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Selecman Named Secretary of ABA

Merle E. Selecman, deputy manager of the American Bankers Association, has been named Secretary of the Association, and will continue as deputy manager in charge of the Trust Division and as Director of Public Relations, Harold Stonier, Executive Manager, announced.

Merle E. Selecman

Mr. Selecman has been with the Association for about 17 years. During that time he has held various positions, serving as Assistant Secretary of the Savings Division and the Trust Division and as Assistant Director of Publicity. In 1933 he was largely responsible for the organization of the Association's Advertising Department and has been its director since that time.

Before joining the Association, Mr. Selecman was in newspaper work, journalism, and teaching in the Midwest. A native of Maryville, Mo., he attended the Northwest Missouri State College, the University of Missouri, and took his master's degree at Northwestern University in Chicago.

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Connecticut Securities Section on page 1690; Michigan on page 1690; Missouri on page 1691.

Post-War Interest Rates

By DR. MELCHIOR PALYI

Chicago Economist Analyzes The Government's Cheap Money Policy And Points To The Need Of Following The Same Policy After The War In Order To Maintain Bond Prices. Sees Continuation Of Deficit Financing So As To Maintain Full Employment And Concludes That In The Kind Of Economic System We Are Establishing For A While, Credit Risks Affecting Bond Values May Virtually Vanish.

During the war, interest rates have been stabilized in this country as in most other belligerent countries at an extraordinarily low level. In all history, governments were borrowing during wars at rates higher than prevailing previously (unless they borrowed abroad), if not at rising rates, a fact which indicates the unusual and artificial character of the present control of money markets.

Dr. Melchior Palyi

Will and can this control continue after the war? Will, in other words, the same factors be in operation as at present, tending to perpetuate the Cheap Money system? If so, will the monetary management have the same powers after as during the war, and will it be able to get the same results?

The fiscal interest in low rates will remain the same as before, and even more so. At present rates, a national debt of $300 billions will mean an annual interest burden of $5.5 to $6 billions. Any attempt to balance the budget will

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Economic Aspects Of Profit Control

By DR. IVAN WRIGHT

Professor of Economics, Brooklyn College

Economist Calls Attention To Recent Trend From Price To Profit Controls And Points Out Its Damaging Effects On Post-War Economy. Holds A Profit Control Policy Would Necessarily Bring About A Large Scale Concentration Of Production In The Hands Of Big Business And By Forcing Mass Production Would Eliminate Many Small Scale Businesses Besides Discouraging Initiative And Investment.

Profits are the motivating force that cause men to invent, invest, strive and take chances. These are the efforts that make for progress. Profits are therefore the force that stimulates us to progress.

Dr. Ivan Wright

The amazing losses in business undertakings are unbelievable when the facts are examined. All ventures are not successful. A great majority of new ventures fail. Old industries mature, decline and die. The savings of a whole generation are lost in periods of business depression.

In the United States a so-called *"new era"* of prosperity ended in 1929. This period of financial inflation fed upon the largest expansion of bank credit ever known up to that time. The increase in bank credit during this *new era* exceeded by 200% the

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Price Control Objectives During Reconversion

By CHESTER BOWLES*

Administrator, Office of Price Administration

Price Administrator Asserts Price Uncertainties In Reconversion Period Is One Of Our Most Dangerous Problems And The Policies We Adopt And Way In Which We Carry Out These Policies Will Influence The Stability Of Our Society For A Generation Ahead. Urges Prevention Of Both Inflation And Deflation And Warns Against Inventory Speculation And Yielding To Pressure Groups. Maps Three Consecutive Periods Following V-E Day During Which Controls Should Be Maintained And Predicts Failure To Handle Properly The First And Second Period Will Bring About Collapse In Third.

Chester Bowles

In the critical year which lies ahead of us, we face some of the most staggering economic problems on the home front that we as a nation have ever had to meet. The decisions we make, the policies we adopt and the way in which we carry out those policies will influence the stability of our society for a generation ahead.

Thus far, I think we've done a good work-time job. In fact, in spite of many inevitable mistakes this war is likely to be remembered as the best organized and most vigorously prosecuted war in American history.

*An address made by Mr. Bowles before the Commerce and Industry Association in New York, Oct. 16, 1944.

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The Bank's Bond Portfolio

By J. E. MORRIS*

Vice-President, City Bank Farmers Trust Co.

Bank Executive, After Analyzing Recent Changes In Bank Assets, And The Declining Ratio Of Bank Capital To Deposits, Suggests That Banks Take The Following Measures To Offset The Risks Of Higher Interest Rates And Swollen Deposits: (1) Hold In The Shortest Term Government Securities The Amount Of Deposits Held Above The 1941 Normal Level; And (2) Invest Deposits Under This Amount In Bonds Having Staggered Maturities Of 1 To 10 Years With 6 Year Average Maturity.

In a survey of the present bond problem as related to banks we cannot think of bonds alone, but rather of the position the bonds occupy in the financial structure of the bank. These bonds surrounded with proper safeguards can represent our chief bulwark of strength and without safeguards they could become our most vulnerable asset. The bond account has become more a problem of mathematics than one of investment. Under the circumstances it is necessary to present certain figures in order to discuss this problem.

J. E. Morris

The published reports of the FDIC indicate that investments of all members have increased in the last nine years from 19 billion dollars to over 65 billion dollars. During that same period total capital funds have shown only a nominal increase from 6.2 billions to 7.5 billions. This comparison calls attention to the decreasing margin of protection represented by capital, surplus and undivided profits as related to the total investment portfolio. At the earlier date the surplus, undivided profits and reserves (exclusive of capital) of all the FDIC member banks was equal to 15% of total investments and has now declined to a margin of approximately 7%.

A comparison of this 7% margin with the margin ordinarily required against collateral loans dramatically illustrates the importance which the investment account has attained as a factor in bank management. If we constantly remind ourselves of the increased leverage that poten-

*Address made by Mr. Morris at 51st Annual Convention of the Kentucky Bankers Association in Louisville, Oct. 11, 1944.

(Continued on page 1704)

The Dollar Mystery

By PHILIP CORTNEY

Vice-Chairman of the Board and Treasurer of Coty, Inc.

Writer Points Out The Existence Of Two Problems: Dollar Problem And Sterling Problem. Explains Why The Solution Of One of These Problems Is Not Necessarily A Solution Of The Other. Clarifies Some Misconceptions As To The Misconduct Of The United States As A Creditor Nation Between The Two World Wars. States Reasons Why British Economists Do Not Show Any Enthusiasm Regarding The Eventual Reduction Of United States Tariffs. Outlines British Difficulties And Indicates The Elements Of A Solution Which Might Help Solve The British Problem.

The title of this article is borrowed from the text of a study which appeared in the well-known English publication, "The Economist".

The fact is that American economy, both domestic and in its relations with foreign countries, presents baffling problems. It is necessary to study the intricacies and interests involved in order to be able to follow the international negotiations which are taking place, or the decisions which will be made either openly or behind closed doors. The problems are certainly difficult but not beyond human grasp. The answer to these baffling questions depends mainly on the intelligence and good will of men; the nature of the solution will, to a large extent, influence the destiny of the civilized world. This article deals chiefly with the problem of the dollar in its relation to the rest of the world.

Philip Cortney

The Conduct Of A Creditor Nation

The conditions of their economico-social balance in the frame-

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Seattle Bond Traders Elect New Officers

SEATTLE, WASH.—The following have been elected officers of the Seattle Bond Traders' Club for the coming year:

President: Hugh R. Schlicting, Wm. P. Harper & Sons.

Vice-President: George Barnett, MacRae & Arnold.

Treasurer: W. L. Stein, Bramhall & Stein.

Secretary: David K. Jackson, Bank of California, N. A.

San Fran. Bond Traders Installation Dinner

SAN FRANCISCO, CALIF.—The annual installation dinner of the San Francisco Bond Traders' Association was held in the Garden Room at the Fairmont Hotel on Friday, Oct. 13.

The following officers were installed for the 1944-1945 term:

President: George Kammerer, J. S. Strauss & Co.

Vice-President: Tony Bottari, Sutro & Co.

Secretary-Treasurer: Ken Donald.

Directors: Frank Boyer; Ed Foley, Kaiser & Co.; Matthew Morton, Davis, Skaggs & Co.; and Frank McGinley.

Gurdon Mead Is Mgr. Of Chas. A. Day Dept.

BOSTON, MASS.—Chas. A. Day & Co., Inc., Sears Building, member of the Boston Stock Exchange announces that Gurdon J. Mead now is associated with its organization as Manager of its Listed Securities Department.

Mr. Mead had been identified with the investment business for many years and has wide acquaintance on the Street and among investors.

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

What Is The Stock Market Outlook Now?

By SCHROEDER BOULTON*
Partner, Baker, Weeks & Harden

Investment Analyst Maintains A "Bull" Market Began 2½ Years Ago And That The Market Has Much That Is Good Ahead Of It. Bases This Prediction Both On Statistical Data And On Increasing Optimistic Sentiment In Business Arising From The Backlogs Of Demand And The Vast Accumulations Of Liquid Finances. Sees The Expected Difficulties Of The Early Post-War Period And The Expected Prosperity Of The Later Period As Opposing Forces And States That Many Securities Are Now At Low Prices Considering Prospects Of Post-War Prosperity.

I am going to present briefly the reasons for certain favorable conclusions regarding the outlook for stock prices. These conclusions will have, perhaps, few of the usual "hedge clauses." In being unequivocal, I realize that I may run serious risk of becoming a "false prophet." When the market later develops, as it must, either favorably or unfavorably, you may possibly remember whether the conclusions were helpful, or merely misleading and confusing. My object, however, is not to convince anyone, but to set before you some of the more important considerations of which an investor should be aware, when trying to make up his own mind concerning what kind of market we have, and what kind of market we shall have. I shall merely offer certain ideas and suggestions which may be useful to you, in making up your own minds.


Schroeder Boulton

It would not be fair if I did not indicate that my approach is what is generally described in the Street as that of a "Fundamentalist," rather than of a "Technician." I have the greatest respect for able technical or chart analysis, and a great deal of that is being done. Even at times when the consensus of technical opinion (provided there is a consensus) is incorrect, it still is helpful to know what this opinion is, as chartists in and of themselves constitute an important market force.

Chartists themselves often constitute the explanation (independent of other factors) of why, at given levels, the market runs into heavy selling, or large buying. Even the unprofessional student is familiar with how the penetration of resistance levels always is followed by activity on the part of those who take their charts seriously, and the student must allow for this phenomenon in any understanding of over-all market conditions. **Under certain circumstances it has been easier to predict what action would be taken by the majority of technical students than what the market itself would do.**

Good technical work represents an **indirect** effort to determine, from the market's own action, the direction and power of the basic forces, as well as of the temporary forces, affecting the price behavior of stocks and bonds. Theoretically, a perfect technical approach will reflect with a high degree of accuracy all of the market factors, so far as they show up in the day-to-day and week-to-week fluctuations of the market.

However, in my own research, I have found it more satisfactory to make an effort to get **directly, rather than indirectly**, at an understanding of market forces. The

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*An address delivered by Mr. Boulton before the Association of Customers' Brokers in the Governors' Room of the New York Stock Exchange on Oct. 10, 1944.

Future Of Government Securities

By RAYMOND RODGERS*
Professor of Banking, School of Commerce, Account and Finance, New York University

Professor Rodgers Holds That Barring A Sharp Inflationary Increase In Price Level, Interest Rates Are Not Going To Rise Appreciably For Three Or Four Years After End Of War. Enumerates Controls He Feels Treasury And Federal Reserve Authorities Could And Would Exercise To Keep Rates Down Or Push Them Even Lower.

Today I want to discuss just one phase of the banks' support of the war effort, their holdings of Government securities. The commercial and savings banks of the U. S. hold $75,800,000,000 (June 30, 1944) of government securities and the Federal Reserve banks hold an additional $15,592,000,000 (August 23, 1944). These vast holdings will continue to increase until the war is over and, as I shall explain in a moment, will increase sharply during a considerable period following the end of hostilities. The asset government securities has become so large that it overshadows everything else in banking—in fact, it has become almost synonymous with banking. The future of these vast holdings is, and will continue to be for years, the burning $64 question for all of us. And, unfortunately, there are many answers to the question.


Raymond Rodgers

Crackpots, dumbbells, bureaucrats and economic fakers are already busy in the back rooms of our great democracy working out solutions which range all the way

*An address made by Professor Rodgers before the 14th New England Bank Management Conference, Oct. 11, 1944, at the Hotel Statler, Boston, Mass.

(Continued on page 1700)

Extra Curricular Activities

SEC Delays Decision On 5% Principle While Pursuing Voluntary And Unnecessary Surveys.

Too much time and effort of administrative bodies is consumed and dissipated in self-praise. Some have specially employed and paid public relations counsel. This wasted energy could well be applied to the performance of those statutory duties which properly belong to the sphere in which the particular organizations function.

An all too patent transgressor is the Securities and Exchange Commission.

For self-laudation it takes the prize.

In its releases and orders there is almost always the meticulous care to emphasize that what is being done is for the benefit and protection of the public. It is high time the public was permitted to judge for itself uninfluenced by the self-serving declarations of the Commission.

Is it in the public interest for the Securities and Exchange Commission to have consumed more than three months without as yet having decided the simple issue involved in the "5% spread philosophy"?

Is such decision being purposely delayed until after the Presidential election?

Make no mistake, the issue is all important.

Let us consider some current developments which bear upon it.

(Continued on page 1685)

The International Aspects Of Economic Policy

By WINTHROP W. ALDRICH*
Chairman, The Committee on International Economic Policy
Chairman of the Board, The Chase National Bank of New York

Prominent Banker Asserts We Are Committed To Organizing Our Economic Life So That Everyone Shall Find Productive Employment Under Private Enterprise. Holds Function Of Government In International Trade Should Be Limited To Negotiations With Other Governments That Will Create An Orderly Framework Within Which Individuals Can Trade. Calls For Restoration Of "The Most Favored Nation" Treatment. Describes Work Of Committee On International Economic Policy As A Democratic Process Of Putting Forward Ideas Vital To Our Future Prosperity.

This year's National Foreign Trade Convention seems to me unusually significant. There is no more important subject to discuss as this war comes to an end than how we may best mobilize and marshall our economic resources so as to contribute most to lasting peace and to the restoration of world prosperity. Every American has a stake in this problem. We have gone through two wars in a generation, the most destructive wars in history. The first world war was followed after a brief period of false recovery by the most severe economic and financial convulsions the world has ever known. Our own country suffered heavily, but the convulsions were world-wide. This is a world problem. The politicians flatter themselves when they blame each other—or take credit to themselves—for causing or curing depressions.

W. W. Aldrich

We should not allow ourselves to be deluded. The solution of the problems we shall face after this war will call for the utmost effort on the part of business men, and indeed of the whole community, as well as of governments. Our economic system, if it is to remain a free system, works as a result of widespread initiative exercised within a framework of orderly government. Not only our own, but other governments and peoples are vitally concerned in its operation. It is difficult enough at any time to secure agreement among so many interests and organized groups. In a period of confusion and distress at the close of a great war this difficulty is much greater. Already we have clear indications of the obstacles that must be faced in organizing effective government and restoring economic activity in the countries that have been liberated from enemy occupation. It is common sense to aim at simple and workable measures of international cooperation, leaving as much as possible to the forces of private initiative. If we allow ourselves to be maneuvered into elaborate and complicated measures of regulation, what we will end up with will be a cumbrous and ineffective system of State regulation and monopoly. The ultimate result of this will be economic nationalism and a complete breakdown both of international cooperation and of economic freedom within our own community.

Great issues are at stake in the

*An address made by Mr. Aldrich before the Luncheon Session of the 31st National Foreign Trade Convention, New York City, Oct. 11, 1944.

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Gilligan Appointed Adv. Mgr. Of Philco

John F. Gilligan has been appointed Advertising Manager of Philco Corp., it was announced today by James H. Carmine, Vice-President in charge of merchandising.

Mr. Gilligan joined Philco in 1922 and has served in important positions in the sales, advertising and order departments.

In 1931 he became assistant to Larry E. Gubb, then general sales manager, and now Chairman of the board of directors of the company. In addition to his other activities at that time, he set up and directed the company's statistical and market research section.

In 1936, Mr. Gilligan was named Manager of the Specialty Division and for the following five years was in charge of sales of Philco radio-phonographs and farm radio receivers. During the war emergency he has been serving as Manager of the Priorities Division.

Cement Stocks Look Good; "Noggins" Interesting

Florida Portland Cement Company and Giant Portland Cement Company offer attractive post-war possibilities and are especially well situated to benefit from post-war construction, according to memoranda prepared by G. A. Saxton & Co., Inc., 70 Pine Street, New York City. Copies of these releases may be had from the firm upon request.

Also available in a memorandum and supplement of recent developments in New Orleans Great Northern.

How Can American Enterprise Finance Post-War Requirements?

By HENRY J. KAISER*

Prominent Industrialist Says That Only Through Production Will We Be Able To Avoid Inflation And Support The Heavy National Debt. Contends That There Must Be "A Practical Means Or Agency For Mobilizing And Making Available The Risk Capital Which Is Essential To A Dynamic Economy" And That The Industries Which Were Born Out Of The War Must Be Continued If We Are To Have "The Employment Essential To Our Peace And Prosperity." Holds A Credit Agency Is Required To Furnish Risk Capital, And If Private Industry And Private Finance Cannot Assure This Essential They Are Doomed.

Henry J. Kaiser

As I listen to the various points of view recorded in the daily press as to how American enterprise can finance its post-war requirements, opinion seems to fall in three categories. At one extreme are those who picture the United States, and the world in general, as doomed to carry a crushing burden of debt for at least a generation, if not for half a century. I am reminded a little of the figure of Christian in Bunyan's "Pilgrim's Progress," who carried the burden of his sins on his shoulders through one ordeal after another until it finally fell off just before he entered the City Celestial. Some commentators would have us believe that our generation and the next, and perhaps another, will just manage to survive until the war debt has been liquidated. A realistic way to dispose of such pessimistic theory might be to declare that unless the debt burden can be borne without crushing man's hope it is more than likely to be repudiated.

At the other extreme of financial speculation about the future is the point of view that does not seem to be clear. Debts, according to this school, need concern us very little particularly when we owe them to each other. There are some who say that we should go on spending all that is necessary to maintain the economy at some figure usually between \$150 and \$200 billions in annual national income.

As usual the truth will be found somewhere between these two extremes. It will be wise to base analysis on certain essential assumptions. To begin with, our money and the national debt are completely interdependent. If the value and standing of either should break down, both would be equally impaired. The promises to pay, or the bonds, which evidence the debt, are written in terms of dollars. At the same time these very bonds become a part of the legal backing for the money which is in circulation.

Is it not a fact that we have in the United States today the greatest volume of money and bank deposits which the country has ever known? Larger, perhaps, by two or three times than they were in 1929, the year of our greatest pre-war prosperity. I read that when allowances for reconversion, renegotiation and taxation have

*An address by Mr. Kaiser, made before the New York Financial Writers Association in the Hotel Delmonico, New York City, Oct. 5, 1944.

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Extra Curricular Activities

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Foremost, to our mind, comes the survival of small business.

In a recent declaration, Senator James E. Murray of Montana, Chairman of the Special Committee to Study Small Business Problems, said:

"... now that the war is approaching a conclusion, a struggle is on foot between big and little business ...",

"... in nearly every industry in our country, we find four or five large organizations in control ...",

"Those who have been benefited and enriched through Government contracts and the expansion of their industries appear to be wedded to the idea of bigness."

Of course, one of the ways in which we can protect and help preserve Small Business is to exempt small capital issues from the prohibitive expense and unnecessary delays involved in registration with the Securities and Exchange Commission. That is apparently the thought behind the Vandenberg Bill which would exempt issues up to \$300,000 from the rigamarole of the Commission's supervision on initial issuance.

Another potent and imperative method is to create and stimulate a ready and liquid market in the small capital issues.

As we have repeatedly emphasized, success in our reconversion period, the creation of an adequate number of jobs for our returning men and women—these depend to a considerable extent on healthy market conditions in small capital issues.

What will be the effect of the existence and enforcement of the "5% spread philosophy" upon this picture?

The poll conducted by us indicated a firm conviction on the part of brokers and dealers generally that such enforcement would prevent the existence of a ready and fluid market in small capital issues.

WITH SO LARGE A STAKE IN THE BALANCE, THE SEC PLAYS POSSUM AND HOLDS UP ITS DECISION ON THE "5% RULE."

Does the Commission claim it is overworked and undermanned? Then why in the name of common sense doesn't it stick to its last? Why doesn't it stop taking on extra curricular activity such as making surveys on earnings of listed corporations, etc.?

THERE SHOULD BE A DECISION ON THE "5% SPREAD" NOW. THE DELAY IS NOT TO BE EXCUSED.

Public Utility Securities

Refunding Program Goes Into High Gear

The amount of utility financing in the first eight months of 1944 was over twice that of the same period of 1943 and larger than in 1942, though considerably smaller than in 1941 and 1940. However, September volume, estimated at $144 millions, was far above the earlier level, and October will probably be even heavier. A considerable number of deals are also "on the fire" for later consummation, but some of them may have to be deferred until after the War Bond Drive and the year-end holiday period.

The utility industry has been busy in the past two or three years adjusting itself to the requirements of Section 11 of the Holding Company Act. A majority of the independent companies had already refunded their high coupon issues in the 1930's, but many holding company subsidiaries had to defer their programs until they could satisfy the Federal Power Commission, the Securities and Exchange Commission and the State Commissions regarding plant write-offs, amortization charges, holding company contributions to improve capital set-up, etc. As fast as these matters were ironed out, the companies undertook refunding programs, but the tempo was slow because of the crowded schedules of the two Federal agencies, as well as the difficulties of effecting compromises where serious adjustments were deemed necessary. Thus Electric Power & Light, important subholding company in the Electric Bond and Share system, did not undertake the major refunding program for its numerous subsidiaries until this year, and American Power & Light has not yet gotten its program under way.

Utilities were slow to undertake the refunding of their preferred stocks because of tax difficulties. In the 1942 tax law, Congress lightened the utilities' tax burden by exempting from the 16% surtax an amount of net income (of operating companies only) equivalent to preferred dividend payments. But for some reason this provision did not apply to new issues, until the law was later amended. Even now there are certain technicalities in the application of the provision which remain confusing. Thus the corporate holder of a utility preferred stock must pay the 16% tax from which the utility itself gained exemption. This means that the corporate holder pays an income tax of 19.6% on dividend income, compared with 6% on the income from an industrial or railroad preferred stock. This, of course, tends to retard the purchase of new utility preferred issues by fire insurance companies, investment trusts and other corporate investors. However, amendment of the law earlier this year removed the distinction between old and new preferred stocks, and apparently paved the way for resumption of preferred refundings, of which there has been a considerable volume this year. The fact that refunding savings for preferred stocks are not taxable, while those for bonds are, has probably stimulated activity somewhat.

Recently a third kind of refunding program has gotten under way. With bond prices around an all-time peak level, it suddenly became obvious that 3¾% and 3½% high grade utility bond issues could be refunded profitably. Perhaps a deciding factor was the general expectation that the end of the war was approaching and that the excess profits tax (which is a heavy burden on the utilities) might be cancelled during 1945. This would mean that, if refundings were put over to next year, the utilities might run the risk of losing the big cash saving in taxes which results from charging off the premiums on old bond issues retired. This saving usually does not appear in the income account, since it has become the fashion to enter an offsetting item of "charge in lieu of tax savingss," on the theory that the saving is a nonrecurring and abnormal item. However, this factor is the most important factor in the bond refunding program, since the annual saving in interest charges (sometimes relatively small where the coupon rate is reduced only ¾% or less) may shrink to a rather small figure after figuring the increased amount of Federal taxes (which may absorb a considerable part of the annual saving, depending on the tax position of the company).

Accordingly, several huge refundings such as the $155 million issue of Commonwealth Edison and Public Service of Northern Illinois, the $65 millions Philadelphia Electric bonds, etc., are currently under way and a number of other large issues are contemplated.

Since the railroads have suddenly also joined the refunding game, the investment bankers now have more business than they can properly handle with their reduced manpower, and find themselves extremely busy on Monday or Tuesday noons when several important issues may come up for competitive bidding simultaneously. While this condition prevails, there is always the danger that bidding for some important issue may prove too keen, or the big insurance companies may decide to stay out, in which event a "sour situation" may temporarily develop. However, considering the unusual amount of recent financing, the bond market has acted well and banking groups have thus far encountered only minor mishaps in the game of guessing the retail yield basis at which they can successfully move the new bonds safely into institutional portfolios.

Liberty Aircraft's Position In The Industry And Outlook For Peacetime Business

The current offering to stockholders of a new issue of 80,000 shares of $1.25 cumulative convertible preferred stock by Liberty Aircraft Products Corp., to be followed by a public offering of the unsubscribed portion, has directed attention to Liberty's position in the industry and its possibilities for peacetime business in relation to Liberty's own specialty and that of its two subsidiaries—The Autocar Company and Highway Trailer Company.

The preferred stock, recently created as a means of refunding a $1,000,000 bank loan and to provide additional working capital, is being offered the stockholders at $25 a share on the basis of one share of preferred, $20 par, for each 3½ shares of common held as of Oct. 7, 1944. This offering to the stockholders will expire Oct. 23.

Exclusive of its subsidiaries, The Autocar Company and Highway Trailer Company owned 41% and 58%, respectively, by Liberty through its holdings of common stock of these two companies, Liberty's net sales have increased from $483,817 in 1938 to $20,360,891 in 1943, and for the 10 months ended Sept. 30, 1944, amounted to $18,199,238. These last two sales figures are before reflecting price adjustment based upon contract renegotiation.

Aside from an anticipated demand for its products after the war, which it is stated should exceed pre-war demand, Liberty is in position to benefit from its holdings in The Autocar and Highway Trailer companies. In addition to holding 200,000 shares of a total of 485,310 shares of The Autocar Company common stock, Liberty received, on Oct. 2, 20,000 shares of that company's 5%, $20 par value, convertible preferred as a dividend. As of June 30, 1944, The Autocar Company had a backlog of unfilled orders amounting to $30,126,000. Liberty also owns 58% of the common stock of Highway Trailer Company, which had unfilled orders on the same date of $9,500,000. Liberty's own unfilled orders as of July 31, 1944, were $13,200,000. Inasmuch as the war business of all three companies is, in the main, an extension of their peacetime businesses, reconversion of manufacturing facilities should not, it is stated, prove difficult.

Liberty's investments in Autocar and Highway Trailer give it a diversity of manufacturing in the transportation field which is unusual and which, in the event of a decline in the post-war demand for aircraft parts, will give Liberty other sources of earnings in the form of dividends from subsidiaries to supplement its own earnings. In this connection it is pointed out that Liberty is not a "war baby" but has been in business since 1932, and that Autocar for many years was one of the leading trade names in the truck manufacturing industry. The wartime demand for trucks and trailers is expected to continue in peacetime for several years at least, because of the restrictions that have prevailed on production for commercial purposes. According to Oliver H. Payne, Chairman of Liberty and a director of the subsidiaries, there should be ample business for all established truck manufacturers who have enjoyed record sales during the war and who will be faced in the future with the problem of meeting pent-up civilian or commercial demands. In addition to the anticipated peacetime demand, it is expected that, as a result of the mechanization of the U. S. Army, there may also be a continuing demand after the war for military vehicles of the type produced by Autocar.

Any of Liberty's preferred stock not taken by the stockholders will be publicly offered by a banking group headed by E. H. Rollins & Sons Incorporated and Van Alstyne, Noel & Co.

Tomorrow's Markets Walter Whyte Says—

Reaction, previously indicated, now underway. Steel and copper groups show signs of upward revival. Rail short position cut; industrial short position increased.

By WALTER WHYTE

Now that the market is turning downward the whispers of sharp reaction are gradually turning into audible groans of dire things to come. It is possible the purveyors of gloom will have their hopes realized. But the market doesn't give any indication of it. On the contrary, the setback has been signalled so often the retrace of prices could not have been a surprise to tape watchers.

* * *

Of course it would have been ideal for stocks to advance through the overhanging offerings into new highs. Markets, however, are seldom obliging enough to furnish us with the ideal. If there is one thing about price movement which remains constant, it is the element of surprise. Accompanying that is the annoying condition that markets seldom act according to popular belief.

* * *

Occasionally one of these widespread opinions does

(Continued on page 1711)

T. J. Ross Sees Opportunities And Pitfalls For Business After War

Public Relations Expert Tells Life Advertisers Business May Be Blamed For Conditions Beyond Its Control

Although industry is well regarded by the public in this country today because of the amazing wartime production job it has done, continued public favor will depend primarily upon industry's ability to adjust itself to post-war conditions, T. J. Ross, of Ivy Lee and T. J. Ross, told members of the Life Insurance Advertisers Association at their annual meeting in New York City on Tuesday.

The circumstances of this all-important post-war adjustment, he said, lie only partially within the control of industry itself, implying that there is danger that business may be blamed for post-war difficulties for which it is not responsible, unless the public is well informed.

"Let us assume," Mr. Ross said, "that industry does everything in its power to make the transition as quickly as human ingenuity can contrive to do it. If the actual transition should be held up by conditions beyond industry's control, and yet people are led to believe that the Government has done its part, what will the public think?

"One of the problems confronting industry today," he continued, "is the all too prevalent notion that industry or management makes jobs. There is a great deal of talk about the millions of jobs that industry must provide—or else. The fact is that jobs are provided only by the public's demand for the things that industry produces, or the services that business renders."

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 Ave., New York 1, N. Y.

R. M. Ergood To Head Stroud Municipals

PHILADELPHIA, PA.—The appointment of Russell M. Ergood, Jr., as manager of the municipal bond department of Stroud & Co., Inc., 23 South Broad Street, has been announced. Mr. Ergood, who is well known in investment and banking circles as a specialist in State, county and municipal financing, was formerly with Yarnall & Co. He is the Philadelphia representative on the municipal bond committee of the National Securities Traders Association, a member of the Investment Traders Association of Philadelphia and Municipal Bond Club of Philadelphia, of which he is a former secretary.


Russell M. Ergood

Now Fred C. Yager, Inc.

DAYTON, OHIO—The firm name of Feight-Yager & Company has been changed to Fred C. Yager, Inc. Offices will be continued in the Gas and Electric Building.

Railroad Securities

The speculative flurry in Western Pacific new securities (traded on a when-issued basis) which accompanied announcement last month that the Federal Court had authorized payment of interest and dividends accrued on the new securities through 1943 petered out rather quickly. Since the beginning of the month the Income bonds and the new stocks have traded listlessly somewhat below the September highs. Many rail analysts have been rather surprised with the recent action and feel that these new securities still possess very pronounced price appeal at current levels.

The interest and dividend payments authorized will be made at the time of delivery of the new securities, probably late this year or early in 1945. Payments will amount to $225 with respect to each $1,000 of new income 4½s, $15.81 on each share of new 5% preferred and $9 on each share of new common. In addition, there will be $45 payable on the new Income bonds next year from 1944 earnings, and $5 on each share of preferred stock. The $9 dividend already authorized on the common stock represents $3 a share for each of the years 1941-1943 and it is considered likely that a similar rate will be continued next year out of 1944 earnings.

The new common stock is viewed as having particularly interesting speculative potentialities. It has recently been selling at around 34, or a net cost of 25 after deducting the $9 dividend. On a $3 annual dividend rate the shares would afford a return of 12%. At least for some time to come earnings of the company should be sufficient to support such an annual dividend rate. In 1944 it is estimated that earnings should hold above $7 a share after allowing for the participating feature of the preferred stock. (The preferred shares equally share for share after the common has received $3 in any one year.) Even if the European war should be terminated this year, or early in 1945, the traffic and earnings of Western Pacific should be well maintained as the needs of the Pacific war will tax the facilities of the western transcontinental systems to the utmost.

The reorganization of Western Pacific is a particularly drastic one with fixed interest debt confined to serial equipments and one small issue of $10,000,000 1st 4s, 1974. There will also initially be $21,219,000 of Income 4½s, 2014, but this will immediately be reduced by operation of the sinking fund for 1940-1944 (½ of 1% of principal per annum). Also, the company will have considerable free cash, particularly if it gets a favorable tax settlement, at least a portion of which will probably be utilized for redemption of new 1st Mortgage bonds or for open market purchase of new Income bonds. Even without such additional bond retirements the total of fixed and contingent charges would be less than $1,500,000 a year, and total requirements ahead of the common would be less than $3,100,000.

Aside from the potentialities inherent in the present strong finances, which augurs well for further debt reduction, and the prospects of maintenance of peak traffic levels for some time to come based on war needs, rail analysts point to the favorable implications inherent in the basic changes that have taken place in the company's position in recent years. For one thing, the line has virtually been rebuilt during trusteeship, with heavier rail, and a considerable mileage of c.t.c. has been installed. Thus the road, in conjunction with the affiliated Denver & Rio Grande Western, which has also been rehabilitated physically during trusteeship, is in position to compete for fast transcontinental freight.

Of equal importance has been the development of entirely new traffic sources. One factor has been the construction of a connection with the Great Northern in northern California at a cost just about equal to the fixed mortgage debt the entire line is to carry after reorganization. Another factor has been the industrial growth in the western section of the country, and particularly the extensive steel mill facilities in the Provo, Utah, section. With all of these new traffic sources, and with efficiency vastly improved through property betterments and new equipment, it is expected that the property will emerge from the war on a permanently higher earnings base.

Situation Of Interest

Common and preferred stock of MacFadden Publications, Inc., offer interesting possibilities, according to a descriptive summary prepared by Bristol & Willett, 115 Broadway, New York City. Copies of this summary may be had from the firm upon request.

C. A. Hartwig With Link, Gorman & Co.

(Special to The Financial Chronicle)

CHICAGO, ILL.—Carl A. Hartwig has become associated with Link, Gorman & Co., Incorporated, 208 South La Salle Street. Mr. Hartwig, who was recently with Strauss Bros., in the past was a partner in Brailsford & Co., and was manager of the trading department for Dempsey-Detmer & Co.

Walter Janney Dead

Walter C. Janney, head of the investment firm of Janney & Co., 1529 Walnut Street, Philadelphia, Pa., died at the age of 68. Mr. Janney began his business career in the leather business, but left it in 1911 to become associated with the investment banking firm of Montgomery, Clothier & Tyler. The firm's name was changed to Janney & Co. in 1921 and he was named President.

Halsey Stuart Group Offer $155,000,000 Issue Of Commw. Edison

A nationwide investment banking group headed by Halsey, Stuart & Co., Inc., and comprising more than 160 members offered Oct. 18 $155,000,000 3% mortgage bonds, series L, due Feb. 1, 1977, of the Commonwealth Edison Co. of Chicago at 104¼ plus interest. It was announced yesterday by Halsey, Stuart & Co., Inc., on behalf of the syndicate that the issue met with immediate success and subscriptions were received in excess of the amount of the offering.

In addition, Commonwealth Edison Co. is issuing $25,000,000 of the same series of bonds to a group of insurance companies in exchange for a like amount of its outstanding series K bonds owned by these institutions, as an integral part of the company's $180,000,000 over-all financing program.

This financial operation marks the largest single piece of corporate financing to be undertaken under the Securities Act of 1933 and ranks as one of the largest flotations in the history of the country, having been surpassed only by railroad financing in 1921 by the offering of $230,000,000 Northern Pacific-Great Northern Joint 15-year (C. B. & Q. collateral) 6½% convertible gold bonds. The nearest approach of a utility issue was the disposal of $175,000,000 American Telephone & Telegraph Co. 25-year 3¼% debentures in October, 1936.

Proceeds from the sale of the bonds to be offered publicly, together with funds supplied by the company and its main subsidiary, the Public Service Co. of Northern Illinois, will be used to redeem all of Commonwealth's outstanding 3½% series I bonds, aggregating $98,000,000, and all of the $80,000,000 of Public Service's 3½% obligations outstanding.

Among the underwriters associated with Halsey, Stuart & Co., Inc., are: Harriman Ripley & Co., Inc.; The First Boston Corp.; Glore, Forgan & Co.; Harris, Hall & Co., Inc.; Lee Higginson Corp.; Blyth & Co., Inc.; Goldman, Sachs & Co.; Kidder, Peabody & Co.; Lehman Brothers; Mellon Securities Corp.; F. S. Moseley & Co.; Smith, Barney & Co.; A. G. Becker & Co., Inc.; Central Republic Co., Inc.; Alexander Brown & Sons; Clark, Dodge & Co.; Hornblower & Weeks; Stone & Webster and Blodget, Inc., and Union Securities Corp.

Real Estate Securities

By JOHN WEST

We Hear That—

New York Title C-2 will on or before Dec. 30, 1944 make a principal distribution of $30 to reduce each original $1,000 certificate to $830 and an interest distribution of 2½% on unpaid principal of each certificate. This means that for 1944 certificate holders will have received $90 in principal payments and about 4% as interest distributions as on June 30th, 1½% was paid. As of Jan. 1, 1944 the unpaid balance of each $1,000 original certificate was $920. These certificates could be purchased in the open market at that time at about 40 or a total cost of $368. The $60 principal payment already received in 1944 actually cost $24 at a price of 40. The return of this $24 original capital investment plus the differential of $36 is treated as an adjustment of the cost of the remaining unpaid principal of the certificate as shown by the following calculation. The additional $30 principal distribution to be made on or before Dec. 30, 1944 would be treated in a similar manner to reduce the cost.

Cost of $920 certificate at 40	$368.00
Less return of original cost of $60 principal payment at 40	24.00
	$344.00
Less excess over cost of $60 principal payment	36.00
Adjusted cost on $860 unpaid balance	$308.00
Current market value present $860 certificate at 48	412.80
Appreciation	$104.80

And in addition, interest payments for 1944 will total $34.70, which is better than a 10% return on the adjusted cost. Continued active real estate markets speak well for the liquidation of properties in this trust and for sizeable principal distributions which an investor can still buy at around a 50% discount.

80 Broad Street, Inc., will pay 4% interest on the outstanding funded debt on November 1st. This distribution will amount to $26 on each $650 unit. In addition, the trustee will ask for tenders to exhaust sinking funds of about $36,000 available for the fiscal year ended Aug. 31, 1944. This fund is nearly six times larger than the amount available for the previous year.

Hotel Governor Clinton, Inc., will have $41,000 available to be used by the Trustee as a sinking fund for the purchase and retirement of bonds. Although the statement for the fiscal year ended Aug. 31, 1944, has not been made available sinking fund indenture provisions require that 25% of surplus earnings above interest be used for bond retirement. On this basis, the other 75% of surplus earnings or approximately $123,000 would be available for other corporate purposes including payment of dividends on the stock.

40 Wall Street, Inc., has increased rent roll to the point that gross annual income is approaching $2,750,000 and that interest distributions next March may be as high as 2½%. Tax refunds received as a result of certorari proceedings will bolster income for the current period, although a part of such refund, about $50,000 will shortly be used by the Trustee to retire bonds through tender.

New Orleans Traders Elect 1944-5 Officers

F. P. Breckinridge

Robert M. Woolfolk

Frank Burkholder

NEW ORLEANS, LA.—At the annual election of the New Orleans Security Traders Association the following were named to serve for the ensuing year: President, F. P. Breckinridge, Whitney National Bank; Vice-President, Robert M. Woolfolk, Woolfolk, Huggins & Shober; Secretary-Treasurer, Frank Burkholder, Equitable Securities Corp.; National Committeemen, Jos. H. Weil, Weil & Arnold, and Walter D. Kingston, Lamar, Kingston & Labouisse; Alternate, Harold Dane, of John Dane.

P. M. Chandler Dies

Percy M. Chandler, head of Chandler & Co., Inc., 30 Rockefeller Plaza, New York City, and 1500 Walnut Street, Philadelphia, died at his home at the age of 71, after an illness of two months. Mr. Chandler studied law and was admitted to the bar, but left the legal profession for banking, forming Chandler Bros. & Co. with his brother. He remained with the firm until 1914 when he organized Chandler & Co., which became an important factor in the public utilities field.

"Your Dollar's Worth"

By HERBERT E. GASTON*

Assistant Secretary of the Treasury

Treasury Official Predicts That Large Export Trade Will Assist In Utilizing Our High Productive Capacity And Thus Aid In Reconversion, But He Points Out That "This Does Not Mean That Our Foreign Trade Can Be A One-Way Street," And We Need To Import More. Points To Treasury's Policy For Expanded World Trade And Removal Of Trade Barriers, And Holds That Although The Bretton Woods Agreements Are Not A Cure-All They Testify That The 44 Nations Desire To Work Together In The Economic And The Political Sphere.

As we meet here today to discuss the foreign trade problems that we shall face after the war, none of us can fail to be acutely aware of the fact that the victory is not yet won, that the greatest battle in the world's history is being waged just around that bend in the earth and across a narrowing sea, and another of equal ferocity and even wider geographical scope is going on at the opposite curve of the earth.

Herbert E. Gaston

These are the projects of the immediate present which take precedence over all others. None of us would wish to spare any energies that could possibly be devoted to advancing them. But, fortunately, our resources have been so well organized for war that we can look ahead toward the peace without taking anything from the war effort. In fact, we should be able to contribute to the purposes for which we fight, if we lay plans to organize the peace in such fashion

*An address made by Mr. Gaston before the 31st National Foreign Trade Convention at the Hotel Pennsylvania, New York City, on Oct. 9, 1944.

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"Our Reporter On Governments"

By JOHN T. CHIPPENDALE JR.

Following the announcement of the Treasury of the time and type of securities to be offered in the Sixth War Loan, the Government bond market, instead of turning quiet, as has been evidenced in the past, has been quite active, with considerable interest being evidenced in various sections of the list. . . . The partially tax-exempt obligations were in demand with the longer-term issues showing gains of about 4/32 following the improvement registered in these bonds in the previous 10 days. . . .

It is indicated that several institutions, in line with their own studies and the ideas being put forward by the dealers and others, have been adding to their holdings of these obligations, since it has been quite generally concluded that these securities are attractive for future tax purposes at present levels. . . .

It was reported that substantial purchases were made in the past week in the 2⅞% due 1955/60, the 2¾% due 1956/59, as well as the 2¾% due 1958/63 and the 2¾% due 1960/65. . . .

TAXABLES

The taxable issues have not been as active as the partially exempt obligations, but it is indicated that certain changes have been made in the holdings of these issues, and one of these exchanges reported is the sale of the 2% due 12-15-51/55 at 100 23/32 and the purchase of the 2% due 6-15-52/54 at 100 16/32. . . . Through the purchase of the latter issue, the maturity is extended only six months, while the premium is reduced by 6/32, and income is increased from 1.89% to 1.93%. . . . Another exchange reported is the sale of the 2% due 12-15-51/55 at 100 23/32 to yield 1.89% to the call date, and the purchase of the 2% due 9-15-51/53 at 100 23/32 to yield 1.88%. . . . It was pointed out that yield is practically unchanged, whereas maturity is shortened by three months. . . .

It was indicated that the feeling is that the 2% due 12-15-51/55 are out of line with the two other issues purchased, and the reason given for this is that the 2% due 12-15-51/55 are outstanding in much smaller amounts than the other 2% obligations which gives this issue a scarcity value that appears to be unwarranted and which results in these bonds selling out of line with comparable new maturities. . . .

Also, it was reported, that other holders of the 2% due 12-15-51/55 are considering the sale of these bonds and the purchase of the new issue of 2% due 12-15-52/54 to be offered in the Sixth War Loan, when the latter obligations become available to the banks, provided prices of the two issues show a spread of about 13/32 in favor of the 2% due 12-15-52/54. . . .

ANOTHER EXAMPLE

Another reinvestment that was reported to have been made recently was as follows:

	Recent Price	Yield to Call Date
Sold: 2½% due 3-15-52/54	104.0	1.92%
Bought: 2¼% due 6-15-52/55	102 2/32	1.95

It was pointed out that maturity would be lengthened only three months, while income would be increased from 1.92% to 1.95% and the premium account would be decreased by one point and 30/32. . . .

It was also learned that some institutions have been considering the following suggestion that has been made by some of the dealers:

	Recent Price	Yield to Call Date
Sell: 2% due 12-15-49/51	101.21	1.66%
Buy: 2% due 3-15-50/52	101.15	1.71

In this instance the yield to the call date would be increased,

(Continued on page 1712)

Post-War Interest Rates

(Continued from first page)

necessitate keeping this burden as low as possible, the more so since approximately two-thirds of the outstanding debt will be of the short-term or redeemable type, a portion of which will have to be converted sooner or later, thus automatically raising the interest charges.

Similarly, the solvency of the banking system will demand the maintenance at par of all government bonds in bank portfolios. Approximately 65% of the national debt is in the banks, including the savings and reserve banks. True, the majority of the portfolios consists of short-term paper which has no quoted market price. But the volume of medium and long-term issues in institutional portfolios is large enough to endanger the entire banking structure in case of a major depreciation.

The fact that the Treasury will stay in the red for years to come (after the war) is a further reason compelling it to maintain by all means the par value of its outstanding issues, if not to raise it. Otherwise, the sale of new bonds might encounter insuperable difficulties. Moreover, abandonment of the cheap money policy would have the consequence that the rates of the entire real estate credit structure would rise, a highly unpopular development, possibly calling for more housing subsidies.

Indeed, nothing much short of a stabilization of government bond prices can be in prospect in view of the fact that any rise of the interest rate might cause the colossal volume of savings bonds to be offered for redemption, and induce the banks to liquidate their vast holdings.

No Repudiation

Briefly the unique situation emerges that the fall in the market price of the government's obligations would have the effect of a federal debt-repudiation with consequences such as a prolonged bank holiday, breakdown of the bond market, and a choice between financial chaos or wholesale money-printing to avoid it. The remedy often used in the past to cure public over-indebtedness, namely, an open or concealed repudiation, cannot be applied under such circumstances, not even to the very limited extent of permitting a substantial decline of the price of outstanding bonds.

Incidentally, while New Deal propagandists emphasize now, as inflationists have done at all times, that an internal debt is less dangerous than an external one, the present case is a classical example to the contrary. If the national debt were held abroad, a default on it would affect foreigners. Such default is popular in debtor countries, in which the debt is owned by nonresident foreigners, and is often hailed as a patriotic measure. But when we owe the debt to "ourselves," then we hurt ourselves by defaulting on it. One drawback of an internal debt is the fact that it deprives the nation of its freedom to default.

But how can one maintain the price of a colossal debt especially if it continues to grow for some years, as it is expected to, and if substantial short-term portions are supposed to be converted into longer maturities?

The Controls

Control of the government bond market is exercised by inducements to institutions (such as eligibility for rediscount) and pressures on them, thus creating a vast outlet. In war-time, patriotic appeal to the public greatly extends the outlet.

Pressures and inducements receive their basic support by the open market operations of the Reserve System, which have increased the central bank's portfolio from less than $3 billions to well over $15 billions at present. That's the final secret of this stabilization: that any amount not absorbed by the public or by institutions is taken up by the Federal Reserve Banks. But this process will have to be stopped at some point, so as to avoid a runaway price inflation.

By that time, a substitute might have to be resorted to, namely, the freezing of portfolios. As it is, bank portfolios **are** "frozen": they are not supposed to, and couldn't be liquidated to any major extent. This status will have to be consolidated in a permanent fashion. That may be done by legal compulsion or by voluntary agreement, but it will have to be done since neither repayment of the debt nor unloading on the central bank or on the public is feasible.

Of course, the "freezing" of portfolios need not become visible at all if the banks do not try to liquidate their holdings. Such would be the case in a depression. But the trouble is that we are facing the possibility of an inflationary boom in which the demand for bank credit may reach new heights, and might do so at much more attractive rates on commercial loans than the return on governments. Under such circumstances, some form of freezing would become unavoidable.

Similarly, there will be no difficulty in the way of redeeming savings bonds as they are presented—so long as the sale of new bonds does not lag substantially behind the demand for redemption. But any attempt of the public to cash in on a large scale will create embarrassing problems and compel the Treasury to choose between more or less undesirable alternatives.

Of course, it will all depend on the amount of bonds presented for redemption and on the use the public makes of the proceeds. If it merely takes out the money from the Treasury and shifts it promptly to deposit or savings accounts, the government can pay with the one hand to the public and borrow with the other from the institutions which receive the deposits. The problem reduces itself to one of time-lag, and it may or may not be difficult to bridge it over.

This much is certain: that the paying out of savings bonds in cash could only be done by recourse to the Federal Reserve System, raising its portfolio in proportion, and threatening to flood the economy with fresh money. The danger of a runaway inflation would become so serious as to prohibit this procedure. Nor is it very likely that the Administration and Congress would embark light-heartedly on "freezing" the outstanding volume of small bonds and arousing the ire of millions of investors. It is more likely that if the situation becomes acute, attempts will be made to straighten it out by patriotic appeals to the investors and by the offer of exchanging its savings certificates against long-term bonds with higher yield (or with some tax exemption feature).

But that brings us back to the problem of interest rates. If we have to offer the public a higher yield bond, doesn't that mean raising the rates all around? Of course, the new bond will have a higher rate; but the old one has to be kept at the low rate, as before, for the reasons indicated above. It is a characteristic of Managed Money that it permits the breaking up of the capital market into non-communicating sectors. This will be accomplished as it is practically accomplished at present, by restricting the sale of the higher yield bond to the public and making it unavailable to banks and other institutions. Thereby, the market is virtually broken into two parts with widely different interest rate structures—even more so than at present when a 2.9% rate prevails for a non-marketable paper with 60 days' redeemability, and a less than 1% rate for a comparable paper eligible for bank portfolios.

Lastly, the government bond market might be supported also by SEC and Federal Reserve regulations to limit any such credit expansion that would jam the outlet for governments. That Regulation W is to be continued after the war, has been announced by Chairman Eccles, thus limiting the volume of personal loans and finance company paper available to the banks. The flow of credit through other commercial channels may be restricted too, and new corporate bonds may be controlled at the issuing end by the SEC as well as the receiving end by bank examiners.

The Fallacy of Equalizing Rates

Urgent national and fiscal interest to hold the "bond line," plus the ability to do so, add up to one thing only. Even in an inflationary boom, we are bound for practically the same medium- and long-term rates on government paper as at present, notwithstanding the likelihood that profits and commercial credit rates may rise in a spectacular fashion. This contradicts the "classical" or commonplace approach, according to which the return on capital **tends** to be the same on all investments of the same quality, security and marketability. Those who apply this apparent logic to realities, and keep on predicting falling government bond prices, merely prove, (a) that they don't understand the theory, and (b) that they don't visualize the new set-up of the capital market under which we labor. Even under "normal" conditions, the theory merely implies a long-term trend, the validity of which is very doubtful since it assumes an economy without business cycles, and with an unhampered capital market. When the latter is under government control, and when extraordinary swings of prospective appreciations or depreciations affect investment values, all theories about a long-term trend toward a uniform interest rate are meaningless, as is the assumption of a homogeneous capital market.

Credit Bonds

The combination of Cheap Money and Full Employment necessarily carries all bonds to par or above. The artificially low interest rate level creates a vacuum from the point of view of institutional investors who are driven by the urge for higher yield to so-called lower grades, which in turn rise in rating as their prices go up. Full employment means, of course, sufficient earnings to carry fixed charges. The process continues unabated, covering most low-grade bonds as well as the bulk of preferred stocks. Especially so, in view of enhanced corporate liquidity, conversion of outstanding debts to lower rates, successful reorganizations, mergers and capital realignments.

How far this process of corporate bond and preferred stock appreciation can go depends on the post-war cycle. "Normally," it might be interrupted by a short "recession" that should follow the war as a consequence of reduced federal deficits. Since practically every dollar of our deficit adds that much or more to the current national income, a cut in the deficit means not only the disappointment of bullish expectations, but actually a decline of the national income, especially also of labor income.

However, if any such intermezzo of post-war adjustments, with adverse effects on employment, should occur at all, it is not likely to reach substantial proportions or to last more than a matter of weeks. War expenditures may be sharply reduced, but the rapid liquidation of outstanding war contracts will take care of the maintenance of the deficit for the transitional period. No doubt, the inflationary fire will be fanned by substantial unemployment doles for munitions workers, by most generous benefits to members of the armed forces, by subsidies to farmers and others, by international spending and lend-lease, by tax carry-overs, possibly also by "incentive" tax reductions. Under such circumstances, the pent-up demand of individuals and corporations for capital goods is bound to burst into the open, unloading much of the vast volume of accumulated liquid savings. Postponed municipal improvements and even Federal public works will soon get under way, too, so as to take up any possible slack of employment. Temporarily, falling raw material prices are in prospect, but they will be checked by subsidies and international cartels, and by keeping the excess inventories of the Government from the markets.

All symptoms — economic and psychological, legislative and administrative, national and international—indicate a continuation of the war-time full employment into an inflationary boom with little or no interruption to be "feared." But how will such a boom affect the interest rates for **new** corporate **issues**, and therefore the price of the outstanding ones as well? The answer is that inflation is not a straight-line process—it always has two phases at least. So long as commodity prices lag behind the rising volume and/or velocity of purchasing power, so long more monetary inflation means as a rule: increased liquidity of the money market. At the early stages of a price inflation, interest rates tend to remain low. It is only after commodity prices and capitalized values have caught up with the credit expansion that a "capital shortage" becomes visible and interest rates begin to climb. But it may take many months, possibly a few years before such a stage is reached. By that time, interest rates will be upward bound.

To sum up: A vast National Debt is the price we pay for forcing full employment upon the economic system; and cheap money is the condition which enables us to do so. It is important to visualize this correlation between full employment, large deficits and low interest rates. The second is necessary to create the first, and the third keeps the second from becoming "top-heavy." So long as we continue injecting deficits into the economic body, employment cannot fall off. And so long as our political philosophy will demand the maintenance of full employment, deficits and cheap money will be with us.

These considerations should have a definite bearing upon investment policies. They imply the conclusion that in the kind of economic system we are establishing (for awhile) credit risks affecting bond values may virtually vanish.

Attractive Investment

The Public National Bank and Trust Company of New York offers an attractive investment, according to a memorandum on the Sept. 30th, 1944 statement of the bank, which is being distributed by C. E. Unterberg & Company, 61 Broadway, New York City. Copies of this interesting memorandum may be had from the firm upon request.

Fashion Park Attractive

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

Interesting Air Situations

Mid-Continent Airlines, National Airlines, and Northrop Aircraft offers attractive possibilities, according to circulars just issued by J. F. Reilly & Co., 111 Broadway, New York City. Copies of these interesting releases may be had from the firm upon request.

Michigan Brevities

Standard Accident Insurance Company has announced that at a meeting of stockholders investment of $2,500,000 in the stock of a new fire insurance company to be wholly owned and operated, was approved.

The stockholders also approved the issuance of 175,938 shares of common and the offering to stockholders of the right to subscribe to it at $10 a share on the basis of one share for each share held. Transferable warrants will be issued as soon as clearance is received from the SEC.

* * *

A fight for control of the Detroit Paper Products Co. ended in victory for an Indianapolis group which represented big paper interests and left minority stockholders wondering where they'll wind up.

Stockholders of the Detroit firm had voted down a proposal to sell the company to the group with majority interests garnering 67% of the vote against 75% needed for approval.

Later in the week the company was taken over by the simple method of buying up large blocks of stock in private sales.

* * *

King Seely Corporation of Ann Arbor has acquired the controlling interest in Central Specialties of Ypsilanti.

Preliminary arrangements have been made with Watling, Lerchen and Company of Detroit for issuing the new capital stock of King Seely to provide additional working capital for expanded operations.

Central Specialties makes plumbing fittings and gray iron castings for the leading auto and power tool firms.

* * *

Personnel Changes: Harry F. Vickers, President of the Vickers division, was named a Vice-President of the parent Sperry Corporation. . . . William A. Mara, former sales manager of the Stinson Division of Consolidated Vultee, has joined Bendix Aviation. . . . Clifford Sorensen, son of Charles E. Sorensen, President of Willys, is Vice-President of F. L. Jacobs. . . . and Van M. Darsey has been promoted to the Presidency of Parker Rust Proof.

* * *

At the annual meeting of the Security Traders Association of Detroit and Michigan, Don W. Miller, of McDonald Moore and Company was elected President.

Other officers are Paul Moreland, of Allman, Moreland & Co., Vice-President; Harold R. Chapel, Crouse, Bennett, Smith and Company, Secretary; and Alonzo C. Allen, Blyth & Co., Treasurer.

Ray O'Donnell, of R. C. O'Donnell Company, was elected Chairman of the Program Committee; Ray E. Davis, of E. H. Rollins & Sons, Chairman of the Membership Committee; and Ray Bernardi, of Cray, McFawn & Co., the retiring President, becomes Chairman of the Arbitration and Ethics Committee.

The above officers and Committee Chairmen constitute the Board of Directors.

Other appointments were Frank P. Meyer, of First of Michigan Corporation; John K. Roney, of William Roney & Co., and C. Edwin Mercier, of Mercier, McDowell and Dolphyn as National Committeemen. Alternates are H. Russell Hastings, of H. R. Hastings & Co.; A. Buell Quirk, of M. A. Manley Co., and Neil DeYoung, of DeYoung, Larsen and Tornga.

The newly elected officers announced that they are contemplating a more active program with monthly conference and discussion meetings for members only in addition to the customary spring and fall dinners. A membership drive is also being planned.

* * *

The Detroit Stock Exchange is sponsoring a window display in the Fort Street side of the Penobscot Building, in which the Exchange is located.

The displays will be changed from time to time and will feature products of companies whose stock is listed on the Exchange.

Initial window was culture of Penicillin and the handling of blood plasma by the Parke Davis Company.

Seaboard Of Interest

Sutro Bros. & Co., 120 Broadway, New York City, members of the New York Stock Exchange, have prepared an interesting arbitrage circular on Seaboard Air Line Railway Co. Copies may be had from the firm upon request.

NY Bank Stocks Compared

Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange, have prepared a detailed comparison and analysis of New York City Bank Stocks as of Sept. 30, 1944, copies of which may be had from the firm upon request.

Chicago Stock Exch. Memberships Increase

CHICAGO, ILL.—The purchase of the sixth membership in two weeks on the Chicago Stock Exchange was arranged Oct. 10, it was announced by Kenneth L. Smith, President of the Exchange. The purchase price was $3,600, unchanged from recently announced transactions.

Mr. Smith, in commenting on the purchase, said, "On Sept. 12, 1944 the Board of Governors of the Exchange authorized the sale of five memberships held in the treasury of the Exchange. The Boards' action called for the sale of these memberships only to established and strongly financed investment houses."

Mr. Smith added, "Upon the election of these recent purchasers to membership the aggressive policy of the Board of Governors to broaden the base of firm and corporate memberships on the Exchange will have reached a peak not equaled since 1932. There have been 42 purchases of memberships during 1942, 1943 and 1944."

Mr. Smith further added, "The Chicago Stock Exchange membership has broadened outside Chicago, particularly in the Middle West. Many of the most substantial firms and corporations in Illinois, Wisconsin, Missouri, Minnesota, Indiana and other adjacent States have joined the Chicago Stock Exchange with the avowed purpose of constructing a strong Middle West market-place. The natural flow of buying and selling orders that is developing from these new memberships will broaden the markets of the Chicago Stock Exchange."

Ray E. Davis Dead

Ray E. Davis, manager of the Detroit office of E. H. Rollins and Sons, investment firm, died after a two months' illness. He was 50 years of age and made his home in Huntington Woods, Royal Oak.

Born in Freedom, N. Y., he was a graduate of the University of Michigan and served in World War I, being honorably discharged in July, 1919, as a First Lieutenant after serving overseas for 12 months with the 78th Division.

He had been active in the securities business in Detroit for the past 20 years and was a director of the Security Traders Association of Detroit and Michigan. He was also a founder and member of Hammond-Gray Post, American Legion, at LaPorte, Indiana, the F. and A. M. Lodge of Arcade, N. Y., the Pine Lake Country Club, and the Sojourners Club of Detroit.

Situations Interesting In Conn. Companies

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

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.

Connecticut Brevities

The Silex Company of Hartford has announced the purchase of the Canadian Silex Company, Ltd. of St. John's, Quebec, for approximately $175,000. The late Frank E. Wolcott, President of the Silex Company, was the sole owner of the Canadian Company.

The Company is negotiating for the purchase of presently leased property in Circleville, Ohio.

The War Production Board has authorized the company to resume production of automatic electric steam irons, the quota for the month of November being 5,000.

Subject to the approval of the Securities and Exchange Commission, 82,000 shares of the stock belonging to the estate of Frank E. Wolcott will be sold to the public. The transaction will involve some $1,300,000. At the present time, of the 215,000 shares outstanding, only 50,000 are in the hands of the public.

* * *

Eastern Malleable Iron Company of Naugatuck recently acquired Frazer and Jones Company of Syracuse, N. Y., through purchase of all the outstanding stock. Frazer and Jones, whose capital and surplus approximate $500,000, has been in the foundry business about a century.

* * *

The Darlington, R. I., plant of the Hamilton Standard Propellers Division of United Aircraft of East Hartford, will gradually remove production lines and be closed down by the end of the year after completing its war contracts.

This was the most recently established of the branch plants and having successfully served its purpose in meeting the peak wartime demand, it is no longer needed to fulfill schedules.

It is expected that the 600 workers will be transferred to the company's plants at East Hartford and Norwich.

* * *

Danbury and Bethel Gas & Electric Light Company has called for redemption on February 1, 1945, the entire issue of 6% series A bonds due Aug. 1, 1948.

* * *

Nine months earnings for two of our state banks show a considerable increase over the corresponding period in 1943.

The Hartford - Connecticut Trust Company showed earnings of $4.94 a share against $3.65 in 1943, while the Phoenix State Bank & Trust Company for comparable periods showed $21.66 and $14.49, respectively.

In its statement of Sept. 30, 1944, the Hartford - Connecticut Trust Company showed total assets of $102,422,136 as compared to $108,288,887 a year ago. There was an increase in loans and discounts and in U. S. Government securities, while cash and due from banks was lower by $11,553,682. Total deposits showed a decline of some $6,510,100. Undivided profits were up $430,102.

Book value per share was $50.19 against $47.50 as of the end of September, 1943.

The Phoenix State Bank & Trust Company in its balance sheet of Sept. 30, 1944, showed total assets of $77,810,567, which was $11,927,242 less than a year ago. Deposits of $72,558,384 were off $12,159,813. The bank has undivided profits of $1,224,893 which represents a gain of $220,142.

Book value of $276.56 per share compares with $262.80 in 1943.

* * *

The Stamford Water Company of Stamford is currently offering to purchase its outstanding first mortgage 5% bonds due July 1, 1952, from the bondholders at their principal amount plus a premium of $294.48 per $1,000 of principal amount, and accrued interest to Oct. 31, 1944. At this price the yield is approximately 1.00% to maturity. Total payment per $1,000 bond, including accrued interest, amounts to $1,311.15.

The offer expires Nov. 1, 1944. Bid prices for the year ranged between 121 and 122.

* * *

The Hayes Manufacturing Company of Grand Rapids has made an offer to purchase the common stock of the Farrel-Birmingham Co. This latter company is the result of the merger of the Farrel Foundry and Machine Co., established in 1848 and the Birmingham Iron Foundry founded in 1836, representing two of the oldest machinery manufacturing concerns in the East.

Plants are now operated in Ansonia and Derby, Conn., and in Buffalo, N. Y.

Cooley & Co. Adds Gaerste

(Special to The Financial Chronicle)

HARTFORD, CONN.—John L. Gaerste has joined the staff of Cooley & Company, 100 Pearl Street, members of the New York Stock Exchange. Mr. Gaerste was previously with Tucker, Anthony & Co.

Attractive Possibilities

Lukens Steel common and Western Light & Telephone common offer attractive possibilities, according to memoranda issued by Buckley Brothers, 1529 Walnut Street, Philadelphia, Pa., members of the New York Stock Exchange and other national exchanges. Copies of these memoranda may be had from Buckley Brothers on request.

Deflation In Prospect For 1945

"Deflation rather than inflation will dominate the economy in 1945," according to Dr. Robert C. Shook, Vice-President of the International Statistical Bureau, Inc. Members of the Tanners' Council of America, who held their 28th annual meeting at the Waldorf-Astoria on October 12th, were told that the history of sharp price advances such as followed the last war would not be repeated.

"No industry or individual can escape the effects of heavy war contract cancellations in the near future," continued Dr. Shook. "Business profits and individual incomes will decline. Purchasing policies will reflect not only the deterioration of supply - demand relations but also a less optimistic psychology. Wide-scale modifications of government controls will have to be made as the transition from war to peacetime operations gets under way.

"Industry's success in meeting unbelievably high wartime goals has generated a confidence in the future that may be somewhat misplaced. Wartime production records would have been impossible without complete conversion, a fact which emphasizes the problem of reconversion. Wartime production records also measure the great increases in productive capacity and raw material supplies that have occurred.

"Price movements during reconversion will be varied. Some commodities have been held down by ceiling prices, while others already require strong support. Agricultural prices are relatively high. By summer or fall of next year, sharp price declines should be under way. Somewhat higher prices for finished items not produced during the war will be an offsetting factor. Dr. Shook emphasized the belief that the general price level would show small declines in 1945.

"Business now is greatly concerned with the elimination or easing of government controls. Limitation of civilian output will be dropped very quickly once munitions contracts are reduced by 40%. The life of OPA, however, extends to the middle of next year, and its renewal is a political question. Public reaction against rationing is likely to be strong. Many business groups, however, support a continuation of price controls for some time. To some extent, this reflects the belief that history will repeat itself, and that there will be a rapid price advance like the one that reached a peak in 1920.

"Imported commodities involve a special problem. If domestic demand falls enough after the European war ends so that imports are no longer needed, then it would hardly seem that price controls would be necessary. If the domestic market still depended on imports, however, price ceilings might prevent them from coming in. Speculative holding of Latin American raw materials has already been reported. American importers have already encountered difficulties in operating in foreign markets under domestic price ceilings. Dr. Shook expressed the view that these problems would become more rather than less intense after the European war ends.

"There seems to be a tendency at the moment to take wartime distortions as a matter of course. The public at large and even businessmen have become so accustomed to the enormous rate of wartime production, that views about the future, when the economy will depend more heavily on private investment, are colored by developments of the past year or two, when events have been dominated by government spending. Government spending for war now duplicates, every ten weeks, the total amount spent for the last war. The increase in raw material capacity closely approximates the raw material capacity available at the time of the last war. Expansion in plant capacity has been equally sensational. These tremendous increases in potential output have a direct bearing on the question of continuing government controls once cutbacks become widespread."

Mississippi Valley Group Of IBA Meets

ST. LOUIS, MO.—The annual meeting of the Mississippi Valley Group of the Investment Bankers Association of America was held Oct. 18, 1944, at the Jefferson Hotel, St. Louis. Various committee reports and the report of the Secretary-Treasurer, Garfield J. Taussig, was received and the election of officers and the Executive Committee for the year 1944-1945 held.

The Nominating Committee proposed the following slate: John A. Kerwin, Kerwin, Fotheringham & Co., Inc., Chairman; Garfield J. Taussig, Taussig, Day & Company, Inc., Vice-Chairman; Chapin A. Newhard, Newhard, Cook & Company, Secretary-Treasurer. Members of the Executive Committee: Harry Theis, Albert Theis & Sons, Inc.; H. Frederick Hagemann, Jr., The Boatmen's National Bank (both ex-officio); William P. Sharpe, Mercantile - Commerce Bank & Trust Co.; Jerome F. Tegeler, Dempsey, Tegeler & Company; Bert H. Horning, Stifel, Nicolaus & Co., Inc.; Benj. F. Frick, Jr., Stix & Company; Oscar H. Wibbing, O. H. Wibbing & Company, all of St. Louis, and J. C. Lancaster, Union Planters National Bank & Trust Co., Memphis, Tennessee.

Phila. Banks Plan Business Credit Fund

Plans for the formation of a $10,000,000 bank credit fund, by a group of Philadelphia banks, to provide an additional source of credit for small and medium-sized businesses in the reconversion and post-war periods, were announced today by Evan Randolph, President of the Philadelphia National Bank, and Chairman of the committee organizing the group. These plans are now being considered by the managements of several of the larger banks in Philadelphia and will be submitted shortly to all of the banks in the city.

"Formation of this credit group," said Mr. Randolph, "is a sincere effort on the part of banks to lend every financial assistance to the businessman during the days when business enterprises must be reconverted from a wartime to a peacetime basis.

Officials of each bank which becomes a member of the group will serve jointly on a loan committee to consider the merits of each loan application, and every effort will be made to provide ways and means to accommodate the applicants.

The bank credit group will serve the entire Third Federal Reserve District, comprising, in addition to Philadelphia, that portion of Pennsylvania east from about Johnstown; New Jersey south from Trenton, and the entire State of Deleware.

Attractive Situations

Common and 6% cumulative convertible preferred of the American Bantam Car and Panama Coca-Cola offer attractive situations according to circulars issued by Hoit, Rose & Troster, 74 Trinity Place, N. Y. City. Copies of these circulars may be had from the firm upon request.

Missouri Brevities

Recent Underwriting Activities

Several Missouri dealers were members of the underwriting group headed by **Halsey, Stuart & Co., Inc.** which purchased the **$300,000,000 Arkansas Power & Light Company, First Mortgage 3⅛s due 1974.** Included were **Stern Brothers & Co., of Kansas City** and **Metropolitan St. Louis Company, Newhard, Cook & Co., Reinholdt & Gardner, I. M. Simon & Co.,** and **Stifel, Nicolaus & Co.,** all of **St. Louis.**

Van Alstyne, Noel & Co. and **Kobbe, Gearhart & Company of New York** headed an underwriting group, including **Newhard, Cook & Co. of St. Louis** which offered **225,000 shares of Allen B. DuMont Laboratories, Inc., Class A Common Stock** at **$7.375** per share.

O. H. Wibbing & Co. of St. Louis were members of an underwriting group headed by **Brailsford & Co.** and **Shillinglaw, Crowder & Co., Inc.,** of Chicago offering **150,000 shares of Electronic Laboratories, Inc., Common Stock** at $5 per share.

Kidder, Peabody and Company and **Drexel and Company** headed a banking group offering **$23,735,000 General Mortgage 3⅜s due 1975** of the **Pittsburgh, Cincinnati, Chicago and St. Louis Railroad** at **102.** Included among the underwriters were **G. H. Walker & Company** and **Newhard, Cook and Company of St. Louis.**

Falstaff Brewing Corporation Expansion Program

Falstaff Brewing Corporation of **St. Louis** has announced a post-war expansion and rehabilitation program for its plants at Omaha, New Orleans, and St. Louis. Planning and execution of this program will be under the supervision of **Harvey Beffa, Vice-President.** Stock of the company is listed on the New York Curb and St. Louis Stock Exchanges.

Cragin & Trimble Now With Slayton & Co.

(Special to The Financial Chronicle)

ST. LOUIS, MO. — John H. Cragin and J. L. Trimble have become associated with Slayton & Co., Inc., 111 North Fourth Street. Mr. Cragin was formerly proprietor of the Cragin Investment Co. in Joplin, Mo. Mr. Trimble was with Prugh, Combest & Land, Inc. in Kansas City.

St. Louis Traders To Hold Meeting, Election

The annual election and dinner of the Security Traders Club of St. Louis will be held Nov. 9, 1944, according to an announcement by Elmer F. Barkau, Secretary. The following slate has been presented to the members: Joseph G. Petersen, Eckhardt-Petersen & Co., President; Walter C. Haeussler, Paul Brown & Co., First Vice - President; Mel Taylor, Semple, Jacobs & Co., Second Vice-President; E. Ken Hagemann, G. H. Walker & Co., Third Vice-President; Herman J. Zinzer, Dempsey, Tegeler & Co., Secretary; Robert M. Guion, Newhard, Cook & Co., Treasurer; George M. White, White & Co., National Committeeman.

Joseph G. Petersen

The nominating committee consisted of Dumont G. Dempsey, of Newhard Cook & Co.; Ralph C. Deppe, of Edward D. Jones & Co., and Lester W. Knickmeyer, of Albert Theis & Sons.

Airline With A Future

Chicago and Southern Airlines, Newhard, Cook & Co.; Ralph C. "The Valley Level Route" and bisecting every transcontinental air carrier, offers attractive possibilities according to an analysis prepared by Scherck, Richter Company, Landreth Building, St. Louis, Mo. Copies of this analysis may be had from Scherck, Richter Company upon request.

Attractive Situations

Ward & Co., 120 Broadway, New York City, have prepared circulars on several situations which currently offer attractive possibilities, the firm believes. Copies of these circulars, on the following issues, may be had from Ward & Co. upon request.

Du Mont Laboratories "A"; Merchants Distilling; General Instrument; Great American Industries; Massachusetts Power & Light $2 preferred; Majestic Radio; Magnavox Corp.; Electrolux; Brockway Motors; Scoville Mfg.; Bird & Sons; Cons. Cement "A"; Riley Stoker; Alabama Mills, Inc.; and H. & B. American Machine preferred.

Bank and Insurance Stocks

This Week—Bank Stocks

By E. A. VAN DEUSEN

Earnings of New York City banks in the third quarter of 1944 show a substantial gain, in most instances, over earnings in the third quarter of 1943. Thus, the steady upward trend in the earnings of leading Wall Street banks, which started in 1938, continues unabated.

The accompanying tabulation shows third quarter and nine months earnings per share for 1944 vs. 1943.

	Third Quarter 1943	Third Quarter 1944	Nine Months 1943	Nine Months 1944	Nine Months Increase
Bank of Manhattan	$0.36	$0.55	$1.02	$1.45	42.2%
Bank of New York	6.23	7.97	18.28	21.23	16.1
Bankers Trust	0.76	1.05	2.40	2.97	23.8
Central Hanover B. & T.	1.50	1.50	4.05	4.30	6.2
Chase National	0.93	0.73	*1.56	*1.85	18.6
Chemical Bank & Trust	0.74	0.84	*2.17	*2.65	22.1
Commercial N. Bank & Trust	0.96	1.18	2.57	3.26	26.8
Continental Bank & Trust	0.53	0.59	1.37	1.50	9.5
Corn Exchange Bank & Trust	0.94	0.99	2.65	2.91	9.8
First National	21.85	25.79	71.68	83.81	16.9
Guaranty Trust	5.36	5.65	*13.73	*13.93	1.5
Irving Trust	0.20	0.27	0.58	0.77	32.8
Manufacturers Trust	1.12	1.28	3.29	3.58	8.8
National City	*0.60	*0.66	*1.68	*1.93	14.8
New York Trust	1.60	1.93	4.15	5.24	26.3
Public National Bank & Trust	0.85	1.16	2.36	3.31	40.3
United States Trust	17.54	16.13	50.07	49.61	—0.9
Average					18.6%

*As reported by bank.

The above figures are "indicated earnings" computed from the balance sheets, except where marked with an asterisk. A few of the large banks are now following the practice of publishing rather complete interim earnings reports, thus, Chase, Chemical, Guaranty and National City have published earnings figures for the nine months ending Sept. 30, 1944, compared with the similar period in 1943.

In the case of Chase National Bank, "net profits on securities" amounting to $0.30 per share during the first nine months of 1944, in addition to "net current operating earnings," have also been earned, which raise the bank's total net earnings for the period to $2.15, or a little more than double annual dividend requirements at the rate of $1.40. For the nine months period of 1943, however, security profits were higher, amounting to $0.72, thus bringing total profits up to $2.28 per share, or $0.13 per share better than currently.

The figures for National City Bank include those of City Bank Farmers Trust, whose entire capital stock is held in trust for the benefit of the shareholders of National City Bank. In addition to the "net current operating earnings" reported in the table, "net profits on securities" amounted to $0.24 per share in 1943 and $1.09 in 1944, thus, including security profits, National City has earned $3.02 per share in the nine months of the year vs. $1.92 for the same period last year. Current dividend requirements are therefore being earned four times.

It is interesting to note that the average betterment in earnings of the 17 banks under consideration, for the nine months of 1944 vs. 1943, is 18.6%. Only one bank, viz: United States Trust Co., shows a decline. Bank of Manhattan, Public National Bank & Trust and Irving Trust, show outstanding gains. However, since these gains are based on "indicated earnings" for interim periods, they cannot be taken as conclusive. The results, by and large, however, are significant and distinctly encouraging to bank stock investors.

Compared with the mid-year figures, despoits of these banks on Sept. 30 were approximately $1,590,000,000 lower or 6.5%; compared with Sept. 30 of last year, however, they were higher by $148,000,000 or 0.6%. So far as quarterly statements are concerned, June 30, 1944, registered the all-time peak—thus far. The decline in deposits since July is attributable to withdrawals by the United States Government from war loan deposits for the settlement of war contracts. The record volume registered in the mid-year statements resulted from the Fifth War Loan drive. It is probable that deposits will again rise to a new peak as the Sixth War Loan gets under way in November and December.

Some aggregate figures for the above group of banks, as of recent quarterly dates, are given below:

Date	Deposits	Governments	Loans and Investments	Loans and Investments % of Deposits
9-30-1943	$22,394,000,000	$13,444,000,000	$19,588,000,000	87.5
12-30-1943	21,819,000,000	13,382,000,000	18,406,000,000	84.5
3-31-1944	22,472,000,000	13,886,000,000	19,324,000,000	86.5
6-30-1944	24,132,000,000	14,809,000,000	20,927,000,000	87.0
9-30-1944	22,542,000,000	14,274,000,000	19,845,000,000	88.5

The recent trend in deposits and in loans and investments is shown, and also the extent to which leading Wall Street banks are keeping fully invested, while at the same time maintaining legal cash reserves with the Federal Reserve Bank. The percent ratio of loans and investments to deposits for Sept. 30th is the highest during the period shown, and is probably about the highest that is practicable under present reserve requirements.

Secretary Morgenthau Anticipates No Rise In Interest Rates In Foreseeable Future

Treasury Head Also Predicts No Need For Wholesale Post-War Funding Of Public Debt Into Long Term Bonds. Holds Commercial Banks' Holdings Of Short Term Government Obligations Has Placed Them In A Position Of Unparalleled Liquidity.

In an address at a War Bond Rally at the Hotel Biltmore, Los Angeles, Cal. on Oct. 14, Secretary of the Treasury Henry Morgenthau Jr., in addition to calling attention to a $70 billions savings in government cost, because of wartime control of prices, stated that the low interest rates on the present public debt, as contrasted with the rates prevailing in World War I, has saved the taxpayers approximately $4 billions per year. He predicts a continuation of the present interest rates, and stated that "savings are abundant and promise to meet all likely demands," and that because commercial banks were encouraged to buy government short-term obligations, they are in "a position of unparalleled liquidity." The following is the text of Mr. Morgenthau's remarks:

Sec. Morgenthau

For the last week I have been addressing a number of meetings such as this in various parts of the country. During the course of these talks I have endeavored to outline briefly some of the philosophy behind American war finance as we at the Treasury Department view it.

The democratic manner in which the financing of the war has been handled, I described last Saturday at Atlantic City. About 85,000,000 individual Americans have bought bonds of their government. They have bought them not as a result of compulsion but for purely patriotic reasons and because they are the best investment in the world.

Thursday, addressing a gathering similar to this at New Orleans, I emphasized the part which war finance has played in economic stabilization. The heavy tax burdens which the American people, generally speaking, have accepted with extraordinarily good grace and the large proportion of the increase in the public debt which has been absorbed by the men and women of this country, have played a very important part in holding inflation in check. The OPA has estimated that if prices during this war had risen as sharply as in World War I, there would have been approximately a $70,000,000,000 increase in government costs — a $70,000,000,000 additional burden fastened onto the country.

Today I would like to conclude this resume with a quick examination of interest rates and a glance at the post-war public debt problem as I see it.

The great expansion in the Federal debt has been achieved with virtually stable interest rates — thanks largely to your efforts. Such change as has occurred has been to slightly lower levels. This contrasts with World War I when almost each new series of bonds carried a higher interest rate, so that the cost trend was almost constantly upward. As a result, the average interest cost has been only 1¾% on the wartime increase in the public debt. This contrasts with 4¼% for World War I.

The resulting interest saving approximates $4,000,000,000 a year—quite a tidy sum to have saved for the taxpayers of this nation. Realization of your part in this saving, I believe, should give you, as it has us at the Treasury, a feeling of real accomplishment.

Moreover, and this is a point deserving of particular emphasis, the interest on all securities sold during the war has been fully taxable while the issues marketed during World War I were all either wholly or partially tax-exempt. This has resulted in a further net saving to the Treasury amounting to several hundred million dollars a year. Further through removal of tax exemption all purchasers of government securities are taxed their share of the war cost in proportion to their ability to pay. This is a point which may not have occurred to you but which should be of help in the sale of E bonds.

Incidentally, the Government in eliminating tax exemption relinquished any "unfair" advantage it might have had over private borrowers in securing credit. It thereby served to strengthen the private enterprise system.

President Roosevelt, in his 1945 Budget Message summarized the situation as follows:

"The primary achievement of our debt policy has been the maintenance of low and stable rates of interest. Average interest rates payable on the public debt now are less than 2%. Interest received from all new issues is fully taxable. As a result, the net cost per dollar borrowed since Pearl Harbor has been about a third the cost of borrowing in the first World War."

Personally, I do not anticipate a rise in interest rates in the foreseeable future. Savings are abundant and promise to be adequate to meet all likely demands. We believe, therefore, that we shall be able to refund our obligations, as they come due, at rates comparable to those now prevailing. Thus, the saving to the Treasury will continue over a long period of years. At the same time the people to whom you have sold the war bonds will continue to be satisfied rather than disgruntled customers.

Moreover, quite apart from its value to the Treasury—and, hence to the taxpayers—the continuance of low interest rates, will provide a stimulus to the national economy in the post-war period. High interest rates limit enterprise and discourage employment. Low interest rates stimulate business and make for expanding employment.

Just as I see no reason for substantially higher interest rates in the post-war period, I do not see any need for a wholesale postwar funding of the public debt into long-term bonds.

In the first place, it would cost the taxpayers more in interest. Next, it would shift whatever risk there is inherent in fluctuating interest rates from the Government, which is able to bear it, to individuals, institutions and corporations. Certainly the day is past when the United States Government need ask its citizens or its business enterprises to insure it against changes in the rate of interest.

Finally, we have endeavored to tailor the debt structure to the needs of those who lend us the money and of the national economy.

The small investor who purchases the Series E Savings Bonds places his faith in his Government. Could we do less than see to it that the securities offered him were suited to his needs?

The Savings Bonds, while not a war development, having been first offered ten years ago, have proved an admirable war finance medium which we expect to carry over into the post-war period. We hope that many millions of people will continue to hold a financial stake in their Government.

Industrial corporations, as you know, have principally purchased certificates of indebtedness and Series C Notes. These constitute a substantial part of their reserves for reconversion and post-war development. It is clearly advantageous not only to the corporations but to the whole economy that these reserves be liquid. The corporations thus know that the money will be available and without loss whenever they need it. When the proper time comes they can proceed full speed not only with their conversion but with any expansion plans they may have.

Finally, there are the government securities which now constitute a large proportion of the assets of the commercial banks. Many of you are bankers. You know it has been our policy to encourage the banks to purchase issues of short maturity. As a consequence, about half the securities acquired by the commercial banking system since the beginning of the war have been bills and certificates maturing within one year and practically all have had a maturity of ten years or under.

The result is that the banking system of the country is in a position of unparalleled liquidity. This, we believe, affords assurance against a recurrence of such unsettling deflation as came in the aftermath of World War I. Further, it places the banking system in a strong position to meet the shifts in deposits that many of you anticipate with reconversion and the new business demands for funds that should accompany the development of a healthy, expanding economy.

In a word, the banks' part in war finance, great as it has been, instead of hamstringing them, has left them in a position to service enthusiastically a virile private enterprise system.

I might point out that the banks have not only been able to maintain a strongly liquid position as a result of the manner in which the nation's war finance has been handled, but also they have found an opportunity for public service. This has enhanced the esteem with which they are held in their respective communities. Moreover, while they have been making this contribution to the war effort they have enjoyed an increase in earnings. Net profits of all member banks of the Federal Reserve system last year were back at almost exactly the all-time-high level of 1929.

I want to thank you who have been the leaders in the war finance work in these great western States—thank you upon the part of the Treasury, whose job it has been to direct the program, and, more important, thank you on behalf of the United States of America, which, of course, is the real beneficiary.

I am no prophet as to the duration of the war, but today we are hopeful that unconditional surrender by Germany may not be far away. At such time all eyes will turn to the West. The eleven States represented at this meeting will take on new importance in the war. The Pacific coast will become the springboard for the all-out offensive against Japan.

This should prompt you who have the job of raising the necessary money to redouble your efforts.

Our immediate task is to put over the Sixth War Loan, to do so just as decisively as our fighting men are establishing their positions in Europe and in the islands of the Pacific.

I know you understand the importance of this absolutely essential link in the war effort. But you must do more than understand it, you must make the people understand it, the men and the women in stores and offices, in factories, on the farms and in their homes.

These people must understand, as you do, that the time has not yet come to relax or celebrate, that we must speed weapons and supplies far across the Pacific to our armed forces who know full well that a hard fight still lies ahead before they can bring us victory over the Japanese — and these weapons and supplies must be paid for. That is our task — I know America can count upon you!

Pyne Kendall To Admit

Pyne, Kendall & Hollister, 52 Wall Street, New York City, members of the New York Stock Exchange, will admit Howard A. Plummer to limited partnership in the firm as of Nov. 1.

Steel Outlook Good

"Little Steel headlines won't tell the big steel story," according to a bulletin on the Steel Industry Series of New York Stocks, Inc., published this week by Hugh W. Long and Company, Inc., 48 Wall Street, New York City. "Whenever the Little Steel decision comes, and whatever the decision is, it is hard to see how it can be really bad for steel company earnings." Copies of this interesting bulletin, discussing the situation in detail, and containing a list of the 10 companies of Steel Industry Series, upon which the report is based, and the price range and dividend history of the Series, may be had upon request.

NY Bank Stocks Compared

New York Hanseatic Corporation, 120 Broadway, New York City, has issued an interesting and convenient comparative table of leading New York Bank and Trust Company stocks, as of Sept. 30, 1944. Copies of this table may be had from the firm upon request.

Mutual Funds

Idle Dollars

The vast accumulation of idle cash in the hands of individuals was recently made the subject of an important press release by the Securities and Exchange Commission.

The SEC warning that this huge volume of idle cash might suddenly start an inflationary spiral is certainly a timely one. And timely, too, is the leaflet on this same subject which Distributors Group made available to affiliated dealers last week.

The leaflet uses pictures to emphasize its points and leaves the forceful conviction that "your idle dollars" would be far better off at work—invested in good securities.

Barron's Widow

Selected Investments Co. takes the five-year results of the BARRON'S "Investing for a Widow" contest which were recently summarized in that magazine and compares them with the performance of **Selected American Shares.** The eight prize-winning and "honorable mention" programs selected by BARRON'S five years ago show an average appreciation today of 8.2% over the original $100,000 investment and an average income of $4,336 for the year ended Aug. 25, 1944. Selected American Shares, by comparison, shows a market appreciation of 24.8% and an income of $5,218.

As this sponsor comments, the investment in **Selected American Shares** would have been "better for the widow." To be precise, she would have over twice the appreciation in Selected American shares as in the best of the eight price-winning programs.

Which Industries?

Hugh W. Long & Co. has just published a handsome new 28-page booklet on **New York Stocks** entitled "Which Industries Will Do Best?" The first four pages contain a discussion of the "industry selection" principle. Accompanying graphs illustrate the wide variation in performance between various industries and the importance of diversifying one's investments in an industry over more than just one or two leading stocks.

The major portion of the booklet is devoted to one-page resumes of the various industry investments available through **New York Stocks, Inc.** The reconversion problems and the post-war outlook for each industry are set forth in separate paragraphs.

Fifth Anniversary

Ray Vance, Chairman of the Board of **New England Fund,** has written a letter to shareholders in which the effects of five war years on our security markets are analyzed. It is a thought-provoking letter and, if read seriously, should encourage investors to think carefully of their investments "before going off 'half-cocked' on some high-pressure proposal."

46 for 4

The current issue of **Abstracts** tells how under **Lord, Abbett** management **Affiliated Fund** has achieved a total gain of 46 cents per share (from $3.96 to $4.32, plus 10 cents of capital gains dividends) during the last 14 months in which the Dow-Jones Industrial Average has shown no gain. The cost of management to Affiliated Fund shareholders for this excellent showing was only 4 cents per share. Hence the caption "46 for 4."

Assets Up 100%

National Securities & Research Corp., in Letter No. 9 of its series on **National Stock Series,** announces that assets of the trusts which comprise the **National Securities Series** increased 100% in the first nine months of this year.

In letter No. 9 of the series on **Industrial Stock Series,** this sponsor points to the extraordinary growth plotted for electronics and gives a partial list of its already demonstrated uses. The list includes nearly 60 separate applications of electronics and covers the fields of communications and entertainment, industry, medicine and food production.

Double Taxation

The forthright discussions on taxation which **Keystone Corp.** has featured from time to time in its weekly bulletin **Keynotes** were supplemented last week by a statement on the feasibility of eliminating double taxation on corporation earnings. **Keystone Corp.** analyzes this problem from the standpoint of possible loss of revenue to the Federal Government and concludes that if double taxation on corporate earnings were eliminated by abolishing the normal corporate tax, there would be an apparent loss of $5 billion of revenue. However, if corporations were forced to pay this amount out as dividends, the individual income tax would recapture $2 billion, so that the net loss of revenue would amount to only $3 billion.

Keystone Corp. concludes: "When it is realized that the various estimates of Government requirements of the post-war period range from $18 billion to $22 billion of annual revenue—in contrast to the current collections of $45 billion—it is clear that it is not only feasible to eliminate corporate income and excess profits taxes entirely, but that individual income tax rates can also be reduced."

Investment Reports

Fundamental Investors—On Sept. 30, 1944, net assets were $11,138,080 invested 81% in common stocks, 17% in appreciation-type bonds and preferred stocks, and 2% in cash.

George Putnam Fund—Net assets on Sept. 30, 1944, amounted to $10,128,000, compared with $7,790,000 at the end of 1943.

Wellington Fund—Assets on Sept. 30, 1944, were invested as follows: 54.7% in common stocks, 8.6% in appreciation bonds and preferreds, 23.2% in income bonds and preferreds, 7.5% in U. S. Government bonds and 6.0% in cash. This latest quarterly Wellington Fund report is unusual in that it shows the portfolio classified on the basis of a $10,000 investment at market values but doesn't contain a balance sheet or an income statement, both of which have perhaps less meaning to the average investor than **how** his dollars are invested.

Chemical Fund—Net assets on Sept. 30, 1944, amounted to $10,709,163, compared with $10,665,530 three months earlier.

National Bond & Share Corp.—Net assets on Sept. 30, 1944, amounted to $9,149,528, compared with $9,259,414 at the beginning of the quarter.

Mutual Fund Literature

Hugh W. Long & Co.—Current portfolio folder on **Manhattan Bond Fund. . . . Distributors Group**—Monthly Investment Report on **Group Securities, Inc.;** current portfolio folders on **Railroad (Bond) Shares** and **Low-Priced Shares. . . . National Securities & Research Corp.**—Current **Investment Timing,** discussing "The British Government Social Insurance Plan"; Current Information folder and list of portfolio changes covering all National sponsored funds. . . . **Hare's Ltd.**—A new folder on **Aviation Group Shares** entitled "Transportation—Another Word for Opportunity."

Dividends

Boston Fund—A quarterly dividend of 16 cents a share payable Nov. 20, 1944, to shareholders of record Oct. 31.


The Dollar Mystery

(Continued from page 1682)

work of economic liberal institutions (the basis of political and civil liberties) prompt the United States to seek the reconstruction of international commerce through the mechanism of universal multi-lateral trade.

What are the obstacles to this objective? First of all, there are some which are at the same time, cause and effect. Among these, we must certainly include political security, and also the monetary instability and commercial policies of the different countries. But there are two other obstacles, the manifestation of which has been accelerated by the first World War and World War II. They are to be ascribed to the fact that from a debtor nation, the United States became a creditor nation, and that Great Britain, on the other hand, from a creditor nation became a debtor nation. These obstacles are even more important considering that the United States is a country which, to a large extent, is self-sufficient economically and which at the same time, also exports industrial and agricultural products. **What is more, the productivity of the worker in American industries is double that of England.**

A great number of English economists and politicians admonish the United States to learn the behavior of a creditor nation. They incessantly tell them that international trade is not "a one-way street"; that to export, they must import, and that it is up to them to adopt a policy which will lead to an equilibrium of their balance of payments. They also point out that violent fluctuations of economic activity disastrously affect well-being and employment in the rest of the world, and in particular, those of small countries which specialize in the production of raw materials (which represent 70% of American imports).

Two Problems: The Dollar And The Pound Sterling

If one wishes to follow realistically the impassioned discussions which take place in Great Britain regarding monetary and economic questions, it is necessary to understand, as if it were the anatomy of the dollar and the pound sterling. There is indisputably a problem of the dollar which arises essentially from the fact that **the United States need few imports, while the rest of the world desires and wants many of their manufactured products,** and that at the same time, the United States have a surplus of agricultural products which they must export, not only for reasons of their economic balance, but for the sake of their social balance. But there is also the problem of the pound sterling, the solution of which depends only partially on the answer to the dollar mystery. It is impossible to grasp the bottom of the Anglo-American economic struggle (with its inevitable social and political repercussions) if one does not understand the following: **a solution of the problem of the balance of payments of the United States does not necessarily constitute a solution of the British problem.** One can better follow this line of thinking if it is asserted, without over-simplification, on one hand, that the problem of the pound sterling would be easier to solve were it not for the power and productivity of American industry; on the other hand, that American problems would be more easily solved were not exports for the British a matter of life or death. Moreover, **the United States, principally for reasons of social balance, are interested in obtaining relatively high prices for agricultural products, while Great Britain is interested in buying her imports as cheaply as possible.**

The preceding considerations, as well as another factor to be analyzed further on, **explain the attitude of many English economists regarding tariffs into the United States.** Strangely enough, English economists, in opposition to American economists, seem to attach little importance to the eventual reduction of American tariffs. The reason for these different attitudes lies mainly in the fact that English economists are concerned with the balance of payments of Great Britain, while American economists, in studying the problem of the dollar, are thinking of the balance of payments of the United States with the rest of the world, and not only with Great Britain. The other factor, to which we alluded a while back, which also contributes to the apparent indifference of English economists to tariff rates into the United States, is the following: **statistics of imports into the United States show that their volume depends mainly on domestic economic activity, and not on the price of these imports.** To sum up, the imperative necessity of British exports, American competition, and the fact that the volume of imports into the United States depends mainly on domestic activity, explain why those English economists who are trying to solve the problem of the pound sterling within the framework of universal multi-lateral international trade recommend a policy (of money and credit) of great economic expansion both domestic and international.

To throw more light on the subject, a rapid study of American exports and imports, as well as of the balance of payments of the United States since 1922, follows—after which an attempt will be made to determine the significance one must attach, from the point of view of the British, to the slogan: "The financial problem number one of the world is the dollar" (this slogan having been coined as a reply to the statement of an American banker according to whom the financial problem number one of the world is the pound sterling).

Did the United States Misbehave As a Creditor?

The report recently published by the Department of Commerce of the United States enables one to make some objective observations on the balance of payments of the United States, and their behavior as a creditor nation since 1919. One will realize in reading the analysis made of these statistics that misconceptions or even false ideas are current in the writings of many economists or politicians.

We have eliminated from our calculations the exceptional years 1919 to 1921 (too influenced by the consequences of the War of 1914 to 1918) and also the years 1938 to 1939 because the export figures of the United States for this period reflect important sales of war materials.

During the nine years, 1922 to 1930, the annual export of merchandise averaged about $4,600 millions and the imports averaged $3,820 millions. If one takes into account the invisible trade (freight, trips, etc.), exclusive of payments and receipts of dividends and interests, the annual excess of exports as compared to imports averaged about $169 millions. In the seven-year period from 1931 to 1937, the annual export of merchandise averaged about $2,280 millions, and imports about $2,010 millions. **If one takes**

into account the invisible trade, excluding payments and receipts of dividends and interests, one finds, surprisingly enough (one is constantly led to believe the contrary), **that during these seven years there was an annual excess of imports of about $200 millions over exports.** And even if one takes into account payments and receipts of dividends and interests, the average annual excess of the balance of payments was only about $55 millions during the period from 1931 to 1937; these surpluses were neither excessive nor abnormal for a creditor country, as the "Economist" rightly comments.

It is furthermore true that since 1934, up to the outbreak of the new world catastrophe, there was, for **political reasons,** a considerable influx of European capital, both long and short term, which sought refuge in the United States, and which amounted to approximately $6,000 millions. These movements of capital cannot be imputed to the United States.

During the years 1922 to 1930, if one takes into account the payments and receipts of dividends and interests, the average annual excess of the balance of payments was about $730 millions. However, during this period the United States made huge investments abroad, principally in Germany, with the result that their balance of payments was nearly in equilibrium. As the United States Department of Commerce itself states, the country was behaving as a creditor nation should without, however, having any coherent policy of investments. It is also worth noticing that European money markets were victims of a dangerous tightening in the second half of 1928 and in 1929 due to a combination of two factors: on one hand, the allure of speculating on the New York Stock Exchange and the abnormal high rates of interest on security loans ("call money"), and on the other hand, the heavy decrease of foreign investments by the United States.

What is then, in the light of the analysis just made, the basis of truth in the reproach made to the United States of misconduct as a creditor country? It lies mainly in the fact that during the period of 1922 to 1939, the United States made loans indiscriminately, without consideration for the productivity or for the possibility or means of repayments of these credits. The equilibrium of world economy adjusted itself to an important volume of foreign investments by the United States. It would certainly have been better for their own equilibrium, as well as for the rest of the world if during the period 1922 to 1929 the United States had imported more merchandise and made fewer investments—dangerous and poor—abroad.

But the report of the United States Department of Commerce, which studies the balance of payments from 1919 to 1939, also draws therefrom the following important conclusions, with an objectivity which deserves to be commended:

(1) **The volume of imports into the United States depends mainly on domestic economic activity.** Consequently, when as a result of internal economic difficulties, the United States cut down their foreign purchasing, the volume of international transactions is reduced, for lack of dollars. In other words, the U. S. Department of Commerce affirms that foreign countries decrease their purchases from the United States because and when the latter reduce their imports.

(2) **The violent fluctuations of domestic economic activity in the United States constitutes an important factor towards disorder in world economy.** The report of the U. S. Department of Commerce expresses itself thus: "During the four years from 1926 through 1929, the amount of dollars supplied ranged between $7,300 millions and $7,500 millions, and foreign income and spending habits and the international debt were fairly well adjusted to this level. The abrupt fall in the dollars supplied by some $5,000 millions or 68%, over the short space of three years, necessitated vast changes in the foreign use of dollars and in the economic system abroad." ". . . contributed forcefully to the collapse of the world economic financial structure, and the development of recovery programs abroad along narrow national and bilateral lines."

This same report by the Department of Commerce declares that the **most serious obstacle to the expansion of American exports has not been the commercial restrictions of foreign countries, but the lack of dollars.**

The report finishes by stating that the continuity and regularity of foreign economic policy, as well as the conduct of international transactions are even more important than absolute levels of imports and investments. However, the national interests of the United States as well as their interests as part of a world society are in having as great an expansion as possible of international trade. There are two principal means by which this result can be attained. One consists in facilitating the flow of imports into the United States and the other is to invest abroad. The report of the Department of Commerce concludes by saying that international economic relations should be based on a stable, prosperous domestic economy.

The Dollar and the British Problem

There is, as admitted by the U. S. Government itself, a dollar problem. The solution of this problem as recommended by the American authorities is orthodox and within the framework of liberal institutions. Unfortunately, as we have seen above, not every solution of the dollar problem solves, ipso facto, the problem of the pound sterling. One can, theoretically, conceive of a solution for the problem of the dollar without its remedying the problems of Great Britain. The reason for which many English economists and politicians champion a regional solution (bloc-sterling) is precisely **their conviction that an orthodox, liberal solution of the dollar problem would be inadequate to solve the particularly difficult situation of Great Britain.** This is what accounts for the difficulty in reaching an understanding between the United States and England on economic and monetary issues.

After this war, Great Britain will have to look for new outlets for export equal to a minimum of £250 million to £300 million (which represents 50% of the volume of 1938 exports) if she is to be able to maintain for her people a standard of living equal to that before 1939. Many British economists and industrialists do not believe that the increase of imports into the United States and American investments abroad would create sufficient purchasing power in the world to increase British exports by an amount of £250 million to £300 million. **In short, it is the very magnitude of the probable deficit of the English balance of payments which constitutes the principal obstacle to an Anglo-American agreement regarding the methods by which international trade should be restored.** We can better grasp the extent of this conflict if we add: (1) that the United States are a powerful competitor in export markets; (2) that England is interested in buying agricultural products and raw materials at low prices while the United States are interested in obtaining relatively high prices for agricultural products, and (3) that the United States need to buy few things abroad while the rest of the world needs or wants many of their products.

The equilibrium of the balance of payments of Great Britain after the war will be even more difficult to secure because of the industrialization of the dominions and colonies within the British Empire, as well as of the South American countries. The United States will probably buy very little rubber abroad in the future, and will transport much of their merchandise on their own vessels. On the other hand, it is thought that for reasons of conservation of their natural resources, the United States will increase their purchases abroad of gasoline, copper, zinc, lead, wood, woodpulp, paper. It should further be observed that the equilibrium of the balance of payments of Great Britain will depend also on the willingness of the United States to continue to purchase gold from any source. (The annual gold production of the British Empire (excluding Canada) was about $600 millions during the last few years.)

Before the present war, the balance of payments of the United States with Great Britain, Canada, New Zealand, the Union of South Africa, the Indies and Australia showed a deficit. Only British Malaysia received a surplus of dollars from the United States, thanks to their export of rubber and tin. Between 1932 and 1938, the annual exports of Great Britain into the United States varied between $75 millions and $200 millions (about $100 millions in 1938) while the imports of Great Britain from the United States fluctuated between $290 millions and $600 millions (about $560 millions in 1938). Canada imported about $200 millions more American merchandise in 1938 than she exported to the United States. For the same year, the balance of payments of the United States with the rest of the British Empire (that is to say, exclusive of Great Britain and Canada) was nearly in equilibrium. Of all the countries, suppliers and customers of Great Britain, only the Union of South Africa imported more than she exported. In 1938, Great Britain imported the value of £860 million in merchandise, out of which £340 million originated in the British Empire; in the same year, she exported in all, the value of £470 million in merchandise, out of which £235 million (which is 50%) was for the British commonwealth.

The Elements of a Solution

Let us review first of all the salient factors of the economico-social Anglo-American conflict. The United States want, and are interested in rebuilding foreign commerce within the structure of a liberal and universally multilateral system. Great Britain does not believe she can find, within the framework of traditional institutions, of which she was the originator and champion, new outlets for export amounting to £250 to £300 million more than in 1938 (£470 million) which she needs to balance her payments. The solution advocated by a large number of British economists and industrialists consists in the organization of a regional trade system (bloc sterling). This solution does not satisfy the Americans, and it can safely be said that in the end, it would not meet British needs either (without mentioning other grave dangers for the entire world resulting from this solution). Moreover, the United States in particular, as well as the rest of the world are interested in seeing that Great Britain is strong and prosperous.

Is there a solution which can satisfy both the United States and Great Britain? It can be conceived, but it presupposes a generous and intelligent spirit of cooperation on the part of the United States and the countries composing the British Commonwealth. What are these elements? We must first devise an arrangement for the liquidation of the short term debts contracted by Great Britain during the war. This having been done, and assuming a prosperous American economy, it would be necessary:

(1) To reduce, as much as politically possible, American tariffs.

(2) To refrain from competing with Great Britain, for exports, in the British Commonwealth.

(3) To foster the development of backward countries by the intermediary of Great Britain. In other words, **the equipment and tools necessary for the development of these countries should be furnished chiefly by Great Britain** while the necessary capital would, to a large extent (until further developments) come from the United States. It can also be assumed that Great Britain will accept the responsibility for loans made to these countries. The procedure would amount to making loans to Great Britain, which she, in turn, would use for the development of the backward countries.

(4) To fix, by mutual agreement, the value of the pound in relation to the dollar, which will take into consideration all the factors involved (between $3.00 and $3.50?).

(5) "Last, but not least," as the English say, it is up to them to work to increase their industrial productivity and to manufacture products, machines and items which call for great technical and scientific advancement. We must abandon the theory that it is the function of foreign trade to help rid a country of unemployment; exports should serve to pay for imports which a country needs so that it may benefit from the international division of labor.

* * *

The vital thing to accomplish is to devise means which will enable Great Britain to abandon any form of exchange control. It will not be repeated often enough that the master key to economic nationalism and bi-lateral trade is exchange control. The above article is written on the assumption that this is also the desire of our British friends. It must be admitted that the speech of Lord Keynes in the House of Lords in May, 1944, is not completely reassuring, and is even disquieting. This may be due to the fact that so far, no fundamental solution to the British problem has yet come forth. The first outspoken approach to the solution of the British problem was made by Mr. Winthrop Aldrich before the Executives' Club at Chicago.

Herrick Waddell Opens Branch In Rochester

ROCHESTER, N. Y.—Herrick, Waddell & Co., Inc., has opened an office in the Granite Building, under the management of George J. Kaufman.

The firm, which has branches in the East and Middle West, maintains its principal office at 55 Liberty Street, New York City.

Canadian Securities

By BRUCE WILLIAMS

Colonel Drew, the Progressive-Conservative Premier of Ontario, in his hasty, ill-conceived attack on the Family Allowance Act, has unwittingly prepared the way for the solution of many critical Canadian problems and has, at the same time, presented his political opponents with a grand election issue.

His exaggeration of the burden thrown on the taxpayers of Ontario as a result of this legislation was devastatingly assailed by Mr. Stuart Garson, Liberal Premier of Manitoba, who was also afforded the opportunity to enter the lists once more as the champion of the western provinces and to give an extremely capable criticism of several fallacies exposed in Colonel Drew's views on economic and fiscal matters.

Of still greater import, Colonel Drew's announcement that the Liberal administration had devised the measure especially to assist the Province of Quebec will ensure added support for the Libertas in this province in the forthcoming Federal election. Furthermore, Mr. Mitchell Hepburn, the former Ontario Liberal leader, was given an opportunity to make a dramatic reappearance in the political arena, armed with the inspiring issue of national unity.

Never before in Canadian history has there been a more propitious moment for the removal of the only real cause of Dominion disunity—the reluctance of Ontario and Quebec to cooperate in an understanding manner in the national interest. Never before has it been more necessary, when Canada stands before the world as an adult power in her own right, to settle the petty differences which were understandable in her earlier stages of development. Never before has Quebec shown in a more practical form willingness to play a constructive role in national affairs.

The results of the last Quebec elections have not yet been properly appreciated. Despite the dire warnings of revolution and disaster, widely disseminated in Ontario and this country prior to the provincial ballot, the French Canadians gave a clear demonstration of their basic loyalty to the Dominion and rudely spurned the apostles of isolationism and opposition to the British Commonwealth, and similarly rejected the form of extremism represented by the CCF.

Thus the Liberal party in Ontario, resurgent under the inspiring leadership of that great fighting politician, Mitchell Hepburn, will contest with renewed confidence the conservative grip on their last remaining stronghold, and if not immediately successful in the provincial field will unquestionably give tremendously increased support to Mr. Mackenzie King, whenever he chooses to call a national election. Furthermore, all thinking Canadians throughout the Dominion will rally to the leadership that places the national interest above provincial prejudice.

Turning to market developments during this past week, there was some indication of increased activity. Shorter-term Dominions and Nationals were absorbed in fair volume following belated replacement transactions, and long-term high grades were in general demand. Albertas registered little change, but there was an inclination to buy longer-term bonds in preference to the past due issues, which could be an indication that operations were either following or anticipating a debt reorganization plan.

Internal issues were in increased supply and, as anticipated, the Canadian dollar in the "free market" eased from 9 15/16% bid to 10½% discount offered. Now that we have reached the period when an increased supply of exchange should be available as a result of the internal bonds called or maturing Oct. 15, there is no reason to foresee an early reversal of this weak trend.

In connection with the exchange situation, there is one point that has been largely overlooked by purchasers of internal bonds who anticipated an early return to parity, namely, the fact that, according to the Bretton Woods Agreement, no part of the Agreement will enter into force before May 1, 1945. The fund will ask each member country to communicate the par value of its currency based on the rate of exchange prevailing 60 days before the Agreement entered into force. The date will be sometime between March 1, 1945, and Oct. 1, 1945, which should preclude any imminent change in the Canadian parity.

With regard to possible future developments, the situation is increasingly dominated by the following factors:

(1) The supply of external bonds from Canada is steadily approaching exhaustion.

(2) Called and maturing external issues for the most part have not been replaced.

(3) For some time no new money has been raised by Canada or its political subdivisions and none is contemplated in the near future.

Therefore, the market should continue to display selective strength with little activity.

Economic Aspects Of Profit Control

(Continued from first page)

increase during World War I. A wise old banker at the Federal Reserve Bank of Virginia pronounced the period a "Fool's Paradise" a year before the crash. But he was roundly condemned by the leading financial papers. During the *new era* old enterprises expanded. Profits increased and dividends were increased. A new venture of any kind could raise capital. It was not uncommon for the name of a new undertaking with the volume of securities to be issued to be oversubscribed several times before the buyers knew what business was to be promoted. The loss of the public's savings with the collapse of the speculative boom ran into billions.

Investment trusts that had sold for $100 a share were finally wiped out leaving nothing for the investor. The business depression that followed left business chaos and unemployment in every town and rural district. All of the profits and savings of the *new era* were erased, and for years business in general earned a deficit.

The conditions in the United States were probably a little more extreme than in other countries. But the depression was international and no country escaped. In England, where capital management is said to be a little more conservative than in the United States, in 1928 the total capital subscribed for new issues of shares and debentures included 284 companies aggregating more than $500,000,000. On the 31st of May, 1931, the market value of these issues had fallen to about $300,000,000, showing a loss of more than $200,000,000, or more than 40%. Seventy of these companies had been liquidated and the securities of 36 of them had no ascertainable value. The total value of the securities of these 106 defaulted companies had exceeded $100,000,000 when sold to the investors in 1928.

Similar example of ventures and losses in the business of trying to make profits could be enumerated in every country of the world. But still the lure for profits is the motive that stimulates men to strive and make progress. There is no substitute. When it comes to eliminating profits or controlling profits without a well tested substitute, the experiment deserves the most careful scrutiny.

The Theory of Mass Production at Small Net Profits

The benefits of mass production are well known. Mass production has reduced the cost per unit. Mass production requires large-scale production, and therewith large capital investment. The efficient producers with large capital have been able to reduce these costs and prices and drive out of business the inefficient producers and the small producers of costly units. In spite of the hardship to the small producer the consuming public have reaped the benefits of mass production at low costs.

War production has given a great new emphasis to the efficiency of large-scale mass production. During the war price control has been accepted as a method of sharing the limited production left for civilian use after the needs of the military forces have been provided. To many of us on the outside it has seemed that the benefits of efficient mass production for war purposes could have been greatly increased. The Government has provided a large part of the money for war production. Industry has given generously of its capital and facilities. But because the Government has been paying the bill with the taxpayers' money expenditures have been extravagant.

Now it seems that the inflation which has been injected into our economic system as a result of the war is a dangerous threat to the post-war economy. The emphasis on control seems to be shifting from prices to profits. It is urged that because of the experience of large-scale war production and the need to meet the accumulated deficiencies in peace-time goods on a larger scale an opportunity is provided to try out the grand experiment of mass production at low cost per unit and a minimum of profit per unit.

Upon examination it seems that any such profit control policy would necessarily bring about a large-scale concentration of production in the hands of "big industry" as never before. The small producer could be driven out of business because the limitation on profits per unit would make it impossible for the small shop to compete with the large-scale producer. There are efficient small producers who with reasonable freedom can keep their costs down and deliver quality goods at prices which enable them to stay in business. These small producers are necessary to the country's welfare unless we are all to be hurded into mass factory production at the expense of the rural districts and the small towns whose population would vanish.

Profit control, however, has one of its great weaknesses in the fact that a large percentage of business does not make a profit every year, and sometimes, as in the depression of the Thirties for many years business in general earned a net loss. If the Government wishes to limit profits, why not also limit losses? It seems only just and reasonable that if an efficient producer is limited in his profits in good years he should ask to be protected against his losses in bad years.

The limitation of profits seems a dangerous experiment at this time, especially because of the possible effect upon the initiative of the producers, the adverse effects upon small business, and the great need in the next several years for all the production possible to meet deficiencies and keep down prices.

The Relation Between Production and Consumption

It is an erroneous assumption that consumption directs production. The reason for this error perhaps springs from the fact that when the consumption of some well-known articles decline production is reduced in time and unemployment arises in these industries.

The production of an article is of course determined by the desire for it. The consumption of

Canada's Wheat Crop Est. At 423 Million Bushels Says S. M. Wedd Of Canadian Bk. Of Commerce

The first official estimate of the prairie wheat crop is **423 million** bushels, **compared with 277 million bushels in 1943.** With present farm purchasing power nearly double that of the immediate pre-war period and with every prospect of a further substantial rise when this year's harvests are realized, Canadian agriculture is in a better position than ever before to contribute to the country's economic development. Farm productivity is now at a high peak and finds a ready market for both domestic and overseas consumption.

In this most critical year, both for military and civilian supplies, several handicaps had to be overcome to reach the present fortunate position. A deficiency in pre-season moisture reserves, especially on the prairies, and an uneven distribution of rainfall during the growing season, with prolonged drought in chronically dry areas and excessive moisture in others, reduced the size and quality of field crops in many areas. A long spell of wet weather also delayed the completion of harvesting on the prairies and in parts of eastern Canada. Farmers across Canada had to contend with the additional handicap of a shortage of help, while the greatest economy had to be exercised to make the best use of available equipment. In spite of these difficulties, harvests have been among the best in recent years.

Our index of industrial activity rose from 221 at mid-August to 224 at mid-September (1937=100), recovering the level reached in June, while the percentage of factory capacity utilized rose from 123 to 125. This increase is due mainly to seasonal activity of the foodstuffs group, chiefly canning and the processing of cereals, which was so marked this year that it raised the index for this category above the level of a year ago.

Slight increases were recorded by the clothing and paper groups and decreases by the wood products and automotive groups; none of these was as active as in September, 1943. The index of the iron and steel category, while higher than a year ago, fell for the second month in succession, mainly on account of a lower operating rate for the heavy section as a whole. There are indications that the percentage of war output to total manufacturing production is declining, although it is still between 50 and 60% of the latter.

the article only satisfies that desire. If such an article is wanted by enough people it will be produced on a large scale. But as soon as these wants decline the producing efforts will be withdrawn. To desire a thing does not produce it. The production requires labor, raw materials, land and capital. These are provided from savings and not from consumption. These factors of production will cease to continue producing an article where the profit has vanished or when larger profit opportunities exist in other fields of production.

Consumption alone will never cause production to increase unless the prices at which the new products can be sold equal costs plus a profit in comparison with other opportunities for the same capital and labor.

The Factors of Production Seek Employment Where There Is Opportunity for Profits

Labor, Capital and Management cannot work for nothing. Costs are a large part of all production. The mobile factors of production are soon shifted to the most profitable uses. All production is thus in competition for capital, labor and management. Unprofitable production may continue for a time when the factors of such production are immobile, but new production will not be undertaken where the profits have been erased.

An example of the search for profits can be found in any industrial community or in any town. Men are seeking new opportunities, expanding or reducing the size of their enterprises, starting new enterprises or closing old ones, offering new and more attractive products for sale and such is the eternal effort for profitable business. All of these efforts are servants of the consumer if he has the money.

Perhaps a more striking example of the search for profits and venture capital can be found in the rush of men and capital to new discoveries of oil fields or gold mines. Back in the Thirties when money could be borrowed only against gilt-edged security, the announcement of the discovery of new oil fields in the Southwest brought men and money from every corner of the country, wading through mud roads, and sleeping in tents seeking new opportunities to make a profit. In August, 1944, when both labor and capital seemed fully occupied in war work, the announcement in a northern county of Ontario Canada, that gold had been discovered brought such a rush of men and capital from every part of Canada and the United States that the entire county was staked off for gold prospecting in less than one week. Hundreds of the newcomers were turned away to venture in other fields for profitable opportunities.

An experiment at profit control has little to recommend it when analyzed. Such an experiment will not be profitable. At this time it may prove dangerously unprofitable.

Davison Chem. Attractive

Stein Bros. & Boyce, 6 South Calvert Street, Baltimore, Md., members of the New York Stock Exchange and other leading exchanges, have prepared a brief survey of The Davison Chemical Corporation. Copies of this survey may be had from the firm upon request.

New York Analysts To Hear

The New York Society of Security Analysts will hear Salom Rizk, author and lecturer, sponsored by the Readers Digest, on "The Americanization of an American," at its meeting to be held Monday, Oct. 23. This will be at 56 Broad Street, New York City, at 12:30 p.m.

What Is The Stock Market Outlook Now?

(Continued on page 1683)

direct and fundamental approach, like the indirect one, is necessarily a rather complicated matter. The market is affected by an almost inconceivably wide range of forces — economic, political and even psychological. The attempt to understand the greater number of these forces, and coordinate them into a complicated pattern of stresses and strains, is the most challenging of intellectual occupations. Also, it is probably the only process by which a **real understanding** may be obtained of **why** the market acts as it does.

Technical analysis, when successfully projected, merely suggests the pattern in which the market is acting, and will act. But when technical analysis does not succeed, it is seldom possible to say why it has not succeeded. Whether successful or unsuccessful, technical analysis inevitably runs the risk, which we all remember from Aesop's fable of the dog, of "Losing the substance by grasping at the shadow."

With so long an introduction, my reference to the major fundamental factors will be briefer than might be desirable. First, however, a note as to where the stock market now stands: the Dow-Jones Industrial Averages are at an index figure of 148, or only two points above the highs reached a year and a quarter ago, prior to the deflation of Mussolini, and our first big peace scare. The averages are well below the highs reached in each of the depression years, 1938, 1939 and 1940. However, they are some 55 points above the low made in the period of deep pessimism in the early spring of 1942. The averages also are 48 points below their 1937 high, established at a time when by all the conventional tests business and business prospects were less favorable, and less dependable, than they are now.

Under nearly all accepted theories, we are still in a bull market, one which began some two and one-half years ago. In this market the major advance was scored in the first 14 months. Since then, for most of the time, moves have been merely of trading scope, although a number of great individual advances have occurred in securities whose followers have been uninterested in whether or not the market as a whole was reaching new highs. It often is unclear whether or not a bull market is turning into a bear market, until long after the turn has occurred.

It is logical to consider whether or not recent advances, which carried the averages to new highs by a modest percentage, signaled initiation of a new and important phase of uptrend. I believe that they did, and that the market has much that is good ahead of it, in terms both of scope of improvement and duration of improvement. This opinion is based on a study of fundamental economic and business statistics; contact with a fair range of industrial corporations, and knowledge of business plans and objectives for the conversion and post-war periods; finally, contact with many institutional and private investors, respecting their policies, and their appraisals of the future. With this, one also must study newspapers and periodicals in an independent attempt to reach correct opinions of the political factors involved: especially at this time, whether government policy, national and international, will succeed in its objectives of developing a smooth post-war economic transition, and a high level of employment and production after the war.

We have come a long way since November, 1941, when only 7.2% of American corporation executives reported to the "Fortune" poll that they thought the private enterprise system in America would outlast the war. Increasingly, during the past year to two years, most forward-looking American managements have developed ranges of optimistic projections of post-war sales, and of pre-tax earnings for their particular companies. Over the past year the average management also has become increasingly convinced that corporate taxes will be lowered sufficiently so that operating earnings, even if lower, will possess a meaning that they do not now have in war time.

Now that the war is nearly three years old, there are some outstandingly favorable factors in the minds of most corporate executives, in addition to the various uncertain factors, a few of which we shall always have with us. The favorable factors, in large part well publicized of late, include the vast backlogs of demand, both domestic and foreign, accumulated for wide classes of goods during the war, and the vast accumulations of liquid finances in the hands of individuals and corporations, unincorporated businesses, and foreign governments.

I shall not detail the estimated business backlogs, as these are so well known. However, a few figures on the weight of liquid finances may be in order. Demand deposits, apart from interbank deposits, in all Federal Reserve Member Banks are $50.5 billion as compared with only $19.7 billion at the end of 1937 and $17.5 billion at the end of 1929. According to estimates of the SEC, liquid savings of individuals have been accumulating at an annual rate of $28 billion, apart from savings in the form of insurance or pension reserves. At the end of June, 1944, individual holdings of currency, bank deposits and Government bonds totaled $130 billion. American business corporations likewise have vastly strengthened their finances. Working capital of all our country's non-financial corporations is now estimated at approximately $47 billion as compared with only $24.6 billion in 1939.

These financial figures are significant when taken by themselves, but they assume added significance when considered in relation to other factors. The figure for corporate working capital, for instance, demonstrates that the pessimistic business and political attitude of several years ago has not been without its favorable results. Because of their concern for the future, leading business corporations have arbitrarily written off against earnings far larger sums than they ever deducted before. These sums are greater than eventually will be required, unless an extraordinary concatenation of calamities occur.

At the same time, a smaller percentage of the corporate earnings remaining after writeoffs has been distributed in dividends than ever was the case before. To top the score, individual incomes likewise are further above individual expenditures than they ever were before.

Thus, by the functioning of the old law of action and reaction, a situation of great financial strength and certainty has been created out of the former situation of pessimism and uncertainty. This change has a deep market significance, for price-earnings ratios and dividend yields are strongly, one might say even predominantly, governed by the state of investor confidence.

From late 1938 to the spring of 1942, we saw a sustained and consistent advance in corporate earnings and dividends, yet from the highs of late 1938 to the lows of 1942, the market was largely dominated by a bearish psychology, and there was a series of stock market collapses which resulted eventually in pushing down the average level of prices by some 40%.

Observe the other side of the shield and see how we have experienced, over the past two years, sensational recoveries in securities of companies, even while the companies have been suffering important wartime earnings and dividend declines. The collapses of 1939-42 were based on doubts that good financial results would continue. Contrariwise, the more recent recoveries have been based on confidence that a situation favorable to corporate earnings and dividends will prevail after the war.

There is no time this afternoon for me to analyze with you the wide range of expansive factors bearing on the economic outlook. I shall mention a few as suggestions for further study: the prospects for international economic cooperation; the inflationary implications of a low level of interest rates; the stabilizing influence of income and tax-base carry-forward and carry-back features of the 1943 Revenue Act; benefits from improved technology and improved labor productivity; the stabilizing effect of demobilization payments; larger plant capacity; new products and new inventions; the impact of post-war capital expansion plans of Government agencies, and private businesses; and the weight of a more rapidly increasing population, with a higher birth rate.

As against these many factors, the market worries what will happen when the war with Germany ends and war contracts are slashed 40 to 70%. The WPB has promised a cut of 40%, but Mr. Sloan of General Motors has recently indicated that a slash of as much as 70% will be probable after the German portion of the war has ended, and before the Japanese portion has been won.

The period of contract termination and reconversion to civilian production will have many complications, strains and difficulties, and it will involve severe local unemployment. However, and in decided contrast to the situation prevailing toward the end of World War I, for a long time we have been anticipating, and working on, the problems which we know will confront us after this war, and as we now come nearer to these problems they perhaps seem less critical than they did a year ago. Time has permitted development of detailed plans to meet a wide range of possible problems. **Government departments, just as much as business officials, have been gravely concerned to develop a practical post-war approach, because no one wants to accept the blame for a bungling approach, with all its liabilities.**

Even during the termination and reconversion period, the inflationary business effects of a Government deficit will be continuing, even if in reduced force. At the same time, **another expansive influence will develop, because for a period of several months industrial companies will be paying their employees for their work in manufacture of goods prior to the actual availability of these goods in retail channels.**

A study presented in the August "Survey of Current Business" of the U. S. Department of Commerce, suggested that the termination and reconversion period may be somewhat different in character from what generally has been expected. The Department's analysis of employment and production figures, and related data, indicated that a tight labor situation may prevail, even through the reconversion period, unless the Japanese and German phases terminate almost simultaneously.

That the market recently has been somewhat indecisive, with stocks unwilling to move far out of a trading range, reflects that stocks are still trying to discount two major opposing forces, at one and the same time. The first force, of course, is the expected difficulties of the early post-war period, and the second force is the expected prosperity of the later period. From week-to-week, investors seem to experience difficulties in deciding which set of forces to heed, although time is working on the side of the optimists. Nevertheless, fears and uncertainties regarding the early future can hardly be assuaged completely, in advance of the actual development of events. It is impossible to **prove** that business complications in the reconversion period will not be overwhelming, or that a possible disorganization of economic activity will not result in unemployment and loss of confidence, such as to threaten the development of a subsequent business boom.

As the passage of time permits a further development of business transition planning, and also results in further building up of backlogs of unsatisfied demands, and of accumulations of cash, the problems of the transition period cumulatively are being lessened.

In assaying the weight of the various forces now exerting themselves in the market, it is worth keeping clearly in mind that for over two years the market has once again been performing its traditional discounting function, and has been reflecting the efforts of capitalists attempting to look into the future. In recent years we have seen few of the random stock market readjustments, caused by the unexpected impact of strictly short-term news, which so dominated trading in the erratically fluctuating period prior to Pearl Harbor.

The degree to which business men, business economists, and academic economists agree on rather high projections of post-war national income employment and corporate earnings is indeed impressive. Some differences among economists necessarily persist, and a few economists of note remain rather keenly pessimistic. For the most part, however, the differences relate to what degree of optimism is advisable. Such noted students of business and financial theory and practice as Dr. Sumner Slichter of Harvard, Dr. Wesley C. Mitchell, Director of Research of the National Bureau of Economic Research, and Dr. Marcus Nadler of New York University are firmly in the camp of those who look for a sustained period of prosperity after the war.

Dr. Mitchell, perhaps our leading student of the business cycle, seems to have few reservations regarding the early post-war outlook, unless our affairs are bungled inconceivably. The trend of much foresighted economic thought now concerns "how we shall stabilize prosperity, once we have it," not whether prosperity actually will develop. This great long-term problem was well mentioned by Dr. Mitchell in his recent excellent series of articles in the New York "Times":

> Barring unfavorable occurrences we do not foresee, the active domestic demand for goods, supplemented by a huge export demand, promises to make our traditional form of economic organization function to the general satisfaction, once the period of transition from war to peace is safely passed. . . . During these good times, Americans will congratulate themselves upon the efficiency of an economic system that passed the test of war with flying colors, reconverted itself to peaceful conditions promptly, caught up war shortages at home, and helped foreign countries to get back on their feet. This industrial accomplishment will show us at our best.

The test that will be hard to pass will come after the extraordinary post-war demands have been satisfied and our business settles down to supplying the continuously recurring demands of a long stretch of peace. Can we then maintain a high level of employment year in, year out?

Currently, many securities representing companies with well-defined, favorable post-war prospects are still available at good discounts as compared with historic price levels. Also, and more importantly, they are **available at low prices in comparison with post-war prospects.** Once the transition problems are more keenly upon us, and the transition decline in industrial activity and income is a matter of record (rather than of projection) the more optimistic factors should come more clearly to the fore, assuming, as we do, that investors will continue to look forward.

Liquid assets today still rule at a premium. However, in view of the great abundance of liquid assets, and the failure of new offerings to keep pace with cash increases, it may be securities, rather than cash, which **eventually** will command the premium. That may be looking very far ahead, but the possibility is an important one for investors to keep in mind.

I do not wish to imply that we shall not have trading declines in this market, or even the usual declines of intermediate scope. Neither would I imply that investors should have their funds 100% committed: one is never entitled to be completely sure of one's opinion, and it is a profitable long-term policy always to have some buying power in reserve. Nor would I imply that all classes of securities may be regarded with the same degree of optimism. A close study of the merits of individual stocks and bonds will be just as applicable in the future as it has been in the recent past, and we all know that the market for several years has had an almost unprecedented degree of selectivity.

We in this business have a service to render our clients in helping them to protect their capital, and when possible to increase their capital, and I believe that for some time we shall be operating in an environment where success in this endeavor will not be impossible. Those who have had the good fortune to have held to a confidently optimistic attitude in the past two and one-half years have not suffered from this attitude. May I suggest that a similar policy will be worthwhile for some time to come.

Twin City Rap. Transit Bonds On Market

An underwriting syndicate headed by Dillon, Read & Co. offered Oct. 17 $7,000,000 Twin City Rapid Transit Co. 4% collateral trust bonds, due Oct. 1, 1964, at 101½ and interest to yield 3.89%.

Proceeds from the sale, together with proceeds of a $2,000,000 five-year 1½% to 2½% serial bank loan and other funds of the company, will be used to redeem the company's entire funded debt, consisting of $10,888,600 first lien and refunding 5½% series A and B bonds. The series A bonds will be redeemed on Dec. 1, 1944, and the series B bonds on Jan. 15, 1945, both at 102.

Associated with Dillon, Read & Co. are: Allison-Williams Co.; Bacon, Whipple & Co.; Alexander Brown & Sons; H. M. Byllesby & Co., Inc.; Central Republic Co., Inc.; J. M. Dain & Co.; Equitable Securities Corp.; Frank & Belden, Inc.; Hirsch, Lilienthal & Co.; Kalman & Co.; Kidder, Peabody & Co.; Laurence M. Marks & Co.; The Milwaukee Co.; F. S. Moseley & Co.; Paine, Webber, Jackson & Curtis; Park-Shaughnessy & Co.; Arthur Perry & Co., Inc.; Piper, Jaffray & Hopwood; Reinholdt & Gardner; Riter & Co.; Shields & Co.; Tucker, Anthony & Co.; Woodard-Elwood & Co.

Predicts Continuation Of Easy Money Policy

Guaranty Trust Company Sees Present Low Interest Rates Prevailing In Post-War Period. Holds Available Facilities For Credit Expansion Amount To $206 Billion Over Present Level And That Possible Narrowing Of Credit By Gold Exports Will Be Offset By Reduced Money In Circulation.

In the September issue of "The Guaranty Survey," the monthly publication of the Guaranty Trust Co. of New York, the opinion is expressed that because transition to peace will be strongly influenced by public policy, there is no likelihood that the supply of credit will be reduced and that interest rates will advance. After directing attention to the need for additional Government borrowing after war which will come about through necessary refunding operations and the redemption of substantial amounts of savings bonds, even assuming that the Federal budget will be balanced, the Survey states "the monetary policy of the Government will undoubtedly be influenced by general economic considerations, as well as by fiscal needs. Such considerations, however, would seem also to be on the side of easy money. Probably the greatest dread of public officials is the possibility of mass unemployment, particularly during the critical transition period, when industry will be incompletely equipped for peacetime operations and millions of men discharged from the armed forces will be seeking civilian work. It is hardly conceivable that the Government would voluntarily incur even the slightest risk of allowing tight credit conditions to impede reconversion.

Base For Potential Credit Expansion

"Nor does there appear to be any doubt of the Government's ability to provide a base for enormous credit expansion," continues the Survey, "in addition to the huge expansion that has already resulted from the war. Under present laws the Federal Reserve banks are required to maintain reserves of gold certificates equal to 40% of the amount of Federal Reserve notes outstanding and reserves of 35% against their deposits. The present amount of Federal Reserve notes is $20.0 billion, requiring a reserve of $8.0 billion. Deposits amount to $15.9 billion and require a reserve of $5.6 billion. To meet their combined reserve requirements of $13.6 billion, the Federal Reserve banks have total reserves of $19.0 billion, or $5.4 billion in excess of requirements. If there were added to this amount the $1.8 billion of gold in the Stabilization Fund, it would provide a total of $7.2 billion in surplus reserves, enough to support an expression of $20.6 billion in deposits, over and above the present deposit liability.

"Member banks of the Federal Reserve system are required to maintain on deposit with the Federal Reserve banks certain percentages of their deposits as reserves. The present requirements are 6% against all time deposits. 20% against demand deposits of banks in central reserve and reserve cities, and 14% against demand deposits of other banks. Under the present law, however, the Federal Reserve Board has authority to reduce reserve requirements to 13% for central reserve city banks, 10% for reserve city banks, and 7% for other member banks against demand deposits, and to 3% against time deposits of all member banks. (These lower rates were in effect from 1917 to 1936.) If this authority were exercised, the average requirement against all deposits in the banking system would be about 10%. The $20.6 billion by which the Federal Reserve banks could increase their deposits, therefore, could become the reserve base for $206 billion in additional commercial bank deposits.

Other Devices Available

"Each time a bank increases its loans and investments, deposits in the banking system are commonly increased by approximately the same amount. Hence, presently available facilities would permit credit expansion amounting to $206 billion, over and above the total now outstanding. The additional credit could be divided in any proportion between loans and investments, or between public and private borrowing. This appears to be far in excess of any amount likely to be required, either during the war or for an indefinite period thereafter. Even greater expansion could be provided for by other devices at the disposal of the Government, such as the use of free gold in the general fund of the Treasury, the use of the Treasury's seigniorage or profit from the coinage of silver, the devaluation of silver and subsidiary coins, the suspension of penalties for reserve deficiencies of the Federal Reserve banks, the issue of additional greenbacks and Federal Reserve bank notes, and the use of possible Treasury profits from gold transactions at prices other than the legal parity.

"The foregoing figures make no allowance for a narrowing of the credit base through gold exports or for competing demands on existing reserves such as might result from further expansion in the amount of money in circulation. Substantial gold exports after the war are a distinct possibility, although how much of the $5.5 billion of foreign banking funds now in this country may be withdrawn in the form of gold, and how much in merchandise, cannot be foreseen. The possible effects of such exports on bank reserves might, however, be more than offset by a decline in the amount of money in circulation. Although the increase in the latter item during the past year appears to have been somewhat more rapid than the rise in wage and salary payments, it seems reasonable to believe that when payrolls decline at the end of the war there will be some return of currency to the banks. The experience of the period after the first World War in this country, as well as in England and Canada, has led to estimates that the reduction might amount to between $5 billion and $10 billion."

F. H. Curtis V.-P. Of Robt. Hawkins Co.

BOSTON, MASS. — Robert Hawkins & Co., Inc., 10 Post Office Square, announce that F. Harman Curtis has become associated with them as Vice-President.

For a number of years Mr. Curtis acted as a street broker in municipal bonds in Boston and during the first World War had charge of sales of Government bonds on the Boston Common. Later he joined the Boston office of Eldredge & Co. Leaving Eldredge & Co. in 1928, he became associated with The First of Boston Corporation, affiliate of The First National Bank of Boston, and organized their municipal bond department in Boston, New York and Chicago.

In 1935, Mr. Curtis became a partner in the firm of Newton, Abbe & Co., now E. M. Newton & Co., with which firm he has been connected until the present time.

Attractive Outlook

The outlook for L. A. Darling Company, manufacturers of metal display fixtures and producers of papier-mache and composition displays, appears particularly attractive according to a memorandum on the situation being distributed by Allman, Moreland & Co., Penobscot Building, Detroit, Mich., members of the Detroit Stock Exchange. Copies of the memorandum may be had from Allman, Moreland & Co. upon request.

Switch With Possibilities

Vilas & Hickey, 49 Wall Street, New York City, in a current bulletin discuss an interesting rail "switch" with attractive possibilities both now and after the war. Copies of this bulletin may be had from the firm upon request.

Also available on request from Vilas & Hickey is a summary of ICC comment for October, and a calendar of coming rail events.

Future Of Government Securities

(Continued on page 1683)

from utter stupidity down through viciousness to absolute fraud and dishonesty. Humanity, always pathetically on the lookout for a short-cut, for the easy way, will be eager to believe these Pied Pipers and will march behind them unless our banks, our sound economists, our decent politicians, our moulders of opinion of the press and the radio, and, as World's Fair Grover Whalen used to put it, our "men of good-will" in every line pull together and point the true way.

The only honest way, the only sound way, **especially for the poor man**, is the hard way of government economy, high taxes, balanced budgets and growing individual initiative. Yet, humanity hates to go to the woodshed — anything rather than the hard way will appeal to them. It will take the combined efforts of all of us to resist the Lorelei with their siren song of debt alleviation at the expense of the banks. It is high time we got started on a campaign of education and identification of the interest of the man in the street with the interest of the bank on the corner in a sound government debt policy. My remarks today are based on the assumption that a continuing, aggressive and successful campaign of such public enlightenment will be waged by our banks and our modern Alexander Hamiltons.

Although everyone knows that the future of government securities is inevitably tied up with the future of interest rates, the closeness of the relationship is dramatically brought home to us every now and then. Thus, the other day a distinguished economist came to Massachusetts and was reported in the press as saying that interest rates on government securities would go up to 4 or 5% a year or so after the end of hostilities.

At the outset, we must admit that he has the "law and the precedents" on his side. In the past, the capital destruction of war inexorably has been followed by higher interest rates. And, is not this global war the most expensive and the most destructive war of all time? Then, why can't we stand in the middle of a history book and predict that history will repeat itself? The answer is that history will not repeat itself because the **interest rate is not what it used to be** and, furthermore, other conditions have changed also.

If this is clearly understood, there will be little difficulty in following my reasoning and reaching my conclusion that, barring a sharp inflationary increase in the general price level, interest rates are not going to increase appreciably in the foreseeable future; that is, for three or four years after the end of the war.

I well remember how my distinguished colleague at New York University, Dr. Marcus Nadler, was greeted with open skepticism by bankers in 1934 when he first began to maintain that the increasing public debt would be accompanied by lower interest rates. He stood alone for a long time and, even today, many economists, who have been forced by the event to admit that his prophecy was correct, continue to assert that interest rates "have to go up." They cannot deny that the monetary authorities have controlled the money market and capital market exactly in accordance with the needs of the Treasury. But, they insist, the past tight control cannot be continued for the future. I do not agree with them. On the contrary, I am convinced that the Treasury and Federal Reserve authorities can, and will without hesitation, continue their close control of the money market during the war and the immediate post-war period. Certainly, it is to the interests of the Treasury to do so. As a matter of fact, no one denies that the Federal authorities want to keep interest rates down — the only question is, can they? May I reassure you as definitely and directly as possible: There is no question in my mind but that the monetary authorities can keep interest rates down, **or push them even lower**, if they feel it is advantageous to the Government for them to do so.

Let us briefly discuss the more important powers the monetary authorities have over money rates. Their **present** powers are: (1) reduction in reserve requirements to where they were originally (there is nothing sacred about 20% or 14%); (2) substitution of Federal Reserve **Bank** Notes which require no gold cover for the outstanding Federal Reserve Notes with their 40% requirement; (3) large open market operations by the Federal Reserve Banks; (4) desterilization of the gold held in the Stabilization Fund; (5) monetization of the accumulated silver seigniorage profit; (6) aggressive administrative action in carrying out the statutory silver policy with maximum monetization, and (7) tightening of the various controls over the capital market.

These powers are so great that the Treasury, if necessary, can, through their utilization, maintain money market rates at practically any level desired. Furthermore, if these powers should, by any chance, prove inadequate, can you conceive of a Congress which would not promptly furnish any additional authority which might be needed?

Great as these technical powers are, the old economic law of supply and demand still exercises basic control. So, let us take a minute or two and analyze the present and prospective supply and demand factors. It is beyond question that the present supply of money and credit is very large —in fact, by far the largest in our history. Yet, in my opinion, it is equally beyond question that it will become much larger — yes, far larger than you imagine.

To be specific:

1. The volume of deposits is unprecedented, is increasing rapidly and will continue to increase during the war and immediate postwar period, as the Government continues to borrow. Instead of the decrease in deposits which so many expect, the end of the war will probably inaugurate an even more rapid increase than the present as (a) people turn in their E, F, and G bonds for cash, and (b) corporations which invested large amounts of depreciation, depletion, surplus and other reserves in Certificates of Indebtedness present them for redemption. Several billion dollars of such debt (no one can say just how much) will undoubtedly be shifted to the banks via the Treasury through the sale of additional bills and certificates to them. This will further increase the swollen volume of deposits.

2. With the end of Lend-Lease there is a good probability of an inflow of gold or at least a release of gold from "earmarking," which will not only increase deposits but will also create a corresponding amount of reserve balances at the Federal Reserve.

3. After the war, hoarding will decrease, money now burning the pockets of war workers will be spent (circulation was $23.2 billions at the end of August in contrast to $4.7 billions which did the job in 1929) and there will be a considerable return flow of currency from abroad, which also will increase both deposits and reserve balances.

4. On the supply side of the **capital market**, the great increase in recent years in pension plans and in the volume of life insurance will provide continuing large sums for investment in high grade securities.

5. Likewise, the widespread inclusion of amortization provisions in real estate mortgages in recent years will furnish a **new** and continuing supply of funds to the capital market.

So much for the supply side; now let us look at the other side, demand.

While there is no agreement (even among the experts!) as to the probable demand for bank credit and capital after the war, it is my considered view that the demand will be far less than most bankers expect. My reasons are as follows:

1. Business **in the aggregate** already holds enough cash, deposits and government securities to do the job of conversion and, in addition, to finance a considerable expansion of manufacturing, merchandising and **credit** facilities.

2. Our swollen production facilities and easy money conditions will cause many producers to enter the field of consumer credit **directly** in the forthcoming noquarter battle for the consumer's dollar and, while I hate to discourage you, in general they will not need to borrow to develop this field.

3. Prompt settlement of war contracts is promised and apparently will be carried through, releasing tied-up funds.

4. A recent Federal Reserve Board study of the ownership of deposits showed that 92% of manufacturing and mining deposits was held in accounts above $10,000. Giving consideration to the huge wartime increase in deposits, their study indicates pretty clearly that the post-war volume of borrowing will be relatively small, at least so far as the larger companies are concerned.

Partially offsetting these negative demand factors are the following positive demand indications:

1. There will be a moderate demand for capital and some bank credit to help industry acquire certain of the more strategically situated government owned war plants.

2. With the resumption of building, mortgage money will be in strong demand.

3. Probably the greatest demand for capital will come from the States and their subdivisions, particularly the municipalities which will be in the market for funds to finance the public works postponed during the war.

I would summarize the outlook thus:

The present supply of both long and short term credit appears to be equal to any demands which are likely to be experienced — and the supply is increasing and will continue to increase for a considerable period of time after the end of hostilities. Furthermore, there is nothing on the demand side, barring a very sharp increase in prices, which indicates any extraordinary needs for credit. On the contrary, the outlook is for a very moderate demand for conventional bank credit. Hence, **even without the use of the powers** the monetary authorities have, the position of the money market, present and prospective, warrants the assumption that there cannot be, and will not be, any material increase in money rates.

On the basis of the pertinent facts, it seems indisputable that the era of low interest rates, which we have entered, will be with us for a long time. (**Next sentence Off the Record**). The diehards will have to give up their 6% complex. And, we might as well adjust our thinking to the new conditions.

We will next turn our attention to the tax-exempt government securities. In addition to reflecting the prevailing money rates, these securities come under the influence of taxes and **rumors of taxes and tax changes.** The newest Ruml plan and the current wave of talk about reducing taxes (in which the wish has largely been father to the thought) has caused the tax exempts to soften and give up a point or so. If the factors, such as the tax situation of your institution and the ratio of capital to deposits, which caused you to buy the exempts instead of fully taxable securities in the first place, do not dictate a change, I would not be too much concerned, although the technical situation in the market may cause a further drop.

Of course, **if you believe that taxes are going to be reduced soon**, then you might well consider a switch. But, Byrnes, our so-called economic dictator, categorically stated that there will be no tax reduction until after the defeat of Japan.

As for the Ruml plan, I do not believe it has much chance, if any. Under it individuals would bear approximately 75% of a total tax burden 3½ times greater than the pre-war burden, of which they bore only 27%—**about ten times as much.** As individual taxpayers vote and corporations do not, can you even imagine a Congressman backing such a bill?

As a matter of fact, corporations do not like the plan either, because of the proposed tax of 16% on undistributed earnings. This tax would force large dividends in good years and, in consequence, labor would insist on wage increases. In poor years, earnings would drop and dividends would drop even more, but wages would stay up. Frankly, it is hard to see just who would support the proposal if it were introduced in the Congress.

Tax reduction is like the old negro spiritual which runs "everybody who believes in heaven isn't going there." Everyone is in favor of tax reduction, **especially in an election year.** I should like taxes reduced, too; but, as I also believe in a balanced budget, I shall be satisfied if our fiscal situation permits a few modest tax reductions **after the war is won.**

Although it is generally conceded that the Federal budget need not be balanced every year, it is nonetheless imperative that, over a period of years, the deficits be exceeded by the surpluses sufficiently to reduce the public debt in accordance with sound long-term retirement plans. Whereas government spending through unbalancing the budget might have some justification when the volume of deposits is relatively small and decreasing because of the liquidation of bank loans, as was the case from 1930 to 1936, no such justification exists today.

As I have said three times in this talk, the volume of deposits is abnormally large and, furthermore, the outlook is for a postwar volume five or six times the **normal** pre-war total. Such unbalanced budget spending would have to be financed by the sale of securities to the banks which would still further increase deposits. This would be highly unwise and unsound. While no one can determine with certainty the economic limit of the public debt of a country, there certainly is such a limit and if the debt goes beyond it, public confidence is undermined. A large floating debt and heavy holdings of government obligations by the general public makes a country very vulnerable to such a danger.

Consequently, any plan which puts tax-reduction before budget balancing should be energetically opposed by all of us regardless of theory or how much we suffer personally. The idea that a balanced budget is not necessary is getting a little shopworn and out of date. Sound fiscal conditions are far more important than any reduction in taxes could be.

In closing, I have two suggestions.

First, some of the savings bonds in the hands of the public fall due next year. It would be helpful to know how the Treasury intends to handle the maturity and it would be appropriate for the banks to ask what plans have been made.

Second, banks more than ever must protect one another. One of the greatest services they can render themselves, as well as all of us, is for them to hold securities which they can shift with the deposits when the inevitable criss-crossing of deposits starts with the end of the European war. If the bank losing deposits sells securities which the banks receiving the deposits want to buy, the market will not be disrupted. Banks expecting to lose deposits should have such securities to sell and thus preserve the asset values of all the banks.

Looking ahead, if you get discouraged, in spite of all I have said, just remember that if it gets dark enough you can see the stars.

McGee Heads N. Y. Bank Credit Group

Hugh H. McGee, Vice-President of the Bankers Trust Company of New York, was named Chairman of the Credit Committee of the $100,000,000 Bank Credit Group of New York City on Oct. 16 as representatives of the particpating banks held their first meeting and took steps to complete their organization. Formation of the group, which was organized to provide an additional source of bank credit for small and medium-sized business in the reconversion and reemployment periods, was announced recently by Robert M. Hanes, Chairman of the Post-War Small Business Credit Commission of the American Bankers Association. It is the first such group to be created under the Commission's nationwide program. The announcement of its formation appeared in our Sept. 28 issue, page 1380.

Percy J. Ebbott, Vice-President of Chase National Bank, has been selected as Vice-Chairman of the Group, and William L. Kleitz, Vice-President of the Guaranty Trust Company, Secretary. Representatives of the participating banks comprise the Credit Committee which will handle all applications for loans submitted to the Group. The Bank Credit Group of New York City was organized as an added assurance of the availability of bank credit within the banking system itself for every sound and constructive need. It is expected that a major part of the post-war credit demands of business, industry and agriculture will be met by the individual banks in each community. If the local bank is not able to supply all of the credit required it is being urged by the Commission to make use of its long-standing working relationships with its correspondent banks. If, however, the banks, either directly or in cooperation with their correspondent banks, are not in a position to meet the full credit requirements of their communities they may then turn to the Bank Credit Group of New York City or similar groups which are being organized throughout the country as a third source of bank credit.

Any bank having its principal office in New York City, according to the agreement under which the group operates, is eligible for membership. The present members are: Bank of the Manhattan Company, Bank of New York, Bankers Trust Co., Brooklyn Trust Co., Brown Bros. Harriman & Co., Chase National Bank, Chemical Bank & Trust Co., Commercial National Bank & Trust Co., Continental Bank & Trust Co., Corn Exchange Bank Trust Co., Empire Trust Co., Fifth Avenue Bank, First National Bank, Grace National Bank, Guaranty Trust Co., Irving Trust Co., Lawyers Trust Co., Manufacturers Trust Co., Marine Midland Trust Co., J. P. Morgan & Co., Inc., National City Bank, New York Trust Co., Public National Bank & Trust Co., and United States Trust Co.

OUR REPORTER'S REPORT

Public offering of Commonwealth Edison Co. of Chicago's $155,000,000 of new first mortgage 3% bonds, placed on the market yesterday, proved to be what the distributors term a "red hot."

Constituting the largest part of the biggest single issue, $180,000,000 in all, ever filed with the Securities and Exchange Commission, the balance was taken by a group of insurance companies in exchange for bonds held, this huge underwriting moved with remarkable celerity.

A negotiated deal, bankers and dealers who handled the issue naturally had the advantage of being able to plan considerably ahead. Accordingly they were enabled to arrange for an underwriting and distributing set-up which embraced no less than 163 firms, on a nationwide scale.

Preliminary inquiry had made it a foregone conclusion that the issue would be a sell-out, which proved to be the case.

The new bonds, known as Series L, were priced at 104¼ for subscription and the sale provided funds for the retirement of outstanding series K bonds of the issuing company and an issue of bonds of its subsidiary, Public Service Co. of Northern Illinois.

Demand was of such proportions, according to those in a position to gauge the situation, that the transaction became an allotment proposition.

Repeat Performance Seen

Bond men were disposed to look for a similar response, when, as and if the $130,000,000 of Philadelphia Electric Co.'s new 2¾% bonds, offered for competitive bids yesterday, reach market.

The company had sought exemption from Rule U-12 on its contention that an issue of this size could be marketed to better advantage via a negotiated sale. But SEC denied its plea. As company officials predicted at the hearing, the huge issue brought out only a single group bid, an original syndicate which had been prepared to market the issue by negotiation, having dissolved in the interim.

Subject to formal award and approval of terms by the SEC, it was expected that public offering by a distributing group of 127 firms would be made before the close of the week. Here again it looked as though a fast operation was in progress.

A Favorable Backdrop

Marketing of these two huge public utility undertakings found the track rather completely cleared of any left-overs from power company offerings brought out in recent weeks.

The market position of most of the offerings of recent date provides the best gauge of their distribution and it develops that the majority of such emissions are selling at or near their offering prices. Narragansett Electric 3s are a case in point, being quoted 104½ - 104⅞ against an offering quotation of 105.08.

Although rail issues of recent vintage are gradually disappearing, their performance has not been up to that of the utilities. There are still Eries; Gulf, Mobile & Northerns; Oregon & Washingtons, and Pittsburgh, Cincinnati, Cleveland & St. Louis around.

Single Bid for Wabash

As time drew short, late on Tuesday, there was every indication that Wabash Railroad would probably receive only a single group bid for its projected offering of $47,000,000 of new bonds when tenders were opened yesterday.

A second syndicate had been in prospect but, as conversations among potential participants came up to the finish line, it developed, according to report, that some could not agree on matters of interest rate and price which bidders were called upon to fix under terms of the sale.

As a consequence this group finally decided against entering a bid for the issue and it was assumed that unless a "sleeper" bid materialized only a single group would be in the market.

Southern Pacific Exchange Offer

Reports that Southern Pacific would do some refinancing materialized when the road filed details for a projected refunding of $88,211,000 of outstanding Central Pacific first and refunding 4s.

The Central Pacific, operated under lease, is seeking ICC approval to issue $50,000,000 of new series A bonds in exchange for part of the outstanding 4s. The balance presumably would be provided for by later action.

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.

Price Control Objectives During Reconversion

(Continued from first page)

American industrial workers and American business management, working closely with the War Production Board, have raised industrial production 129% over pre-war levels. Our record of war-time production is an absolute miracle of modern planning and vigorous effort.

Our farmers and cattle raisers, working closely with the War Food Administration, have increased farm production to unheard-of levels. In spite of shortages of man-power and equipment they have produced more food and better food than the most optimistic pre-war prophecies foretold.

Our railroads and truckers, working with the Office of Defense Transportation, have carried double their pre-war burden—with a minimum of delays and a maximum of effectiveness and speed.

And in spite of huge inflationary pressures, all of us—business men, labor, and farmers, working within our organization, the OPA—have maintained a relatively even level of prices.

Industrial prices have risen less than 3% since the spring of 1942, thus saving all of us as taxpayers countless billions of dollars on the cost of the goods that the Government must buy to fight the war.

The cost of living—averaging in rent, food, clothing, and house furnishings for the middle-income family—has risen only 9% in that same period. During the last 15 months it has scarcely risen at all.

Thus for the first time in any war we have managed to keep our price levels from skyrocketing upward. And in so doing we have given all of us—including the wives and families of our absent fighting men—protection that we have never had before in wartime.

Taken all in all, I believe we can agree that our war-time record has been good.

But now we face a new set of production and price problems.

The pricing policies which we have followed during the war period have been effective under war-time conditions. But today we look forward to more and more cutbacks in war production and the increased production of peace-time goods.

During the next 90 days we are hopeful that the war will be brought to a close in Europe. During the next 18 months or so we are looking forward to victory in the Pacific. As our economy partially reconverts to peacetime requirements we will be called upon to face rapidly changing economic conditions.

Within three months after Germany is defeated it is estimated that plants now producing 40% of our war goods can be freed for the manufacture of civilian goods. More than 4,000,000 war workers will be made available for the production of goods for which the American people are eagerly waiting.

The Federal Government has made it clear that industry will be assisted and encouraged to resume the manufacture of civilian goods as rapidly as possible. To this end the War Production Board has announced that it will lift controls over most materials and manufacturing immediately after V-E Day. The War Manpower Commission has stated all man-power controls will be lifted except in relatively few areas where they are essential to continued war production.

The only lasting answer to inflation is full production of civilian goods with all possible speed. For this reason we in the OPA welcome these developments as a major aid in holding prices stable.

But even under the most favorable conditions our pricing task will be a ticklish one. A weak price policy during the next few months can set in motion all the powerful inflationary forces that surround us. A rigid price policy in which no allowance is made for legitimate increases in costs could stifle employment and production and head us straight for a major depression.

During the war our efforts have aimed solely at checking inflation. On V-E Day the picture will change. When the telegrams go out canceling war orders, the forces of deflation will begin to develop. From that day on until full production is achieved and supply and demand come into reasonable balance, the forces of inflation and deflation will exist in our economy side by side. Right now it is impossible for anyone to say with finality which will be the greater.

Let's first take a look at the huge inflationary pressures all ready to push prices up as soon as the war in Europe ends.

By the end of 1944 $100,000,000,000 of war-time savings will be waiting in the hands of people who have been unable to buy many of the things they wanted most—a new car, an electric refrigerator, a washing machine, a sewing machine, a new stove, new farm machinery, a new house.

Obviously, it will be impossible to produce all of these articles in sufficient quantities immediately. But people don't like to wait. The pressure of buyers with good jobs and a backlog of war-time savings will be tremendous.

Merchants will be anxious to be among the first to offer new goods for sale. The retailer who can quickly build a good inventory will be in a position to capture the business.

Every manufacturer, too, will want to be among the first produce these goods. The competition for materials will be considerable. To back up this competitive desire for inventories and raw materials are billions of dollars in war-time reserves.

But as I have pointed out, inflationary pressures are only one-half the story. Deflationary pressures—some of them inescapable, some of them potential, are equally dangerous.

The closing of plants built only for war production (which probably cannot make peace-time goods) will require an estimated 2,000,000 people to look for peacetime jobs elsewhere. Millions of others will face temporary unemployment while the plants in which they work set up their new production lines for civilian goods.

In all plants changing over to civilian production the return to the 40-hour week will reduce the workers' weekly take-home pay. Even a 10% cut in hours, which seems probable soon after V-E Day, will cut salaries and wages by something like $12,000,000,000 in a year.

Adequate unemployment compensation will, of course, help to some degree to hold up purchasing power. Our huge backlog of savings will also serve as an anti-depression asset. But fear of prolonged unemployment can make people hesitant to spend their savings except for necessities. A man out of work goes slow in building a new home—even though his savings account is still ample.

Up to now business and industry have been able to absorb the men—more than 1,250,000 of them—who have been mustered out of the armed forces. However, when our soldiers and sailors start coming home after V-E Day there may be more men than jobs until industry hits its stride.

If reconversion is slow, the national income will be dangerously down while millions of workers are waiting to return to work. Slowness in reconversion would also mean a letdown in demand for basic raw materials.

The Government has been spending about $70,000,000,000 a year for war materials and construction, and that money has provided good jobs at high wages. Within three months after the defeat of Germany it is estimated that this will be cut to about $40,000,000,000. To a major extent that is money out of our pockets, until we get civilian production going on a comparable scale.

Some of these deflationary threats we cannot hope to avoid. Some of them are temporary, and the speed or slowness of reconversion will determine the extent of their influence. Others may not materialize, unless business men and their customers—frightened of the future—are afraid to invest and spend their money.

But after V-E Day the threat of deflation cannot be ignored.

Statistics alone cannot measure either of these dangerous economic forces. Behind them lie the psychological factors of over-optimism on the one side or fear on the other. Both of these are products of uncertainty.

Uncertainty about prices is one of the most dangerous. It could lead to a wild speculation or to a drying up of purchasing power. That is why we are determined to do all in our power to hold prices stable during the months ahead.

I don't think we should forget that we faced this reconversion problem once before, and that that time we bungled it, bungled it badly. In November, 1918, when the Armistice was signed such price controls as existed were pulled off almost immediately. The economy was left to find its own way back to normal. For a few months prices and wages did remain stable, even declined slightly. But by spring of 1919 they were surging upward once more. As a result, almost half of the total inflation of the last war occurred after the Armistice. For a year and a half we had a mad speculative spree. In the middle of 1920 we began to pay the piper. The bubble burst and a savage deflation set in which carried prices and wages downward even more rapidly than they had risen. Wholesale prices fell 40%. Unemployment shot up by nearly 6,000,000; payrolls shrank 44%, and the average weekly earnings of workers who kept their jobs were cut by one-quarter.

Corporate profits tumbled from 6½ billion in 1919 to a loss of 55 million in 1921. Inventory losses totalled 11 billions and wiped out practically all the reserves accumulated out of wartime profits. Business failures in the next five years totalled 106,000, 40% more than in the five years 1910-14.

The farmers too took a beating. Farm prices fell 61% and taking into account inventory losses, net farm income tumbled from nearly 9 billion to less than 3 billion. In the next five years 453,000 farms were lost through foreclosures.

That's the story of reconversion after the last war. Everybody had moved up together and everybody came down together. We went up fast; we came down hard. It's a story that provides a perfect lesson on how **not** to handle the problems of reconversion.

How can we take advantage of the lessons of history and avoid repeating the same calamity on an even greater scale? Obviously it will take the closest cooperation by industry, labor, agriculture, trade and government. The OPA's job in meeting this responsibility is pricing—and pricing alone. It seems to me that our job is divided in three parts.

First, we must continue to hold the line against inflation. We can't let our fighting men come home this time to face rising rents and climbing food and clothing prices as they try to get a new start in civilian life. We cannot afford to let the price level go, and with it the wage level, in a speculative spree that must inevitably be followed by a collapse. This isn't going to be easy.

Second, we must set prices on the consumer durable goods which have been out of production during the last 2-2½ years. In general, our objective in setting ceiling prices for these new goods will be the manufacturer's own 1942 prices. These are the prices he was charging when he converted from civilian to war production. And, with few exceptions, these are the ceilings in effect today for any manufacturer still producing the same or similar goods.

This means that any manufacturer who is planning to put new civilian goods on the market at 1942 prices or less knows **now** that his ceiling price will **not** be lowered. As soon as production and manpower controls are released, he can proceed at once. Reconversion pricing will not be one of his problems.

In practically all consumer durable goods industries there have, of course, been increases in wage rates and some increases in material prices. But we know from the wartime experience that increased wage rates and material prices need not be fully reflected in price increases for the finished product.

In industries now under price control, such as textiles, meat packing, paper and pulp, for example, substantial increases in either hourly wages or materials prices, or both, have occurred. In none of these cases, however, has it been necessary to allow price increases anywhere near equivalent to the cost increases.

In most cases the price increase has been only a small fraction of the full equivalent. Nevertheless, profits have moved up sharply—so sharply, in fact, as to suggest that the cost increases should often have been entirely absorbed without unfairness to the industry.

Our experience in these fields and dozens of others strongly suggests that in the **consumer durable goods** industries, where increases in wage rates have been no greater and increases in materials prices have been substantially less, production for most companies can be resumed at approximately 1942 prices.

There are some companies, however, and perhaps a few industries whose costs have risen so far above their 1942 level as to make full absorption impossible. These will need new prices. They will need them quickly, and we intend to see that they get them.

It is our hope that ceiling prices for the major fields can be arrived at through industry-wide conferences in Washington. We are now holding meetings with members of the automobile, electric refrigerator, washing machine, radio and a few other industries—representing on a dollar volume basis 80% of the entire reconversion pricing problem.

At these meetings we will discuss the volume each industry plans to achieve; what they are going to pay for labor and materials; the savings they expect to make through increased plant efficiency, and lower sales costs.

In those cases where an increase over the 1942 price level is really needed to bring any product back on the market, an increase will be given. We will make every effort to set ceilings at a point that will lead manufacturers to expand, not restrict, their production.

I am well aware that any delay on our part in setting prices would be an even greater hardship for small manufacturers than for large ones. We must make sure that any manufacturer who needs a new price can get a decision quickly. In order to do this, we will authorize the 93 OPA District Offices, located in all parts of the country, to set the final ceiling prices for all reconverted products not on the key list of 12 major items.

Many firms have already indicated that they plan to sell at their 1942 prices, or even lower, as soon as they can get back with civilian production. They will not need to call on our field offices at all.

Firms whose higher production costs make a price adjustment necessary will be able to present the facts to the nearest office and receive a price based on a set of standards arrived at in Washington. These will be standards that can be quickly applied without referring back to Washington.

The exact method by which the prices for the smaller firms will be set and the standards which will be followed are now under discussion with many of our advisory groups and with our field officers, on whom much of the administrative burden will fall.

Barring the sudden end of the war in Europe, the details will be withheld until these discussions are finished.

A complete plan, including pricing standards for the smaller manufacturers, however, has been fully developed. If necessary, we are prepared to announce full details of the pricing procedure that each manufacturer (with the exception of those making the "major items" listed above) will follow within 48 hours after V-E Day.

We are anxious to do this in order to eliminate as rapidly as possible all unnecessary red tape and needless regulation.

Our third job will be to get rid of controls as fast as possible. We have always looked upon price control as a stop-gap, a stabilizing wartime control to be dropped as soon as production brings supply and demand reasonably in balance. The last war, with its false economic calm after the Armistice, followed by a ruinous inflation and collapse, taught us the danger of moving abruptly and thoughtlessly. To maintan controls needlessly even for a few extra months would be equally mistaken.

The wartime lack of balance between supply and demand made price control necessary. When supply and demand come back into balance price controls will not be needed. As soon as there is no further danger of price increases in a particular commodity field there will be no reason for price ceilings in that field and we will drop them.

The exact timing will vary widely from item to item. But, working with Industry Advisory Committees, we will watch each field closely. We will rely heavily on their recommendations as to when controls can be safely removed.

This is the program which we are going to do our level best to carry through. Whether we will be able to do it or not is another matter. It depends a good deal on how the situation shapes up after V-E Day. Prophecy is always dangerous, and I have no desire whatever to set myself up as a crystal gazer. But assuming that the war ends this year, I think we can afford a few guesses about what may happen soon after the end of the war.

Let's put the cards on the table face up and look at them. Let me discuss the outlook as we see it with complete frankness.

Personally, I'm deeply worried about the situation which seems to me to lie ahead. We've come a long way successfully. I think thus far we have a record of wartime price control in which all of us can justly take pride. But the real crisis lies ahead, during which there is a chance that we may lose all the ground which has been won with such tedious effort during the last two and one half years of wartime price control.

Under the best of conditions no one can know for sure whether we can win through or not. Certainly we can't **hope** to win alone. We're neither strong enough or smart enough. Unless business and the general public see clearly the issues that lie ahead and give us their full help and support, we are likely to face an inflationary explosion in greater or lesser degree.

We are likely to pass through three periods during the year after V-E Day. In the first period prices of foods and some materials may actually sag below their ceilings. Business men, government and the general public may begin to relax. People may begin to feel that the inflation bugaboo has been vastly overdrawn.

Some of our ablest people, trained through difficult experience in the field of price control, will begin to talk of going home. Our problem during this critical period is not going to be to get the bureaucrats out of Washington, but to keep the good ones there to do the job. We are already beginning to experience personnel difficulties, and these difficulties will obviously increase immediately after V-E Day. It will take a good deal of patriotism and persuasion to keep the necessary working force together.

In this first period, there will be continuing pressures for higher prices on textiles and for higher rentals. There will also be strong pressures for higher prices on the consumers' durable goods, which will be just beginning to come back on the market and for which the demand will far exceed the supply.

Under the surface, in this initial period, there will be a growing danger of inventory price inflation as manufacturers begin to compete for scarce supplies and distributors begin to hedge against the possibility of higher prices. But, on the whole, it will probably be a period of relative calm on the inflationary front. No great dangers will be apparent. The price indices of the Department of Labor may actually go down a bit.

The second period, beginning from five to seven months after the defeat of Germany, is likely to be the real period of crisis. It is in this period that the success or failure of our efforts to preserve the stability of our economy will be determined.

If, in the immediate period after V-E Day, our pricing on textiles and consumer durables were ineffective, the prices of these items would begin to rise. If we relax our general price standards, or if we yield to particular pressure groups, other prices would begin gradually at first to follow the leaders. Most pressure groups are made up of well-meaning people with perhaps an extra but entirely human dose of selfishness. Although they don't mean to be unpatriotic, they are just as dangerous as though they were consciously trying to blow up our economic system. We will be playing with economic dynamite during the coming months, and too many people don't realize that dynamite explodes.

In the third period, which may come nine to ten months after the war in Germany, the success or failure of our joint efforts will become clear. If rising prices are beginning to take charge there is very little that we could do. We would face a period of soaring prices with wages chasing along behind. There will be a rapidly growing inventory competition for scarce supplies. Black markets would flourish, and small producers or distributors would be squeezed tighter and tighter as big buyers swamped the market with speculative orders, protecting themselves against still higher price inflation.

An inflationary boom of this kind would inevitably end in collapse—tied in very likely with the end of the Japanese part of the war. Collapse would mean a violent shrinking of farm income, a rapid dropping off of corporate profits, widespread unemployment, wage cuts and the shrinking of our national income far below what we are capable of producing.

It seems very doubtful to me whether our economic and social system could stand such a shock. Certainly our returning soldiers, our industrial workers and our farmers would not willingly accept it.

But if we can keep our heads through the critical second period the success of our efforts will become obvious in the third period. The general level of prices and rents will become stable. Inventories will be building up in an orderly manner. Peacetime production will be growing steadily and surely.

In this third period under these conditions, the removal of price controls could be well under way. We will begin to withdraw controls from rents, food and perhaps textiles. We will be simplifying our controls on other commodities. We will be well along in the tapering-off period.

To sum it up, a major crisis in American economic history is in the making. If we lose out in this fight, all of the wartime accomplishments on the home front will be forgotten in the chaotic conditions which will result. We will have kicked away at the last moment the chance of bringing our economy through the war on a stable basis. The future of our whole economy is at stake.

However, if we win this fight, we will have laid down a solid basis for post-war prosperity. If we come through right side up, we have an opportunity to prove that our free enterprise system is capable of providing full production and full employment for all our people. We shall be able to provide jobs — good jobs — to our returning servicemen; to maintain farm markets and farm income; and to provide for the people of this country the abundance which our modern American economy is so fully capable of producing.

The period ahead is a critical one. It will call for good judgment, courage and economic statesmanship of a high order. Working together in the reconversion period as we have in the period of war, I'm confident we can successfully meet the challenge.

Outlook For Ins. Stocks

Huff, Geyer & Hecht, 67 Wall Street, New York City, in the current issue of their "News Review," have a detailed discussion of the outlook for insurance stocks and interesting suggestions as to investor action in these stocks. Copies of the "News Review" and a comprehensive study of Standard Accident Insurance Company may be had from the firm upon request.

Portfolio Changes

Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange and other leading exchanges, have prepared an interesting tabulation of purchases and additions, and sales and reductions, in the portfolio of The Lehman Corporation. Copies of this tabulation may be had upon request from Ira Haupt & Co.

The Bank's Bond Portfolio

(Continued from page 1682)

tially threatens our surplus funds, we can resolve many of our bond problems. We can do this by adopting a policy based on the relationship of the bonds to the financial structure and deposit experience of our bank.

This declining margin, of course, reflects the expansion of investments in line with rising deposits. As this trend continues, it becomes increasingly important to minimize fluctuations in the investment account, to dispose of all risk assets and to shorten maturities wherever possible.

What, if anything, has the average bankers done to meet this situation?

The over-all figures of our banking structure as well as those published by individual banks indicate that the average banker has taken all the necessary precautions and in most cases has secured adequate protection against the possibility of a rise in interest rates and a consequent decline in bond prices.

The first step on the part of the banks to meet this situation was to substantially reduce investments in corporate and municipal obligations in order that they might be in a position to undertake the responsibilities associated with the financing of the vast requirements of total war. In addition to direct purchases, banks have been the leaders in the sale of War Savings Bonds and other government securities to investors. That this war effort has been successful is now beyond dispute. At some future date the labor and sacrifices made by individual bankers throughout the nation to assure the success of this program probably will receive the general recognition which it deserves.

The second step which the bankers took to accommodate this increase in investments without undue risk was to substantially shorten the average maturity of these investments.

The U. S. Treasury Bulletin publishes monthly all the various issues of government bonds held by over 6,200 commercial banks. This survey accounts for approximately 95% of the amount of such securities owned by all banks which are members of the FDIC. In December, 1941, this published report showed that reporting banks held $20 billions par amount of government bonds with an average maturity of 98 months. The figures of December, 1943, show an increase in the par value to $55 billions. It is important to note that the average maturity had been reduced to 66 months between these two dates. If the higher coupon partially exempt bonds held on the date of the latest report are figured to their respective call dates and the taxable bonds to their actual maturity, this average would be reduced to 56 months or less than five years. These figures would seem to offer excellent testimony as to how the average banker is meeting this problem.

All students of economics are naturally concerned about the huge increase in commercial bank deposits as well as government debt, but they also recognize that we have a job to do and that this job can be done on a sound basis. Some analysts accustomed to appraising the strength of our banks by rule-of-thumb ratios tend to view this expansion of deposits and investments with some degree of alarm. These critics often give little or no weight to the dramatic change in the character of the banks' assets in recent years. It is important to remember in this connection that in 1930 the commercial banks held loans, discounts and corporate and municipal bonds, all of which were primarily risk assets, in the amount of $44 billions. At the same time cash and U. S. Government obligations totalled only $14 billions or 23% of total resources. As of Dec. 31, 1943, in a banking structure with resources 80% larger, the same risk assets aggregated only $25 billions and cash and government bonds amounted to $86 billions. The cash and government bonds at the latter date were equal to 77% of total commercial bank resources. Many of these same commentators are prone to ignore the fact that the character of the assets in our banking structure is of far more importance than the ratio of deposits to capital.

It is axiomatic that investment risks are of two kinds — those of a credit nature and those connected with a possible change in interest rates. Obviously there is no question as to the credit of the Government but there may be some risk of temporary depreciation even in government bonds if interest rates should change suddenly and dramatically. The measurement of the ability to withstand this potential risk is entirely a matter of mathematics and every banker can make his own calculations. There is no reason why a conservative banker should be unduly apprehensive if his bond account has been set up in accordance with sound and accepted principles, which provide for a margin of safety against temporary fluctuations due to a possible change in existing yields.

The question of the probable trend of interest rates after the war cannot be answered with any degree of certainty. Interest controls now in effect have functioned relatively well in recent years, but we are dealing with economic forces of such vast magnitude that no economist can offer convincing proof of a future pattern. While many current bank statements give the appearance of an investment trust, we are in general investing demand deposits, and we are not essentially long term investors nor can we consider that all of our investments are permanent. Therefore, for the purpose of bank investment, the conservative procedure is to assume that interest rates may move upward some time in the future, even though we may not have come to a conclusion that a change is imminent or even likely.

Post-War Planning

Before we can decide how many bonds and what kind of bonds a bank should own, the conservative procedure is to make a complete examination of our post-war prospects. Some banks assuredly face a post-war adjustment different only in degree from that which confronts the average American industrial corporation. While it seems reasonable to believe that the expansion of deposits prior to the outbreak of the war were well distributed and absorbed, it is also logical to expect a shift of some of the deposits received subsequent to that date. These excess or temporary deposits may consist of War Loan accounts, accrued corporate and individual taxes, deposits normally in inventory or deposits awaiting the resumption of manufacture of automobiles, refrigerators, electrical appliances, farm equipment, etc. These excess deposits appear in many cities and towns, but are more apparent in so-called war centers where there has been an influx of workers and a large increase in production.

Where this situation exists the conservative course is to estimate the minimum level of total deposits after the cessation of all hostilities. This can be an arbitrary total based on a date such as Dec. 31, 1941, or it can be arrived at by a careful study of each account. After a total has been agreed upon this can be incorporated in a hypothetical balance sheet in order to determine the amount of funds available for more permanent investment. If a bank's current deposits are $8,000,000 and the normal level is estimated at $5,500,000 the latest balance sheet adjusted to reflect this estimate might appear somewhat as follows:

(000 omitted)

U. S. Government bonds (assumed)	$3,000
Other investments 6-30-44	400
Loans and discounts 6-30-44	1,500
Bldg., R. E., Furn. & Fix. 6-30-44	100
Total invested assets	$5,000
Cash (assumesd 20% of deposits)	1,100
Total	$6,100
Capital	$300
Surplus	200
Undivided profits	100
Deposits (assumed)	5,500
Total	$6,100

Obivously the officials of the bank are the only ones in a position to estimate the normal level of deposits. Generally speaking, we could make an allowance in our calculations for 20% in cash at the low point of deposits, although part of this amount might be invested in bills or certificates in some cases. The purpose of this hypothetical balance sheet is to determine the maximum total invested assets that can conservatively be carried on a permanent basis. These calculations in usual cases need be made only once and in the case cited above, the maximum figure would be $5,000,000. For purposes of discussion I am inclined to call these "longer term invested assets," although it is recognized that many of these assets are neither fixed nor long-term. However, this total would remain fixed as long as the estimate of normal deposits remains unchanged, although some adjustments within the total would be required as total loans and discounts change. For instance, if loans should increase, the longer term governments would be correspondingly reduced to maintain this total of longer term invested assets at $5,000,000. The 20% cash requirement includes some additional margin over reserve requirements to cover the contingency of increasing loans after deposits have declined to the estimated normal and at a time when it might be inadvisable to sell longer bonds.

Once this formula has been adopted, the day to day operation would only involve consideration of all excess deposits. If current deposits are $8,000,000 or $2,500,000 above the estimated post-war level, all excess deposits under this plan would be invested in short securities. Thus it is simply necessary to determine how much to carry in bills, certificates and cash, since all of the excess deposits over $5,000,000 would be held in one of these media. Cash requirements are determined, of course, by reserve requirements, till money and deposits with other banks. Both the bills and certificates might be staggered as to maturity.

What this all boils down to is this: After the formula has been developed, the only real problem is to determine the amount of cash required for reserves and sundry purposes. All remaining funds are invested in bills and certificates as long as total "longer term invested assets" aggregate $5,000,000. Thus it is not necessary to calculate both primary and secondary reserves, since the established policy automatically provides secondary reserves in either bills or certificates. A collateral advantage of this type of planning permits full investment of all available funds without undue risk and with ample liquidity.

If deposits at the present time aggregate $8,000,000 the current statement would appear somewhat as follows:

(000 omitted)

U. S. Government bonds	$3,000
Other investments	400
Loans and discounts	1,500
Bldg., R. E., Furn. & Fix., etc.	100
Total "longer term invest. assets"	$5,000
Bills and certificates	2,400
*Cash (15% for primary reserve)	1,200
Total	$8,600
Capital	$300
Surplus	200
Undivided profits	100
Deposits	8,000
Total	$8,600

*Would vary depending on size of time deposits and reserve classification of the bank.

Should deposits subsequently drop to the $5,500,000 estimated normal, bills and certificates would be liquidated, leaving $1,100,000 cash and bills, or 20% of the then total deposits. This post-war plan will offer a pattern as to the amount of bills, certificates and bonds which can be conservatively carried in the investment account.

The Permanent Bond Account

The next test which can be applied is to determine the kind of bonds to be included in this longer term phase of this pattern. In adopting a policy for this part of the bond account each bank must be considered as an individual problem, and as individual problems they require individual treatment. It is not possible to say that all banks can safely purchase some longer term bonds, although many banks are undoubtedly in a position to do so. Each banker can determine this for himself by an analysis of his own figures. The first step in a conservative plan is to relate the net sound surplus and undivided profits to the amount of bonds indicated by the post-war plan. The problem has then been resolved into two known factors from which we can figure a margin of safety. In the hypothetical illustration which appears above, the amount of bonds in the permanent bond account — $3,000,000 would be related to surplus funds of $300,000, or a margin of 10%. If this $3,000,000 of bonds had an average maturity of six years, average interest rates could move upward by more than 1¾% before the value would depreciate to the extent of the available margin of 10%. By making similar calculations and by allowing for a reasonable change in interest rates an average maturity can be established to provide the desired protection. The average maturity finally selected might be three years, or it might be ten years, but in each case it should fit the individual circumstances and would not be based on any individual's guess as to the future movement of bond prices. This approach to the problem of maturity is not based on any conviction that interest rates will change, but rather on an assumption that we do not know.

With respect to that portion of the investment account which has been developed by the Post-War Plan and which is considered more permanent in nature, a separate policy can be adopted. Many students of the bond problem now seem to agree that the so-called staggered or rotating maturity plan will produce the best results. If we concede that the total average maturity of the so-called permanent account should be controlled on the basis of the relationship of investments to available surplus funds, then the operation of the account by means of a staggered maturity seems quite logical. A staggered maturity, running from two to ten years with an average maturity of six years will initially produce approximately the same income of a straight six-year maturity. This is also approximately true of any average we might select. Further advantages of the staggered maturity plan are the increasing income provided as bonds are rotated and the inclusion of short maturities available for liquidation if the decline in deposits or an increase in loans exceeds previous estimates.

If the analysis of an individual bank indicated that an average maturity of six years would provide the desirable margin of safety, the amount available for the permanent account could then be invested in somewhat equal amounts, using maturities ranging from two years to ten years. The initial yields for taxable bonds in this area would range from 1% for the shortest maturity to 2% for the longest bond, producing an average yield of approximately 1.60%. As each of the early maturities is sold or paid off, the proceeds could be invested in another ten-year bond. If we assume for the purpose of this discussion that current interest rates remain unchanged, then each year for ten years an issue producing a yield less than 2% would be replaced by a 2% bond. This means that income from the entire fund would gradually increase each year up to the point where the entire fund was yielding 2%. This would represent an increase of 25% in income, but it would be accomplished without any increase in the average maturity or risk. If by any chance interest yields should increase some time in the future, it is probably reasonable to assume that this change would be gradual and would be effected over a period of time. In this connection it is interesting to note that it is theoretically possible to operate a staggered bond account through a cycle of gradually ascending yields without experiencing even temporary depreciation. For instance, the ten-year bond is now roughly selling on a 2% basis. The yield on a five-year bond is approximately 1½%. Five years hence the 2% ten-year bond will then be due in five years. Thus in a gradually ascending yield curve the five-year rate could change, over a five-year period, from 1½% to 2% without causing any depreciation to the original owner of the ten-year bond.

It is a fact that a policy of staggered maturities maintained year after year provides for reinvestment in the longest maturity and, therefore, at the highest, rather than at the average, yield available for a particular portfolio.

The market for Government bonds has been resolved into a very definite pattern with yields rising progressively from ⅜ of 1% on bills, ⅞ of 1% on one-year Certificates of Indebtedness and approximately 2% on the ten-year bonds. This progressive increase in rate from the short term to the medium term bonds has been well standardized with the result that switching operations for the purpose of profits offer little real recompense.

The important problems for any bank to determine in connection with their Government bond investments are first, the area in which the investment is to be made and second, whether to purchase fully taxable bonds or partially tax exempt bonds. If the area has been determined by an analysis of the risks that can be assumed, maturities can be easily selected from the broad list of Government bonds that are now available. The question of fully taxable bonds vs. partially tax exempt can only be determined by an analysis of the bank's earnings and tax liability and a comparison of existing yields after taxes.

It may not be practical to install a staggered maturity program immediately, but the control of maturities in relation to our capital funds may be very important. We cannot afford to vacillate in policy; we cannot afford to jeopardize the stability of our principal asset by shifting from short term to long term bonds. No—there is still a serious job to be done. This job is a part of the war effort and it must be done on a sound basis. The over-all figures of our banking structure clearly indicate that the job is being done properly. Let each banker continue this effort so that we can help to provide the stability that is essential as the country moves into a period of post-war adjustments.

Britain Confident Of Financial And Industrial Leadership: Catto

Governor Of The Bank Of England Tells London Bankers And Merchants It Will Be His Duty And His Endeavor To Help That Leadership

Lord Catto, recently elected Governor of the Bank of England, in a brief address at the Lord Mayor's Luncheon in London, Oct. 5, reviewed the financial situation that will face Great Britain after the war; and although expressing the belief that "recovery will not be easy," stated that he was "full of quiet confidence."

"It is perhaps permissible, without undue optimism," began Lord Catto, "to look forward a little, and I should therefore like to say a word or two about the situation that will face us at the end of hostilities. I am frequently asked whether this country can regain its old financial and industrial leadership. Well, I am full of quiet confidence!

Lord Catto

"It is true that our national debt is likely to be about three times as much as it was at the end of the last war. It is true also that part consists of obligations to overseas countries of an important amount. All that is a heavy burden. But the productive capacity of the country and therefore the national income have also very substantially increased since the end of the last war.

"Recovery will not be easy; it will require much effort, much restraint and, to use historic words of our great Prime Minister, much 'toil and sweat' to make full use of our productive capacity. However great the effort, it will have its compensations for if guided aright it will assist the full employment policy to which the Government is committed and with which we are all in such ardent sympathy. But recovery will need something more; it will need a resurgence of that individual initiative, that resourcefulness, and that spirit of adventure which in war and in peace have ever of old contributed to our country's prosperity and to its greatness.

"In that respect the City of London must be given lead and play a major part. I do not need to tell you that her position in world commerce and in finance is unique—and I would ask you to note I say 'is' and not 'was.' And that comes not from wealth; not from stocks of gold or foreign investments—for we have less of these than we had! But rather from something more lasting; something that even war cannot destroy or take from us, and that is, the City of London's generations of accumulated experience, the integrity of her institutions, and her reputation for fair dealing. That is a precious heritage! It is still intact, in spite of war and in spite of destroyed and damaged buildings. And it is this heritage that will inspire leadership of the city of London in providing financial sinews so that the vast manufacturing output of our country and the unsurpassed technical skill of our people may be given full scope.

"It will be my duty, and my endeavor, to help that leadership, and I know I will receive in full measure that help, that guidance, and that support from the financial and commercial community of the city of London which as a new and untried governor I will sorely need and which, if I may say so, I have a right to expect. For I have taken on my new work in no spirit of ambition but with humble duty to serve the country at this difficult and anxious time.

"But, I am asked, even if we are able to carry internally our national debt, how about our external obligations? Well, next to our distinguished Chancellor of the Exchequer, to whose great speech we have just listened with so much interest and instruction, I suppose I know as much about these debts as anyone. They are large and they have special difficulties of their own in regard to their liquidation. But let me say at once, these debts do not fill me with dismay; although I would not like to contemplate what they might have been but for that financial miracle 'Lend-Lease' and the most generous war contributions of Canada. Many countries may well end the war with national debts proportionately as large as we have, but no other nation has an external financial problem of anything like the magnitude of ours. It arises through our heavy overseas expenditure in the long weary war years and our inability in that period to counterbalance that expenditure by exports in any considerable volume; for we have devoted our whole resources, without counting the cost, to the single task of winning the war. In a word, what we have done is to use in advance a substantial part of our post-war capacity. Our problem therefore will be to export in sufficient volume to enable us to pay for our current essential imports—of raw materials and food—to maintain the standards of living of our people and to have some surplus towards the gradual and orderly liquidation of our external obligations. It is indeed a serious problem. But there is this consoling thought that it is not our problem only; it concerns just as much the creditor countries; in fact, it is a world problem. For, plainly, the extent to which we can import world products is dependent upon that gradual and orderly liquidation of which I have spoken. Obviously, if in the early years too large a proportion of the value of our exports and services goes in liquidation of these debts then there will be that much less with which we can buy the current exports of creditor countries and the rest of the world. And that is serious for all, for we are a very important market! In fact, we are and are likely to continue to be the greatest importing country in the world! And, therefore, the world's best customer!

"These are plan economic facts. They should be widely understood; for on a full appreciation of them will depend the solution of the problem of these external obligations in the interests not alone of this country but of the creditor nations themselves and the whole world.

"The Chancellor of the Exchequer has spoken of the feature aim of government plans and policy; in particular that government expects, and has a right to expect, full cooperation in these plans and policies from the financial and industrial leaders of the country. He has told us there must be closer working between the appropriate government departments and business people so that individual effort and initiative may be best aligned in the national interest. I am sure I can speak for you all in promising that closer working. I think the financial history of the war, so far as the city of London is concerned, is evidence that I can give that assurance without hesitation. As the Chancellor well knows, the city has accepted without reservation all and every rule and regulation imposed by government and has loyally observed not only the formal but every informal indication of government policy. But in giving that assurance I venture to hope that closer working with government departments will not involve too great delay or curb that individual initiative, that resourcefulness and that spirit of adventure of which I have spoken, and I am sure the Chancellor will agree with me.

"I have nearly finished and I conclude on the same note of quiet confidence with which I began. But I cannot end without some reference to the glorious but anxious days through which we are passing. I have spoken much of debts. But these sink into insignificance when we think of that other form of debt—the debt of gratitude—that we owe to those who are fighting for the world's liberty; to those who have been wounded; and, above all, to those who have made the great sacrifice and to their stricken families at home—in particular, to those in this ancient house of great hospitality."

Post-War Possibilities Of Colombia And Venezuela

A survey of wartime business and financial conditions in Colombia and Venezuela has been published by the Chase National Bank, Pine Street, corner of Nassau, New York, N. Y. This study includes an analysis of these countries' trade relations with the United States, and indicates the post-war market possibilities that should result from their pent-up demands and accumulated buying power.

Copies of this interesting survey may be had from the Chase National Bank upon request.

Harry Spring Partner In Greene & Company

Harry B. Spring has joined the over-the-counter house of Greene & Co., 37 Wall Street, New York City, as a general partner. He will head the Research Department, developing and analyzing special situations in the industrial, utility and railroad fields.

Harry B. Spring

Mr. Spring was for a number of years in charge of the Arbitrage Department of Wertheim & Co. He has spent 18 years in specialized Wall Street research, and has been responsible for focusing interest on many attractive situations.

Ins. Sound Investment

Insurance stocks offer a sound stable type of security, acceptable year in and year out, regardless of depressions, panics or lush times and bull markets, according to a memorandum issued by White & Company, Mississippi Valley Trust Building, St. Louis, Mo. Copies of this interesting memorandum and a comparative tabulation of 45 insurance stocks, may be had from White & Company, upon request.

Also available is a study of Pickering Lumber Corporation, which White & Company feels offers an attractive situation.

Judson & Co. To Admit

Judson & Co., 60 Beaver Street, New York City, will admit Carolyn W. Judson to limited partnership as of Nov. 1.

Bretton Woods Plans Analyzed

Recent Bulletin Points Out Both Merits And Defects Of The International Monetary Fund And International Bank And Concludes That The Effective Functioning Of Both Institutions Will Depend On Their Management

A Bulletin issued on October 13 by the Institute of International Finance of New York University, of which Dean John T. Madden is director, describes and analyzes the Bretton Woods Agreements to set up an International Monetary Fund and an International Bank for Reconstruction and Development.


Dean J. T. Madden

"The problems that confronted the delegates at the Bretton Woods Conference," the bulletin states, "were numerous, and were complicated by the divergent interests of the various countries and by the intent of some countries to obtain the greatest possible aid from the institutions to be established, while limiting their own contributions to a minimum. Furthermore, the delegates differed widely in their concept of currency and the role of gold and silver. It is remarkable indeed that, in view of the conflicting interests and ideas, an agreement has been reached.

"The delegates gathered at Bretton Woods," continues the bulletin, "have plotted a course to a world economy that would be more stable than that which has prevailed since the First World War. It is now up to the various national legislatures to accept, modify, or reject the proposed plan, bearing in mind the consequences of exchange control, competitive currency depreciation, bilateral clearing and compensation agreements, import quotas and other international trade impediments employed in the 1930's by the various nations in the futile attempt to achieve and maintain individually a prosperous and balanced national economy."

In discussing currency stabilization the bulletin states that the process of currency stabilization involves two distinct problems; namely, balancing the international accounts and maintaining sound fiscal conditions.

"This does not imply that the international accounts must be balanced each year or that a budgetary deficit in any fiscal year immediately threatens the stability of the currency. International accounts can be balanced by contracting abroad short-term and long-term loans and by the utilization of gold and internationally acceptable assets. The main question is whether the international position of the country is sound. Budgetary deficits are likely to undermine the stability of the currency only (1) when the deficits are so large that they destroy the confidence in the currency leading to a flight of capital, or (2) the large and continuous deficits are met primarily by borrowing from the central bank or the commercial banks and thus increase the volume of currency in circulation and of bank deposits, which in turn usually cause a rise in commodity prices. If this price increase is substantial, it soon has an adverse effect on the foreign trade of the country and thereby on its balance of payments.

"A country with a strong balance-of-payments position or whose foreign trade constitutes only a small fraction of its national volume of business could have a prolonged budgetary deficit without endangering the stability of its currency. Thus France for a number of years prior to 1914 had a continued budgetary deficit, yet the French franc was considered among the strong currencies of the world. Similarly the budgetary deficits of the United States have been exceedingly large since 1933, yet the dollar has remained stable and up to 1941 the United States attracted large amounts of gold. The Bretton Woods Conference did not concern itself with the fiscal position of individual countries. Its main object was to meet the balance-of-payments problem that will confront a number of countries and to set up the machinery that in its opinion would be in a position to cope with the problem effectively."

The bulletin continued with an explanatory summary of the Articles of Agreement and the following discussion of the positive and negative features of the Agreement:

The International Monetary Fund

Positive: 1. The Fund sets up machinery to promote international monetary cooperation, facilitate the expansion of international trade, promote exchange stability and avoid competitive currency depreciation, remove gradually foreign exchange restrictions, and prevent the use of foreign-exchange control as an instrument for achieving economic and political objectives.

2. It supplies to member countries foreign exchange in limited amounts to correct maladjustments in the current accounts of their balance of payments and thereby relieves such countries of the necessity to institute measures destructive of national or international prosperity.

3. While the success of an international monetary agreement depends basically on the foreign trade policies of the member countries and on a stable international political and economic order, and while, therefore, the monetary conference should have been preceded by an agreement providing for a free flow of goods between the countries, the Agreement constitutes a very important step on the road to international cooperation and the establishment of the Fund would facilitate the undertaking of other steps in economic reconstruction of the world.

4. The commitment of each member is limited. Thus, the quota of the United States is $2,750,000,000, of which $687,500,000 would be in gold and $2,062,500,000 in dollar balances. The Fund is authorized to sell limited amounts of dollars to members in exchange for gold or their own currencies. Should the demand for dollars exhaust the balance, the Fund can buy dollars for gold or endeavor to borrow dollars. A sale of dollars for gold does not increase our commitment, and the Treasury is under no obligation to grant loans to the Fund or permit it to borrow dollars from other sources. The commitment is, therefore, definitely limited to $2,750,000,000. Should a persistent demand for the dollar cause the Fund to declare formally the dollar a scarce currency, the United States would have the alternative of lending dollars to the Fund or being confronted with exchange control in dollar transactions instituted by some countries. The situation would be not much different from that in the 1930's, except that, if we should decide to grant a loan, our claim would be against the resources of the Fund instead of individual borrowers.

5. The assumption that the resources of the Fund will soon after commencement of operations consist of "sick" currencies is not correct. Many members have substantial gold and dollar balances at their disposal. This applies not merely to Latin American and British Empire countries but also to some western European nations. With one or two exceptions the impoverished and destitute countries have small quotas, hence small borrowing power.

6. The system of charges, payable in gold and varying both with the amount and the duration of the accommodation to be imposed on members buying with their own currencies foreign exchange from the Fund, and the loss of votes by the buying (borrowing) countries to the members whose currencies are purchased, are likely to discourage members from abusing the Fund's facilities. It may be assumed that members will resort to the Fund for relatively small amounts and for short periods and only after all other means to rectify the deficit in the balance of payments have been employed.

7. Members have the right to withdraw at any time without penalty.

8. The influence of the United States in the management of the Fund will be very great and the Fund will actually be dominated by five countries contributing the largest quotas.

9. It provides a meeting place for the exchange of views among financial leaders of the member countries.

Negative: 1. The provisions concerning changes of the par values of members' currencies are too liberal. The Fund is directed not to refuse a requested change, i.e., depreciation, necessary to correct a fundamental disequilibrium; in particular, "it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change." Thus a country may depreciate its currency for practically any reason.

2. The stipulated limitations and conditions of member borrowings of foreign exchange from the Fund may be waived by the Fund at its discretion. Such a waiver may be made especially in the case of countries that have a record of avoiding large or continuous use of the Fund's resources, or have periodic or exceptional needs of foreign exchange, or are willing to pledge acceptable collateral.

3. There is no provision requiring a member country to put its financial house in order before it is permitted to utilize the resources of the Fund. The quota is in effect an automatic line of credit, which may not always work to the best interests even of the borrower.

4. The currencies paid in by the members will differ greatly in quality and some will not be acceptable in international transactions. As a result the quotas contributed in good currencies would constitute a larger share of the usable resources of the Fund than that indicated by the ratios of the quotas to the total initial capital.

5. The agreement does not stipulate that the executive directors shall be men of practical banking and business experience. The successful operation of the Fund will depend to a considerable extent on the quality of the management.

6. The organization is needlessly complicated and cumbersome; the technical provisions are too complex. This may impair the efficiency of the Fund's operations.

The International Bank for Reconstruction and Development

Positive: 1. The Bank will grant or guarantee long-term foreign-currency loans to member countries unable to borrow on their own credit standing or obtain such loans on reasonable terms for specific approved productive projects, including restoration of economies destroyed or disrupted by war.

2. The operations of the Bank may lead to a revival of the international capital market and thereby increase international trade in capital goods.

3. The commitment of every member is limited. The maximum loss the United States may suffer is $3,175,000,000.

4. Since for some time after the war only a few countries, and notably the United States, will be able to make long-term foreign loans, the risk inherent in such loans will be spread among the members according to their capital subscriptions instead of the creditor country assuming the whole risk.

Negative: 1. The credit risks assumed by the Bank will be great, since the weakest countries will be its principal debtors. As the same countries will also avail themselves to the limit of the facilities of the International Monetary Fund, they most probably will find it difficult to meet service in foreign exchange on the loans obtained from or guaranteed by the Bank.

2. The guaranty is not entirely satisfactory since it will be given by the Bank and not by the member countries. Each security guaranteed or issued by the Bank must bear on its face a statement to the effect that it is not an obligation of any government unless expressly stated on the security. Thus in case of default the investor will have a claim only against the Bank which will be able to meet its obligation if all member countries make payments on their unpaid subscriptions as called by the Bank.

3. In the immediate post-war years the bulk of the loans will have to be placed in the United States. The International Monetary Fund visualizes the possibility that the dollar may become scarce. The Bank may, therefore, have difficulties to meet its dollar commitments.

4. The organization of the Bank is unnecessarily complicated.

In conclusion the bulletin states:

The two institutions proposed by the Conference form an integral unit and supplement each other in their respective aims. In order to succeed, the Bretton Woods Agreement will have to be implemented by others dealing with tariffs, export bounties, intergovernmental debts, blocked accounts, and protection of foreign investments.

2. The success of both institutions will depend on the international trade policies adhered to by the nations. If these policies should be liberal and lead to an increased exchange of goods and services among the countries of the world, the Fund and the Bank will have a chance of achieving their aims. If, on the other hand, the nations, and particularly the leading countries were to adopt trade-restrictive policies and institute measures seemingly beneficial to themselves but detrimental to others, as was the case in the 1930's neither institution will be able to function successfully.

3. Both institutions must be considered only as a means to an end. They cannot operate with any chance of succeeding unless political and economic stability prevails throughout the world.

4. The successful operation of the two organizations will depend on the fiscal and credit measures adopted by individual countries. A fiscal and credit policy resulting in continuous budgetary deficits and inflationary price movements is bound to cause financial chaos.

5. The effective functioning of both institutions will depend to a large extent on the type of management. If the boards of executive directors are made up of men experienced in international trade and finance and conduct their operations on sound business principles, the chances of success will be much better than if they consist of politicians or theoreticians.

Chicago Exchange Plan On Offerings Effective

The Securities and Exchange Commission announced on Sept. 21 that it had declared effective an amended plan of the Chicago Stock Exchange relating to special offerings. In making this known the Commission said:

"The special offering plan has been amended (1) to suspend a special offering as long as an offer exists "regular way" at a price which would permit a purchase at a lower net cost than in the special offering, and (2) to provide that a member or member firm with an order for the purchase of a security which is the subject of a special offering shall effect such purchase in the regular market whenever a "regular way" offering is available which would permit such purchase at a lower net cost than in the special offering, and further providing that every order for purchase in a special offering shall be accepted pursuant to this condition.

"The first amendment changes the provision whereby a special offering was suspended upon the existence of any lower "regular way" offering even though the net cost to the customer was greater. The second amendment changes the provision which required that an attempt be made to execute specific types of orders in the regular way market at a price more advantageous to the customer than the special offering price."

The text of the Commission's action follows:

"The Securities and Exchange Commission having previously declared effective a plan for special offerings filed pursuant to Rule X-10B-2 (d) by the Chicago Stock Exchange; and the Chicago Stock Exchange, on September 14, 1944, having filed amendments to its plan for such special offerings;

"The Securities and Exchange Commission having given due consideration to the special offering plan of the Chicago Stock Exchange, as amended, and having due regard for the public interest and for the protection of investors, pursuant to the Securities Exchange Act of 1934, particularly Sections 10 (b) and 23 (a) thereof, and Rule X-10B-2 thereunder, hereby declares the amended special offering plan of the Chicago Stock Exchange as filed on September 14, 1944, to be effective, on condition that if at any time it appears to the Commission necessary or appropriate in the public interest or for the protection of investors to do so, the Commission may suspend or terminate the effectiveness of said plan by sending at least ten days' written notice to the Exchange."

Mojud Hosiery Stock Offered By A. G. Becker

An investment banking group headed by A. G. Becker & Co., Inc., offered Oct. 18 12,943 shares of ($50 par) 5% cumulative preferred stock and 81,182 shares ($2.50 par) common stock of Mojud Hosiery Co., Inc. (formerly Mock, Judson & Voehringer Co., Inc.). The preferred was priced at $50 a share and the common at $14.50 a share. The shares being offered are owned by stockholders, so the company will receive none of the proceeds from the sale.

Associated with A. G. Becker & Co., Inc., in the offering are: Glore, Forgan & Co., Hallgarten & Co., Hornblower & Weeks, Ladenburg Thalmann Corp., Oscar Burnett & Co., and Kuhn, Loeb & Co.

The Securities Salesman's Corner

By JOHN DUTTON

Handling An Objection

What is an objection? It is both an EXCUSE for not doing business and an expression of the natural protective instinct of every individual that guards us against taking the suggestion of others whenever we are not SURE OF OUR OWN GROUND. This protective instinct although a negative one, serves a positive good throughout every individual's walk through life. It is a sure sign that the person who raises an objection is a thinking, careful individual. Outside of purely frivolous objections, which can be immediately recognized by any competent salesman, those objections which are based upon valid grounds are an immediate signal that "he who is from Missouri" is INTERESTED but not yet CONVINCED.

When it comes to selling securities, experience has shown that no investor exchanges his cash for a security unless he first has CONFIDENCE IN THE FIRM AND THE SALESMAN who presents it to him. This does not mean that after a salesman has obtained this foundation of confidence that objections to particular offerings will not arise. But until that basis of trust, and respect of the client in the ability and integrity of his security dealer has been established, most objections can be placed in one category. It usually is an indication that Mr. Investor is not yet sold on you, rather than your offering, whenever he voices an objection to a particular security or a certain point which you have made in your selling presentation.

This is brought out by the fact that customers' objections are more prevalent during interviews on new accounts. A recent experience related to us by a salesman who was conducting a systematic campaign for new accounts is illustrative of the efficacy of this method of selling WHICH BUILDS CONFIDENCE FIRST and then SELLS.

The first interview with this investor who later developed into a client, was made after he had replied to a double return card offering information regarding one of his holdings. A report was mailed, then another letter was sent to the prospect which further clarified the report. The salesman called after these mailings and had a very favorable interview. No attempt was made to sell another security or trade the investor out of his present holding. A common meeting of the minds of this salesman and the prospect was established in this first interview and the door was open to future calls.

So far so good. The salesman had an idea of the type of securities held, the ideas and opinions on investments shared in common with this investor; he had made a good first impression and was ready to call again. About two weeks after this first interview the salesman telephoned the prospect and asked for an appointment to discuss a special situation in which he believed the prospect would be interested. He was cordially received and proceeded to outline his reasons for suggesting the purchase of the security he was offering. All was in agreement until the prospect stated that he believed that THIS WAS NOT THE RIGHT TIME TO BUY. He brought up the fact that one of his best friends who was a very astute investor had just told him that he expected a break in the market. That with the possible ending of the war in Europe and unfavorable political developments arising in this country it seemed to him to be the wrong time to make any new commitments.

Now this is not a new objection — every securities salesman has heard it before. Sometimes this matter of proper timing is a valid objection to the purchase of securities — at other times it is only an excuse not to take action. The salesman in this case sized the situation up as follows: The objection was partially sound but on the other hand he believed that since he had only known the customer a little less than two weeks, that he still had a job to do before HIS PROSPECT WOULD FOLLOW HIS JUDGMENT BEFORE THAT OF ANOTHER.

So this salesman went into the objection. He knew his ground, he discussed the importance of proper timing in the purchase and sale of securities — he did not evade the objection or pass over it. He used THIS OPPORTUNITY TO SHOW HIS CLIENT THAT HIS FIRM WAS AS CAREFUL IN SELECTING THE PROPER TIME TO OFFER SECURITIES as they were in selecting the right securities to present to their customers. He stood by his guns and he put it this way: "The reason I am suggesting that you purchase this stock now, Mr. X, is that although no one can determine with absolute accuracy the action of the entire market in the future, it is true in this case that if this stock should decline in a general market movement downward, that I would be right back to see you and SUGGEST THAT YOU BUY MORE. This is one security that should it decline in price it would be a better purchase than it is today. But we do not look for a general market decline and for this reason I am making this suggestion. Instead of your purchasing 200 shares today, let's give your friend the benefit of the doubt. Let's play it safe, let's assume that he may be right and there may be a 5 to 10% drop in the level of security prices within the next few months (which opinion I assert again does not agree with our calculations and some the best market analysts and specialists in the securities field) SO LET'S ONLY TAKE A HUNDRED SHARES. This is what we in the securities business call HEDGING. It is the procedure followed by every astute investor that has made a success of managing his portfolio. **You have one thing upon which you can rely and that is the fact that our interest in your account does not stop with this particular purchase. In fact, if just selling you this security and doing business with you ONCE were all that mattered to my firm and to me, I frankly would not find this business worthy of my time and effort.**

"Either we do know our business and you can follow our judgment in this case, or you, nor anyone else need not become a client and customer of our firm, isn't that so? In other words, here you have an opportunity to make an investment, and either way you will be in a position to take advantage of whatever the future action of the market itself should indicate. If there is a price decline, this security will be even a better purchase at 45 than at 50, so you can then buy another hundred at 45. However, should the price advance (which in our opinion is our reason for advising that you make this investment today) then you will own a hundred shares at 50 and will not have missed an opportunity to acquire an undervalued security at the right price, and AT THE RIGHT TIME."

When this sensible approach to the problem was convincingly presented to the prospect, the sale was completed. Ordinarily it is sound business to stress the fact that no security should be purchased upon the basis of a possible price rise alone. The salesman in this case had to stress price. However, he also took the position of making plain to the purchaser that the price angle alone, was not the only basis for the recommendation. From this point onward the next step with this client lies in the performance of the security he purchased. If it advances the salesman is on sound ground — if it declines likewise.

P. S.—Incidentally, Walter Whyte's column published weekly in the "Chronicle" can be used at times to bolster the market opinion of salesmen regarding timing — that is what this salesman also did. He mailed his new customer a clipping from the October 5th issue of the "Chronicle," which in this instance agreed with the viewpoint he expressed to this customer.

Municipal News & Notes

Although the City of Detroit is prepared for some unemployment and an increase in the welfare load during the reconversion period, it by no means subscribes to some of the estimates of the problem that have been publicized, F. M. McLaury, Deputy City Controller, asserted during the course of an address made last week at a luncheon of the Municipal Forum of New York.

At the present time, Mr. McLaury said, the city is probably in the soundest financial position of its history, a circumstance, he added, not entirely the product of the city's conversion from a peacetime industrial metropolis to a focal point of war production.

Detroit, as a matter of fact, had reestablished its credit standing before the war, a fact amply attested by the record of successful debt refundings negotiated via competitive bond sales prior to our entry into the conflict.

The success of these operations resulted from the energetic efforts and accomplishments of municipal officials in correcting the unsatisfactory fiscal conditions which contributed to the financial and debt difficulties experienced in the early thirties.

With respect to post-war financing, City Controller McLaury observed that the principal problem will be the provision of funds for long-deferred maintenance and necessary capital improvements. As the Common Council and the Mayor are committed to a policy of eschewing the issuance of more faith and credit bonds, the emphasis is directed to uncovering new revenue sources with which to finance a satisfactory capital program. Some measures to that end are now far advanced, the City Controller noted, adding that—

"Detroit feels that giving due weight to these factors and to the fact that the annual debt service charges and the total debt are conservative percentages of the total annual tax levy and the total assessed valuation, Detroit bonds should maintain their present high standing."

Baltimore Issue Offered By Halsey, Stuart Group

A group headed by Halsey, Stuart & Co., Inc., and the First National Bank of Chicago yesterday made public offering of a new issue of $9,450,000 Baltimore, Md., bonds at prices to yield from 0.60% to 1.45%, according to maturity. The syndicate was awarded the bonds in competitive bidding on Tuesday, paying a price of 100.029 for various coupon rates.

The issue is divided as follows $6,550,000 1¼% fifth water bonds, due Aug. 15, 1960-1969; $2,050,000 2½% schools, due Aug. 15, 1947-1949, and $850,000 1¼% harbor bonds, maturing on July 1 from 1947 to 1976, inclusive. The bonds are unlimited tax obligations of the City of Baltimore.

Harriman Ripley-Lehman Group Offer $33 Million Of Los Angeles Revenue Bonds

One of the largest pieces of municipal financing in many months came to market yesterday when a nationwide group of investment banking and dealer firms managed by Harriman Ripley & Co., Inc., and Lehman Bros., made public offering of the new issue of $33,000,000 Los Angeles, Calif., Department of Water and Power electric plant revenue refunding bonds. Aside from its size, the issue was additionally significant in that the purpose of the loan is to refund an equal amount of outstanding electric plant revenue bonds which are not redeemable until Dec. 1 and Dec. 15, 1945.

Municipal authorities evidently reasoned that it would be their advantage to provide for the redemption at this time rather than to defer the matter until a date closer to the redemption period.

The new issue of $33,000,000 consists of $21,000,000 second issue of 1944 bonds, maturing Oct. 1, 1948, through 1975, bearing interest at 1½%, 1¾%, 2%, 3½% and 4%, priced to yield from 0.90% to about 2.02%, and $12,000,000 third issue of 1944 bonds, bearing rates ranging from 1½% to 4%, maturing Oct. 1, 1945-1978, and offered by the syndicate at prices to yield from 0.50% to about 2.02%.

The Business Man's Bookshelf

Advance Listing of Industrial Plants and Plant Sites To Be Disposed of By Defense Plant Corporation—Listed by States—Indexed by Size—Surplus War Property Division, of Defense Plant Corporation, Washington 25, D. C.

Economic Status of the New York Metropolitan Region in 1944, The—Regional Plan Association, Inc., 205 East 42nd Street, New York City—cloth.

International Conciliation (October 1944) — Carnegie Endowment for International Peace, 405 West 117th Street, New York 27, N. Y.—paper—5c. per copy; 25c. for one year's subscription.

Post-War National Income, Its Probable Magnitude — Joseph Mayer — The Brookings Institution, Washington 6, D. C.—paper —50c.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of Harry MacDonald to Alan M. Mayer will be considered on Oct. 26. Mr. Mayer, it is understood, will act as an individual floor broker.

Francis X. Griffin retired from partnership in E. W. Clucas & Co., New York, on Oct. 18.

Norman Gunn, member of the Exchange, died on Oct. 10.

How Can American Enterprise Finance Post-War Requirements?

(Continued from page 1685)

been made, American industry will have on hand more than $20 billions in working capital. This is a very considerable sum. I am also told that there are $20 billions in currency in circulation outside of the banks and that the bulk of this is in people's pockets. In short, we are richer than ever before in terms of money. On the other side of the balance sheet stands the stark figure of a debt which may reach $200 billions. Now, if it is true that the value of our money and the value of the promises called government bonds must stand or fall together, then we must ask ourselves how we can service this debt and at the same time maintain the value of the dollar.

I am neither an economist nor a financial expert, but it seems to me that the answer to this issue is relatively simple. The key word is "Production." If American industry does have $20 billions in working capital; and if there is a reservoir of savings in the country of more than $30 billions; and if the American people are carrying $20 billions in their pockets, there ought not to be any serious difficulty with the overall post-war financing picture.

The next basic assumption is that the debt cannot be repudiated. Furthermore, we will all agree that it is not likely to be settled by a capital levy for the obvious reason that a $200 billion dollar debt is just about equal to the value of all the productive equipment in the United States. Therefore, the debt must be serviced out of income by means of taxation. But the sum which the government can take annually in taxes is directly dependent upon the profits of enterprise. If there are no profits there will be nothing to tax.

The prospects for post-war production are almost fantastic. For the first time in our history we really know America's capacity to produce. All previous estimates fell far short of the facts. We have created and developed the greatest productive machine that the world has ever known. Apparently we have both the capital, the labor, and the management essential to run it. THE THING THAT APPEARS TO BE LACKING IS A PRACTICAL MEANS OR AGENCY FOR MOBILIZING AND MAKING AVAILABLE THE RISK CAPITAL WHICH IS ESSENTIAL TO A DYNAMIC ECONOMY. The commercial banking system, despite its franchise to create deposits, is not designed to provide venture capital. By its very nature and because of the rigid restrictions imposed by examining authorities, commercial banking cannot operate in this field. Investment banking was unable to assemble the huge sums required for war production. There is as yet no indication that it is prepared to invite the savings of the country to participate in the kind of risks which must be carried if we are to have full employment.

Thus far there are two classes of industry for which risk capital is assured: the well-established, large scale, pre-war enterprise, with a proven record of earnings. Typical of this group are such corporations as General Motors and General Electric. In this classification there are said to be about 200 corporations which enjoy the use of a very large percentage of the available capital resources. Another classification is so-called small business which now enjoys the favors of thoughtful attention on the part of the government. Just what constitutes small business has never been determined, but there is evidence that the enterprise which needs substantially less than a million dollars may be cared for by a government agency or by private banking pools. THE CLASSIFICATION WHICH AS YET HAS NO HELP IN PROSPECT COMPRISES THOSE INDUSTRIES WHICH WERE BORN OUT OF THE WAR, OR WHICH EXPANDED RAPIDLY DURING THE WAR, MANY OF WHICH MUST SURVIVE IF WE ARE TO HAVE THE VOLUME OF EMPLOYMENT ESSENTIAL TO OUR PEACE AND PROSPERITY.

Whenever I say anything about this subject, the criticism straightway appears that I am primarily concerned with financing my own interests. Such comment goes hand in hand with the statement that I have never done anything without government funds. It is time to get the record straight on these points and this may be the best place to do it.

Long before any war contracts were let, we had sponsored and completed nearly a quarter of a billion in construction contracts. If we were to write off at zero the billions in war contracts and abandon every war plant, shipyard and facility, we would still be in business in five major lines of enterprise in which not one dollar of government money has been invested. These interests include: a compensation insurance company which does a volume of business second to one only on the Pacific Coast; a cement business, which operates the largest single cement mill in the world; a sand and gravel business with as modern an installation as can be built, with proven reserves adequate to last many years, and 15 kindred plants; a construction business with a long record of experience in virtually every type of heavy construction. All of these enterprises were in existence long before the war and we are confident that they will continue to expand and develop in the peace period. As I stated, they were and are not only financed without government aid, but they are altogether competitive in their respective fields.

The statement that the construction business is financed by government money is misleading almost to the point of absurdity. To be sure, heavy construction depends in a considerable measure on public works, local, State and Federal, but since all such undertakings call for competitive bidding, the construction business is one of the most competitive and most hazardous in the entire field of enterprise. It is easier to go broke in the construction business than almost any other and the fact that the contracts are with a governmental agency gives no assurance whatever that they will be profitable. Efficiency, organization, cost consciousness and all similar factors must be present in a high degree. I trust you will pardon the digression, but I can no longer be handicapped by the unfounded criticism that my hopes for the future are based on self-interest.

My concern about post-war financing stems entirely from the conviction that if we fail to have full employment, we will not only face a form of national bankruptcy, but a social upheaval in which the American, democratic form of government might well be swept away. Employment is the sole factor of safety in our post-war economy. It is my purpose to continue the search for employment opportunities and to exploit them as fully as possible. Therefore, I ask you to take my personal interests out of the picture when you tackle this vital question as to how industry can finance full employment.

It is perfectly clear that we shall have to have some intermediary credit agency which will make available risk capital. This could follow the pattern of the Federal Reserve system and be a bankers' bank, financed through the investments of private banking institutions, or it could take the pattern of the Reconstruction Finance Corporation, which would put the government permanently in the banking business. I am fully aware that such a suggestion will arouse consternation and dismay among THOSE WHO THINK THAT WE CAN GO BACK TO WHAT WE HAD AND ENJOY FOR A BRIEF SPAN AN UPSWING OF THE BUSINESS CYCLE. To me, such thinking is a pitiful denial of the essential facts in this great social upheaval, of which the war itself is only a part. Mankind has asserted a new right as more basic and fundamental than any; namely, the right to work. By one means or another, we are going to have full employment. If private industry and private finance cannot assure this essential, they are doomed.

The International Aspects Of Economic Policy

(Continued from page 1684)

decisions that will be taken within the next few weeks and months. They affect all Americans. These United States have been built upon the twin principles of political liberty and economic opportunity. Millions of workers have come here seeking independence and liberty. They have sought to make their homes in a land where their children would have the right and the opportunity to strive for economic advancement.

We are all deeply committed to striving by all means in our power to organize our economic life so that everyone shall find opportunity for productive employment. Much more is involved in this than simply gaining a livelihood. No society can long survive in which men and women do not feel that they have a self-respecting and independent function to perform in the community. Everyone wants to be useful and to earn the respect of his fellows. It is of the utmost importance that we should have the kind of society that gives to all our people the opportunity for creative work. That is why we cling to private enterprise as the principle of our economic life. Government assistance and relief is no substitute for an efficient organization of private industry. It will not give us the standard of living our people want and deserve. And it will not give them independence and economic freedom.

It is for such reasons as these that the Committee on International Economic Policy has recently been created. A representative group of business men, leaders in their respective communities, have become associated in an attempt to put before the public the necessity for attention being paid to the international aspects of economic policy. We live in a world that is becoming more and more interdependent. News is transmitted almost instantaneously. Airplane communication brings us into close neighborhood with the whole world.

The Committee on International Economic Policy has therefore called upon the services of men who have spent a lifetime in the study of these questions. It has organized an advisory committee of economists under the chairmanship of Professor James T. Shotwell of the Carnegie Endowment for International Peace. This advisory committee of economists has drawn up a program of studies and has enlisted the services of leading specialists in preparing these studies. Our committee reserves the right of publication; but we rely upon our economic advisers to formulate the program of studies and to choose the men most competent to carry them out.

What we are engaged upon is in fact an educational program. We are not concerned to push our own ideas. We are concerned to make available to the American people the considered conclusions of those whose long studies have given them understanding and insight into these questions.

Take the first document we have published, which is a report of the whole of the advisory committee of economists, representing a consensus of informed opinion. This report, entitled "World Trade and Employment," is a cogent argument for the negotiation of a multilateral agreement to remove obstructions to international trade and to restore a framework within which private enterprise may work effectively. Many of you have seen this report. The response we have received to it is overwhelmingly favorable. Quite clearly it has commended itself to responsible opinion throughout the country as a practical and feasible plan of action.

To my mind the report of the economists is based upon a true conception of the functions of government on the one hand and business on the other hand. The function of government in regard to international trade is to negotiate understandings with other governments that will create the orderly framework within which individuals can work and trade to their mutual advantage. What is proposed is the restoration of national treatment and most-favored-nation treatment and the removal of those devices of economic warfare which strangled international trade before the war. These are tasks of some magnitude, calling for careful analysis and skilful negotiation and also for not a little constructive imagination in devising ways and means by which peoples of different political and economic backgrounds may cooperate.

For instance, it seems obvious that the maintenance of peace in the years to come will depend largely upon our being able to work for pacific ends as we have worked towards military objectives with our great allies, the British Commonwealth and the U. S. S. R. We all realize that this may not be easy. There are bound to be differences arising from divergent interests and divergent outlooks. But one method of working out these differences is in the course of business transactions. Given goodwill and good faith on both sides there is a sufficient basis of mutual interest to warrant the hope that ways and means of cooperation can be found. These, and similar questions, will be explored by the committee in its future publications. We may not always agree with every idea put forward by the authors of our papers; but our main purpose is to stimulate responsible discussion of these very real and important issues of policy.

If our democracy is to function, we must have such discussion. We have a right, and we have a duty, to make our voices heard on questions that affect the livelihood and freedom, and may affect the lives, of our people. Americans have never accepted policies handed down to them from above. They have always demanded the right to contribute their individual share in the formulation of policy. This is a Government of the people, by the people, and for the people. The Committee on International Economic Policy is out to pursue this democratic process of putting forward for public debate and acceptance ideas which are vital to the future prosperity of our people and to the preservation of our way of life.

DIVIDEND NOTICES

Recent Developments In Associated Gas & Electric

Amott, Baker & Co., Inc., 150 Broadway, New York City, have prepared a detailed report on recent developments affecting the Associated Gas & Electric reorganization now pending. Copies of this report, which discusses the problem and the long-term view of the situation, may be had from Amott, Baker & Co. upon request. Also available on request is a summary of the situation in Philip Carey Manufacturing Co.

"Your Dollar's Worth"

(Continued from page 1688)

that some of the causes of war may be removed and liberty-loving nations may be made strong to resist aggression.

It surely is not too soon to plan for peace. If the victory is not here, if we are unable to prophesy even as to the European battle whether the end is a matter of days or weeks or months, we do know that victory will come. We know that it will come, because it has been demonstrated that the forces of democracy and liberty have attained definite military superiority over the forces of militarism, tyranny and aggression.

In attaining that superiority we here in the United States—and the same thing is true in Great Britain—have developed economic powers—productive powers—that have exceeded our own expectations and even our own most enthusiastic prophecies. This is not merely something to boast about. It is a fact that must affect our whole economic future, and our private and public planning as well.

It has been said that we are devoting half of our whole national product to war. But that hardly tells the story. It seems to create a picture of self-denial, of restriction of home consumption, which has not in fact occurred. With some allowance for special instances, we have not been called upon to deny ourselves consumption goods. Instead, what we have done has been approximately to double our national production and to devote the increase to war. This great production achievement has been made possible by practically unlimited government orders for goods, by production engineering and management of the very highest order, by a great upsurge of American inventive genius, by an increase in hours and numbers of persons employed, and generally by a popular will to build a tremendous production record in support of our military forces.

I think all of us will agree that this great production momentum and production potential and their economic and social consequences here in the United States are among the extremely significant and important facts with which we shall deal in the new economy, the new trade situation with which we shall be faced—to a very considerable extent after the European victory and before the victory over the Japanese, and to an increasing extent thereafter.

There will be other striking and even revolutionary factors in the situation. There is, for instance, the great fleet of ships constructed in American yards to meet the war's transport needs, and the men trained to operate them. There is the advance that has been gained in air travel, under which it has become commonplace to make in a day the journey that used to take a week; and in three days or four the journey that used to be an affair of months. Do you not think that this facility in travel—this shrinking of the earth, as it is the custom to speak of it—will make some difference not only in the character of international transactions, but in their volume? I feel sure of it.

But another difference in the economic situation will, we may suppose, be of transcending importance for a time. That difference is in the lamentable ruin that the enemies of civilization have wreaked, east and west, in their invasion of peaceful lands. There is an enormous job of reconstruction and supply to be done. A part of that job will be the function of UNRRA, the international organization for broad-scale relief. But probably a much greater part of it will become the responsibility of the people of the countries which have been devastated and will translate itself into a greatly enhanced volume of international trade, including a heavy demand for American products, if appropriate means of financing the demand are found.

In the special situation that will exist at the war's end, foreign markets may and should offer a means of transition, of conversion from war production and war supply to a normal peace economy. It is certainly highly appropriate that we should seek ways by which exports will aid us in the problem of conversion. Our war supply program has been a program of manufacturing for export—export of the equipment for victory which happens also to be the tools of destruction. It will fit well into the picture if this particular export program should be tapered off in exports of the tools and equipment for reconstruction.

But this does not mean that our foreign trade can be a one-way street and that our interest in it is merely in getting rid of a surplus of production and productive capacity. All of us know how deeply our imports as well as our exports have been tied in to our whole economy. We know that the world's interest is in a prosperous America which will be one of the world's best customers. We need to buy more as well as to sell more—in the long run to buy more to be able to sell more. Our own domestic history has taught us that markets have no fixed limits; that they are expanded by creating and satisfying new wants and thus enhancing the standard of living. We know too that our best customers have been those with the most advanced modern economies. We have a solid interest in developing the economies of the less advanced nations.

If I were to ask you if your interest in a revived export trade would stop with the era of reconstruction after this war, I think I should get a very positive answer. Probably no group in the nation has suffered a more violent distortion of its business—distortion may not be the right word—than the foreign trader. Most of you who were engaged in foreign trade and shipping have simply had to find something else to do, which in a very great many cases has taken the form of service to the government in its foreign trading business or in some other branch of fighting a war. You will not be content, I am sure, with going back into the export and import business again on a temporary basis. And, indeed, I think there is no reason why you should.

The Treasury has reached certain conclusions on this matter of foreign trade, conclusions which are wholly consistent with those reached by other agencies of the Government and by private business, as revealed by a consensus of expressions of business leaders among which there doesn't seem to be a dissenting voice.

The Treasury's main conclusion has been expressed in actions already taken. It is most obvious that that conclusion is that it is urgently desirable that our foreign trade be not merely revived but very greatly expanded and that to achieve that objective many obstacles which now hamper foreign trade ought to be removed—obstacles created by governments in the past which have been hobbles to free enterprise.

The Treasury has taken the lead in proposing certain definite measures for the protection and encouragement of free enterprise in the development of world-wide trade, measures which will apply to the merchants and traders of all lands and will be the responsibility of many free governments acting together. The further conclusion has been reached that as a matter of course war restrictions on trade ought to be removed at the earliest possible moment consistent with the protection of our people.

The conviction that permanently increased foreign trade will be good for this country and for the countries with which it trades, that it will tend to promote world-wide prosperity, is not the consequence of any new theory, but rather of observation of events with which you as merchants and bankers, exporters and importers, are all familiar. You know that a high volume of world trade has accompanied prosperity and that restrictions on trade such as high tariff barriers, trade quotas, competitive depreciation and currency restrictions which have reduced trade have worked economic hardships on all nations. The international economic history of the thirties ought, it seems to many, to be sufficient evidence that the policy of choking world trade through governmental restrictions is the wrong road to follow.

Secretary Morgenthau's specific proposals so far advanced for dealing with the situation are as you all know embodied in the agreements reached at the Bretton Woods conference at which he presided. Those of you who attend the Banking Session this afternoon will hear these projects discussed by men who have been working directly on them, and are much better qualified than I am to talk about them.

Two points about the Bretton Woods agreements, however, seem to me to be worth emphasizing. The first is that they are not proposed as a rounded program for the future or a cure-all for the ills that in the past have afflicted international trade. They are meant instead to deal effectively with two outstanding needs of the post-war situation, the need for mutual stabilization of currencies and the need for international loans for reconstruction and development. The second and most important point is that they represent agreements among the representatives of 44 nations who thereby testify to their desire to work together and to their faith in international action as a means of solving problems in the economic as well as the political sphere.

We shall have need of cooperation. After five years of blood and suffering the mood of much of the world is one of defeatism, cynicism and despair. We are in danger even of being infected by it here. But never, I think, has America's opportunity to serve its own future and to serve humanity been greater than it will be at this war's end.

Because the world is sick to death of wars, shall we say that wars can not be prevented? Because we have learned how to produce in abundance for the wants of man shall we say that a surplus of productive ability must result in unemployment and want?

It doesn't make sense. The intelligence and the courage that are equal to beating down the most powerful of aggressors can surely serve to organize the world against future aggression. The genius that has solved the problems of production can surely make abundance available for relieving the world of want.

We have the raw materials with which to organize peace. We have the raw materials with which to organize world prosperity. What do we lack? Nothing, I believe, but the quality that is variously called courage, confidence, determination—the quality that chiefly explains all that we have done—the refusal to recognize defeat—the spirit that is represented in the two words that have been, as much as any, our national motto: "Can do."

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)

CHICAGO, ILL. — **Emory B. Curtis** has become associated with **E. H. Rollins & Sons, Inc.**, 135 South La Salle Street. Mr. Emory recently was with J. S. Bache & Co. Prior thereto he was in the service of the U. S. Government and in the past was with Milbank Corp. and Faroll Brothers

(Special to The Financial Chronicle)

PORTLAND, ME. — **Myron A. Conner** is with **Coburn & Middlebrook**, 465 Congress Street.

Calendar Of New Security Flotations

OFFERINGS

COMMONWEALTH EDISON CO. has filed a registration statement for $180,000,000 first mortgage 3% bonds, series L, due Feb. 1, 1977, of which $155,000,000 are publicly offered. The offering will exclude $25,000,000 of series L bonds to be issued, without interest adjustment or underwriting discounts or commissions, in exchange for $25,000,000 of first mortgage 3% bonds, series K, owned by 14 insurance companies. Net proceeds will be applied toward the redemption of the entire $98,000,000 first mortgage 3½% bonds, series I, due June 1, 1968, at 105% and $80,000,000 Public Service Co. of Northern Illinois first mortgage bonds, 3½% series due Oct. 1, 1968, at 105½. Additional funds required will be supplied out of other funds of the company. Filed Sept. 28, 1944. Details in "Chronicle," Oct. 5, 1944.

Offered—$155,000,000 bonds offered Oct. 18 at 104¼ and interest by a syndicate of over 160 investment bankers headed by Halsey, Stuart & Co., Inc.

MOJUD HOSIERY CO., INC., has filed a registration statement for 12,943 shares of 5% cumulative preferred stock, par $50, and 81,182 shares of common stock, par $2.50. The shares offered are issued and outstanding and do not represent new financing. Filed Sept. 29, 1944. Details in "Chronicle," Oct. 5, 1944.

Offered Oct. 18 by A. G. Becker & Co. and associates, the preferred at $50 per share plus dividend and the common at $14.50 per share.

THE OLIVER CORPORATION (name changed from Oliver Farm Equipment Co.) has filed a registration statement for 82,000 shares of 4½% cumulative convertible preferred stock ($100 par). Holders of common stock of record Oct. 13 are given the right to subscribe to the new stock at par ($100) at rate of one new share for each eight common shares held. Subscription warrants will expire 3 p.m. on Oct. 25, 1944. The underwriters will purchase any shares not subscribed for by the stockholders. Company will apply $1,505,625 of the net proceeds to the payment at 100% of all promissory notes payable to banks in the aggregate amount of $1,500,000. Company expects that $4,500,000 of the proceeds will be used in the improvement and modernization of its plants, and the balance will be added to working capital. Underwriting group headed by Blyth & Co., Inc. Filed Sept. 23, 1944. Details in "Chronicle," Sept. 28, 1944.

TWIN CITY RAPID TRANSIT CO. has filed a registration statement for $7,000,000 4% collateral trust bonds, due Oct. 1, 1964. Net proceeds will be applied toward redemption of entire $10,888,600 outstanding first lien and refunding gold bonds, 5½%, series A and series B, at 102%. The series A bonds are to be redeemed on Dec. 1, 1944, and the series B bonds on Jan. 15, 1945. The additional amount required for the redemption will be supplied to the extent of $2,000,000 from a bank loan evidenced by the company's 1½% and 2½% serial notes and from other funds of the company. Since June 30, 1944, the company and its subsidiaries have purchased $418,600 of its series A and series B bonds at a cost exclusive of accrued interest, of $424,123. Filed Sept. 26, 1944. Details in "Chronicle," Oct. 5, 1944.

Offered Oct. 17 at 101½ by Dillon, Read & Co.

VAN RAALTE COMPANY, INC., has filed a registration statement for 129,281 shares of common stock (par $10). Holders of common stock of record Oct. 16, 1944 are given the right to subscribe to the 129,281 shares of common stock at $10 per share, in the ratio of one additional share for each share held. Subscription rights exercisable on and after Oct. 17, 1944, expire Nov. 14, 1944. If all of the common shares offered are subscribed for it is estimated company will receive a net amount of $1,262,810. The company will use $1,110,210 of such proceeds to redeem, on March 1, 1945, the 9,654 shares of its 7% cumulative first preferred stock at $115 per share, and the balance of the proceeds will be added to working capital. In the event that proceeds from sale of common stock offered to stockholders are insufficient to redeem the preferred stock, the company will use its own treasury cash to make up any deficiency. Not underwritten. Filed Sept. 27, 1944. Details in "Chronicle," Oct. 5, 1944.

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, OCT. 19

FOREMOST DAIRIES, INC., has filed a registration statement for 13,000 shares of preferred stock, 6% cumulative, par $50, and 75,000 shares of common, 20-cent par value. The shares are issued and outstanding and the offering does not represent new financing. Allen & Co., New York, head the list of underwriters. Price to the public is $50 per share for the preferred stock and $7 per share for the common. Filed Sept. 30, 1944. Details in "Chronicle," Oct. 5, 1944.

AETNA BALL BEARING MANUFACTURING CO. has filed a registration statement for 30,375 shares of 5% cumulative convertible preferred stock, par $20. The preferred stock is being offered to holders of common stock of record Oct. 14, for subscription at $20 per share on basis of one share of preferred for each four shares of common. Subscription rights will expire Oct. 30, 1944. Underwriters will purchase preferred stock not subscribed for by the stockholders. Proceeds will be added to working capital. The underwriters are Bacon, Whipple & Co., and Rawson Lizars & Co., Chicago, and Carlton M. Higbie Corp., Detroit. Filed Sept. 30, 1944. Details in "Chronicle," Oct. 5, 1944.

MONDAY, OCT. 23

MOBILE GAS SERVICE CORP. has filed a registration statement for $1,400,000 first mortgage bonds, series due Oct. 1, 1964, 6,000 shares of cumulative preferred stock, par $100, and 100,000 shares of common stock, par $7.50. All three classes of securities are to be offered for sale at competitive bidding, with the successful bidder naming the interest rate on the bonds and the dividend rate on the preferred stock. The bonds and preferred stock are being offered for the account of the corporation, while the common stock is being offered by Consolidated Electric & Gas Co., parent, which owns all of the common shares of company, except directors' qualifying shares. Company will apply the proceeds from sale of bonds and preferred stock, estimated at not less than $2,000,000, together with general funds, to the redemption of $1,400,000 of first mortgage bonds, 3¾% series due 1961, at 104½ and to the redemption of 6,000 shares of 6% cumulative preferred stock at $110 per share. Filed Oct. 4, 1944. Details in "Chronicle," Oct. 12, 1944.

WEDNESDAY, OCT. 25

KIMBERLY-CLARK CORP. has filed a registration statement for 4½% cumulative preferred stock, par $100, the number of shares to be filed by amendment. Corporation is making an offer to the holders of its present preferred stock on the basis of which each holder of present preferred would receive one and a fraction shares of new preferred for each share of present preferred, with adjustment for dividends. The full exchange basis will be set forth by amendment. Proceeds from sale of any unexchanged stock to underwriters will be used for the redemption of all the shares of present preferred stock not exchanged. Lehman Brothers, Wisconsin Co. and Hallgarten & Co. are underwriters. Filed Oct. 6, 1944. Details in "Chronicle," Oct. 12, 1944.

KIMBERLY-CLARK CORP. has filed a registration statement for 99,960 shares of common stock (no par). The 99,960 shares of common are being offered for subscription to the holders of its common stock of record Oct. 17 at the rate of one share for each five shares of common held. Unsubscribed shares will be offered by the underwriters to the public. Proceeds will be added to the general funds of the company. Lehman Brothers, the Wisconsin Co. and Hallgarten & Co. are underwriters. Filed Oct. 6, 1944. Details in "Chronicle," Oct. 12, 1944.

SILEX COMPANY has filed a registration statement for 82,000 shares of common stock (no par). The stock is issued and outstanding and does not represent new financing by the company. Paine, Webber, Jackson & Curtis, New York, head the list of underwriters. Filed Oct. 6, 1944. Details in "Chronicle," Oct. 12, 1944.

METROPOLITAN EDISON CO. has filed a registration statement for $24,500,000 first mortgage bonds series due 1974 and 125,000 shares cumulative preferred stock (par $100). The interest rate on the bonds and the dividend rate on the preferred stock will be filed by amendment. The bonds and preferred stock will be offered for sale pursuant to the Commission's competitive bidding rule. Proceeds from the sale of the new bonds and preferred stock, together with $9,049,900 to be received from NY PA NJ Utilities Co. and other funds of the company to the extent required are to be applied to the redemption of the following securities: First mortgage bonds, series D 4½%, $20,330,500, series E 4%, $4,684,000 and series G, 4%, $11,710,000 and to the redemption of outstanding $6 and $7 dividend prior preferred stock, cumulative, no par, and $5, $6 and $7 cumulative preferred stock, no par. Filed Oct. 6, 1944. Details in "Chronicle," Oct. 12, 1944.

SATURDAY, OCT. 28

KOPPERS CO. filed a registration statement for $23,000,000 first mortgage bonds, 3% series due Oct. 1, 1964, and $11,400,000 serial notes, issue of 1944. Following the issuance and sale of the bonds and notes, Koppers Co. and its parent, Koppers United Co., may be merged into Koppers Co., Inc., a new corporation formed for carrying out the merger, providing stockholders' approval is obtained. Proceeds from the contemplated financing will result in the retirement of all existing funded debt of Koppers Co. and Koppers United Co. and all of the existing 200,000 shares of preferred stock of Koppers Co. Underwriters are Mellon Securities Corp., A. C. Allyn & Co., Inc., Baker, Watts & Co., Blyth & Co., Inc., Alex. Brown & Sons, Coffin & Burr, Inc., First Boston Corp., Hallgarten & Co., Halsey, Stuart & Co., Inc., Harriman Ripley & Co., Inc., Harris, Hall & Co., Inc., Hayden, Miller & Co., Hemphill, Noyes & Co., Illinois Co. of Chicago, W. C. Langley & Co., Lazard Freres & Co., Moore, Leonard & Lynch, Reinholdt & Gardner, E. H. Rollins & Sons, Inc., Singer, Deane & Schribner, Stifel, Nicolaus & Co., Inc., Stein Bros. & Boyce, Stone & Webster and Blodget, Inc., Union Securities Corp., White, Weld & Co., and Whiting, Weeks & Stubbs. Filed Oct. 9, 1944. Details in "Chronicle," Oct. 12, 1944.

KOPPERS CO., INC., has filed a registration statement for 150,000 shares of cumulative preferred stock and 200,000 shares of common. The dividend rate on the preferred will be filed by amendment. Proceeds will be applied to the retirement of all of the existing 200,000 shares of preferred stock of the Koppers Co. after the merger and to pay off bank notes aggregating $4,786,624 of Koppers United Co. Underwriters same as above. Filed Oct. 9, 1944. Details in "Chronicle," Oct. 12, 1944.

TIDE WATER POWER CO. has filed a registration statement for $4,500,000 first mortgage bonds 3½% series due Nov. 1, 1974, and 10,000 shares of 5% preferred stock, par $100. Bonds and preferred stock are to be offered for sale at competitive bidding. Net proceeds estimated to be approximately $5,605,000, together with such cash from the company's general funds as may be required, will be used to redeem $6,065,500 first mortgage 5% series A bonds due Feb. 1, 1979. Filed Oct. 9, 1944. Details in "Chronicle," Oct. 12, 1944.

FEDERAL MACHINE & WELDER CO. has filed a registration statement for $2,000,000 15-year 5% sinking fund debentures due Sept. 1, 1959. Proceeds for working capital. Central Republic Co., Inc. and Peltason, Tenenbaum Co. are principal underwriters. Filed Oct. 9, 1944. Details in "Chronicle," Oct. 12, 1944.

TUBIZE RAYON CORP. has filed a registration statement for 70,000 shares of preferred stock (par $100). The dividend rate will be filed by amendment. Net proceeds will be applied to the redemption of $2,450,000 3½% sinking fund debentures, due Nov. 1, 1956, and for redemption of 18,395 shares of 7% preferred stock, par $100, redeemable at $110 per share and accrued dividends. Balance of net proceeds will be added to working capital. Kidder, Peabody & Co., and Union Securities Corp. head the list of underwriters. Filed Oct. 9, 1944. Details in "Chronicle," Oct. 12, 1944.

HARRIS MANUFACTURING CO. has filed a registration statement for 60,000 shares of 7% cumulative convertible class A stock (par $5) and 120,000 shares of class B (par $2) reserved for conversion.

Address—Stockton, Calif.

Business—Manufacturer of farm equipment and machinery.

Offering—The 7% cumulative convertible class A stock will be offered at $5 per share.

Proceeds—For working capital.

Underwriting — Nelson, Douglas & Co. heads the list of underwriters.

Registration Statement No. 2-5503. Form S-2. (10-9-44). Statement originally filed at San Francisco.

SUNDAY, OCT. 29

UNITED STATES POTASH CO. has filed a registration statement for 50,000 shares of common stock (no par). The shares are issued and outstanding and do not represent new financing.

Address—30 Rockefeller Plaza, New York City.

Business—Engaged in prospecting for, mining, refining and distributing potassium salts.

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

Proceeds—The proceeds will go to the selling stockholder. All of the 50,000 shares registered are now owned beneficially by and will be purchased from Borax Consolidated, Ltd., which, prior to such sale, owns beneficially 262,500 shares of common stock of United States Potash Company.

Underwriting—The underwriters are Lee Higginson Corp. and Paine, Webber, Jackson & Curtis, 10,000 shares each; Blyth & Co., Inc., and Smith, Barney & Co., 8,000 shares each; Graham, Parsons & Co., 5,000 shares; Bosworth, Chanute, Loughridge & Co., 4,000 shares; William R. Staats Co., 3,000 shares, and Newhard, Cook & Co., 2,000 shares.

Registration Statement No. 2-5504. Form S-2. (10-10-44).

PACIFIC GAS & ELECTRIC CO. has filed a registration statement for $115,000,000 3% first and refunding mortgage bonds, series L, due June 1, 1974.

Address—San Francisco, Calif.

Business — Operating gas and electric utility.

Offering—The offering price to the public will be filed by amendment.

Proceeds—The proceeds from the bond sale, with other funds of the company, will be used to retire on Jan. 1, 1945, the $115,756,000 series H 3¾% bonds at the call price of 107½.

Underwriting—Blyth & Co., Inc., head the underwriting group, with others to be named by amendment.

Registration Statement No. 2-5505. Form S-1. (10-10-44).

MONDAY, OCT. 30

THE LIONEL CORP. has filed a registration statement for 52,714 shares of common stock (par $10). The shares are issued and outstanding and do not represent new financing.

Address—15 East 26th Street, New York, N. Y.

Business—Manufacture and sale of model electric trains, etc., and toys.

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

Proceeds—The proceeds will go to the selling stockholders the largest of whom is Mario Caruso who has agreed to sell 25,040 shares. Other sales are by various members of the Caruso family. Mr. Caruso after 40 years of service has resigned as of Nov. 1, 1944, as secretary-treasurer, director and works manager.

Underwriting—The principal underwriters are Granbery, Marache & Lord, Emanuel & Co., and A. C. Allyn & Co., Inc., all of New York.

Registration Statement No. 2-5506. Form S-1. (10-11-44).

BASSETT FURNITURE INDUSTRIES, INC., has filed a registration statement for 12,000 shares of common stock (par $10). The shares are issued and outstanding and do not represent new financing.

Address—Bassetts, Va.

Business—Manufacture and sale of furniture.

Offering—Price to the public is $26.50 per share.

Proceeds—Proceeds will go to the selling stockholders.

Underwriting—Scott, Horner & Mason, Inc., Lynchburg, Va., is principal underwriter.

Registration Statement No. 2-5507. Form S-2. (10-11-44).

WYANDOTTE WORSTED CO. has filed a registration statement for 120,000 shares of common stock (par $5). The shares are issued and outstanding and do not represent new financing.

Address—Waterville, Maine.

Business — The company's business is normally the manufacture of worsted fabrics.

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

Underwriting—Shields & Co. heads the group of underwriters.

Registration Statement No. 2-5508. Form S-2. (10-11-44).

AMERICAN TOBACCO CO. has filed a registration statement for $100,000,000 25-year 3% debentures, due Oct. 15, 1969.

Address—111 Fifth Avenue, New York City.

Business—Manufacture and sale of cigarettes, smoking and chewing tobaccos, and cigars.

Proceeds—Proceeds from sale of the debentures will be applied to the extent required to payment of all short-term loans from banks and balance will be added to working capital. The total bank loans as of Oct. 16, 1944, are given as $15,000,000. From its working capital as augmented the company expects to finance the purchase of larger inventories of leaf tobaccos.

Underwriting—The underwriting group which consists of 148 investments houses is headed by Morgan Stanley & Co. with $5,000,000. Other underwriters of $1,000,000 or more are Blyth & Co., Inc., $4,100,000; Clark, Dodge & Co., $1,500,000; Dominick & Dominick, $1,500,000; Drexel & Co., $2,000,000; Eastman, Dillon & Co., $1,500,000; Estabrook & Co., $1,250,000; First Boston Corp., $4,100,000; Glore, Forgan & Co., $1,000,000; Goldman, Sachs & Co., $4,100,000; Harriman Ripley & Co., Inc., $4,100,000; Hemphill, Noyes & Co., $1,500,000; Hornblower & Weeks, $1,500,000; W. E. Hutton & Co., $1,500,000; Kidder, Peabody & Co., $4,100,000; Lazard Freres & Co., $2,650,000; Lee Higginson Corp., $2,650,000; Lehman Brothers, $4,100,000; Mellon Securities Corp., $4,100,000; Merrill Lynch, Pierce, Fenner & Beane, $1,500,000; F. S. Moseley & Co., $2,650,000; Paine, Webber, Jackson & Curtis, $1,000,000; E. H. Rollins & Sons, Inc., $1,250,000; Smith, Barney & Co., $4,100,000; Stone & Webster and Blodget, Inc., $2,000,000; Union Securities Corp., $2,650,000; White, Weld & Co., $2,000,000.

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

Registration Statement No. 2-5509. Form A-2. (10-11-44).

TUESDAY, OCT. 31

MAJESTIC RADIO & TELEVISION CORP. has filed a registration statement for 297,500 shares of common stock (par one cent). Of the total 200,000 shares will be sold by the company, 95,000 shares will be issued to stockholders upon exercise of options and 2,500 shares will be sold by another stockholder.

Address—3600 West 50th Street, Chicago.

Business — Manufacture of radio and electronic equipment.

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

Proceeds—Proceeds from sale by Majestic will be used not in excess of $170,000 for the purpose of calling at $10 per share all of the outstanding 26,016 shares (no par) preferred stock. Holders of more than 9,000 shares of preferred, including British Type Investors, Inc., and Empire American Securities Corp. have stated that such stock will be converted into common stock and not presented for redemption, and company's statement said it is probable that other holders of preferred will take similar action. Balance will be used to record manufacture and sell phonographic records and working capital. Proceeds to Majestic on sale of the 95,000 shares upon exercise of options amounting to $112,499 will be added to working capital.

Underwriting—Kobbe, Gearhart & Co., Inc.

Registration Statement No. 2-5510. Form S-1. (10-12-44).

HOTEL WALDORF-ASTORIA CORP. voting trust certificates under a voting trust agreement dated as of July 1, 1943, have been filed for 386,380 shares of capital stock.

Address—Park Avenue and 50th Street, New York City.

Business—Hotel.

Voting Trustees—Voting trustees are Duncan G. Harris, Arthur V. Davis and John L. Weeks.

Purpose—The certificates registered are proposed to run for ten years from the date of the agreement, that is, to June 30, 1953.

Registration Statement No. 2-5511. Form F-1. (10-12-44).

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

ALVA PUBLIC TERMINAL ELEVATOR CO. has filed a registration statement for $250,000 10-year 6% subordinated sinking fund notes, due 1954. Proceeds will be used for the purchase of the real estate and the construction of a one million bushel elevator, with a three million bushel head house. To be offered mainly to people in the Alva, Okla., community who are interested in construction of the grain elevator. Filed Aug. 8, 1944.

CALIFORNIA OREGON POWER CO. has filed a registration statement for $13,500,000 first mortgage bonds series due Nov. 1, 1974. The bonds will be offered for sale at competitive bidding with the successful bidder fixing the interest rate. Company will apply net proceeds towards the redemption of $13,500,000 first mortgage bonds, 4% series due 1966, at 195½ plus interest. Filed Sept. 28, 1944. Details in "Chronicle," Oct. 5, 1944.

CENTRAL NEW YORK POWER CORP. has filed a registration statement for $48,000,000 general mortgage bonds, 3% series due 1974. The bonds will be offered for sale under the Commission's competitive bidding rule. Net proceeds with other funds of the company or other borrowings will be applied to the redemption of outstanding $45,000,000 general mortgage bonds, 3¾% series due 1962, at 104, and $5,000,000 general mortgage bonds, 3½% series due 1965, at 104½. Filed Sept. 29, 1944. Details in "Chronicle," Oct. 5, 1944.

CENTRAL VERMONT PUBLIC SERVICE CORP. has filed a registration statement for 37,856 shares of 4¼% dividend series preferred stock, ($100 par). Company is offering to holders of its 37,856 shares of $6 dividend series preferred the opportunity to exchange their stock on a share for share basis for the new 4¼% dividend preferred stock, with a cash payment and accrued dividends on the $6 preferred to the date of exchange. The cash payment is equal to the difference betwen the initial public offering price of the 4¼% preferred stock and the redemption price of $107.50 per share of the $6 preferred. All shares of $6 preferred stock not surrendered in exchange will be called for redemption at $107.50 per share plus accrued dividends. Any shares of 4¼% preferred which stockholders do not take under the exchange offer are to be sold to underwriters. Filed Sept. 7, 1944. Details in "Chronicle," Sept. 14, 1944.

Issue awarded Oct. 16 to Blyth & Co., Inc. and associates at 102.5 for any of the preferred not issued in exchange. They specified a 4.15% dividend rate and compensation of $1.65 a share for the group's service in effecting the exchange.

COASTAL TERMINALS, INC. has filed a registration statement for 25,000 shares of common stock (par $10). Proceeds will be used for the acquisition of land, equipment and for working capital. Price to public $10 per share. Not underwritten. Filed Sept. 20, 1944. Details in "Chronicle," Sept. 28, 1944.

EQUIPMENT FINANCE CORP. filed a registration statement for 14,000 shares 4% cumulative series 2 preferred, par $100. To be sold to officers and employees of company and Curtiss Candy Co. and its subsidiaries. Price $100 per share. Proceeds for acquisition of factory and warehouse buildings and additional trucks. Filed May 19, 1944. Details in "Chronicle," May 25.

THE EUGENE FREEMAN CO. has filed a registration statement for $300,000 trade acceptances. Proceeds will be applied to organization expenses, acquisition of motor trucks, real estate, buildings, machinery, etc. Filed Sept. 13, 1944. Details in "Chronicle," Sept. 21, 1944.

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. Unsubscribed shares will be sold to Lumbermens Mutual Casualty Co. for investment. Filed May 29, 1944. Details in "Chronicle," June 8, 1944.

FLORIDA POWER CORP. filed a registration statement for 40,000 shares cumulative preferred stock (par $100). The dividend rate will be supplied by amendment. Net proceds from the sale of the new preferred stock, together with additional funds from the treasury to the extent required, are to be applied as follows: Redemption of 28,762 shares 7% cumulative preferred at $110 per share $3,163,820; redemption of 5,940 shares of 7% cumulative preferred at $52.50 per share $311,850; donation to Georgia Power & Light Co. to be used for redemption of certain of its securities as provided in recap plan of that company $1,400,000; payment to General Gas & Electric Corp. for 4,200 shares of $6 preferred of Georgia Power & Light Co. $75,600, and expenses $80,000, total $5,031,270. Stock is to be offered for sale by the company pursuant to Commission's competitive bidding Rule U-50, and names of underwriters will be filed by post-effective amendment. The succesful bidder will name the dividend rate on the stock. Filed July 21, 1944. Details in "Chronicle," July 27, 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.

HANCHETT MANUFACTURING CO. has filed a registration statement for $450,000 first mortgage convertible 5½% bonds, series A, maturing serially from 1945 to 1964, and 45,000 shares of common stock ($1 par). The shares are reserved for issue upon conversion of $450,000 first mortgage convertible bonds. Underwriter is P. W. Brooks & Co., Inc., New York. Proceeds will be applied to the reduction of bank loans. Price range 101 for 1945 maturities to 99.5 for 1960-64 maturities. Filed July 20, 1944. Details in "Chronicle," July 27, 1944.

LINCOLN PARK INDUSTRIES, INC., has filed a registration statement for $250,000 6% ten-year debentures maturing Nov. 1, 1954. Debentures to be offered directly by the company at par and interest. Not underwritten. Proceeds for additional working capital. Filed Sept. 27, 1944. Details in "Chronicle," Oct. 5, 1944.

MONMOUTH PARK JOCKEY CLUB has filed a registration statement for $1,600,000 10-year 6% cumulative income debentures and 230,000 shares of common stock, one cent par value, to be represented by voting trust certificates. The offering price to the public of the debentures is par, although certain of the debentures are being offered otherwise than through an underwriter at a price less than 100%. The common stock, voting trust certificates, is being offered at par. Upon completion of the financing the underwriter, Bond & Goodwin, Inc., will be entitled to purchase 25,000 shares of common stock represented by voting trust certificates, at one cent per share. Proceeds will be use for construction. Filed Sept. 23, 1944. Details in "Chronicle," Sept. 28, 1944.

THE MUTUAL TELEPHONE CO., HONOLULU, HAWAII, has filed a registration statement for 100,000 shares ($10 par) capital stock. Stock will be offered to holders of presently outstanding 500,000 shares of capital stock at par on basis of one share for each five held. Any stock not taken by stockholders will be sold at public auction. Proceeds for working capital. Filed Aug. 16, 1944. Details in "Chronicle," Aug. 24, 1944.

THE OLD STAR DISTILLING CORP. has filed a registration statement for 5,000 shares of $100 preferred stock, non-cumulative and non-participating. Price to public will be $110 per share; proceeds to company $100. Proceds will be used for construction of distillery, $250,000; working capital, $250,000. No underwriter named. Filed Aug. 14, 1944. Details in "Chronicle," Aug. 24, 1944.

PHILADELPHIA ELECTRIC CO. has filed a registration statement for $130,000,000 first and refunding mortgage bonds consisting of $65,000,000 2¾% series due Nov. 1, 1967, and $65,000,000 2¾% series due Nov. 1, 1974. Entire net proceeds together with treasury cash or cash augmented by means of short term loans will be used to redeem on or about Dec. 1, 1944, at 106 $130,000,000 first and refunding mortgage bonds, 3½% series due 1967, aggregating $137,800,000. The SEC has denied the company's application to exempt it from the competitive bidding requirements of Rule U-50. Filed Sept. 20, 1944. Details in "Chronicle," Sept. 28, 1944.

Bids for the purchase of the bonds will be received at company's office, 900 Sansom St., Philadelphia 5, Pa., up to 1 p.m. EWT Oct. 18.

Award—The bonds were awarded to a syndicate headed by Mellon Securities Corp. and First Boston Corp., as joint managers, at a price of 99.44888 for $65,000,000 series of 1967, and price of 98.94888 for the $65,000,000 maturing in 1974. It is expected that the bonds will be offered to the public tomorrow (Oct. 20).

POTOMAC EDISON CO. has filed a registration statement for $16,981,000 first mortgage and collateral trust bonds, 3¼% series due 1974. Proceeds from sale, with additional funds of company, will be used for the redemption of $11,981,000 first mortgage gold bonds, series E, 5%, at 105, and $5,000,000 first mortgage gold bonds, series F, 4½%, at 107½, in each case plus accrued interest. Bonds to be sold at competitive bidding. Filed Sept. 22, 1944. Details in "Chronicle," Sept. 28, 1944.

RESISTOFLEX CORP. has filed a registration statement for 100,000 shares of common stock ($1 par). Proceeds for additional working capital. Price to public $4 per share. Herrick, Waddell & Co., Inc., New York are underwriters. Filed Sept. 16, 1944. Details in "Chronicle," Sept. 21, 1944.

S AND W FINE FOODS, INC. has filed a registration statement for 75,000 shares of common stock (par $10). Proceeds for working capital which may be used for plant improvements and office and warehouse expansion. Blyth & Co., Inc. are underwriters. Price to public $16 per share. Filed Sept. 28, 1944.

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.

A Plan For Treating The National Debt

Editor, "Commercial and Financial Chronicle":

Legislation by Congress for treatment of our national debt at the end of war as a part of our post-war tax program is absolutely necessary. If treated in the same manner which all national governments have always treated skyrocketing national debts resulting from costs of wars—and that has been haphazard reductions when and if the annual receipts exceed annual expenditures—we are apt to lapse into the age-old practice of repudiating or inflating the debts out of existence. On the other hand, if legislation is designed, forcing our Government to put into practice the same orthodox methods of accounting procedure and business administration as practiced by our large corporations, inflation in most of its varied forms can be prevented.

What move would likely be made by one of our large corporations which, as a result of prolonged expansion in business, found itself with a $300,000,000,000 debt, but after a let-down in activity, resulting in a washout of its current assets and current liabilities, found its cash position too large for its annual turnover of business? Part of the cash would be used for reducing the debt. What would it do if its annual turnover of business was large enough to allow the creation of additional earned surplus every year after reasonable dividends? It would use part of the surplus to reduce its debt, either by annual serial payments, or establish a sinking fund for the same purpose.

How can our Government do this—what formula can be used to determine the cost of the war and how much of the war debt should be paid? Here is the formula—figures estimated:

	Billion
Nat. debt at the end of hostilities	$300
Debt at the beginning of the war	40
Individual savings resulting from Government deficit spending	130
Corporate savings	25
Reduction of individual, corporate and municipal debt	15
Approximate liquidating value of Gov. war-owned properties	50
Allowance for savings in normal peace times for duration of war	10
*Lost property values	30

*Represents war property destroyed on the ground, blown up in the air, or sunk to the bottom of the ocean.

Equation

Cost of the war equals $300 billion minus the sum of debt at the start of the war, plus liquidating value of Government war-owned property, plus normal peacetime increase in savings for duration of war, or the sum of individual savings, plus corporate savings, plus individual, corporate and municipal reduction in debt, plus lost property values. Cost of war equals $300 billion, minus sum of ($40 billion, plus $50 billion, plus $10 billion) equals $200 billion, or the sum of $130 billion, plus $25 billion, plus $15 billion, plus $30 billion, equals $200 billion.

How much of this war cost should be paid and by whom? Let's say 75% or $150 billion, and pass on $50 billion to unborn posterity. The living, while maybe not deserving, should receive some credit for planning for those yet unborn—on the theory that the four freedoms are worth as much to one person as another, we divide the $150 billion by the number of living persons in the United States and its possessions (rules to be drawn up for exclusion of the incapable, the destitute and the military) and arrive at approximately $1,200 owed by each individual. Each person shall give to our Government his 20-year non-interest-bearing installment note, payable $60 annually.

Congress shall create a war-debt liquidating corporation; on the debit side will be $150 billion debt. On the credit side $150 billion of non-interest-bearing installment notes—expenses of the corporation and service on the debt will be accounted for in the Treasury's annual budget. To alleviate the burden on younger generations, the first installment will be due on the first of the calendar year following the 24th birthday. Anyone has the option to pay all his notes at any time. Donations made to the war-debt liquidating corporation through testament or gift shall be free from inheritance, Federal estate and gift taxes. This will appeal to the philanthropy of those more able to pay and bring in enough additional to take care of delinquents. Moneys collected shall be used to purchase Government bonds in the market up to pay, to take them up at maturity or to call them on their call dates. Moneys received by the War Surplus Property Liquidating Board shall go to the U. S. Treasury and be used for the same purpose.

Adoption of a plan like this will not only result in liquidation of a large part of our national war debt but will nip in the bud any form of threatening inflation. The forces of inflation thrive on a public psychology which seeks something for nothing, and just as truly the forces of thrift, courage and endeavor thrive on the knowledge that a person must pay for whatever he gets. And not the least important, public reaction to be gained by adopting such a plan is the continuously living consciousness that the cost of war is very dear.

J. ALLEN HARVEY
A. G. EDWARDS & SONS
409 N. 8th St., St. Louis, Mo.
Oct. 18, 1944.

WESTERN UNION TELEGRAPH CO. has filed a registration statement for $24,603,000 convertible debentures and an indeterminate number of shares of class A stock to be available for conversion. Subscription warrants will be issued to present holders of company's class A and class B stock entitling them to purchase $100 principal amount of the new debentures for each 5 shares of class A stock or each 8⅓ shares of class B stock held on a record date to be supplied by amendment. Proceeds plus whatever general funds are necessary will be applied to the redemption on Dec. 1, 1944 of $25,000,000 25-year 5% bonds at 105% plus accrued interest. Names of underwriters and interest rate to be supplied by amendments. Filed Ang. 18, 1944. Details in "Chronicle," Aug 24

The directors Sept. 5 voted to direct the officers to formulate plans to invite competitive bids for the new bond issue

Due to a decision of the N. Y. Public Service Commission that it has jurisdiction over the proposed issue, the company has decided to defer the issue temporarily.

New SEC Form To Register Mining Corp. Shares

The Securities and Exchange Commission announced on Sept. 27 that drafts have been prepared of a new simplified form for the registration of shares of mining corporations under the Securities Act of 1933, and of a rule for the exemption from registration of the assessable shares of mining corporations pursuant to Section 3 (b) of the Act. In keeping with its practice, the Commission has sent copies of the proposed registration form and exemption rule to various individuals, organizations, and firms interested in mine financing for their comments and suggestions prior to adoption of the registration form and rule in their final form. The Commission also says:

"The proposed registration form is not to replace an existing form but is designed instead to meet the particular needs of the small, newly-organized company having a mine in the exploratory stage. The simple financial history generally found in this type of registrant has permitted the elimination of certain instructions to the financial statements and the requirement for the certification of such statements by independent accountants. The exploratory type of mining operation contemplated has made possible the simplification of the items dealing with business and property, and the elimination of previous requirements for maps and estimates relating to ore reserves. Other items of the form are also more concise and simple than in the case of previous mining forms. The instructions to the various items of the form immediately follow the items and have been prepared with the view of showing clearly the type of information intended to be elicited. The instructions are self-contained, insofar as practicable.

"The proposed exemption rule would, under certain prescribed conditions, make possible the offering of assessable shares of mining corporations without registration. Under this rule, an amount not to exceed $100,000 could be raised each year through stock offerings and/or assessments."

Tomorrow's Markets Walter Whyte Says—

(Continued from page 1686)

have a market reflection. But seldom does it go far or last long. Frequently the condition which brought about the change has been indicated by tape action long before the general public became aware of it.

* * *

In the past 10 days a compilation of the outstanding short position was published. It was noticeable that the rails which had a fairly substantial bear crowd have been cut down somewhat. To offset the reduction the short position on some of the industrials, e.g., American Locomotive, U. S. Steel, Graham-Paige and Pepsi-Cola, has grown. General Motors and Lockheed shorts also increased.

* * *

In the old days a large short position was frequently an invitation for professional traders to go hunting. Too many shorts, many of them maintaining their positions with close stops, was the signal for a well managed buying expedition which nine times out of 10 would carry stocks way above any so-called value level. Today, short positions are carried on too high a margin to permit of any fishing expedition. But if fishing in troubled waters has become unprofitable, the element of shorts helping a market zoom hasn't disappeared.

* * *

For a basic human reason, the short trader seldom displays the intestinal fortitude of the long buyer. Latter will frequently hold a losing position for weeks and months, consoling himself with what he thinks is fundamentals. The man who is short seldom has that comfort. Instead, he conjures up visions of sharp rallies which may whittle his bankroll down to a couple of thin dimes.

Last week this column stated that a three-point reaction was in the wind. It pointed out that about half that reaction had already been seen and another setback, equi-distant, was looked for. As this is being written it looks as if the entire three-point setback will have run its course by the time this reaches your eyes. So, unless some unknown factor enters the picture the position now is to hold on to old positions and possibly initiate new ones.

* * *

The old positions are as follows: Allied Mills (half profits accepted at 32½ or better) was bought at 28. Stop remainder at 28. Bendix (half profits recommended at 45½ was bought at 38¼. Stop remains at 38. Crown Zellerbach, bought at 18, still carries a stop at 17. Stock is still about 19. Lockheed, bought at 17 (now about 21½ should be held with a stop at 18. U. S. Steel, bought at 58½, doesn't show much of anything. Offerings exist across 59½. Hold full position.

* * *

Steel stocks as a group are beginning to show a rising trend which may be translated into higher prices for individual stocks in the near future. The same thing is true of the copper stocks. Both groups give signs of an incipient rising trend that bears watching. Perhaps, by the time the next column is written, enough additional factors will become visible to permit specific stock recommendations.

* * *

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.]

"Our Reporter On Governments"

(Continued from page 1688)

with only a three-months' longer maturity, while the premium would be decreased slightly. . . . It was also pointed out that as the longer 2% issue approaches the note-maturity period of five years or less, the price advance should be sufficient to warrant it selling at levels above those presently prevailing. . . .

RESERVE RATIOS

The sharp decline in the reserve ratio has caused considerable discussion of this situation, as one of the recent studies on this subject points out. . . . The Federal Reserve Banks are required by law to maintain a reserve of not less than 40% in gold certificates against Federal Reserve notes in actual circulation and a minimum of 35% in gold certificates or other lawful money against their deposits. . . . The 35% reserve against deposits for all practical purposes may consist of currency issued by the Treasury—coins, Federal Reserve notes and Federal Reserve Bank notes. . . . The Federal Reserve Banks are holding their reserves almost entirely in gold certificates, and only a relatively small amount in Treasury currency. . . . No Federal Reserve notes or Federal Reserve Bank notes are included in the reservs. . . .

Thus, of the total reserve of $18,802,156,000 shown on Oct. 11, 1944, gold certificates, including those in the redemption fund with the Treasurer of the United States for the redemption of Federal Reserve notes, amountd to $18,560,380,000 and the balance of only $241,776,000 was "other cash," namely, Treasury currency. . . .

The amount of total reserves stated as a percentage of the combined deposits and Federal Reserve note liabilities is the reserve ratio. . . . For the week ended Oct. 11, 1944, the total reserves of the 12 Federal Reserve Banks amounted to $18,802,156,000 compared with the combined deposits of $15,486,610,000 and Federal Reserve note liabilities of $20,498,874,000, which two latter figures amount to $35,985,484,000 and resulted in a reserve ratio of 52.2%. . . .

PEARL HARBOR AND NOW

The reserve ratio has declined from 91.1% on Dec. 3, 1941, just prior to Pearl Harbor, to 52.2% for the week ended Oct. 11, 1944, a new low since our entry into the war, in fact the lowest level since March 15, 1933. . . .

It was pointed out that so long as the volume of currency in circulation continues to increase and gold holdings of the Federal Reserve banks to decrease, the reserve ratio will continue to decline. . . .

The principal reasons for the carrying of this ratio into new low levels, during the week ended Oct. 11, 1944, was the substantial increase in currency in circulation of $218,000,000 which resulted in the total of money in circulation reaching an all time high mark in the history of the Federal Reserve System of $24,099,000,000. . . . The rise in currency in circulation since this country entered the war has been nothing short of sensational, when it is considered that on Dec. 17, 1941, this figure was reported as $11,023,000,000 compared with the latest available totals of more than $24,000,000,000. . . . The $103,000,000 drop in gold certificates for the period ended Oct. 11, 1944 also was a contributing factor in this latest decline in the reserve ratio. . . .

EFFECT ON CREDIT POLICIES

This decline in the reserve ratio has raised the question as to what effect it may have on the credit policies of the Reserve authorities if the ratio should reach the statutory minimum of 40%. . . . It was pointed out that money market conditions today are vastly different than those that prevailed in 1920, when the reserve ratio reached 42% and credit restrictive measures were adopted by the Reserve authorities. . . .

What action may be taken if the ratio continues to recede could not be forecast at this time, but it was pointed out that the following measures are at the disposal of the monetary authorities, to either increase the ratio or to prevent it from going down. . . .

Some of these measures are:

(1) Monetization of the idle gold held by the Exchange Stabilization Fund and in the General Fund of the Treasury.

(2) Monetization of the silver seigniorage profit through the printing of additional silver certificates.

(3) The issue of Federal Reserve Bank notes requiring no gold cover instead of Federal Reserve notes.

The Emergency Banking Act of March 9, 1933, amended the Federal Reserve Act to provide for the issuance by the Federal Reserve Banks of Federal Reserve Bank notes against the deposit of direct United States Government obligations with the Treasurer of the United States. . . . Such notes may be issued in amount equal to the face amount of pledged Government securities. . . . This amendment is still in effect, as the President has issued no proclamation that the emergency proclaimed March 6, 1933 has terminated. . . .

(4) Lowering the reserve requirements, which would create a substantial amount of excess reserve balances, most of which would be used by the member banks to purchase Treasury bills from the Federal Reserve Banks. . . . This would reduce the deposits of the Federal Reserve Banks and thus increase the ratio. . . .

OTHER AVENUES

Several other measures are also available, it was indicated, to the monetary authorities which they could use if they should desire to prevent the ratio from decreasing further. . . . Congress could of course pass legislation relieving the Federal Reserve Banks from the obligation of maintaining a fixed ratio of gold against notes in circulation. . . .

Such a measure was actually taken in Canada when an Order in Council of May 1, 1940 released the Bank of Canada from the obligation of maintaining the required minimum gold reserve against outstanding notes and deposit liabilities. . . .

On the same date the Bank of Canada sold its gold and foreign-exchange holdings to the Foreign Exchange Control Board, and no gold or foreign-exchange reserve has been maintained since. . . .

RESERVE BANK HOLDINGS

As member banks of the System, for the week ended Oct. 11, sold government issues to maintain their Reserve positions, holdings of United States Government obligations by the twelve Federal Reserve Banks increased by nearly $356,000,000 to an all-time peak of $17,015,779,000. . . . Of the total security holdings of the twelve Federal Reserve Banks, 77% have a maturity of not longer than six months with more than 89% due in one year or less. . . . It was pointed out that the Federal Reserve Banks are in a position to counteract to a considerable extent the return flow of currency from circulation which may be quite substantial following the ending of the European phase of the war. . . .

Federal is in a position through its large holding of short maturities to allow these obligations to run off and thus counterbalance the increase in reserves that would result from a sharp return flow of currency from circulation. . . .

T. H. Wyllie With C. F. Cassell & Co.

CHARLOTTESVILLE, VA.—Thomas Hodges Wyllie, Greensboro, North Carolina, formerly a special agent of the Travelers Insurance Company, North Carolina branch, became associated with C. F. Cassell and Company, 112 Second Street, N. E., as of Oct. 2, 1944.

Mr. Wyllie attended Woodberry Forest School, University of Virginia, New York Stock Exchange Institute, and New York University. In 1936, he was associated with E. A. Pierce and Company and in 1939 with the Pacific Fire Insurance Company, joining the Travelers Companies in 1941.

Mr. Wyllie will make his residence in Charlottesville, Virginia. His activities for C. F. Cassell and Company will carry him into the various sections of Virginia, North Carolina and South Carolina.

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 and Indiana Limestone which the firm believes appear attractive at current levels. Copies of these interesting circulars may be had upon request from F. H. Koller & Co.

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