in the passage or refusal to pass on this recommendation or on the tabu-ing of it. Your opportunity comes now again. Clearly in everything that has been done now, and I am not nearly as generous in my attitude toward the Board of Governors as Mr. Dunne is—I am frank to say I do criticize because I think there was a preconceived notion here to by-pass the franchise of the NASD membership and not have them vote, and also by-pass the right of the Securities and Exchange Commission to pass upon the philosophy.

I would say under all those circumstances, there is a plain duty here to revoke that rule.

I would be generous in my point of view towards the NASD if I did not feel that that mental attitude of desiring to continue that by-pass is still in force and effect, and I think the indication is made most clear by the letters exchanged between Mr. Irving Fish and Ralph Chapman, to which Mr. Dunne referred.

Commissioner O'Brien: May I see those, please?

Mr. Kole: Yes (Letters handed to the Commissioner).

Commissioner Pike: These letters were published, were they?

Mr. Kole: I believe they were in the Financial Chronicle, and I directly refer your attention to the dates of them.

The Chairman: Will you state those dates for the record? I have the letters here before me. The letter from Mr. Fish to Mr. Chapman is dated May 18, 1944, and the reply is dated June 6, 1944.

The Chairman: You may proceed, Mr. Kole.

Mr. Kole: If you will contrast these letters of May 18, 1944, and June 6, 1944, with the letters of the Board of Governors, dated Oct. 25, 1943, and Nov. 9, 1943, you will observe this condition, that in the letters of October and November of 1943, there was a plain directive addressed in one instance to the Business Conduct Committees, telling them to apply this philosophy. There is no question about that. The letters so state; and in the other instance the members of the NASD—the members were notified that that 5% philosophy will be so applied by the Business Conduct Committees; but here on the eve of the hearing before you gentlemen, there is a bit of hedging. The philosophy is called a desirable objective or yardstick. Someone must have called the attention of these gentlemen to this matter that I have urged, that an interpretation involves the element of personal volition, and I think here is an attempt, and I believe a designed attempt, perfectly timed, to create in the interpretation an element of the volition which never existed and was never intended by the letters of October and November of 1943.

I call your attention to another provision of the source material, the Maloney Act, and this time it is Subdivision (j) dealing with rules:

"Any change in or addition to the rules of a registered security association shall take effect on the 30th day after the filing of a copy thereof with the Commission or upon such earlier date —"

I am not going to read this further because the Commission, of course, knows the section, but the point I wish to make is here again, not in the rules of NASD, but in the statute from which NASD gets its very birth; provision is made that the rules must be approved by the Securities and Exchange Commission, and it is my contention that in the failure so to do and in the dubbing of this 5% spread philosophy as an interpretation, there was a designed and preconceived attempt to completely by-pass the jurisdiction of the Securities and Exchange Commission.

In your order, gentlemen, you have included the phrase "Whether the Commission should take any action pursuant to Section 15 (k)." I presume that that is a rhetorical question pretty much like the editorial "We." The statute makes plain your duty in the matter, and I think that since a rule was established or created without submission to you, that under the terms of the statute you are obligated and in duty bound to abrogate the rule.

I put it that strongly, gentlemen, not because there is any intention on my part to dictate to you what your duties are, but I put it that strongly because it seems to me that the interpretation is very plain and that the duty is not an elective one but is completely mandatory.

Gentlemen, I want to refer for a moment to something I said during my opening in a challenge to the Panel; in what I said then, I want to emphasize now, there was not the slightest intent to be discourteous or to suggest an iota of reflection against any member who is now sitting and presiding at this hearing. I conceived it to be my duty in the interest of my clients to make that statement, and I believe that anyone who is intent upon due performance of his duty would have done and should have done the very same thing, and because of that, I am going to make another statement which I hope, gentlemen, you will not take adversely, and you will not think for a moment it is intended to cause any reflection—but I want to show you how, in my opinion, things of this sort that have occurred with respect to the spread limitation rule, how they find their origin, and why my original motion addressed to the Panel was made.

Sometime ago in the U. S. District Court for the Southern District of New York, on behalf of the defendant, I tried the case of Hallgarten against Lee, and in that case the question of profit limitations was directly involved. The plaintiff brought an action under the appropriate section of the Securities Act to declare void a certain contract for the purchase of oil royalties; and the subject of mark-ups was involved.

I refer to the case particularly because in that case the Securities and Exchange Commission, which was no party at all—it was entirely a civil matter between two individual parties—undertook to serve a brief after getting leave from Court, a brief amicus, and in that brief amicus the position of the SEC was stated in this way:

"Thus a statement by a dealer with respect to the price of a security carries with it the implied representation that that price bears some reasonable relation to the prevailing market price."

That was the Commission's point of view.

This subject of market price enters directly into the situation and is terrifically important, and I believe that "the philosophy" has some relation to what occurred in that case.

In that case there was introduced in evidence the National Quotations Sheets, and, as you know, those sheets bear no record of sales at all, just offerings and bids, and when the Court got through it found those sheets established—those were its findings —no market price at all either between dealers or between the public and dealers. The Court so held in its findings, so that the Securities and Exchange Commission did not carry its point there.

Then there was another philosophy adopted, I don't know whether I would call it philosophy or a regulation, which attempted to create the situation that it was improper to take a spread, a certain spread, or an unconscionable spread between the purchase price (no longer market price), but the Commission set its index as the purchase price, and the sales price. In other words, in effect the purchase price was taken as an index of the market price, and nothing seemed to come of that to any extent.

Commissioner Pike: Was that in the same case, Mr. Kole?

Mr. Kole: No, I mean in other cases.

In this case, gentlemen, the Court held definitely that no market price was established, and may I point this out to you, which I think is startling, and I think the Commission will believe it to be startling; there was only one entity in the entire world that could possibly have established the market price with respect to those royalties, only one, and that was the Securities and Exchange Commission, because it had on file these G-Forms in which dealers and individuals—dealers who sell —report the sales, and it had them for all the country. Yet the Commission did not choose to offer any such proof at any time, so that the only source, and I think I say that advisedly, I would challenge anyone to demonstrate to me that there was any other possibility of establishing a market price. I mean by that, proper expert testimony.

The Commission could do so, but did not choose to do it. What I am trying to make clear is that the Commission has been trying, and trying hard, to arrive at a formula of some sort, and perhaps advisedly so, I express no opinion on the subject, against unconscionable mark-ups, and I am not in sympathy at any time with unconscionable mark-ups. I felt that under those circumstances it would not have been unusual for them to cooperate with the NASD in an effort to arrive at such a formula.

I felt it was their duty to do so, and that is why my motion was addressed to the Panel.

Now, why did I feel it was their duty to do so? Gentlemen, if I say to you that in some respects the NASD has greater powers than the Securities and Exchange Commission, I wonder what you would say to that. Let me demonstrate to you that that is the fact. If you were to send out a questionnaire to me as a broker, and ask me to fill it in, supposing I did not do it, what could this Commission do about it? You have a right of visitation. You can come in and examine my books. That is my duty. I have to show it to you, but can you compel me to answer your questionnaire? I know of no such power in the Commission.

On the other hand, let me demonstrate to you the fiat that is used to compel the answer to questionnaires on the part of the National Association of Securities Dealers, that they sent out.

Here is how it operates. They make the point that membership in the Association is purely a voluntary act, and from the fact that you are required to fill in an application, it would seem that it is. Under the terms of the By-Laws, you agree, upon entering into that membership, to comply with the By-Laws, and if under the By-Laws you are required, or by any regulation, to fill in questionnaires you, by your voluntary membership, have agreed to do so, and your failure to fill it in constitutes a breach of your contract or covenant, and therefore you are subject to discipline, and by the way, this Commission has upheld that right in the Gleason case, that it is the duty upon the part of members to answer questionnaires.

Now, the point that I make, is membership in the NASD really voluntary? Let us see whether it is. Let us examine one or two things. Some men make their livelihood almost exclusively in the securities field by participating in underwritings. Under the terms of the statute, participation in underwritings, in so far as membership in the NASD is concerned, has virtually become a monopoly. Now, if that man tries to get his slice of business, which would make it possible for him to earn a living, is that a voluntary act, or is it a compelling necessity, that his bread and butter compels him to join?

You have another monopolistic provision that is enjoyed under the statute by the members of the NASD. They may deal with themselves along certain lines involving certain financial increment, but as to non-members, they must treat them as members of the general public.

Now, if a man finds it necessary to share in that increment, to share in that money, if it is a compelling necessity because of his livelihood, is his membership voluntary?

I point to these things for the more compelling reason that because of that odd situation, because of the horns of this dilemma that is presented, the duty is all the more imperative that any attempt to by-pass the requirements of the statute and the jurisdiction of this body should be scrutinized with the greatest degree of care.

Now, gentlemen, you are in an

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Why Spokesmen At SEC Hearing Held NASD "5% Spread Philosophy" Constitutes A Rule And Should Be Abrogated

(Continued from page 2601)
awkward position yourselves, I say "awkward" I think, correctly.

The statute directs you to work with the NASD. In effect, you both have the regulation of the securities field under your supervision, and as I pointed out in at least one instance, the NASD has greater power than the Securities and Exchange Commission.

You have that injunction under the statute. You are required to do so. It is your duty to do so, and providing those functions are properly exercised, there cannot properly be any criticism of your duty. But, you have an anomalous situation, because of your position of trust, and only metaphorically an interlocking directorate, although none, in fact exists. Your position of trust is all the more poignant and presents all the more forcibly the reasons that you must bend backwards, as I see it, in the performance of your functions. The securities field looks to you for proper regulation, for aid in the performance of its duties. It doesn't want to be let down. It feels that it has been seriously let down by the NASD.

Now, gentlemen, I am not going to address myself to other legal phases which are embraced within the issues raised in the terms of our petition, but no matter how you find, excluding the first two issues, you are presented with quite a number of others, all of which, in my opinion, you must deal with and make some disposition of.

I am not going into a larger question, but one that deserves some consideration, only to mention it, that under our philosophy —and by this I mean a true philosophy, and not any attempt to by-pass — the Courts have held again and again that a man is entitled to follow his occupation without any improper restraints.

Whether you regard the rule as an improper restraint in itself, or whether you feel, in the absence of its being a restraint in and of itself, the manner of its improper and illegal passage, contrary to the provisions of the Maloney Act, contrary to the provisions of the by-laws of the NASD, that such improper practices considered, is in itself a restraint.

I have this additional thought, gentlemen, and I think that is where we are tending.

Mr. Dunne spoke of a ceiling on profits. I make the point that in the 5% spread, the element of profit may be entirely absent, that I don't think it was ever considered that it is purely a spread, but if that is the understanding of the President of the New York Security Dealers Association, and also of the member of the NASD who is connected with some of its enforcement committees, it is not unreasonable to believe that others may share the same view, and we may be heading or tending very clearly towards profit ceilings.

Now, today, it may be the securities field, tomorrow it may be apples or bananas or pianos or lighting fixtures. The danger is that if we get to that point, we may have a system of regulation that will permeate the entire American scene with wholly un-American rules and doctrines.

I submit to you, gentlemen, that this rule ought to be abrogated as promptly as possible.

Incidentally, it is not being enforced in some of the districts, and I do not think there is any secret about it, and I believe that the New York district is one of them. They are afraid of it. It is dynamite. I respectfully ask that you grant me ten days or more, if possible, within which to file a brief, not only because of my other commitments, but, gentlemen, there is a personal and not a legal excuse here—I expect to be a father any moment, and I shall have to exercise some time in that direction.

I would like you to be generous in that direction if you possibly can. The more time you give me, I would be very grateful, — two weeks, if possible.

The Chairman: Mr. Kole, we will give you two weeks, within which to file a brief.

Mr. Kole: Thank you.

The Chairman: May I ask you one or two questions? I am not sure the record clearly shows the composition of the Committee you represent. Would you state for the record the number of members of the Committee?

Mr. Kole: Gladly. I will tell you the exact composition and its makeup. I would be glad to have you take testimony, if you like, on that subject.

The members of the Committee who are directly governing its activities are the three petitioners. They have had a number of other applications to join, and they have had about 82 contributions from dealers throughout the entire country, I think in almost every State of the Union, perhaps, with a couple of exceptions.

The Chairman: Are the three, shall I say, formal members of the Committee, Messrs. Baren, Helbig and Lichtenstein members of the National Association of Securities Dealers?

Mr. Kole: One of them is. Mr. Helbig is.

The Chairman: The others are not?

Mr. Kole: That is correct. The others are not.

Commissioner Pike: So your argument must necessarily go beyond the NASD itself. This rule won't affect, let us say, the other two members, directly. This rule or philosophy or interpretation?

Mr. Kole: Anything that the NASD does, affects every nonmember security dealer. That would take me into the question of trade custom and usage. This is an attempt to modify definite and fixed trade custom and usage, and that cannot be done except by statute and, of course, the NASD enjoys no legislative powers in that direction.

That brings me to a much broader argument. I do not want to take your time with it, because it is not encompassed in your order. Personally, to get my point of view,

I believe the NASD is a nonlegal entity and I think that some days it will be so decided, but let me not burden you with that at this time.

I think it is clearly violative of a number of our constitutional provisions, it and its activities, but that is aside. I will be glad to answer any other questions.

Commissioner Healy: You said, Mr. Kole, you have made a great many references to the 5% matter.

Mr. Kole: Yes.

Commissioner Healy: But so far as I can recall, you have not said very much about the statement in the letter of October 25 reading as follows:

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

Mr. Kole: Well, I have not referred to that specifically because it is nothing new. As I pointed out to you in the Hallgarten vs. Lee case that is just what the Commission stood for. That is what it presented in its brief.

Commissioner Healy: Are you finding any particular fault with that? Are you asking us to do anything about that statement?

Mr. Kole: Without holding myself down to the phraseology, I stand for the principle that I am opposed to unconscionable profits.

Commissioner Healy: The fact of the matter is that the Maloney Act itself says that the rules of the Association must be so written as to provide safeguards against unreasonable profits or unreasonable rates of commission or other charges.

Mr. Kole: May I point out to you, it states, "The rules"—it does not say "the interpretation." That is another reason why that is a rule and not an interpretation, taking that very quotation that you have just given us. It doesn't say that the interpretation shall be so written. It says that the rules shall be so written.

Commissioner Healy: It says "The Rules of the Association shall be designed to prevent certain things."

Mr. Kole: That is right.

Commissioner Healy: Thank you.

Commissioner Pike: Mr. Maguire, are you ready to proceed?

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which has been raised before us is one as to whether or not the action of the National Association of Securities Dealers constitutes a rule and whether it was properly adopted. That is a question which we feel we could have decided without hearing anyone. We were asked to hear counsel and representatives of interested parties.

Among them is your Securities Dealers Committee. If you don't wish to be heard, I think you should say so, Mr. Kole.

Mr. Kole: The fact is that we do wish to be heard, and if we had not wished to be heard, we would not have, in the first instance, filed a petition.

The Chairman: I take it so.

Mr. Kole: But I do not think it is unreasonable to suggest by my application that any of those who participated in the promulgation of the rule ought, as a matter of right and justice, not to render any decisions or judgment on the philosophy or the questions that have been raised before this Commission. I believe that is a matter of common judgment. Judges frequently disqualify themselves for causes less than that because under those circumstances . . .

The Chairman: Do you wish to be heard, Mr. Kole?

Mr. Kole: Of course, I wish to be heard.

Does the Commission wish to make any statement on the point I have raised, besides what has already been said?

The Chairman: No.

Mr. Kole: Then I assume, from the failure of the Commission to make any statement, that the members have not in any way participated in the promulgation of that rule.

Now, during the course of the pendency of this matter, I have exchanged certain communications with the Commission. I refer respectively to my letters addressed to the Commission of June 5, 1944, and my letter of June 8, 1944, and the answering letters of the Commission dated respectively June 7 and June 9, 1944.

In that exchange of correspondence the Commission made certain rulings. I desire at this time to note my exception to the following rulings of the Commission; first, its failure to grant an adjournment; second, to the refusal of the Commission to appoint a Trial Examiner to take testimony in New York; third, its refusal to grant my application for 10 days after the hearing within which to file a brief; and fourth, the indication of the Commission or its ruling that it will hear only oral argument at this hearing and will not take testimony.

The Chairman: If you desire to renew your motion to file a brief at the close of the argument, we will entertain that.

Mr. Kole: Thank you, sir. You were gracious enough to so indicate in your letter at the time.

Now, then, I have just one more objection. In fact, it might be called two objections or exceptions that I desire to place upon the record; and that is to the form of the order that was entered by this Commission.

In the first place, in effect, the Commission's order creates a consolidation of a resolution and a letter that was sent to the Commission by the New York Securities Dealers Association and of our petition, the petition of the Securities Dealers Committee. That effects a partnership without agreement. The consolidation was not applied for either by the New York Security Dealers Association nor was it applied for by the Securities Dealers Committee.

That consolidation, I maintain, could not legally and properly be effected without notice and an opportunity to be heard.

You have saddled upon us, in effect, a partner. Their proceeding may have some bearing upon what we intended to do—a partner who is not agreed with us in all the claims that are made since their claim is limited, as I understand it, solely to the question of the failure of the National Association of Securities Dealers, to submit the rule to the franchise of its membership.

My other ground of objection to the order is that I conceive it to be the plain duty of the Commission, when issues are raised, to determine all of the issues, or if it has no jurisdiction as to some of them, to clearly so state.

Our petition, i.e., the petition of the Securities Dealers Committee, raises a number of issues. The Commission has abstracted one of those issues, that is "Rule or interpretation." My objection is that there is a failure to make the order broad enough to pass upon all of these, and my last objection is that in the order there is a recital of certain disclosures of the official files of the Securities and Exchange Commission.

The order commences: "The Commission's official files disclose that . . ." and then there are a certain number of recitals. That in effect is taking what we call in common legal parlance "judicial notice" of certain things. I am not concerned for the moment with the power of the Commission to take that judicial notice. But it is my contention that when such judicial notice is taken, the order must specify whether that is all the judicial notice that will be taken of the Commission's official files because I have no way of determining, after this hearing, what other judicial notice of matters the Commission will take, and I think the taking of such notice might be deemed improper in the absence of evidence or testimony.

Therefore, I object to the order and except to the form of it and to its contents in that respect.

Those are all the objections I have.

The Chairman: Your several objections will be noted.

Mr. Dunne, do you wish to proceed?

Oral Argument Of Frank J. Maguire

(Continued from page 2582)
has been put, not alone in the execution of the particular order which might be executed, but also in research, study, analysis, of the fundamental values involved in the security which is the subject of the transaction.

Now all of that, as we perceive it, is adequately covered by Rule 4 of the rules of Practice, and the change of Rule 1 is entirely unnecessary.

The fundamental purpose of the rules of fair practice ought to be the protection of the investing public. That purpose is not served by so limiting the dealer's livelihood or the limits within which he may attempt to eke out a livelihood, as to make it economically impossible for him, adequately to examine, appraise and service his customers' investments, properly to advise those who seek his counsel. Emphasis on price anyway is a dangerous guide. It tends to neglect intrinsic values. It may be enough for today's transaction of the in and out speculator, but it is not enough for the investor, nor is it enough for the investment banker who serves him. Both of them have need for, and it is the dealer's function to seek out and furnish, information as to those more important elements of real value, the character and capacity of management, long-time earnings prospects, and things of those kinds; research in advance and continuous contact with an investment thereafter is very frequently necessary, as we all know.

In such activity, over a period of years, they cannot be compensated for on any arithmetical or arbitrary percentage rule of spread.

In the case of my clients, there come to mind four cases, two of them covering a spread of 12 years, one covering a spread of 10 years, and the fourth a spread of eight.

Two of them involve a participation in reorganization plans, representation in the management; in fact, the actual furnishing of top management.

All of them have resulted in successful business enterprises. All of them have resulted, too, in profitable investments by the firm's customers. It no doubt is true that an examination of those rewards that the dealer reaped in those cases would result in approval of all of the actions that he has taken, but that ought not to be a matter of the grace of any Sovereign. The dealer ought not to be placed in a position where it is prima facie guilty and compelled to defend itself as in a quasi-criminal matter.

The rule on its merits is not good morality and it is not good economics.

Even if it were, the method of its adoption, we think, is fatal.

To begin with, the statute makes the registration and recognition of the NASD or any other such association dependent upon conformance with the statute. The Association by-laws provide for submission to the vote of the members of any rule or any amendment of any rule.

Now, Rule 1 is a high-sounding and proper rule to which no reputable dealer, in fact to which no right-thinking or honest citizen, could possibly have any objection.

That rule has been adopted and properly adopted.

Now, the Oct. 25, 1943, interpretation is questionable. It refers only to current market price. It does not weigh other factors, equally important.

The Nov. 9, 1943 interpretation, if not a rule, then it appears to be an interpretation of an interpretation. Now, neither of those was submitted to the members as has been so often stated here. Taken together, the two interpretations amount to a substantive change of the rules, and if rules can be so changed the Board of Governors can, by interpretations, so-called, add to or subtract from this or any other rule at will, and require members at their peril to conform with them.

Now, giving the Board of Governors entire credit for good faith and for an honest belief that this or any other change is in the interests of the investing public and of the Members of the Association whom they represent, the Board still had no such power. It assumed to exercise a power that did not exist. Its action should be treated as a nullity. The alternative to democratic processes in the adoption of the Rules of this Association seems to be, to vest the Board of Governors with plenary powers of regulation and to eliminate the membership's right to be heard.

Now, even if that would be a good idea, which we think it would not, the by-laws do not so provide.

The Rule, the basic rule of fair practice now reads differently from the form to which the membership has subscribed. The membership has not been heard on that change as the by-laws clearly provide.

The objects and purposes of the NASD, as stated in its certificate of incorporation, include, to promote self-discipline among members.

Now, it is not self-discipline if 85% of the members oppose a rule and have it forced upon them by interpretation which is a tortuous construction of a rule already adequate.

That 85% is not my figure. I am not responsible for it, nor is my client. You gentlemen have no doubt seen, as I have, that figure published.

That is why I say, if it is true that 85% of the members oppose it, it is not self-discipline.

Now, the by-laws, in Article VII, Section 1, require the Board of Governors to submit forthwith to members for their vote, any rules or amendments, and I emphasize the words "or amendments," whether called by that name or called interpretation or called anything else. Anything which changes the import of a rule is in practical effect an amendment, and it should be submitted.

The rule, as it reads after that amendment, it a matter on which the members' franchise should be exercised, and that has not been done.

In the exchange of letters which has been referred to previously in these proceedings by Mr. Dunne and by Mr. Kole, I sense a willingness to retreat in part from the compelling nature of the Rule.

The Chairman: Are you referring to those letters of May and June of this year?

Mr. Maguire: I am.

The Chairman: Between Mr. Fish and Mr. Chapman?

Mr. Maguire: Yes sir.

Here we have an interpretation of an interpretation of a Rule.

Now, I suggest that it is entirely too late for retreat. Either the enactment is valid or it is not, and we think it is not.

We think that brings us to the Commission's jurisdiction and function in the matter which I say, as has been stated before, is to consider this matter, to conclude that the rule is and should be declared a nullity. It not only has back of it no good economics or good morality, it does not have good law back of it either.

It seems to me to be the plain duty of this Commission to order that the rule or its interpretation, by whatever name it may be called, that that order be abrogated and abrogated forthwith.

I would like the privilege also of filing a brief, if I may, Mr. Chairman, and for my purposes, the two weeks that you have already granted Mr. Kole would be, I think, adequate.

The Chairman: I think that we will extend that privilege to all persons appearing.

NASD Attitude

Association's Counsel Asks Permission To File Brief "If We Should Find It Necessary Or Would Like" To Do So. Original Request Denied Owing To Objection Voiced By Edward A. Kole, Securities Dealers Committee Counsel. SEC Chairman Ganson Purcell Finally Granted All Interested Parties In Attendance Two Weeks In Which To File Briefs, Which Are To Be Exchanged, And An Additional Week For Making Reply.

After Attorney Frank J. Maguire had completed his oral argument, SEC Chairman Ganson Purcell inquired if anybody else desired to be heard on the subject matter of the hearing. Thereupon, Stephen C. Thayer of Baker, Hostetler & Patterson of Cleveland, Ohio, Counsel for the National Association of Securities Dealers, Inc., addressed the panel:

Mr. Thayer: My name is Stephen C. Thayer of Baker, Hostetler and Patterson, Cleveland, Ohio, counsel for the National Association of Securities Dealers, Inc.

Mr. Chairman, if, after reading the transcript and examining the briefs to be filed by Mr. Kole and Mr. Maguire, we should find it necessary or would like to file a brief, we would like to have permission to file a brief two weeks after the briefs of Mr. Kole and Mr. Maguire are filed.

Mr. Kole: May I suggest that if any briefs are filed, they be exchange briefs? I think the proper procedure would be to give all parties two weeks and have them file exchange briefs instead of extending the time for a reply brief and then making it necessary for a further extension to reply to the reply brief.

Mr. Thayer: We would like to have an idea of what the arguments are that are going to be advanced.

Mr. Kole: We have advanced them here.

The Chairman: We will allow all parties interested, appearing here, two weeks in which to file briefs. They will be exchanged at that time.

Mr. Kole: Thank you.

The Chairman: After that, there will be an additional period allowed of one week, should any of the parties or persons appearing wish to reply to any of the briefs.

Commissioner McConnaughey is necessarily absent from the City today. Unless there is some objection, we would like to have him participate in the determination of this matter, on the understanding, of course, that he read the transcript of this argument, and the briefs filed subsequent thereto.

Is there any objection?

Mr. Kole: I have no objection upon condition that I do not waive my original objection to the panel, on the grounds stated by me originally. With that one proviso, I have no objection.

Commissioner Pike: I think Commissioner McConnaughey is the one that it would not apply to, because he was not on the Commission until January.

Mr. Kole: I hope you are not telling me that it applies to the other four members of the Commission.

Commissioner Pike: It could not possibly apply to him.

The Chairman: There being no further argument, the matter will be taken under consideration.

(Whereupon, at 12:10 o'clock p.m. the oral argument in the above-entitled matter was CLOSED.)

Canadian Securities

(Continued from page 2599)

Ontario and Quebec, which provinces have hitherto provided the main opposition to this measure, the menace to themselves of the increasing growth of the C. C. F. in the western provinces?

Undoubtedly the threat to the Liberal government is now plain even to the most apathetic, and Mr. King now has his cue to go to the country on a vital issue. The implication of the Sirois Report would be tantamount to clarifying the constitution of Canada, would rectify the grievances of the West and bring back into the fold the dissident Liberals who have recently voted C. C. F. in protest, and would enable the western provinces, the Dominion's greatest hope for the future, to enter the post-war period with the backing of the Federal Government for the full development of the great resources of this section of the country.

The more one studies the complex factors that make up the Canadian political situation, the more it appears likely that such a step on the part of the Liberal government would be successful, and in any case, it would jeopardize the C. C. F. movement throughout the country. Canada obviously has not been immune to the effects of a world-wide political swing to the left, but conflicting elements in the situation, notably the traditionally conservative province of Quebec with its 65 seats in the legislature, guaranteed both by the Quebec Act of 1774 and the B. N. A. Act of 1867, will prevent any extreme movement in this direction.

Moreover, Mr. King, possibly the nearest to the left in the Liberal government, has already stolen much of the C. C. F. thunder, and his recent statement at the Dominion Premiers' Conference in London with regard to Canadian foreign policy received the acclamation of all parties throughout the Dominion, and a similar display of courageous statemanship in the domestic field can hardly fail to achieve the same result.

Before dismissing the question of the Saskatchewan election, it is interesting to note a few of the remarks made at a recent press conference by Mr. T. C. Douglas, Premier-Elect, of the province. The C. C. F. leader said the C. C. F. program would be worked out by stages, that his party did not believe in socialization for the sake of socialization, that there would be no "witch hunt" of civil servants and, as far as the civil service was concerned, the only test would be honesty and efficiency, and that the new government proposed to proceed at once in encouraging the establishment of new industries in Saskatchewan.

With regard to the C. C. F. party in general, it can be stated briefly that it represents broadly a farmer-labor movement which favors a cooperative system of industrial development, but would leave a large measure of manufacturing in private hands. Mr. M. J. Coldwell, the C. C. F. national leader, described the C. C. F. as analogous in character to the British progressive labor movements.

Turning to the market for the past week, there was again little to record. Activity in the external bonds was at a minimum and prices were slightly lower generally. There was also a decrease in turnover in the internal issues and the Canadian dollar in the "free" market declined to 9¾% discount. This weakening of the rate can be probably ascribed to the natural reaction following the large speculative purchases at 9⅛%, at which level exchange could be freely obtained from official sources. Furthermore, hopes of an imminent change in the parity based on unusual delay in the bringing down of the Canadian budget and the pending Bretton Woods monetary conference have received little substantiation.

During the course of the Fifth Victory Loan it is unlikely that there will be any change in the present apathetic state of the market, but it will not be surprising if the time is not far distant when constructive political developments within the Dominion will lead eventually to a greater degree of balance between the various sections of the country, whereby the western provincial economy will be immeasurably strengthened.

DIVIDEND NOTICES

acf

AMERICAN CAR AND FOUNDRY COMPANY

30 CHURCH STREET NEW YORK, N. Y.

There has been declared, out of the earnings of the fiscal year ended April 30, 1944, a dividend of one and three-quarters per cent (1¾%) on the preferred capital stock of this Company, payable July 1, 1944 to the holders of record of said stock at the close of business June 26, 1944.

Transfer books will not be closed. Checks will be mailed by Guaranty Trust Company of New York.

June 15, 1944

CHARLES J. HARDY, *Chairman*
HOWARD C. WICK, *Secretary*

THE YALE & TOWNE MFG. CO.

On June 20, 1944, a dividend No. 218 of fifteen cents (15c) per share was declared by the Board of Directors out of past earnings, payable October 2, 1944, to stockholders of record at the close of business September 8, 1944.

F. DUNNING, Secretary.

Attractive Situation

H. H. Robertson Company offers an attractive situation (the issue is tax free in Pennsylvania), according to an interesting memorandum being distributed by Buckley Brothers, 1529 Walnut St., Philadelphia, Pa., members of the New York and Philadelphia Stock Exchanges. Copies of this memorandum may be had upon request from Buckley Brothers.

Now A Partnership

LOS ANGELES, CALIF.—Barbour, Smith & Co., 210 West Seventh St., formerly a corporation, is now a partnership. Partners are Carl M. Purcell and Brian F. Neary, general partners, and Jack M. Barbour, limited partner. All were officers of the predecessor corporation. Mr. Barbour is now a Lieutenant in the U. S. Navy.

N. Y. Finance Institute Lecture On S. America

On June 26 C. Lester Horn will speak on the East Coast countries of South America, at the New York Institute of Finance. The lecture, principally on Argentina and Brazil, will be accompanied by motion pictures. Reservations should be telephoned to the Institute at Hanover 2-5830 (admission 50 cents).

Appointed To Post By Presbyterian Hospital


L. B. Henriques

Laurence B. Henriques has been appointed Assistant Secretary and Treasurer of the Presbyterian Hospital in the City of New York, effective July 1. Mr. Henriques, connected with Kidder, Peabody & Co., for the past 24 years, has been assistant manager of their uptown New York office since 1931.

Supreme Court Decision Against Fire Ins. Cos.

Huff, Geyer & Hecht, 67 Wall Street, New York City, have issued a most interesting booklet on the Supreme Court decision against the fire insurance companies, discussing certain benefits which may result from the present controversy and the outlook for insurance stocks. Copies of this booklet may be obtained upon request from Huff, Geyer & Hecht.

Attractive Situation

Submarine Signal Company, a pioneer in the development of sound-detecting equipment, offers an interesting situation according to a memorandum issued by Hornblower & Weeks, 60 Congress St., Boston, Mass., members of the New York Stock Exchange and other leading national exchanges. Copies of this memorandum may be had upon request from Hornblower & Weeks.

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, Queensborough Gas & Electric Co. 6% preferred offers attractive possibilities. Copies of this interesting circular may be had from Ira Haupt & Co. upon request.

Will Rail Credit Be Restored?

(Continued from page 2579)

tween the extremes, I shall endeavor to explain.

In the first place, what we should attempt to keep in mind is a definition of "credit." Should we consider credit as solely the market's evaluation of a road's bonds in terms of price? Should we consider a road's credit definitely restored if its bonds sell in the neighborhood of par? To both these questions, I suppose the answer normally would be "yes." But the rail situation for years has hardly been what could be called normal, either in the 1930's or in the warring '40's. Further, it should be remembered that in 1936 and 1937, prices of junior railroad bonds attained levels which superficially might have given the impression of fully restored credit. Yet if one took the slightest trouble to examine earnings records and balance sheets, it would have been exceedingly difficult, if not impossible, to conclude that rail credit had been restored. In the final analysis, prices then reflected nothing more than hope of further improvement in earnings.

No we are faced with a situation which statistically is far different from that prevailing seven years ago. Fixed charges are being earned by comfortable to wide margins, treasuries are bulging, and debt is being retired rapidly. Yet enough railroad bonds, particularly among the junior issues which really furnish an index of credit, are selling far enough below par to indicate lingering doubt over the financial future for the carriers. Even if over the months ahead, these junior issues were to recover further, I do not think we would be justified in assuming that rail credit had been restored. It would be well to bear in mind that current strength for many issues reflects company buying, withdrawal of offerings, a scarcity of other forms of bond investments providing adequate returns, and purchases by speculators who are counting on selling at higher prices because of these aforesaid influences. These form an unstable background for the price structure. Growing confidence in the position of the railroads is of course an important factor, too, in the price improvement, but it is hardly as dynamic an influence as the other considerations. Retirement through company purchases and redemptions of around $1 billion of mortgage debt in the last two years, and prospective withdrawal of another $400 to $500 million this year, is bound to absorb the floating supply of the most cheaply offered bonds. It is also reasonably certain that when such bonds as the Chicago, Burlington & Quincy, Illinois division 3½s and 4s and Republic Steel 4½s are refinanced partly or entirely through private placements, income hungry bondholders who are being paid off turn to rails at present. Thus we are faced at the moment with the spectacle of very much of a one-way street for rail bond prices.

True restoration of rail credit is going to require a sounder basis than merely near-term price recovery. So long as such diametrically opposite views exist over the post-war outlook as prevail at present, there can be no true restoration of credit. Credit is something that takes years to establish and it is a safe assumption that war earnings, as such, will not restore it. Credit presumes an ability to meet interest even in bad times, which is a standing the railroads have not reattained. Moreover, the real test of credit standing is the ability to sell securities for raising new money, and at the present time there are few roads so situated. So long as the price structure for railroad bonds depends as much as it does now on a program of debt reduction, there can be no genuine confidence in railroad credit. Now, I grant this attitude may be drawing too fine a distinction of credit, especially where the feeling is strong that at a certain level, the debt would be supportable. However, let me emphasize that this theory in effect questions the existence of dynamic earning power and provides a dubious foundation for credit.

On the basis of my conviction as to what constitutes credit, I cannot help but conclude that railroad credit has not yet been restored. Now the next logical point is the question whether it is likely to be. Restoration of credit is not so much a matter of reduction in debt and fixed charges as an abiding confidence that whatever the level of fixed charges, they will be earned by a comfortable margin with a high degree of regularity as far ahead as can be seen. Also there must be an abiding confidence that if a few bad years occur, recovery of earnings will follow and financial position will assure servicing of debt in the interim. If such standards are adopted—and I cannot see how savings bankers, custodians of the people's hard earned resources, can adopt any other—restoration of credit at best is not a likely development of the immediate future. Credit, I want to emphasize, has to be based on past records. It cannot be based on hope for the future. That is solely a field for speculation. Any forecast as to whether credit is going to be restored inevitably must be tinged with speculation, for it can be supported only with one's personal view of what the future holds.

On this question of whether rail credit will be restored, let me repeat it is not the level of fixed charges that is the sole controlling factor. It matters comparatively little whether fixed charges are $600 million or $400 million. If we have to think primarily in terms of how much debt and fixed charges have been reduced, we should be cognizant of our negative approach to the subject. If it is necessary to rely upon reduction in fixed charges to preserve some semblance of credit, it can only be because of fear that earnings available for fixed charges may decline to successively lower levels. I do not mean to imply that railroad fixed charges have not been too high in the past. I think imprudent financing unquestionably has been a contributing factor in the decline in railroad credit. However, even if we eliminated all the clearly imprudent financing, fixed charges probably would have been only about $100 million less than they were. I am sure this would not greatly have altered the present standing of railroad credit. Now through debt retirement and reorganization, fixed charges may be lowered to around $400 million. There is no question that simply the reduction in charges is going to help railroad credit psychologically. From a pure investment point of view, such psychological improvement can be delusive if the main trend of earnings is downward.

In other words, what we must examine in order to reach a conclusion as to whether rail credit will be restored is the longer range outlook for revenues and expenses. Revenues are the product of units of traffic handled, multiplied by the rates received, while expenses consist mainly of wages and materials. How many units of traffic the railroads will handle depends on business volume and the extent of competition, while rates will be determined by value of service, cost of service and competitive influences.

The 1930's constituted an era of depression and this gave rise to a rather general belief that conditions would remain unfavorable, a conviction heightened by the length of the depression. In addition to the implication of a lower volume of available traffic, the railroads were faced with greatly increased competition. The depression, with millions of men out of work, provided an ideal setting for growth of the truck and bus industries for it was possible to hire men at comparatively low wages and for long hours. Furthermore, highway construction as a pump-priming and relief measure provided vastly improved facilities for speedier and lower cost service. Waterway competition likewise increased because of huge government expenditures for river and harbor improvements.

Largely because of this increased competition, the share of potential freight traffic handled by the railroads declined to around 78% in 1938, taking 1928 as 100. To some extent, the decline in the proportion handled by rails in the earlier 1930's no doubt was exaggerated by the relatively greater contraction in heavy industries as against the consumer goods lines. Much more important than the actual loss of traffic to competitors was the pressure on rates in order to retain traffic. From 1929 to 1940, the reduction in freight rates amounted to 1.31 mills per ton-mile which applied to 1940 traffic meant a loss of almost $500 millions in revenues. Extent of the diversion of passenger traffic is not so readily measurable, but in any event revenues in 1940 would have been approximately $250 million greater had 1929 average rates still been in effect. In other words, in simply a moderately satisfactory traffic year such as 1940, rate reductions alone accounted for a loss of around $750 million in revenues, compared with roughly $4.3 billion actually received.

In considering the post-war outlook it is worth noting that even before the outbreak of war, the railroads pretty much were holding their own with respect to the proportion of available freight traffic handled. Proportion of available traffic handled remained quite stable at around 78% to 80% during the five years 1934-1938 and then during the war rose to an estimated 85% or better because of diversion to the rails. While the rails no doubt will lose much of this purely war improvement, their post-war competitive position seems likely to be better than in the immediate pre-war years. Truckers have been feeling the effects of increased regulation and rising costs to even a greater degree than the rails and would be pleased to see the rails obtain higher rates in order to preserve their relative competitive positions. Recently the director of one of the leading roads of the country, which at the same time operates one of the most important trucking systems, told me that the trucking operations of his company did not show a profit, even though he felt that operations were conducted efficiently. He added that in view of this, he was quite convinced the trucking business must be in a bad way. This of course is very much in line with a number of published statements concerning the unsatisfactory financial results of the truckers. In the post-war period, it seems almost certain the rails will either obtain higher average rates or they will recapture business from the trucks. Higher average rates could materialize, not necessarily from a general rate increase, but simply through allowing reduced competitive rates to return to authorized limits. It has been estimated that such action could increase revenues by around $300 million annually if all so called depressed rates were allowed to expire. In any event, whether the rails manage to restore rates or regain traffic, they stand to benefit. The role of the truck in the transportation economy may well contract to short haul operations, where it is naturally fitted and generally superior to the railroad. How the rails will make out competitively with water carriers is a good deal more obscure, particularly with respect to coastwise and intercoastal shipping. Placing of most water competition under the ICC in accordance with the Transportation Act of 1940 is likely to be helpful to the rails. However, the huge number of ocean going vessels that will be available after the war seems certain to intensify coastwise and intercoastal shipping.

As a factor in freight traffic, the airplane is not likely to be important. Despite all the glowing comments made about air cargo, the difference in cost between air and rail is so tremendous, the airplane almost certainly will not be much of a competitor. Recently the base rate for air express was reduced from 80 cents per ton-mile to 70 cents, which is a far cry from the railroad average of less than one cent. Even if air rates could be brought down to as little as 10 cents to 15 cents, as some people in the industry believe possible, only a small amount of high rated freight would be subject to diversion and even this might be retained with moderate rate reductions. In general, the only freight likely to move by air will be that where speed is vitally important. That is likely to be a factor only with respect to a minute part of the traffic. Where the airplane is of constantly growing importance as a competitor is in the passenger business and in handling of mail. Ultimately the airplane may well take a very substantial part of first class passenger traffic and perhaps as much as one-half of the mail revenues of $100 million annually.

In summing up the competitive situation, I think it is safe to say it is much better than is generally realized, particularly in the very important freight end of the business. If this proves to be the case, it will go a long way toward reestablishing rail credit, for the bugaboo of competition has been a contributing factor toward loss of credit.

On the subject of rates, which are closely tied in with competition, I believe the downward trend has about run its course. From here on, I look for stability with moderate firming tendencies as competitive rates are raised to or closer to permitted maxima. General rate increases are unlikely unless earnings are at a low ebb. Since general rate increases simply will foster more intensive competition, the railroads will be better off if they do not have to seek higher charges. Rate increases may be likened to roses in that they appear beautiful and smell sweet, but are not without thorns. However, if rate increases are necessary, the ICC seems to have shown a disposition to grant them. The Commission of course now has an entirely new obligation to maintain an adequate rate structure in order to protect the capitalization it has created in the reorganization of railroads. While the outlook appears favorable for stable average rates, the rate situation is far from tranquil. The southeastern states have been waging an intensive fight for years to obtain lower class rates, rate committees have been subject to much criticism, and the Board of Transport Investigation and Research in its recent report to Congress called the rate structure a crazy-quilt of prejudices, favoritism and charging what the traffic would bear. From this furore, some changes may come, most likely lowering of southern class rates, if anything. Even this probably would not be too serious, for it could be offset by moderately higher commodity rates. The main trouble with southern class rates is simply a lack of understanding of the basic principles of rate making that low rates be given on products moving in large quantities and higher rates be applied to small quantity products. In the South, this principle has made for low commodity rates and comparatively higher class rates.

With the competitive situation on the mend and the rate structure likely to be reasonably stable or firmer, the major determinant of rail revenues will be the level of business. The outlook for business impresses me as being most encouraging for at least several years after the war. I know there are many people skeptical of the post-war business outlook because of fears of vast unemployment. They believe mustering out of our armed forces and discharging of war workers will cause millions to be jobless and bring new social problems. Admittedly there may be some dislocation for a short time following cessation of the war, but in general I consider these fears unwarranted because of the enormous pent-up demand for peace-time goods and services of all sorts, plus the financial ability to acquire them. Forecasts have been made that in the post-war era national income will amount anywhere from $85 billion to $120 billion. Pent-up demand holds forth definite promise of at least this lower level being reached. On the basis that railroad revenues consistently amount to around 6% or more of national income, gross would be in the neighborhood of $5 billion. From a speculative point of view, prospective gross of $5 billion or more for several post-war years is intriguing. Unless the country again is gripped by a catastrophic depression such as marked the 1930's, gross revenues of about $5 billion conceivably could be the "norm" in future years. Supporting this view is population growth and the physical requirements of reasonable standards of living.

Since revenues hold promise of attaining satisfactory levels, the crux of the earnings situation obviously lies in control over expenses. Here there can be employed little more than guesswork and informed judgment. By all odds the most important factor affecting earnings is the amount of wages paid. It is not so much the level of wage rates that is significant as the total that has to be paid in order to move the trains and keep the property in sound condition. The amount of labor required is determined by efficiency of operation as well as by the money available for work of this character. At this point it might be well to give consideration to the much publicized adjustment of 1940 earnings as computed by the Bureau of Transport Economics and statistics of the ICC in the May issue of "Monthly Comment on Transportation Statistics." In this report, the Bureau adjusted 1940 earnings results to prevailing rates and costs and concluded that net operating income would have amounted to only $32 million and produced a net deficit of $446 million after fixed charges, compared with actual net operating income of $682 million and net income of $189 million. The principal factor accounting for the much lower earnings, according to the ICC calculation would have been the increased wage rates of the last few years. These increases, it is estimated, would have added $493 million to operating expenses, and higher costs for fuel and materials would have added another $185 million. These calculations make the obvious error of failing to take into account the remarkable improvement in efficiency and methods of operation that has taken place in the last three and one-half years. After all, it has only been in the last decade or so that economy of operation has been practiced extensively and in the last few years railroad management has become increasingly alert to developments promoting efficiency and cutting labor costs per unit of operation.

It is of course exceedingly difficult to measure specific changes in operating costs, but let me cite some examples of the kind of thing that may be taken as indicative of the railroads' ability to keep costs within bounds. Only a few months ago, the Bureau of Transport Economics called attention to the fact that the percentage of switching hours performed by Diesel switchers had increased to 19%, compared with only around 10% in 1940. Since the operating economies achieved in use of Diesel switchers runs around 40%, the benefits of the trend toward Dieselization are obviously important. Diesels also are coming to the fore in road operation, for experience with them is revealing an exceptionally high degree of efficiency with corresponding operating savings. These 5,400 h. p. road Diesels are costly jobs, running around $500,000, but the operating economies are understood to be about $200,000, which fully justifies the high initial cost. Modern steam locomotives also are adding to the efficiency of railroad operation, with recent acquisitions accounting for between three and four times the average freight locomotive runs. Purchase of power machines and tools to displace labor and increase efficiency also has been continuing apace. Many roads still did not use such equipment extensively in 1940, but the trend has been toward constantly greater employment of these devices. Last year purchases of power machines and tools amounted to $12,300,000, compared with $7¼ million in 1940, and brought the total investment of this nature up to $120 million, of which $33 million has been expended in the last three years. Improvements in the last few years in yard facilities and prospective maintenance savings on new cars and locomotives open entirely new avenues to reduction of expenses. So also does the progress in metallurgy and the use of lighter materials, as for instance the construction of freight cars weighing five tons less than formerly. I think, too, it is an interesting commentary on the new alertness of railroad management that radio and inductive control devices are being installed, with extensive application of radar also in the offing. These developments hold exceedingly interesting prospects for cutting costs of operation insofar as they will expedite train movement, reduce labor requirements and increase safety. I think it is conservative to estimate that increased efficiency will enable the railroads to handle gross of $5 billion with no more than 1 million employees, which would represent a reduction of about 10% from the number required to handle this volume of traffic in 1941.

Although costs of operation undoubtedly will be high in the post-war era, I am confident that given sufficient volume of traffic, —which I think the railroads will have—earnings will be favorable. On gross of $5 billion, I anticipate earnings available for fixed charges and Federal income taxes could easily average in excess of $1 billion. How much over this level they might run will depend, I think, on the amount of new rolling stock acquired. For some time I have felt that the hard usage to which cars and locomotives have been put by the heavy war traffic is a blessing in disguise for the railroads. When the war ends, repair of much old equipment will be uneconomic and large amounts of new equipment almost certainly will have to be acquired. On this new equipment, which the railroads will be able to buy out of their large cash holdings or through sale of low rate equipment trust obligations, maintenance expenditures will be extremely low for the first five years.

From my analysis of prospective revenues and expenses, I can not help but feel that the credit of the railroads will be restored. But since I have indicated before that restoration of credit requires a historic record, not simply a projection of earnings estimates, I anticipate that true restoration of credit can not materialize until after the war. From a shorter term point of view, it is entirely possible that railroad earnings will be poor immediately after the war if we have to go through a transition period. Such a development might easily shake the growing investor confidence that has accounted to a considerable degree for the prevailing higher bond prices. Of course, carry-back provisions of the tax laws will be helpful if they are not repealed.

Now let me sum up briefly the views I have set forth thus far. In the first place, I made the statement that rail credit has not been reestablished to date. In the second place, I have concluded that the outlook for restoration of credit is favorable, notwithstanding the greatly increased costs of recent years.

If we accept the thesis that rail credit has not been restored, but probably will be over a period of years, the question that naturally presents itself is what policy should savings banks follow with respect to rail bonds. On this matter, I believe the most important factor to bear in mind is that while the outlook for restoration of railroad credit is favorable, it has not been achieved. To my way of thinking, it is not within the province of savings banks to speculate on whether rail credit will be restored. Quite possibly the optimistic point of view I hold concerning the future of the railroads will not materialize because of influences that can not be appraised properly at this time or which do not yet exist. In other words, I want to emphasize that this is a good time to be cautious and to re-examine bond investment policy with a critical eye.

Investment policy always consists of two segments, the first being the problem of new investment and the second being the problem of what to do with existing commitments. Let me discuss the second of these first, because it is a subject in which I know you are vitally interested. Having examined your legal list, I am of the opinion that you need not be concerned over any of your eligible rails. Most of them are of top grade and the comparatively few not in this category without doubt are sound credits. Your problem is mainly one of what to do with issues no longer eligible. So long as you are not required arbitrarily to dispose of all such issues, you are in the position of being able to exercise a good deal of discrimination. Certain ineligible bonds clearly are sufficiently sound, from either a mortgage or credit position, that there is no compelling reason to dispose of them. All other issues, however, comprising junior liens and even first mortgage obligations which have had an unstable price history and are not cushioned by substantial amounts of junior mortgage bonds should be earmarked for sale. In disposing of such securities, timing of course is not to be ignored. It would have been unwise to press sale when they might have been selling at enormous discounts from par value, but where they are selling at only moderate discounts at present, it would be equally unwise to continue retention. Something more of a problem is presented in reaching a decision as to when to liquidate issues still selling at considerable discounts. It is only human to try to obtain the best possible price, but if as a result of setting too high a figure, the opportunity to sell at even a fair price may be missed completely. For those unwilling to dispose of lower medium grade bonds around prevailing prices, at least some sort of compromise policy, such as scale liquidation or arbitrary sales each month, would be in order.

If lower grade rail bonds should decline sharply when the war ends and then not recover because post-war rail earnings fail to come up to optimistic expectations, those who have failed to take advantage of the opportunity to liquidate may be subject to a good deal of criticism. To have missed the 1936-1937 opportunity reasonably could be condoned, but to miss a second opportunity would be difficult to explain. I want to reiterate that it is not the function of the savings bank to speculate on price when a satisfactory price can be obtained for a security possessing at best only dubious merit. Depositors, I am sure, do not expect their trustees to adopt anything but a conservative point of view. It took a great world war to bring railroad bond prices to their present levels and that is now entering its final stages. If post-war rail earnings are unsatisfactory, it is hard to see where the next impetus for price recovery could develop. The penalty for overstaying the market could be out of all proportion to possible further gain.

As for the problem of making new commitments, I have no doubt savings banks feel circumscribed by their legal lists, though I shall say for your Massachusetts legals, they provide some latitude for improving yield while restricting selections to sound credits. Your Clause 15c, permitting the addition of certain issues not meeting the statutory requirements, is sound in principle and is a measure I have favored for some time. I think many sound underlying issues which would not be in danger of scaling down, even in the event of reorganization, properly can be considered sound investments. The change in your law making new fixed interest reorganization bonds eligible investments in many instances is another enlightened step, for it gives banks an opportunity to invest in these situations years before they otherwise could. With few exceptions, the new first mortgage reorganiaztion issues are going to be so well protected by property values and probably also by earning power that the risk factor is virtually non-existent.

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.

Interesting Speculation

Philadelphia & Reading Coal & Iron Co. is one of the most interesting speculative reorganizations according to a detailed memorandum on the situation prepared by Vilas & Hickey, 49 Wall Street, New York City, members of the New York Stock Exchange. Copies of this memorandum, discussing the profit potentialities of the old issues, and the possibilities for new securities may be had upon request from Vilas & Hickey.

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 and also a circular on Riverside Cement class A which the firm believes is an outstanding cement stock with a dividend arrearage.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 2583)

structure becomes top heavy, totters and falls.

* * *

The one good thing about the present market is the action of the leaders. Stocks like Chrysler, U. S. Steel, American Tel. & Tel. and du Pont are not public stocks. It takes real money and a lot of it to buy them. And the public with its eye cocked for get-rich-quick paper seldom touches the high priced issues. They'll talk about them instead.

* * *

The reason for the advance? Your answer is probably as good as the next fellow's. The successes after the invasion of Normandy had something to do with it. The inflation minded Congress also is partially responsible. In fact there are lots of things to which the current strength can be attributed. Unfortunately the reason is seldom of more than academic importance. And even if it were, it is paradoxical of the market that the same reasons seldom affect the market the same way twice.

* * *

What may be bullish under one set of circumstances can be bearish under another. The fact that huge supplies had been sent abroad for the past two years, stored in England in anticipation of D-day, are now being used up at a terrific rate, is bullish. At least it spells good news for the companies which manufacture the jeeps, tanks and other materiel. But if this same amount of war equipment is manufactured and not used, it becomes bearish. For this supply hangs as a threat over the heads of manufacturers. When the latter condition applies, it eventually means the closing down of plants and the economic cycle we call depression is on the way. A sudden ending of the war for example would be construed by the market as bearish by the above yardstick.

* * *

I realize such interpretations are cold blooded and cynical. But the fact remains that the market itself is cold blooded. It merely acts on what people in all walks of life think is about to happen. Those with the most money presumably have the better connections and are the first to know what is to happen and buy or sell accordingly. Their activity is registered on the tape and eventually other people interpret it and act. That is the history of all markets and this is no exception.

* * *

So far as specific advice is concerned there is no change on either the buying or selling side. Crane and National Gypsum act with the market and should be held. The stops (see last week's column) remain the same.

* * *

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.]

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.

Available On Request

Schenley Distillers Corporation have prepared an attractive booklet containing the first articles in the series they have been running in the "Financial Chronicle." Copies of this booklet may be had upon request by writing to Mark Merit, in care of Schenley Distillers Corporation, 350 Fifth Avenue, New York 1, N. Y.

Rails Offer Interest

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

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.

(Special to The Financial Chronicle)

BOSTON, MASS.—**Robert H. Warren** has joined the staff of **Huff, Geyer & Hecht**, 10 Post Office Square. In the past he was with Baldwin & Co.

(Special to The Financial Chronicle)

DETROIT, MICH.—**A. F. Weast** is now with **Mercier, McDowell & Dolphyn**, Buhl Building.

(Special to The Financial Chronicle)

DETROIT, MICH.—**Thomas F. Paddock**, previously with Baker, Simonds & Co. for many years, is now connected with **Merrill Lynch, Pierce, Fenner & Beane**, Buhl Building.

(Special to The Financial Chronicle)

LOS ANGELES, CAL.—**Charles W. Geisel** has been added to the staff of **Akin-Lambert Co.**, 639 South Spring St.

(Special to The Financial Chronicle)

LOS ANGELES, CAL.—**Charles W. Flesher** is now connected with **Bankamerica Company**, 650 So. Spring St.

(Special to The Financial Chronicle)

LOS ANGELES, CAL.—**H. J. O'Hanlon** has become affiliated with **G. Brashears & Co.**, 510 So. Spring St.

(Special to The Financial Chronicle)

LOS ANGELES, CAL.—**Howard H. Heintz**, formerly with R. H. Moulton & Co., is now with **Pacific Company of California**, 623 So. Hope St.

(Special to The Financial Chronicle)

MUSKEGON, MICH.—**John H. Bodine** has joined the staff of **Central Republic Co.**, 209 So. La Salle St., Chicago. Mr. Bodine was formerly with Peoples State Bank in Muskegon and prior thereto he was with Moore & Clayson and Humphries, Angstrom & Co.

(Special to The Financial Chronicle)

PORTLAND, ME.—**Byron L. Mitchell** is now connected with **H. M. Payson & Co.**, 93 Exchange St.

(Special to The Financial Chronicle)

SAN FRANCISCO, CAL.—**Louis Gregorin** and **Wilbur A. Reid** are now with **H. R. Baker & Co.**, Russ Building.

(Special to The Financial Chronicle)

SAN FRANCISCO, CAL.—**John J. Ford** has been added to the staff of **Greenwood-Raggio & Co.**, Russ Building.

(Special to The Financial Chronicle)

SAN FRANCISCO, CAL.—**Virginia Kreutz** has become associated with **Wood, Struthers & Co.**, Russ Building.

(Special to The Financial Chronicle)

SPOKANE, WASH.—**Levi F. Austin** is now with **Edwin Lavigne & Co.**, Radio Central Building.

Keynes On Int'l Monetary Fund

(Continued from page 2579)

Fourth, Lord Keynes cites as "one of the major improvements in the new plan" that a proper share of responsibility for maintaining equilibrium in world economic relations "is squarely placed on the creditor countries", which "will no longer be entitled to square the account by squeezing gold out of the rest of us." This, Keynes goes on to say, is a voluntary undertaking (by the USA), genuinely offered in the spirit of a good neighbor—"a tremendous extension of international cooperation to good ends."

Fifth, the voting power of the British Commonwealth and that of the USA are expected to be approximately equal. An assembly of all the member governments will retain a supervisory control of the Fund, which Keynes observes "is perhaps even a little better than appears." To reject this Fund, he told the House of Lords, would require "much more foolhardiness than is to be found in this wise, intuitive country," the United Kingdom.

Like Prime Minister Churchill, Lord Keynes has not "turned my back on all I have fought for." He has long maintained that "gold is a barbarous relic." This plan, far from being a step back toward the gold standard, "is the exact opposite of it," Keynes holds. Under it, the external value of a currency is made to conform to the internal value, which is governmentally controlled. Not only is a country free to change the gold parity of its currency unit by 10 percent, but the Fund must not withhold approval of changes in excess of 10 percent "if our domestic equilibrium requires it." The British, he states, "have already dethroned gold as the fixed standard of value."

On this proposed Fund Britain is counting heavily, Lord Keynes' speech makes clear, all the more so "if we gain less assistance from other measures than we now hope."

In closing, Lord Keynes paid tribute to the American Government and Federal Reserve Board representatives, "whose genuine and ready consideration for the difficulties of others, and whose idealistic and unflagging pursuit of a better international order made possible so great a measure of agreement."

E. M. Jennings Pres. Of ABA Summer Group

NEW BRUNSWICK, N. J.—Edward Morton Jennings, Jr., of the First National Bank of Boston, was elected President of the Senior Class of 1944 of the Graduate School of Banking, which is now holdings its annual summer session at Rutgers University here. The school is conducted by the American Bankers Association. Frederic A. Potts, Philadelphia National Bank, Philadelphia, Pa., was elected Class Secretary. The class officers are permanent and do not change from year to year. 472 bank officers from 37 States are in attendance at the summer session here and 124 constitute the class which will be graduated Friday night, June 30. The school offers a two-year course in advanced study for bank officers and requires attendance at summer sessions of two weeks each at Rutgers for three successive summers.

Insurance Is Commerce

White & Company, Mississippi Valley Trust Building, St. Louis, Mo., have issued an interesting discussion of the insurance business, which the Supreme Court has ruled to be "commerce," and the possible effects of the Bailey-Walters bills now before Congress. Copies of this discussion may be had from White & Company upon request.

Now King & Company

GRAND RAPIDS, MICH.—The firm name of King, Wulf & Co. has been changed to King & Company, it is announced. The firm will continue to maintain its offices in the Michigan National Bank Building.

Municipal News & Notes

A number of Florida municipalities have under consideration, or are in the process of completing, plans for refunding outstanding bonds, either in whole or in part. The list includes Miami, St. Petersburg, Sarasota, St. Augustine, West Palm Beach, Fort Pierce, Cocoa, as well as a considerable number of less well known market names. One of the more significant factors in these operations is the degree of success usually achieved in securing creditor approval. This is additionally impressive as the plans require the surrender of rather high interest paying obligations for new refundings bearing coupons more nearly in line with current market conditions.

It is true, of course, that even after such revision, the yield to investors is greater than that attainable on an important segment of municipals generally. However, the resultant savings in carrying charges to the debtors is by no means unimportant. Moreover, their ability to command more favorable terms is also indicative of the greatly improved attitude of investors towards Florida municipals.

This contrasts sharply with the circumstances which prevailed several years ago, when much of the debt now being refinanced, through exercise of the call option, was contracted. At that time, refunding was usually of the stress variety as many communities were in rather poor financial condition. In order to cure defaults, or to guard against such eventuality, it was mandatory that taxing units revamp their debt structures in order to bring debt service within capacity to pay. This was made possible through the cooperative efforts of investment banking and dealer firms and creditors. The latter, in some cases, were obliged to grant concessions in the form of a reduction in interest rates.

The resulting set-ups, however, also proved advantageous to creditors, particularly with respect to enhancement marketwise in the value of their investments. The revamped debt structure, of course, made it possible for the taxing unit to resume interest payments promptly.

While war conditions have materially aided the State's local economy, other factors have contributed to the improvement in Florida municipals marketwise. Not the least of these, it seems, is the apparent determination of municipal officals in general to maintain the credit position of their communities and to prevent a repetition of the fiscal difficulties experienced in the past.

However, it would be difficult to assess the extent of the improvement resulting from the adoption by the State government of a workable solution of the local road debt problem. This was accomplished through the medium of the gasoline tax amendment to the State Constitution, which became effective Jan. 1, 1943, as Section 16 of Article IX. Under this statute, proceeds of 2 cents of the State tax gasoline and allied products is irrevocably pledged for 50 years exclusively for the payment of county road and bridge district debt which was outstanding July 1, 1931, or refunding issues thereof. It also gives the State Board of Administration complete control and responsibility for handling and retiring the debt. The amendment includes several provisions designed to facilitate the Board's task and to assure the success of the program. One of them prohibits taxing units from issuing any new bonds eligible for State aid. While refundings may be accomplished, this can only be done by the Administration Board itself.

The practical effect of this provision is to guarantee that gas tax money, also ad valorem taxes, if necessary, will be applied to the payment of debt service, and eliminates the possibility of refunding being employed as a vehicle of expediency.

While the gas tax amendment has naturally stabilized the market for road and bridge indebtedness subject to its provisions, it has also had a beneficial effect on the various other types of local bonds. This is not to say, of course, that the amendment is the answer to the debt problems of the State's local subdivisions. On the contrary, there are still a number of units whose financial structures are far from being sound and not likely to be corrected in the immediate future.

It is a fact, however, that the amendment provided the mechanism for the correction of what probably constituted the most perplexing phase of the Florida municipal debt problem, as was noted by A. B. Morrison & Co., Miami, in the firm's current news bulletin. This alone is no small achievement and much credit for its attainment, incidentally, goes to Governor Spessard B. Holland and the various other State officials.

Commenting recently on the activities of the State Board of Administration, the Clyde C. Pierce Corp. of Jacksonville noted as follows:

In a decision handed down in the case of the State vs. Polk County Road District No. 9, the Florida Supreme Court held that the amendment (1) makes the State Board the counties' fiscal agent, (2) vests the State Board with the sole authority to liquidate bonds as they fall due or to issue refunding bonds at its discretion, (3) completely withdraws all such powers from the counties and (4) imposes on the counties the duty to levy such ad valorem taxes as the State Board may deem necessary to service the bonds, if the State Board estimates that gasoline tax funds need to be supplemented.

Replying to a recent inquiry, the Attorney for the State Board of Administration stated "the Board expects to meet all principal and interest maturities, countywide and district, by payment from funds on hand or in prospect, or by refunding of principal, and directing a levy of ad valorem taxes wherever necessary to pay interest, the settled policy being not to refund interest and thereby increase principal debt. Various district requirements are such as to require refunding of principal from time to time, although the main debt is being reduced gradually, while interest payments are kept current. No ad valorem tax levy is contemplated at this time, nor in the future, unless there should be a reduction in gasoline tax funds below our present estimates for the years 1944 and 1945, which are 30% below normal and then only to pay interest as stated.

Further Slash In Bear Mountain Bridge Debt Expected

The New York State Bridge Authority reported a net profit for the fiscal year ended March 31 last of $316,675, according to press accounts of its annual report, issued recently.

Robert Hoe of Poughkeepsie, Chairman of the Authority, is said to have indicated that it is likely that a further substantial reduction in the bridge agency's outstanding funded debt will be made this year.

The outstanding debt now totals $1,700,000 and represents bonds due on the Bear Mountain structure, originally issued in the amount of $2,300. The total was reduced as a result of retirements of $300,000 each during the last two years. Other facilities operated by the Authority are the Rip Van Winkle and the Mid-Hudson bridges.

The latter structure accounted for $236,106 of the net profit recorded in the recent fiscal year, while the Rip Van Winkle span with $33,921 and the Bear Mountain unit with $46,648, made up the grand aggregate of $316,675.

In addition to Chairman Robert Hoe of Poughkeepsie, other members of the bridge authority are Dr. John L. Edwards and William K. Hagginbotham, and Francis M. Glynn is Executive Secretary. The board members commented on the results of the recent fiscal year's operations, as set forth in the annual report, as follows:

"The report reflects substantial earnings by the structures for the year, especially so when the wartime restrictions on travel are taken into consideration. The net profit for the year is high, being effected upwardly by economy and savings methods introduced during the period, thus reducing the general overhead expense."

G. H. Walker To Admit Warren As Partner

John D. Warren will be admitted to partnership in G. H. Walker & Co., members of the New York and St. Louis Stock Exchanges and other Exchanges, on July 1. Mr. Warren, who was formerly a partner in Gammack & Co., will make his headquarters at the New York office of G. H. Walker & Co., 1 Wall Street.

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.

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.

Situations of Interest

F. H. Koller & Co., Inc., 111 Broadway, New York City, have prepared a memoranda on Great American Industries, Laclede Christy Clay Products, Indiana Limestone, and United States Lumber which the firm believes appear attractive at current levels. Copies of these interesting circulars may be had upon request from F. H. Koller & Co.

Interesting Rail Situation

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

Interesting Situations

Standard Stoker common stock and Mansfield Tire & Rubber preferred and common offer interesting possibilities according to detailed memoranda on these situations prepared by Otis & Co., Terminal Tower, Cleveland, O. Copies of these memoranda may be had from the firm upon request.

Lauds 'Chronicle' Stand On NASD '5% Rule'

(Continued from page 2579)

dealers throughout the country to date. The financial support which we have so far received is inadequate.

We know how quick you are to take up the cudgels in behalf of the right.

Our work is in the interest of the entire profession. We are only the spearheads.

We believe that the members of the industry must be made conscious of their individual responsibility and that dealers in securities should be encouraged to bear their just share of the burden of supporting this fight. Won't you try to bring that sense of duty home to the members of our profession? All contributions should be sent to the Securities Dealers Committee, 165 Broadway, New York City.

With many thanks for your good offices, I am,

Respectfully yours,

BARON GOWDY HELBIG, Chairman,
Securities Dealers Committee.

P. S. Incidentally the members of this Committee have made personal contributions and all serve without any remuneration whatsoever.

New York, June 20, 1944.

Public And Securities Dealers Let Down By A "Protective" Set Up

(Continued from page 2579)

to destroy the businesses of small dealers and the market for the securities of small corporations thereby making impossible the flotation of small new issues.

The "5% spread philosophy" of the NASD is a particularly pernicious product of legislative mumbo-jumbo which is now under attack.

During the hearing before the SEC on the "5% rule," counsel for the Securities Dealers Committee referred to the difficult and anomalous position in which the hearing Commissioners found themselves. Under the law the Commission and NASD are the guardians of the public in their relations with securities dealers. The enforcement of rules of fair practice is in their hands. NASD rules and amendments thereto are subject to SEC approval in the first instance.

Counsel challenged the right of any Commissioner to sit at the hearing who had anything to do with the promulgation of the "5% philosophy." "To disregard this challenge would be to sit as a judge, in review of one's own acts," he said.

None of the Commissioners who sat indicated whether or not he had anything to do in the first instance, either directly or indirectly, with the conferences leading to the establishment of the "5% philosophy," and unless this is revealed in the ultimate decision, the public will continue in ignorance of a matter on which it is entitled to be enlightened.

All of this is made possible by an interlocking, and we believe, improper set up, contained in our laws affecting the securities field. Commissioners can review their own actions and pass upon the propriety of them.

Since the Commission has not committed itself, we do not know whether that is being done in the "5% rule" case. However, when, and if it is done, it will be worth watching to see if the courts, on appeal, will stand for such a state of affairs.

The evils are many. Here is another. In a review from the decision of a local Business Conduct Committee, the NASD on appeal decided that the penalty was too lenient, and increased the period of suspension of one of its members. What a diabolical maneuver! How readily this will discourage seeking the review of the opinions of Business Conduct Committees. Our appellate courts, in criminal cases, do not have the power to enlarge the punishment meted out by the courts below.

THERE IS A CRYING NEED FOR REALIZATION OF THE DANGERS TO WHICH WE ARE BEING INCREASINGLY SUBJECTED. WE SUFFER FROM AN INEXCUSABLE LASSITUDE. WE MUST BE AROUSED TO STEM THE ENCROACHMENTS UPON OUR RIGHTS TO DO BUSINESS UNHAMPERED BY ILLEGAL RESTRAINTS. LETTING JACK DO IT WILL NOT BRING THE RELIEF WHICH IS PROPERLY OURS. EACH OF US MUST BE JACK, TO PREVENT THE SMALL BEACHHEADS FROM BECOMING THE BIG INVASION OF OUR LIBERTIES.

We hope that the age of pamphleteering is not dead, and that champions of our cause will continue to arise, making all conscious of their duty and their responsibility.

Calendar Of New Security Flotations

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.

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.

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. & Boyce, Baltimore; Edward D. Jones & Co., St. Louis; Singer, Deane & Scribner, Pittsburgh; Frank B. Cahn & Co., Baltimore, and Newhard, Cook & Co., St. Louis. Filed June 9, 1944. Details in "Chronicle," June 15, 1944.

SATURDAY, JULY 1

MIDLAND COOPERATIVE WHOLESALE has filed a registration statement for $250,000 subordinated debenture notes, being interest at the rate of 4% per annum and maturing in five and ten years from date of issue.

Address—739 Johnson Street, Northeast, Minneapolis, Minn.

Business—Cooperative association.

Underwriting—None.

Offering—Notes are to be sold at their face value. They will be sold only to members of the issuing corporation and individual members of its corporate stockholders.

Proceeds—To increase working capital and reduce bank loans.

Registration Statement No. 2-5394. Form A-2. (6-12-44.)

SUNDAY, JULY 2

IDAHO POWER CO. has filed a registration statement for 60,587 shares of 4% preferred stock, $100 par value.

Address—1220 Idaho Street, Boise, Idaho.

Business—Public utility.

Underwriters—Blyth & Co., Inc., and Lazard Freres & Co., New York, 45% each, and Wegener & Daly, Inc., Boise, 10%.

Offering—Company offers to holders of its 7% and $6 preferred stock the opportunity to exchange their shares for new 4% preferred stock on a share for share basis together with a sum of cash to be filed by amendment and accrued dividends to Aug. 1, 1944. The exchange offer will be open from about July 1 to July 22. The new preferred stock will be cumulative from Aug. 1, 1944. Any shares of the 7% and $6 preferred stock not deposited for exchange will be redeemed on Aug. 1, 1944, at $110 per share plus accrued dividends to that date. The underwriters have agreed to purchase any of the 4% preferred shares not issued pursuant to the exchange offer. Offering price to the public will be supplied by amendment.

Proceeds—The net proceeds from the sale of any 4% shares to underwriters will be applied to the redemption of the unexchanged preferred stock. There were outstanding at March 31, 1944, 32,130 shares of 7% preferred and 28,457 shares of $6 preferred.

Registration Statement No. 2-5395. Form S-1. (6-13-44.)

TUESDAY, JULY 4

SEARS, ROEBUCK & CO.—Savings and Profit Sharing Pension Fund of Sears, Roebuck & Co. Employes and Sears, Roebuck & Co. have filed a registration statement for 20,000 memberships in the fund and for 160,000 shares of capital stock, without par value, of the company.

Address—Fund 3333 Arlington Street, Chicago, company 925 South Homan Avenue, Chicago.

Business—Fund savings and profit sharing. Company mail order and retail store business.

Offering—The 20,000 memberships represent the maximum estimated number of memberships which may be offered to eligible employees during the 12 months following the effective date of the registration statement. The 160,000 shares of capital stock represent the maximum number of shares which, it is anticipated, may be purchased by the fund for its members during the same period. The company each year contributes to the fund certain sums out of its net profits, while each member contributes a certain percentage of his salary or allowance.

Registration Statement No. 2-5396. Form A-2. (6-15-44.)

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. — Company filed with the SEC a registration statement as amended with respect to 26,000 shares of class B stock (no par). The stock offered for sale is that of L. A. Cushman, Lewis 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.

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.

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.

EXCESS INSURANCE CO. OF AMERICA has filed a registration statement for 48,981 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.

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.

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.

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.

Boston Traders Ass'n Annual Meeting in Sept.

BOSTON, MASS.—The Boston Security Traders Association will hold its annual meeting on September 26.

The following have been appointed to the nominating committee for this year:

James B. Maguire, E. H. Rollins & Sons, Inc., Chairman; William J. Burke, Jr., May & Gannon; Ralph F. Carr, Ralph F. Barr & Co.; William Duncklee, Brown Bros. Harriman & Co.; and William Prescott, Carver & Co.

"Our Reporter On Governments"

By DONALD MacKINNON

(Mr. MacKinnon has again 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 Chicago, on June 19, Secretary Morgenthau said that taxes may not be as high during the period immediately following the war as they are now, but issued a warning that taxes would stay above the pre-war levels. . . . With regard to post-war corporation taxes, the Secretary stated that changes would be made, but did not know what those revisions would be. . . . Mr. Morgenthau also said: "We've got a tremendous national debt, and we'll have to retire it. . . . Taxes will bring in the money. . . . If business and, in turn, workers failed to make money, the Government would be unable to collect money through taxation to retire the national debt." . . .

The computed annual interest charge as of April 30 on $185,670,000,000 public debt then outstanding was $3,606,000,000; the computed annual rate of interest was 1.942%. . . . The computed annual rate of interest will undoubtedly continue to decline, just as the computed annual interest charge will increase; and it is of interest to note that from May 31, 1943, through April 30, 1944, the computed annual rate of interest declined slightly from 1.992% to 1.942%; the computed annual interest charge increased from $2,763,000,000 to $3,606,000,000—an increase of $843,000,000, while the public debt increased $46,913,000,000. . . .

TAX CHANGES

In spite of what Mr. Churchill has said regarding the possibility of the European war ending this autumn, we feel that only wishful thinkers believe there will be any material changes in taxes immediately the wars are ended. . . .

Apparently some investors have some confidence in the stability of partially exempt Treasuries, for during the period from Feb. 29 and March 31, 1944, commercial banks bought a total of $119,000,000 of such issues; $3,000,000 2¼s of 56/54; $61,000,000 2⅞s of 60/55; $30,000,000 2¾s of 59/56; $14,000,000 2¾s of 63/58, and $11,000,000 2¾s of 65/60. . . .

Of course, such purchases were made at a time when amounts required for the payment of taxes may have been materially higher than had been estimated originally. . . .

COMMERCIAL BANK INVESTMENTS

As stated in this column on numerous occasions in the past, we believe that many additional commercial banks will discover the need for partially exempt Treasuries, and will make such purchases. . . . Such issues held by commercial banks particularly are not subject to trading to the extent that was the case a few years ago. . . . As tax payments increase, trading profits, at best subject to 25% capital gains tax, are not as attractive as they once were. . . . Because the positions of commercial banks are constantly growing stronger, fewer losses may be established against income tax payments; and partially exempt, or fully exempt income is the primary consideration, not profits. . . . Finally, allowable amortization is a tremendous advantage, and takes the sting out of the payment of current premiums. . . .

Because of this last factor, and the actual need involved, many commercial bankers today will pay 112.16 or more for the 2⅞s, because they know that in 12 months' time their amortized book cost will be about 111.16. . . . They buy income exempt from normal taxes; and if they are now, or later will be subject to excess profits taxes, so much the better. . . .

FIFTH WAR LOAN

At this writing, the Fifth War Loan has attained 14% of its $6,000,000,000 goal to individuals through the first week of sales. . . . Treasury officials are reported to be encouraged, but we wish to point out that for the three weeks remaining sales for each week will have to be more than doubled in order to meet the anticipated objective in this category. . . . We have no doubt that more than $16,000,000,000 will be sold to all investors. . . . But it does seem strange that with events unrolling before our eyes that make for the future of the world as we want it—for our security, and all that that word implies, we have to be sold a share of future happiness. . . . It does seem strange that during the first full week of the Fifth War Loan only $854,000,000 was invested by individuals. . . . Because if a U. S. Treasury bond is not an investment—will someone tell us what is? . . .

Although the language of the Treasury bulletin regarding subscriptions to issues available during the Fifth War Loan is perfectly clear, there is a great deal of guessing regarding the possibility that the Federal Government may relax restrictions and accept subscriptions to issues that may find homes in commercial banks after July 8. . . . We doubt that what might be termed liberal allotments will be made in any case, or that loans in material amounts will be made which will permit speculative purchase of Treasuries by free riders. . . . Naturally, some of the new 2s, the new notes, and the new ⅞s will eventually be purchased in the open market by commercial banks, in excess of their allotments by subscription. . . . Heavy demand might mean out-of-line prices for these three issues, especially the 2s and the 1¼s; however, we feel that a premium of about 100.6 or 100.8 for the 2s, and 100.4 for the 1¼s is about what should be expected when trading is permitted on July 10. . . .

Just in passing, one observes that of the two bonds offered to commercial banks on a restricted basis during the Fourth War Loan, only $278,000,000 of $3,793,000,000 outstanding of 2¼s of 59/56, and $26,000,000 of $2,272,000,000 outstanding are held by commercial banks. . . .

MARKET ACTION

Almost every one expected lower prices in medium- and longer-term Treasuries prior to and during the progress of the Fifth War Loan. . . . Such price action has not as yet developed except in the tap issues—at least to any degree. . . . As a matter of fact, the lack of any important selling in partially exempts is one of the most surprising features of the Fifth War Loan to date. . . . Any selling of such issues that may materialize should appear prior to June 26—the date on which interest on the new bonds, notes and certificates starts to accrue. . . . While market action has been excellent, we expect to see better prices in Treasuries from that date—June 26.

Charles Hughes & Co. Petition SEC For A Rehearing Of Revocation Order

Charles Hughes & Co., Inc., New York, whose registration as a security dealer-broker was revoked by the Securities and Exchange Commission on July 19, 1943, and the revocation subsequently upheld by the United States Circuit Court of Appeals, petitioned the SEC on June 9 for a vacation of the order on the ground that the "standards" set up by the Commission in the administration of the Securities Exchange Act of 1934 were disregarded in making the order, and that the concern did not receive "a fair hearing."

The Hughes concern was charged with committing fraud in a mark-up case and with charging customers for securities substantially in excess of their market values.

An appeal was taken against the Commission's revocation order to the Circuit Court of Appeals in New York, which, in its decision rendered Dec. 10, 1943 (and printed in the "Chronicle," issue of Dec. 16, 1943), upheld the Commission's action. The United States Supreme Court on March 13, 1944, denied a petition to review the case.

Charles Hughes & Co. have been inoperative as security dealers since the revocation of its registration. Anne E. Hughes is represented as the applicant in the new petition, and the attorney in the case is R. Lawrence Siegel of 55 Liberty St., New York City. The petition asserts that the Commission's order constitutes a "sentence of death," and that "the applicant was denied the fundamental elements of fairness essential in a proceeding involving property rights, especially where, as herein, the proceeding involved the right to continue to engage in a business to which the applicant and its general trader have devoted their working lifetime." The petition then enumerates "examples of the testimony and hearing incidents which exemplify the spirit and manner in which the hearing was conducted," and which, when "taken together and given cumulative effect, or even if each stands alone, they constitute a violation of the procedural standards of the Commission, a denial of a full, fair and impartial hearing and the perequisites thereof, and a withholding of due process."

In the final clause of the petition it is stated that "applicant has never been guilty of any wrongdoing or misdeed; for more than two years it has been deprived of the right to earn a livelihood; its President has suffered in mind and body by the publicity and uncertainty engendered by the charges and proceedings herein," and, in addition, "has sustained loss of income and expense." Its good reputation, moreover, "has been sullied and its President and general trader now are without means or opportunity of earning a livelihood."

Carl K. Gish To Be Boettcher Co. Partner

Carl K. Gish will be admitted to partnership in Boettcher & Co., members of the New York Stock Exchange. Mr. Gish has been with the firm for some years in charge of the New York office at 52 Wall Street, where he will continue to make his headquarters.

Interesting Situation

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

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