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Post-War Tax Imponderables

In opening the "Symposium on Post-War Taxation" held by the Associate Membership of the New School for Social Research in New York City on Jan. 30, A. Wilfred May, who presided, urged his audience not "to lose sight of the economic background behind suggested tax changes." He pointed out the "imponderables" facing the plans for tax reforms as indicated by the wide disparities in estimates of post-war Government expenditures and in the future levels of national income.

A. Wilfred May

"Everyone, from the time of Adam Smith down to Henry George," Mr. May began, "has agreed on certain desiderata of taxation, such as:

"Taxes should be levied in proportion to ability to pay . . .

"The manner of taxation should be convenient to the taxpayer . . .

"The collection cost should be kept at a minimum. . . .

"Taxes should not interfere with production . . .

"And post-this-war: Everyone,

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Index of regular Features on page 648.

The Recent International Civil Aviation Conference

By DONALD L. KEMMERER

Assistant Professor of Economics, University of Illinois

Dr. Kemmerer Reviews the Previous Aviation Conferences and the Conditions That Led Up to Recent International Conference in Chicago. Points Out That the "Closed Sky" Principle Has Become Antiquated Due to War-Time Growth of Aviation and That the "Five Freedoms" of the Air, Viz.: (1) Innocent Passage; (2) Technical Stops; (3) the Right to Traffic From the Home Country to Another; (4) Return Traffic, and (5) Intermediate Traffic Hauls, Are Comparable to the "Freedom of the Seas." Explains the Antagonistic British and American Views Regarding an International Quota System and Shows that Each Favors a Policy Opposed to Their Previous National Ideas. Contends That Inability to Arrive at a Compromise Will Lead to Bilateral Arrangements, and Bitter International Rivalries, But Believes Groundwork Is Laid for Another Conference.

World Aviation Conferences

The third of the world's historic international civil aviation conferences ended in Chicago on Dec. 7 after being in continuous session 37 days. The first of such conferences produced the document known as the Paris Air Convention of 1919 which recognized the principle that "every power has complete and exclusive sovereignty over the air space above its territory." It also established a permanent commission and drew up certain minimum technical requirements. The United States did not ratify this Convention. The second conference produced the Havana Convention of 1928 which we did ratify but which dealt with western hemi-

Donald L. Kemmerer

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The Economic and Political Consequences of Lord Keynes' Theories

By PHILIP CORTNEY

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

I

Exchange Stability and the Hostility of Lord Keynes

Writer Directs Attention to the Paradoxical Campaign in England for Exchange Control and Against the Gold Standard. He States That the Campaign Has Its Roots in Philosophical and Social Doctrines. Asserts That Lord Keynes Is the Spiritual Father of the Campaign and Therefore Discusses Lord Keynes' Social and Political Philosophy. Maintains and Stresses That Exchange Stability Is a "Sine Qua Non" of Harmony Among Nations and of Our Liberties. Holds That Gold Has Well Served Humanity Because Its General Acceptance Has Made Possible an International Monetary System.

An opinionated campaign is being conducted in England against the gold standard and against monetary stability, and sometimes even in favor of maintaining exchange control. This campaign is significant in that it is addressed to the masses and is based on emphatic assertion of controversial theses or even untruths. On the first page of the Daily Express, one could quite recently read an article with the title in letters one inch high: "1925 and All That—Only Far, Far Worse", and signed by Paul Einzig. This campaign

Philip Cortney

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Secretary Morgenthau Answers Bankers' Report on Bretton Woods

At Press Conference, He Intimates That Amendments to Plans Would Destroy Them. Looks for Early Congressional Action. Says Too Few People Understand Proposals, and That Public Requires Further Elucidation, so Treasury Officials Will Continue Activities in Support of Plans. Holds Many Bankers Advocate Adoption of the Proposals.

Sec. Morgenthau

At a press and radio conference held in Washington on Feb. 5, Secretary of the Treasury Henry Morgenthau, Jr., expressed regret that the joint report of the Committee of three bankers associations relating to the international financial proposals by the Bretton Woods Conference was made public. He praised the wartime cooperation of the banks with the Treasury but "pointed out to them that if they made a statement along the lines criticising what was done at Bretton Woods, the net result would be that if their advice was listened to, it would simply kill it."

Present with Mr. Morgenthau at the conference were Harry D. White and Mr. Bell of the Treasury Department.

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Making Democracy Effective

By W. RANDOLPH BURGESS*

President of the American Bankers Association
Vice-Chairman of the Board, the National City Bank of New York

Prominent Banker Calls Attention to Trends Away From Democracy, and While Admitting That War Has Made Dictatorship Attractive to Many People and That Post-War Problems Point Toward Continued Regimentation and Controls, Particularly in Banking, He Asserts That the Remedy Lies in "Doing Our Job as Better Bankers," in Paying More Attention to Political Questions, and Have People "Whose Main Business Is Working With the Government." Says Socialized Credit Moves in Opposite Direction From Democracy, and Guaranteed Credit Makes Banker "A Glorified Slot Machine."

Probably the most serious practical problem for every banker and every business man in the United States today, next to winning the war, is not how will reconversion be handled, or what's going to happen about taxes, or how badly are we going to be hurt by inflation. There is one problem which is far more fundamental and more urgent. It is simply this: All of us give lip service to the beauties of democracy. We say that we believe in the democratic way of life. Well, do we? How much do we honestly believe in it?

W. R. Burgess

We have lost a good deal of our democracy, and most of that is our own fault. We have taken too much for granted. We have assumed that our Constitution, our Bill of Rights, our Supreme Court, and our carefully cherished political traditions were all the safeguards our country needed.

It is characteristic of many subversive political changes that they come gradually and inconspicuously, here a little and there a little, gaining control more and more without seeming at a given moment to be doing anything very alarming.

The attrition of democracy in the United States has been going on for a long time. We have always had well meaning people who prefer force to persuasion, and whose ideal of government is a small group of all-powerful

*A paper prepared by Mr. Burgess for the 26th Mid-winter Trust Conference, American Bankers Association.

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Deane Weaver Now Associated With G. Brashears & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF. — Deane L. Weaver has become associated with G. Brashears & Co., 510 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Weaver in the past was manager of the wholesale department for Crowell, Weedon & Co. and was an officer of Edgerton, Riley & Walter, Inc.

The Treatment of Capital Gains And Losses

By RANDOLPH E. PAUL*

Former General Counsel of the Treasury

Mr. Paul Discusses the *Pros* and *Cons* of Capital Gain Taxes, and Explains Their Shortcomings as Well as Their Fiscal and Political Implications. Contends That Capital Gains Taxes Are Essential to Prevent Tax Avoidance and Denies That the Elimination of the Tax Would Stop Depressions. Bulk of Capital Gains Taxes, He Says, Come From Stock Transactions and From Persons in the High Income Brackets, and Says Variations in Capital Gains Revenue Have Been Determined Primarily by Changes in Stock Prices. Says the Capital Gains Tax Is Not the Only Levy Discouraging Risk Capital and Admits There Are Inequities in It.

Sound results in taxation are not always achieved in direct proportion to the number of words that are spoken and written on a particular subject. Sometimes the very opposite may be true—as, for example, with the treatment of capital gains and losses. Reams have been written about them and for three decades they have been the subject of almost constant debate. Today they still pose an unsolved problem.

Randolph E. Paul

Before 1921 capital gains were taxed in the same manner as any other income, and losses were deductible without restriction. Since 1921 our tax system has distinguished between the common garden variety of gains and the kind known as "capital" gains. It has also differentiated between ordinary losses and capital losses. There is, of course another possible method of treating capital gains and losses, and that is to ignore them altogether. That is what the British are somewhat inaccurately said to do.

Why should capital gains be treated more favorably than any other kind of income? Advocates of special treatment have one good reason for their stand and several other reasons which, I believe, weaken under the light of careful scrutiny.

The good reason applies only to gains which have accrued over a reasonably long period of time—at least more than a year. Realiz-

*An address by Mr. Paul before the Associate Members of the New School, New York City, Jan 30, 1945. Mr. Paul is now a member of the law firm of Lord, Day & Lord, New York City.

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International Investment Position Of the United States

By ROBERT L. SAMMONS*
International Economics and Statistics Unit,
U. S. Bureau of Foreign and Domestic Commerce

Analyzing the Present Investment Position of the United States, Mr. Sammons States That Due to Wartime Developments, the Nation, from the Standpoint of International Payments, Has Become, for the Time Being, a Debtor Nation, Though on the Basis of Long-Term Investments It Is a Substantial Creditor. However, on Either Basis, He Holds the U. S. Is Far From Being the Greatest Creditor Nation of All Time. Says the Net-Creditor Position of U. S., Estimated at $4.4 Billion, Is Small by Almost Any Standard of Comparison and About One-Fourth of the Maximum Creditor Position Reached by Great Britain. Sees Opportunity for Substantial Expansion of Post-War Foreign Investments.


Robert L. Sammons

Under the influence of wartime developments, foreign balances and investments in the United States increased until, as of September, 1944, they exceeded United States holdings abroad by an amount estimated at some $1,200,000,000 (table 1). By a widely accepted although somewhat technical criterion, therefore, the United States has become, at least for the time being, a "debtor" nation.

*Reprinted from "Foreign Commerce Weekly," Jan. 27, 1945, published by the U. S. Department of Commerce.

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Post-War Problems in Their Relation to Securities

By HON. J. EDWIN LARSON*
State Treasurer of Florida
Chairman, Florida's Securities Commission

Mr. Larson Analyzes Transition Problems from War to Peace, and Lists as Requiring Early Determination: (1) Prompt Payment of Cancelled War Contracts; (2) Early Disposition of Government Surpluses; (3) Sale of Government Plants and Equipment; (4) Creation of Jobs for Ex-Service Men and Women; and (5) Taxation Reforms. Sees No Need for a Post-War Depression and Urges a Study of Conditions Essential to Prosperity. Advocates a Streamlining of Securities Laws to Encourage Investment and Giving Encouragement to the Small Securities Dealers and the Small Investor. Contends There Is No Such Thing as "Riskless Business" and That Regulatory Bodies Should Consider This. Calls for Liberal Policy in Regulation.


J. Edwin Larson

It hardly seems possible that more than 15 months have elapsed since last we met in Cincinnati in our 26th annual convention, but time passes swiftly in these hectic days when we have so much to do. The rapid passing of this time reminds me of the story of the old lady who kept a parrot which was noted for his prolific use of profanity. She put up with this all week because she was quite fond of the old bird, but was unwilling to see the Lord's Day desecrated in this manner so she kept a cover over the cage each Sunday, removing it Monday morning. One Monday afternoon she saw her minister coming up the walk toward the house on one of his regular pastoral visits, so she quickly placed the cover over the cage. As the reverend gentleman entered the parlor the parrot remarked, "It's been a damn short week!" So I say to you now, relatively, this has been a ——— very short fifteen months.

*An address by Mr. Larson at the 27th Annual Convention of the Association of Securities Commissioners, St. Louis, Mo., Dec. 18, 1944.

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P. B. McGinnis to Be Principal Speaker At N. Y. Dealers Dinner


Patrick B. McGinnis

Patrick B. McGinnis, partner in the New York Stock Exchange firm of Pflugfelder, Bampton & Rust, New York City, who will be the principal speaker at the 19th Anniversary Dinner of the New York Security Dealers Association to be held on Thursday, Feb. 15, at the Waldorf - Astoria Hotel, at 7:30 p.m.

Mr. McGinnis, a railroad reorganization expert, will speak on "A History and Forecast of Railroad Finance," in regard to which he is considered one of the foremost authorities.

Full details on the dinner were previously given in the Financial Chronicle of Jan. 25. Indications are that the dinner will have the largest attendance of any in its history.

The Significance of Public Debt

By MURRAY SHIELDS*
Economist of Irving Trust Company, New York

Mr. Shields Reviews the Growth of Public Debt in Britain and U. S. and Points Out That It Has Been Accompanied by an Equally Significant Growth in Economic Resources and Productivity. Ascribes the Present Absence of Inflation Effects to "the Deluge of Goods and Services" During the War, but Warns That Unless the Forces Making for Expansion in Private Enterprise Are Freed, Grave Problems Portend.

On Pearl Harbor Day our national debt was about $62 billion. Today it exceeds $230 billion and it may be well beyond the $300 billion mark before the full cost of the war has been met.


Murray Shields

What does so colossal a debt mean to us? A lively controversy prevails as to its economic portent, some people arguing that the increase in the debt means almost certain ruin, others that it has no important economic significance. Probably the truth lies somewhere in between these two extremes; and the actual effect of the debt increase will depend in large measure upon what we as a nation do or fail to do in a number of other important respects.

British experience is frequently cited as disproof of the idea that more and more spending and a bigger public debt necessarily spell economic disaster for a country. Mr. Henry A. Wallace referred to the British record in his testimony before the Senate Commerce Committee. But the real significance of the British

*A paper by Mr. Shields prepared for the 26th Mid-Winter Trust Conference, Trust Division, American Bankers Association.

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Must Sell Consumers $145 Billion of Goods to Create 57 Million Jobs

Arno H. Johnson Holds This Can Be Done by Raising Living Standards Fully Double Our Pre-War Level. Says It Is the Job of Post-War Advertising and Marketing to Create the Demand, and Believes the Growth in U. S. National Income Will Continue as Heretofore.

Arno H. Johnson, Director of Media and Research of the J. Walter Thompson Company, in addressing the Sales Executives Club of New York City on Feb. 6 expressed optimism regarding the prospects of maintaining a high level of employment in the post-war period and stated the belief, which he supported by the exhibition of elaborate charts, that we can have "an economy which will be capable of providing for the great mass of our population a standard of living fully double our pre-war level."

Arno H. Johnson

Mr. Johnson began by saying: "We must sell to consumers $145 billion of goods and services annually in the post-war years if we are to provide employment for the 57 million persons who will want jobs"—that is more than double the pre-war peak of $71 billion of consumer goods and services sold in 1929 or the $66 billion sold in 1940. The task of raising the levels of consumption far enough and fast enough to catch up with the enormous increase in our proven ability and capacity to produce presents both an opportunity and a challenge to all in the field of marketing."

"The cautious way to open a discussion of post-war prospects," he continued, "would be to state that markets will depend largely on the kind of economy we will have—and the predictions of our

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NSTA Notes

BALTIMORE SECURITY TRADERS ASSOCIATION

The Baltimore Security Traders Association renewed its Annual Mid-Winter get-together by holding a banquet at the Lord Baltimore Hotel on Jan. 26, 1945.

The affair was attended by approximately 200 persons, including Edward E. Parsons, William J. Mericka & Co., Inc., Cleveland, President of The National Security Traders Association, Inc.; Richard F. Abbe, Van Tuyl & Abbe, New York, President of the Security Traders Association of New York, Inc., and Russell M. Dotts, Bioren & Co., Philadelphia, President of The Investment Traders Association of Philadelphia.

As usual, there were no speeches, and a brand of entertainment was presented that seemed to please the boys immensely. A general feeling of good fellowship and sociability was evident throughout the entire evening, and the prizes drawn for were just what the doctor ordered. The Committee in charge was given a vote of thanks for a job well done.

BOSTON SECURITIES TRADERS ASSOCIATION

Because of transportation shortage, the Boston Securities Traders Association has postponed its annual winter dinner which had been scheduled for Feb. 21.

Calendar of Club Events

Twin City Bond Traders Club—Annual Winter Meeting, Feb. 21.

Nat'l Ass'n of Inv. Cos. Quarterly Bulletin

The National Association of Investment Companies, which represents 117 companies with combined assets of over $1,500,000,000 has published the first issue of a new quarterly statistical bulletin covering closed-end investment company securities. In convenient form, the bulletin includes the more important statistics which are not easily obtained from any other single source.

The sole purpose of this quarterly bulletin is to provide as much information as is feasible within the limits of a publication of this type to aid the individual investor to make his own decisions about the various closed-end investment company securities which are best suited to his purpose.

Securities of closed-end investment companies are divided into separate categories in the bulletin as follows:

1. Investment Company Common Stocks
   - A. Non-leverage, general portfolio
   - B. Non-leverage, specialized portfolio
   - C. Conservative leverage
   - D. Medium leverage
   - E. High leverage
   - F. Options
2. Investment Company Preferred Stocks.
3. Investment Company Bonds.

Copies of this bulletin may be obtained free of charge by writing to Lucile Tomilson, Executive Assistant, National Association of Investment Companies, 61 Broadway, New York 6, N. Y.

Oscar Burnett & Co. Adds Otis Phillips to Staff

Greensboro, N. C.—Otis D. Phillips has joined the staff of Oscar Burnett and Company, 506 Southeastern Building. Mr. Phillips has recently been associated with McDaniel Lewis & Co. In the past he was with Merrill Lynch, Pierce, Fenner & Beane.

Government Controls and Industry's Pricing Policies

By HOWARD E. BLOOD*

President, Norge Division, Borg-Warner Corporation, Detroit

Industrialist, Though Admitting That Price Inflation Checks Are Needed in Reconversion Period, States That If OPA Takes Its Present Course, Manufacturers Will Be Forced to Absorb Unavoidably Increased Costs. Attacks the "Profit Pinching Policy" as Detrimental to Full Reemployment, and Cites the Case for a Restoration of Profit Margins. Argues That Distributors' Historic Margins Should Not Be Squeezed Down, and Expresses Opposition to the Use of Government Capital and Taxing Powers to Favor Special Types of Business in a Competitive Enterprise System.

Whenever a business man nowadays dares to raise his voice in protest against OPA's publicly announced profit squeezing intentions, he is called an inflationist and a profiteer. And the highly skilled propaganda machine of OPA, together with its facilities for publicity by radio and the Press, in too many cases are causing business men to feel helpless and to stand mute.


Howard E. Blood

Let's start out by again recognizing and acclaiming the great service rendered by OPA in holding the line against runaway price inflation. No other segment of our people is more keenly aware than business men of the dangers of inflation and of the need for holding the line.

Likewise, let us bodly state that business men know that conversion period and post-war employment in manufacturing and distribution will be up to them, and they also know that they cannot provide that employment if their profit ratios are squeezed to the extent threatened by OPA.

It seems almost trite to say that as soon as this horrible war comes to a point where there are substantial cutbacks in war orders, we must have extensive and rapid reconversion in the important durable consumer goods industries in order to avoid serious unemployment. If we let nature take its course this reconversion would probably be rapid, but would be accompanied by a bad price inflation in scarce goods, caused by attempts to cope with taxes, higher costs and a scramble for higher wages and profits.

If we let OPA take its present course, manufacturers will be forced to absorb unavoidably increased costs or, at best, to recover their costs without profit; and in cases where any relief at all is given manufacturers in order to absorb their costs, distributors will be forced to absorb the increase out of their margins. And in discussions of increased costs

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*An address by Mr. Blood before the American Management Association Finance Conference, Hotel Biltmore, New York City, Feb. 1, 1945.

Bowles Says Distributors Must Share in Absorbing Higher Costs

At Conference With Wholesalers and Retailers He Says Profits Have Risen or Have Been Maintained, But Promises Relief in Cases Where Ceiling Prices Are Below the Generally Fair and Equitable Level.

If consumers are to be protected from serious inflationary pressures facing the nation in 1945, it will be necessary for retailers and wholesalers to absorb their share of cost increases wherever possible, Price Administrator Chester Bowles told representatives of wholesalers and retailers in Washington on January 23.


Chester Bowles

In a conference with a cross-section of representatives of wholesalers and retailers in the department store, dry goods, furniture and hardware fields today, Mr. Bowles and other Office of Price Administration officials discussed this problem and outlined some suggested methods of putting OPA's policy into operation.

The trade representatives were asked to suggest ways in which policies of "cost absorption" could be applied to wholesale and retail businesses, with special emphasis on the difficult problem of methods of measuring the amount of cost increases that distributive trades could absorb.

The Price Administrator pointed out that during the last two and a half years of price control, manufacturers producing civilian goods have absorbed many increases in wage rates and in materials prices without corresponding increases in the ceiling prices of their products.

This policy of "cost absorption" within reasonable limits was explained to Congress in detail last Spring, he said, and received its approval as the only means through which the threat of rising prices could be averted. The Emergency Court of Appeals has also upheld its validity.

"Manufacturers have absorbed these extra costs, and, with few exceptions, have still made far higher profits than they made before the war," Mr. Bowles said.

"In justice to consumers, on the one hand, and manufacturers on the other," he continued, "I believe we have no choice but to apply the same approved principle of cost absorption to the distributive trades as well as to manufacturers."

Although OPA has required distributors in some fields to absorb cost increases from time to time, it had not previously worked out

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Fed. Savs., Loan Ins. Assets Up in 1944

Resources of the Federal Savings and Loan Insurance Corporation increased by $8,986,163 to a total of $155,807,421 during 1944, William H. Husband, General Manager of the Corporation, announced on Feb. 3. Reserves and unallocated income of the Corporation reached $53,269,983 on December 31, a gain of $8,695,850 for the year, he reported. The advices from the Corporation added:

"Net income of the Corporation for 1944 amounted to $7,578,833, as against $7,151,852 in 1943."

Reviewing the decade of experience of the Corporation in protecting investors in savings and loan associations and contributing to the stabilization of the nation's home financing institutions. Mr. Husband said: "By law the Insurance Corporation is empowered to act to prevent default of an insured association or to restore an institution in default to normal operation. For this purpose the Corporation has made cash contributions to 28 associations since it was established in 1934."

Mr. Husband also said:

"Seven other associations have been placed in liquidation by supervisory authorities over the same period. Two of the receiverships have been completed, paying the Insurance Corporation liquidating dividends of 48% and 93%. In the five associations still in process of liquidation it is estimated that the Corporation will recover over nine-tenths of the amount disbursed to pay off the insured shareholders. No insured association has been placed in liquidation since 1941.

"The net disbursements of the Corporation for aid to institutions in difficulty and to pay off investors in liquidating associations amounted to an estimated $5,900,000, from the inception of the Corporation up to the end of 1944.

"Insuring funds of some four million people in nearly 2,500 savings and loan associations against loss up to $5,000 each, the Federal Savings and Loan Insurance Corporation stands as an ultimate bulwark for investments in thrift and home financing institutions. The first line of security, of course, is the established strength of the insured institutions themselves."

Public Utility Securities

A Favorable Rate Decision

Strength in utility issues recently has been attributed to several factors—the increasing popularity of "peace" stocks, the Supreme Court decision in the United Light & Power Case, and the Pennsylvania rate decision. The latter was an extremely favorable opinion of the Pennsylvania Public Utility Commission with respect to rates of Pennsylvania Power & Light, important subsidiary of National Power & Light. The Commission not merely found present rates to be reasonable, but went out of its way to discuss in considerable detail many problems with respect to utility valuation, taxation and earning power.

This was one of the few really favorable decisions which the utilities have obtained in recent years. The changed political situation in Pennsylvania may, of course, have had something to do with the present composition of the Commission and the liberality of the majority views. While the decision will have no immediate effect on utility earnings, in Pennsylvania or elsewhere, it serves as a backfire against the many anti-utility decisions and policies of recent years, which have had their principal source or inspiration in Washington.

The Commission, in considering the valuation of the property of Pennsylvania Power & Light, evidently considered that it had a mandate to follow the old-fashioned Smyth vs. Ames Supreme Court philosophy and hence studied reproduction cost, acquisition cost, original cost, going concern value, working capital and accrued depreciation, finally arriving at its own ideal of "fair value." After allowance for depreciation (estimated at 15%) it reached the following conclusions (round figures): Reproduction cost based on spot prices, $194,000,000, and adjusted to average prices, $174,000,000; acquisition cost was discarded as inaccurate; original cost as submitted was $164,000,000, and after adjustment for questionable items $149,000,000. After taking into account going-concern value (for which the company had claimed some $24,000,000) and allowing $7,000,000 for working capital, the Commission decided that fair value (as of Dec. 31, 1942) was approximately $202,000,000. After a similar consideration of gas and steam properties, $18,000,000 was added bringing total fair value to around $220,000,000 (net after depreciation).

Surprisingly, this figure was well in excess of the amount now carried on the company's books (about $197,000,000 at the end of 1942). While FPC findings regarding original cost have not yet been fully clarified, the Commission has proposed write-offs of approximately $47,000,000 (with an additional $5,000,000 taken out of depreciation account). A substantial amount would be written off currently and the balance amortized over a 15-year period. On this basis, the Commission's findings with respect to original cost (net) appear to be around $150,000,000, including gas and steam properties. This is below the results obtained by the State Commission and some $70,000,000 less than the rate base (fair value) which was found warranted by the Pennsylvania Commission.

The Commission was also liberal in its views on fair return. Six per cent was allowed on electric property, 6½% on gas and 6¾% on steam heating plant. Combining fair return and fair value for the three parts of the property (electric, gas, steam) the earnings "ceiling" (before interest and dividends) was fixed at $13,337,650. The company's recent earnings have been about $11,150,000, but the Commission estimated that, due to the burdensome effect of Federal taxes, the company is actually earning only about $4,000,000.

This surprising figure was the result of a long analysis of the effects of Federal taxes. The Commission pointed out, with the aid of an arithmetic demonstration, that present Federal taxes penalize any utility company which has done a considerable amount of bond financing at low rates. It holds that the original theory of "fair return" was an overall percentage on the total value of the property without penalty for the additional gains accruing to common stockholders as a result of borrowing senior capital at rates less than the fair rate of return. Hence, Federal taxes should be construed on the same basis, and it is this assumption that accounts for the downward adjustment in current earnings from about $11,000,000 to $4,000,000.

The Commission also took exception to the assumption made in other regulatory quarters that the Federal excess profits tax (together with the 16% surtax) are wartime emergency taxes and "improper measures of future tax cost." The Pennsylvania Commission felt that due to the necessity of servicing and repaying the war debt, a return to the 24% corporate tax will be unlikely for many years to come. Possibly the Commission had in mind the recent Michigan rate orders which diverted large year-end rebates of revenues to customers, on the theory that the excess profits taxes are an abnormal, emergency tax.

The decision is too lengthy to discuss fully in this review, but it constitutes a landmark in current discussion of utility problems.

The Supreme Court and the Power of Congress to Regulate Money

By RINEHART J. SWENSON*

Chairman, Department of Government, New York University

Holding the Federal Power to Regulate Money Is Exclusive, Professor Swenson Asserts That There Would Seem to Be No Constitutional Objection to the Monopolization of the Banking Field by the National Government by Bringing All Commercial Institutions Into the Federal Reserve System. Holds That Supreme Court's Decision Upholding the Invalidation of Gold Contracts as an Exercise of the Sovereign Power to Regulate the Value of Money Was Inescapable, and Maintains Congress Has Constitutional Power to Carry Out the Provision of Bretton Woods Proposals. Says There Is a Tendency to Confuse Power With Policy and to Reason That Where Power Exists, It Is Likely to Be Abused.

Federal Power Exclusive

The controlling reason for calling the Constitutional Convention of 1787 was to find relief from the competitive, confusing and destructive State legislation affecting commerce and industry. It was not surprising, therefore, that the makers of the Constitution conferred upon the national government broad and exclusive powers over the commerce and money and currency of the Union.

Dr. R. J. Swenson

Accordingly, the Constitution vests in the Congress powers "to borrow money on the credit of the United States"; to coin money, regulate the value thereof, and of foreign coin"; and "to make all laws which shall be necessary and proper for carrying into execution the foregoing powers." That this grant of power was exclusive with Congress has been held consistently by the Supreme Court since the early case of *McCulloch v. Maryland*.[1]

But the fathers did not leave the exclusiveness of the power to mere affirmative grant to the Congress; they imposed positive prohibitions upon the States when they declared that "no State shall . . . coin money; emit bills of credit; make anything but gold and silver a tender in payment of debts; pass any . . . law impairing the obligation of contracts." These limitations do not deny to a State the authority to establish State banking corporations with power to issue bills payable to the bearer, in gold or silver, on demand, since such bills are not "bills of credit," as they are not issued by a State, on the faith of a State, and designed to circulate as money.[2] However, Congress may drive these bills out of circulation as an incident to its power to provide a uniform currency system for the United States, or more specifically, to protect the currency which it has created, namely, the legal tender notes and the notes of the national banks.[3]

Further, a State may not by taxation or other means interfere with any agency or instrument created by Congress for the purpose of carrying out its money powers. So a State may not tax, without the consent of Congress, a bank[4] created, or any of the securities[5] issued by the United States.

*An address by Professor Swenson before the Institute on Money and the Law, New York City, Jan. 15, 1945.

1 4 Wheat. 316 (1819).

2 *Briscoe* v. *Bank of Kentucky*, 11 Pet. 257 (1837); reaffirmed in *Darrington* v. *Bank of Alabama*, 13 How. 12 (1851), where the State was not only the sole stockholder but had pledged its faith for the ultimate redemption of the notes. *Poindexter* v. *Greenhow*, 114 U. S. 270 (1885), interest coupons attached to State bonds, although promises to pay money backed by the credit of the State, and receivable for taxes, not bills of credit.

3 *Veazie Bank* v. *Fenno*, 8 Wall. 533 (1869).

4 *McCulloch* v. *Maryland*, 4 Wheat. 316 1819); *Osborn* v. *United States Bank*, 9 Wheat. 738 (1824). For State authority to tax National Banks see *Revised Statutes*, sec. 5219 and *National Bank* v. *Anderson*, 269 U. S. 341 (1926).

5 *Weston* v. *Charleston*, 2 Pet. 449 (1829), *Bank of Commerce* v. *Commissioners*, 2 Black 620 (1862), *Bank Tax Case*, 2 Wall. 200 (1864), United States stock; *Bank* v. *Supervisors*, 7 Wall. 26 (1869) United States notes issued under Acts of 1862, 1863.

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Tomorrow's Markets Walter Whyte Says—

Increased margins doesn't feaze market. Present indications paradoxically point to advance and dullness at same time. New stocks recommended.

By WALTER WHYTE

The indications of coming strength discussed in last week's column were borne out in the action of the market during the past few days.

Oddly enough the Federal Reserve Board's raising of margin requirements from 40% to 50% had little effect on prices. If anything it seemed to stimulate some of them. Certainly last Saturday's activity had a great deal of pre-margin buying in it. One of the reasons the ruling didn't seem to make much difference was the fact that it didn't come as any surprise. Early in January intimations of such an increase were evident.

* * *

Actually, the change has had little practical effect on margins. For even if they went up 10% most of the buying is either for cash, or so close to cash, that to all intents and purposes, it's the same. Debits are comparatively small today. Back in 1929 when everybody and his bootblack was in the market debits amounted to almost $8,000,000,000. As of last Saturday member firm borrowings amounted to only $564,000,000. It is doubtful if this loan figure will go up much more. For if it does it is almost certain that margin requirements will go back on the Federal Reserve agenda.

* * *

The most important news in the offing is the decisions that will come out of the Roosevelt - Churchill - Stalin talks, now supposed to be underway in some yet unnamed spot. Although no one should be naive enough to imagine that the basic decisions made by the Big Three will become public news in the immediate or even the near future. The

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International Air Trade and Travel Routes of the Future

By L. WELCH POGUE*

Chairman, Civil Aeronautics Board

Leading Federal Aviation Official Discusses the Proposed International Air Routes of Which 20 Have Been Already Announced. Predicts Great Expansion in Future International Aviation Operations but States That It Has Not Been Decided Whether There Shall Be More Than One American Flag Carrier in the International Field or Whether There Shall Be Competition. Holds the Chicago Aviation Conference Accomplished Important Steps in Encouraging International Aviation and Predicts American Shipping Will Not Be Adversely Affected by Growth of International Aviation but May Be Benefited by the New Traffic Thereby Stimulated

I deeply appreciate the privilege of speaking to the New York Board of Trade. Your membership represents the active and vigorous business leadership of the very great city of New York. I prize the opportunity of discussing with so distinguished a group some plans and ideas relating to the future.

L. Welch Pogue

Sometime in the latter half of the '20's some men, fired with the courage of their convictions and willing to risk their money and careers in the establishment of commercial air service—a daring venture then—started in the Caribbean area our first small international air operation. From that nucleus grew, during the '30s, the very extensive system of American flag international air lines known as Pan American Airways. If we include the Pan American-Grace Airways, 50% of which is owned by Pan American and 50% by W. R. Grace & Co., the Pan American Airways System operated more route miles by far than the next largest international operator before the war. In 1940, American Export Airlines was authorized to operate a temporary service across the Atlantic, although its operations did not actually start until after the entry of the United States into the war.

Modern war called for air transport operations to serve theatres of war all over the world. The Air Transport Command was created in the War Department and grew to fill this need. It started with a small nucleus of personnel, many of whom were key officers and technical experts taken from the domestic air lines. And it had only a small number of transport aircraft, most of which were likewise taken from the domestic air lines. It wisely utilized, under contract, the "know-how" and the services of the air line organizations themselves. Intelligently directed, the Air Transport Command has expanded until it is operating approximately 125,000 miles of routes every day, carrying enormous numbers of passengers and millions upon millions of pounds of cargo annually. As of a recent date, the Air Transport Command was operating across the North Atlantic alone approximately 65 trips daily.

In addition, the Naval Air Transport Service has likewise built up a very extensive operation serving naval establishments throughout the world.

These two services, plus the limited amount of commercial transoceanic international service which could be continued during the war, have, in one of history's twinklings, transferred the prospect of transoceanic passenger travel very substantially from the surface to the air. There will, of course, be many pleasant sea voyages hereafter as heretofore; but for then man whose object is to get there, the war has proved the safety of the air and the superiority of air travel in time saved. And speaking of safety, have any of you stopped to think recently of how crazy you would have thought your neighbor had he, 10 years ago, prophesied that it would be safe within a decade to cross the Atlantic by air? While

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*An address at the First International Aviation Luncheon sponsored by the Aviation Section, New York Board of Trade, New York City, Jan. 24, 1945.

Railroad Securities

Even in these days of rehabilitated railroad credit it is unusual to see an operation refunding the entire bonded debt of an individual road at one time. Two such operations are scheduled for this month. The first, Wabash which presumably will have been completed by the time this article appears, is not so noteworthy inasmuch as the road has recently been reorganized and emerged with only one series of one mortgage. The other, Pere Marquette, scheduled for later in month, is noteworthy in that only a few years ago the road was among the suspect of the so-called marginal roads. Ability at this time to contemplate such a comprehensive program is a testimony not only to he generally better investment feeling towards railroads in general, but also to the outstanding progress made by the Pere Marquette management in putting its financial house in order.

The company embarked on a debt retirement program early in 1942 and by the end of 1944 had reduced the 1st mortgage bonds outstanding (the only non-equipment debt of the company) by $12,067,665 to $52,467,335. In the refunding it is proposed to reduce this further to $50,000,000, a total reduction of more than 22%. Fixed charges will naturally show an even wider drop in line with the lower coupon rate anticipated for the new refunding issue.

On completion of the refunding it is believed likely that annual fixed charges will be below $2,100,000. Ten years ago, when the road was not nearly so well situated physically and, therefore, not so inherently efficient, fixed charges were in excess of $3,500,000. With the rehabilitation work that has been accomplished in intervening years, and with abandonment of unprofitable mileage, rail men express confidence that these reduced charges should be covered by a good margin even if there should be a return to severe depression conditions. It is also pointed out that the road's depreciation charges for equipment (exclusive of amortization of defense projects) consistently run close of $2,400,000, or about $1,100,000 in excess of the present rate of annual equipment trust principal maturities. Roadway depreciation runs close to $500,000 a year. Thus, a substantial additional cushion is afforded.

Naturally, the improvement in the road's credit implicit in the present refunding plans has stimulated speculative interest in the company's stocks, particularly the prior preference and preferred shares. Both of these $100 par 5% stocks are cumulative and holders have gone for a considerable period without income return. As of the beginning of this year there were arrears of $36.25 a share, or a total of $4,060,000 on the 112,000 shares of prior preference outstanding. Arrears on the preferred stock amount to $67.50 a share, or a total of $8,389,575 on the 124,290 shares of stock outstanding. It is interesting to note that the total of dividend arrears on both classes of stock is just about equal to the amount the company has spent on non-equipment debt retirement since the beginning of 1942, including the bonds to be retired as part of the refunding.

Certainly no one can claim that the money was not better spent on debt retirement than if the company had cleared up the dividends on the stocks. From now on, however, it seems likely that more direct benefits will go to holders of the two senior equities. The problem of maturities is being eliminated and what further debt retirement is considered necessary or desirable should be covered by the sinking fund provisions of the new bond issue. There will be a fixed sinking fund of $500,000 a year, plus a sinking fund contingent on earnings equivalent to interest on bonds theretofore retired by the sinking fund. This latter will be cumulative even when not earned. Theoretically, and naturally depending to some extent on the coupon rate of the new bonds, the sinking fund is designed to retire some 60% of the issue by maturity.

With debt well provided for and financial position more than adequate, there is no reason for surprise that holders of at least the prior preference stocks are looking forward to reasonably early dividend action. Earnings last year amounted to close to $27 a share and should be higher this year, influenced by lower fixed charges and the tax credits involved in calling its present bonds for redemption. Obviously, it would not take too long at this rate of earnings to clear up the arrears completely.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of the late Edward S. Moore to Francis H. Bedell will be considered by the Exchange on Feb. 15. Mr. Bedell will continue as a partner in Parrish & Co.

Thomas J. Brady retired from partnership in Vernon C. Brown & Co. on Feb. 3.

Real Estate Securities

News of Various Issues

We Hear That:

Ludwig Baumann & Co. have called for payment at par and interest to Feb. 15, 1945, all of its first mortgage bonds now outstanding, secured by its warehouse in Long Island City, N. Y. Bonds should be presented to The Continental Bank & Trust Co., 30 Broad Street, New York City.

Sherneth Corporation (Sherry-Netherlands Hotel, New York City) has announced that earnings for the six months' period ended Dec. 31, 1944, were sufficient to permit payment of 2¾% interest March 1, 1945, on the outstanding $5,736,200 first mortgage income bonds and to provide $69,000 for the sinking fund for purchase and retirement of bonds. This is an increase over the previous six months' period which provided for 2% interest and a sinking fund of $32,000.

Broadway Motors Building Corp. has provided the Trustee with $57,630.89 to be used as a sinking fund for retirement of bonds, tenders to be accepted up to 3 p.m. Feb. 19, 1945. This amount represents the unexpended portion of the $106,816.41 allocated from 1944 earnings. The original $6,000,000 issue on this property (General Motors Building, New York City) had been reduced to $3,154,000 as of Dec. 31, 1944. The present sinking fund operation will further reduce the issue. Future annual sinking funds should sizably increase as about $50,000 was allocated from 1944 earnings to service second mortgage 3% bonds which after the application of these bonds will be reduced to $8,000. The 1945 sinking fund should be increased by this difference. As ground rent is also reduced $50,000 annually as of Nov. 1, 1945, annual sinking funds may easily exceed $200,000.

New York Chamber of Commerce Opposes Repeal of Johnson Act

By Vote of 54 to 47, Many Members Not Voting, Organization Refused to Approve Report of Its Committee on Finance and Industry Which Recommended Repeal of Law Forbidding the Flotation of Loans of Foreign Governments in Default. Capt. John B. Trevor Delivers Spirited Address Opposing the Report. Chamber Passes Resolution Opposing Legislation Which "Dictates to Any Employer in Private Enterprise Whom He Shall Employ."

The Chamber of Commerce of the State of New York at its monthly meeting on Feb. 1 at 65 Liberty Street went on record as opposed to the repeal of the Johnson Act forbidding the flotation in this country of loans to foreign governments in default on their debts to the United States.

The action was taken following the introduction of a report presented by James G. Blaine, Chairman of the Committee on Finance and Currency, which urged repeal of the Johnson Act on the ground that "a large expansion of foreign commerce through regular commercial and banking channels under a private competitive system" was necessary for reasonably full post-war employment and prosperity.

Capt. John B. Trevor, Chairman of the Committee on Immigration and Naturalization, led a spirited fight against the adoption of the report. His proposal to refer the report back to committee was carried by a vote of 54 to 47, with many members refraining from voting. Speaking against the report, Capt. Trevor said:

"The essence of this resolution is advocacy of a program to refinance bankrupt nations. In my opinion it cannot be honestly asserted that these bankrupt nations offer any better possibilities of paying future debts than they did for those on which they have defaulted. On the contrary, a fair estimate of their capability of meeting future obligations would be that their economic condition is far worse than ever before in their history. There is possibly one nation which should be excepted from this statement. That is Soviet Russia. Prior to the outbreak of this war Soviet Russia owed us $438,000,000, which she persistently and consistently declined to pay. The total amount of defaults on debts incurred prior to the present war, as of July 1, 1944, is over $14,000,000,000. This figure relates solely to European nations. You will observe that I do not include $28,000,000,000 advanced to our bankrupt creditors under the Lend-Lease Act because the major part of that staggering total is neither lent nor leased, but obviously an irrecoverable gift.

"It is said in the report of the committee that the reason for the failure of these bankrupt nations to meet their obligations was 'not because of the inability of borrowers to provide funds for the contractual debt service, but rather owing to their inability to transfer such funds into the currencies of their creditors, due to the new conditions affecting world trade and finance.'

"That statement is far too broad, Mr. President. It is not substantiated by a statistical analysis of our international financial operations. Statistical data published recently by the National City Bank shows that during the period 1931-1939, foreign creditor nations had available in the United States for the payment of their debts a sum of $6,200,000,000. These nations, however, preferred to see this

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Weissman Publishes Economic Program For Small Business

SEC Official, in New Book, Proposes a Scheme to Raise Venture Capital. Would Have Commercial Banks Organize Regional Institutions, Supervised by Federal Reserve, to Buy Equity Securities.

Rudolph L. Weissman, on the staff of the Securities and Exchange Commission, has just published, through Harper & Brothers, a book of 173 pages, entitled "Small Business and Venture Capital, An Economic Program," in which he reviews the problems of small business financing, the relation of small business to the survival of democracy, and the various proposals that have been put forth to aid in the establishment and preservation of small and medium sized independent business concerns. The views expressed by Mr. Weissman are his own, and he states in his preface that the Securities and Exchange Commission "has no responsibility for the writing of the book, nor are the views endorsed therein necessarily endorsed by it."

Rudolph L. Weissman

Mr. Weissman, who has already written several volumes relating to the Federal Reserve System, Wall Street and similar subjects, pictures the position of "small business" (i. e. concerns with capital ranging from $50,000 to $5,000,000) as a desperate one, due largely to inability to obtain "venture capital" from outside sources. He defines venture capital as "risk capital" represented by common and preferred stock. He reviews the discussions of the problem, as considered by the Macmillan Committee in Great Britain in 1931; by the Temporary National Economic Committee in 1938; by the National Resources Planning Board, the Reconstruction Finance Corporation; the Smaller War Plants Corporation, and other Government agencies, as well as the efforts of such men as Senator James M. Mead and Dr. Charles L. Merwin. He sifts their proposals and points out the defects and advantages. He holds that the SEC regulation requirements are in no way responsible for the inability of small and medium sized concerns to float stock issues for public subscription, reverting to the investigation which showed that of total security flotation costs of $14 per $100 of capital to small concerns, the registration expense was but a small fraction, but he admits on page 62 that "full disclosure requirements and the sanctions imposed by the Securities Act of 1933 have not been without influence."

Mr. Weissman's own solution, which he says offers "a realistic and practical approach to the problem of small business" is expressed by him as follows:

"It is proposed that the commercial member banks of the Federal Reserve System incorporate and have title to the stock of the organization to be called the Federal Reserve Investment Corporation. Since its purpose will be investment in industry, it is further proposed that the banks in the Central Reserve and Reserve cities furnish the capital. The principle adopted is exactly the same as that employed in the formation of the Federal Reserve System. Each bank will purchase stock in the new corporation according to the amount of its total assets or capital and surplus.

"The Federal Reserve Investment Corporation should be set up along regional lines, following the geographic location of the Federal Reserve banks and their branches, so that there would be twelve districts and as many branches, so that there would be necessary. The Board of Governors of the Federal Reserve System is to exercise general supervisory authority, and fix the general rules and regulations regarding the principles to be followed in making investments, framing procedure, etc. The regional officers are to be autonomous to the greatest degree possible, subject to the general guidance of the Board of Governors. These of-

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Geo. Bovenizer Heads Inv. Bankers Div. of Legal Aid Appeal

George W. Bovenizer, a partner of Kuhn, Loeb & Co., has accepted the chairmanship of the Investment Bankers' Division of The Legal Aid Society 1945 Appeal, which is scheduled to open officially with the annual meeting of the Society on Feb. 28.

G. W. Bovenizer

The goal of the appeal this year is $160,000. This amount is needed to meet the expenses of the Society in supplying legal advice and representation in court, when necessary, to New York residents with legal problems who cannot afford to pay an attorney. A permanent staff of 22 salaried attorneys at its headquarters, at 11 Park Place, and at its Criminal Branch in the Criminal Courts Building, handle the cases of more than 30,000 persons each year who apply for legal assistance.

The War has greatly increased the work of the Society as during the last two years more than 16,000 soldiers and sailors and their dependents have applied to the Society for help in straightening out their legal problems, largely induced by war conditions. These cases are handled without question of the Service man's ability to engage an attorney. The importance to morale in the Armed Forces of settling the legal troubles of Service men and women is recognized by both the Army and the Navy which have set up Legal Assistance Offices wherever troops are stationed. The Legal Aid Society has been designated as an official Legal Assistance Office for New York and vicinity. In that capacity it handles not only cases of local origin but matters affecting members of the Armed Forces from New York City are referred to it from all parts of the United States and even from overseas.

The 1945 Appeal Committee is headed by Irving S. Olds, Chairman of the Board of the United States Steel Corporation. Chairmen for the various commerce and industry divisions into which the committee will be divided are now being selected.

The Treatment of Capital Gains And Losses

(Continued from page 618)

ing a gain in a single year bunches in that year income that has accrued over a longer period. So the tax is higher than it would have been if the gain had been taxed bit by bit as it grew. A highly progressive rate structure and high rates emphasize this inequity. It is no more than fair that the tax on a gain when realized should approximate a year-by-year tax as the gain accrued.

However, this reasoning is only partially sound. It is based on the premise that gains do accrue ratably over the period of ownership of an asset. But that is not always true. It may be true of an evenly developing real estate gain, or a stock gain arising from the steady accumulation of profits in a corporation. It is not true of a real estate gain that arises from a sudden community boom or that stems fortuitously from some local improvement. It would not be true of many stock gains which reflect expectations of enhanced future profits.

Nevertheless, it is probably true that a large proportion of capital gains do accrued gradually, if not evenly, over the period of ownership, and there is much rough justice in extending to them a tax treatment which avoids the effect of an artificial concentration of taxable income in one year. The 1934 Revenue Act applied this theory. It provided for taxing capital gains according to the length of time the assets had been owned; the longer the period, the lower the tax. No special treatment was available until an asset had been held over a year. Whatever its faults, this provision had much in its favor from the standpoint of equity.

Another argument for special treatment, frequently advanced, is more vulnerable. The contention is that capital gains merely reflect a general rise in the price level, so there is no real increment at all in terms of purchasing power. They may be no more than a manifestation of inflation. Therefore, say the advocates of special treatment, capital gains are illusory.

But the fact remains that price fluctuations affect all kinds of income. Higher wages may not represent any increase in a man's ability to pay taxes, if the cost of living has kept pace with the wage rise. No tax law can do absolute justice all along the line in an economy of shifting dollar purchasing power.

The impossibility of doing absolute justice is not a valid reason for failing to do justice that can be done. A perfectionist is a dangerous man in the tax world, which is full of things that need to be done as well as they can be done. War conditions have accentuated a problem which was with us before the war, but which now recurs too frequently to be neglected any longer. I want to give you a simple case history. In 1913, Mr. Smith came to Washington to work for the Government. He bought a house for $5,000. In 1943, after he had devoted 30 years to Government service, he was ordered to Chicago. He sold his house for $15,000 and moved his family. Plainly he had a capital gain of $10,000. But Mr. Smith was spoiled; he liked to own his home; moreover, in Chicago he could find no apartment at a reasonable rental. So he bought another house. It was no better than the one he had sold in Washington, but it cost him $15,000, exactly the amount he had received for his Washington house.

The amount he had received, yes. But not the amount he had left in his pocket. The Treasury had part of the first $15,000 and Mr. Smith had to dip into his savings to pay for the second house.

Mr. Smith's tax lawyer told him he had no recourse. But if Mr. Smith had been in business and his house had been a ship which was requisitioned by the Government for $15,000, the advice would have been different. Then he would have had an "involuntary conversion" and he could have established a fund with the first $15,000 to replace the ship. Then he would have had no taxable gain, and the $15,000 would have been in his pocket and available to buy the second ship.

In practical fact, Mr. Smith had an involuntary conversion. He had no choice but to go to Chicago. It is hard to see why he should not enjoy the financial position in Chicago that he did in Washington.

There are thousands of Mr. Smiths in Government and in business. Never were business conditions so chaotic as today, and never was so much geographical shifting of personnel required both by business and Government. If Mr. Smith were politically-minded, he could make a strong case for tax relief. He has had no increase in the type of wealth which gives him ability to pay taxes. But he is just an ordinary citizen, not an oil company, or a lumber owner, or a commercial air line, or the owner of a natural gas pipe line. So he takes his medicine. But the income tax is not popular in that house in Chicago. Mr. Smith might pay his other taxes more willingly if he thought he had been fairly treated.

Of all the reasons urged for eliminating or reducing the capital gains tax, the lamest is that we should emulate the British. It is true that the British tax gains from transactions that are part of the taxpayer's regular business at regular rates. But the British situation differs fundamentally from ours. Transactions which are not part of a taxpayer's regular business are relatively less important in Great Britain than they are here. But, even more significant, the British system permits serious tax avoidance, and for that reason it has been condemned by British tax authorities.

The theory is frequently voiced that profits realized over a period of time from investment in securities or property should not be taxed in the ordinary way because it would have a deterrent effect on risk capital. So, it is urged, the capital gains rate should be lowered, or the tax eliminated, as an incentive to business. Critics insist that the tax has a "chilling effect" and "checks risk taking," that its repeal would free "venture capital." Some even go so far as to say that the elimination of the tax would stop depressions.

They further argue that revenue would be increased by repeal or reduction of the tax, since market activity would be stimulated by removing a barrier to selling. The idea is that the tax inhibits selling, especially in the case of older investors who will be able at death to pass on their gains tax free. Congressional committees have been wooed with extravagant estimates of increased yield. These claims, however, over-simplify the problem. No one will deny that the capital gains tax has a regulatory effect. That is true of any tax. But many factors determine the yield of a tax on capital gains: the level of the market, anticipation of future prices and future taxes, the cost of assets in the hands of the holders, the distribution of assets by income brackets, and the extent to which individuals holding assets with gains also hold assets with losses. The method of taxing capital gains is only one of many factors affecting the amount of gains realized. Variations in capital gains revenue have been determined primarily by changes in stock prices rather than by changes in tax methods. Furthermore, the elimination of the capital gains tax would not stop depressions. We had depressions before we had the tax. England does not have the tax and it has depressions.

We must also distinguish between long-run and short-run revenue effects, and between the direct yield from the capital gains tax and its indirect effects. The tax is designed not only to raise revenue directly, but also to prevent the avoidance of other taxes. Other income can be converted into capital gains in many ways as, for example, by allowing profits to remain in corporations. Section 102 of the Internal Revenue Code, which is designed to prevent avoidance of individual income taxes by the accumulation of corporate surpluses, is not adequate to prevent this avoidance.

Finally, we should know who realizes most capital gains. About 80% of capital gains come from stock market operations, and a slightly smaller percentage of losses. In 1939, a fairly typical year capital gains constituted less than 1% of the net income reported by individuals with incomes under $5,000, less than 3% of the net income of persons with incomes between $5,000 and $25,000, and 96% of the tax came from persons with incomes over $25,000.

The distribution of capital gains is preponderantly to the high incomes. The income class from $100,000 to $1,000,000, for example, reported in 1938 only 2.5% of aggregate net income, but it reported 33% of capital gains. It is plain to see that a more favorable treatment of capital gains would benefit only a small high income group.

Arguments for special treatment of capital gains, based on the premise that concessions in this direction would stimulate business activity, fail to face the choices before us. Practically every tax has some effect on the willingness of investors to risk their capital in hazardous enterprises. High surtaxes have that effect. So do corporate taxes. But what are the alternatives? Merely a choice of evils. We cannot renounce all taxes because they reduce business activity. That would be jumping from the frying pan into the fire.

And what of capital losses? Existing law limits the right to deduct losses in various ways. Some taxpayers think that the Government is guilty of sharp practice in taxing their gains in full and refusing to give the same full consideration to their losses. If capital gains were taxed in full, there would be no justification for any such limitation. But the favored treatment of capital gains, plus the fact that the timing of both gains and losses is largely an option of the tax payer, affords considerable justification on grounds of equity.

However, the problem goes beyond strictly equitable considerations. The question of risk-taking is relevant. As things are now, the extent to which investors may use the limited loss provisions of the statute depends primarily upon the availability of other income. Obviously, the positions of taxpayers differ widely in this respect. There are discriminations between large and small investors; large investors are more likely to have other income against which to offset losses. Inequities of this type increase economic concentration and tend to lower the volume of new investment. It is worth serious consideration whether the gain to the economy to be derived from increased risk-taking would not be worth more than the revenue loss involved in some reasonable averaging devices, the extension of the carry-forward period for losses, and a less discriminatory treatment of capital losses. Such provisions would, however, take away much of the existing justification of special treatment for capital gains. They would leave untouched the justification inherent in the argument that capital gains are "bunched" in a single year, and perhaps the argument (applicable only to stock transactions) that a differential rate is justified by the corporate tax.

The post-war tax plan of the Committee for Economic Development advocates the full taxation of capital gains and the full deduction of capital losses until a time when corporate and personal income taxes have been substantially reduced and the averaging of income is permitted. For the present, like the Ruml-Sonne plan, the CED recommends a retention of the present differential treatment. The CEC also recommends that capital gains and losses should be recognized at transfer by gift or at death. The Twin Cities Tax Plan, on the other hand, would reduce the tax on capital gains to 12½%.

A short time ago I remember hearing over the radio the words: "It's time for a change." I think it is time for a change—for another kind of change—a change of emphasis. Capital gains are, after all, only one small sector of our tax front. Instead of tinkering with the treatment of capital gains, let's take a longer and broader view. Our future taxes will have an important bearing upon the post-war economy and our national well-being. A sound over-all system will help toward full employment and prosperity. Let's go after a post-war tax system that will produce capital gains instead of capital losses. Let's keep our eyes on that ball. Then taxes will take care of themselves.

Results Of Treasury Bill Offering

The Secretary of the Treasury announced on Feb. 6 that the tenders of $1,300,000,000 or thereabouts, of 91-day Treasury bills to be dated Feb. 8 and to mature May 10, 1945, which were offered on Jan. 26, were opened at the Federal Reserve Banks on Feb. 5.

The details of this issue are as follows:

Total applied for $2,027,564,000.

Total accepted, $1,309,856,000 (includes $57,191,000 entered on a fixed price basis at 99.905 and accepted in full).

Average price 99.905, equivalent rate of discount approximately 0.375% per annum.

Range of accepted competitive bids:

High, 99.910, equivalent rate of discount approximately 0.356% per annum.

Low, 99.905, equivalent rate of discount approximately 0.376% per annum.

(59% of the amount bid for at the low price was accepted.)

There was a maturity of a similar issue of bills on Feb. 8 in the amount of $1,314,251,000.

Chicago Brevities

Reports that Marshall Field & Co. was planning to refinance its two issues of outstanding 6% preferred stock were confirmed with the announcement by Hughston M. McBain, President, that a special meeting of Field stockholders was being called for Feb. 26 to vote on a proposed plan to replace the outstanding preferred with a new issue carrying a lower dividend rate. While the dividend rate will depend on conditions existing at the time the new stock is issued, it is presently expected that it will be 4¼%.

The present preferred will be exchanged for the new stock on a share for share basis and in addition, holders of the present preferred will receive a cash payment equal to the difference between the redemption price of the 6% stock and the sale price of the new preferred to the public. A cash adjustment will be made for dividends accrued to the date of the exchange. Unexchanged shares will be offered to the public at a price to be determined immeditely prior to the making of the exchange. Glore, Forgan & Co. and Lee Higginson Corp. will head the underwriting group.

Shares of present preferred stock not exchanged for the new preferred will be redeemed and canceled. The outstanding preferred consists of a 6% cumulative preferred issue, callable at $110 a share, and a second series 6%, callable at $105.

* * *

Cudahy Packing Co. appears a likely prospect for equity refinancing although management sources declare that no steps are being contemplated in the near future to redeem or replace the present 6 and 7% preferred issues, of which 20,000 and 65,000 shares, respectively, are outstanding. Arrears on the preferred were cleared up two years ago.

The 7% preferred, which is listed on the Chicago Stock Exchange, is currently selling around its redemption price of $105 a share.

During the fiscal year ended Oct. 28, 1944, Cudahy reduced its total funded debt by $3,945,000 through a refunding operation and maturities were extended approximately 10 years at a lower interest rate, which will result in an annual savings of $219,000 in fixed charges over the life of the old bonds and debentures, which were retired.

It is fairly safe to assume that the company will make every effort to further improve its financial position to enable it better to meet post-war contingencies as well as post-war plans for expansion.

Chicago Corporation recently sold its entire holdings of 9,000 shares of City National Bank & Trust Co. and 100,000 shares of its holdings of Middle West Corporation. While proceeds from the sale of the latter were not disclosed, the corporation realized approximately $1,750,000 from the sale of City National, which it purchased originally at 130 and sold at around 195.

Chicago Corporation, which has been gradually withdrawing from the general market securities business, will use proceeds of the sales to cover the acquisition of additional gas and oil properties already made as well as other commitments in this field. The latest purchase reported was that made last December of 18,000 acres of proven gas fields in Texas.

* * *

A decision is shortly expected on Utah Radio Products' appeal of the $800,000 renegotiation refund to the government for 1943 and it is possible may be handed down before publication of this issue. Regardless of the outcome, earnings for 1944 are expected to be substantially in excess of the $1.38 a share reported for 1943.

* * *

Officers and directors of McWilliams Dredging Co. were impelled to issue a statement to scotch rumors that company was planning liquidation. The reports were circulated as a result of the sale by the company of a substantial amount of equipment to the government.

* * *

Goldblatt Brothers, Inc., completed the retirement of a $3,500,000 term loan from the First National Bank of Chicago with payment of the balance of $934,000 last week. The payment anticipated maturity by three years. Final instalment of the 4½% loan, which was negotiated in 1940, was not due until 1948.

* * *

An offer of $88,000,000 by the City of Chicago for the surface and elevated lines was indicated in a synopsis of a proposed municipal ownership ordinance presented to the City Council's subcommittee on municipal traction ownership by Philip Harrington, City Commissioner of subways and superhighways, last week. The city originally offered $85,500,000 for the lines.

The new plan would be submitted directly to security holders rather than through the various bondholders' committees, the synopsis emphasized.

* * *

March 1 has been set as the date for signing of the final decree in the reorganization of the Chicago and North Western Railroad which has been in reorganization for the past 10 years.

The reorganization plan was approved two years ago and securities and other property were turned over to the new corporation on May 30, 1944.

Kenneth W. Burgess, attorney for reorganization managers, stated that this was the first large railroad reorganized under the Railroad Reorganization Act as amended in 1935.

Philadelphia S. E. Ees Nominations

The Committee on Elections of the Philadelphia Stock Exchange has reported the following nominations for officers:

President—Edgar Scott, Montgomery, Scott & Co.

Board of Governors—Frank E. Baker, Baker, Weeks & Harden; Richard L. Fox, Moyer & Co.; H. Gates Lloyd, Drexel & Co.; Harry MacDonald, Bioren & Co.; George E. Nehrbas, Parrish & Co.; Samuel K. Phillips, Samuel K. Phillips & Co.; and Frederick P. Ristine, F. P. Ristine & Co.

The Annual Election will be held at the Exchange on Monday, March 5, between 9 a. m. and 12 noon.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

American Bantam Car and Panama Coco-Cola—circulars on these situations—**Hoit, Rose & Troster,** 74 Trinity Place, New York 6, N. Y.

Billings & Spencer—memorandum—**Herzog & Co.,** 170 Broadway, New York 7, N. Y.

Boston & Maine Income 4½s of 1970—memorandum on potentialities—**McLaughlin, Baird & Reuss,** 1 Wall Street, New York 5, N. Y.

Boston & Providence Railroad—descriptive circular—**Adams & Peck,** 63 Wall Street, New York 5, N. Y.

Central Iron & Steel—bulletin on recent developments—**Lerner & Co.,** 10 Post Office Square, Boston 9, Mass.

Central Soya and Gruen Watch—discussion of possibilities—**Buckley Brothers,** 1529 Walnut Street, Philadelphia 2, Pa.

Chicago North Shore and Milwaukee Railroad—Analysis of equities and earnings available—**Brailsford & Co.,** 208 South La Salle Street, Chicago 4, Ill.

"Confident Year"—Bulletin on the outlook for eight vital industries, reviews thirty-four securities—**Strauss Bros.,** 32 Broadway, New York 4, N. Y.

A. De Pinna Co.—current and future possibilities—**Herrick, Waddell & Co., Inc.,** 55 Liberty Street, New York 5, N. Y.

"Dynamic Economics"—preparation of demand studies—**Econometric Institute, Inc.,** 500 Fifth Avenue, New York City—$5.00 per copy.

Fashion Park, Inc.—post-war outlook—**Simons, Linburn & Co.,** 25 Broad Street, New York 4, N. Y.

Fire and Casualty Companies, comparative tabulation of 82 companies—**Mackubin, Legg & Co.,** Redwood & Light Streets, Baltimore 3, Md.

Foundation Co.—recent developments—**J. F. Reilly & Co.,** 111 Broadway, New York 6, N. Y.

Investment Planning for 1945—Some suggested issues for the intermediate and longer term—**Thomson & McKinnon,** 231 South La Salle Street, Chicago 4, Ill.

Grinnell Corporation—post-war prospects and current position—**Amott, Baker & Co., Inc.,** 150 Broadway, New York 7, N. Y.

Indiana Gas & Chemical—late memorandum—**First of New York Corporaton,** 70 Pine Street, New York 5, N. Y.

Interstate Aircraft & Engineering Co.—Present and prospective possibilities—**Hirsch & Co.,** 25 Broad Street, New York 4, N. Y.

Jet Propulsion, what it is, and certain concerns understood to be engaged in manufacture of these engines—**Harris, Upham & Co.,** 14 Wall Street, New York 5, N. Y.

Long Bell Lumber Company—memo discussing enviable postwar outlook and earnings possibilities—**Comstock & Co.,** 231 South La Salle Street, Chicago 4, Ill.

P. R. Mallory & Co., Inc.—analytical discussion—**Steiner, Rouse & Co.,** 25 Broad Street, New York 4, N. Y.

National Gas & Electric Corporation—report on position and outlook—**Peter Morgan & Co.,** 31 Nassau Street, New York 5, N. Y.

New Bedford Rayon Company—comparative earnings figures—**F. H. Keller & Co., Inc.,** 111 Broadway, New York 6, N. Y.

New York Bank Stocks—comparative analysis and significant ratios for eighteen stocks in 1944

(Continued on page 639)

Lowell Niebuhr With Leason & Co. in Cgo.

CHICAGO, ILL.—Leason & Co., Inc., 139 South La Salle Street, announce that Lowell Niebuhr, formerly of Lowell Niebuhr & Co., Inc., has joined their organization and will specialize in trading over-the-counter markets with dealers in investment Trust, Industrial, Public Utility and Real Estate stocks and bonds.

As of February fifth Mr. Niebuhr terminated business activities under his own firm name.

Mr. Niebuhr, who is a graduate of Northwestern University, started in the investment business twenty-five years ago. After completing service as a Lieutenant of Infantry in World War I he began his career with the National City Co. Subsequently he was Vice-President of Leight & Co., Vice- President of Robert M. Markwell & Co. and headed Lowell Niebuhr & Co., Inc. from 1936 to the present time.

O'Brien Adds Rodgers

CHICAGO, ILL. — John J. O'Brien & Co., 231 So. La Salle St., members of the Chicago Stock Exchange, announces that George E. Rodgers has become associated with the firm.

Dennis D. Donnellan Brevetted on Field

The story is being told in Chicago of how 1st Lt. Dennis D. Donnellan, 25, son of Mrs. Stephen Donnellan, 5945 Princeton Ave., won promotion to his new rank recently while serving in the Medical Administrative Corps of the American Ninth Army.

Donnellan's advancement to a 1st lieutenancy came on the field of battle after his unit had been cut off in a disputed town where American and German patrols engaged in street fighting.

The Chicagoan, who was acting as a liaison officer for his medical detachment, seized a jeep, ran it through an intense enemy barrage and summoned reinforcements. For this action he was brevetted on the field.

Before entering the Army in July, 1941, young Donnellan was employed in the Chicago office of the "Commercial & Financial Chronicle."

A sister, Elizabeth, is assistant field director of the Red Cross in France; a brother, Stephen, is a Pfc. in the ground forces of the Army Air Corps.

Wisconsin Brevities

By order of the United States District Court for the District of Minnesota, Fourth Division, dated Jan. 13, 1945, E. A. Whitman and Edgar F. Zelle, trustees of the property of the Wisconsin Central Railway, were authorized and directed to pay the interest coupons matured Jan. 1, 1938 and July 1, 1938 on 1st gen. mtge. 50-year 4% gold bonds due July 1, 1949; which order contains a provision that, upon surrender of such coupons and receipt of payment thereof at the face amount, the holders of such coupons are barred from any further claim upon or in connection with or arising out of the possession or ownership of the coupons so paid. In accordance with the provisions of such order, the trustees transmitted funds for the payment of such coupons on February 5 to the Bank of Montreal, 64 Wall St., New York 5, N. Y.

The trustees of the Wisconsin Central Railway recently asked the Interstate Commerce Commission to defer for the present hearings on the plan of reorganization which was filed in December by the protective committee for the first general mortgage bonds.

The trustees told the Commission they believed considerable time and expense could be saved if they were given further opportunity to study the pending plan and to canvass possibilities of agreement and compromise on all pending controversies. The trustees were directed by the court in December to formulate a plan of their own for the road.

A net profit of $307,966 after all deductions for the quarterly period ending Dec. 31, 1944, is reported by the Outboard, Marine & Manufacturing Co., which has its Evinrude Motors division in Milwaukee. This is equal to $1.04 per share on the 297,018 capital shares outstanding and compares with the 1943 profit for the same period of $288,630 or 97 cents per share.

Net sales in the 1944 period totaled $8,073,068, compared with $7,236,659 for the same period in 1943.

Deductions included $1,489,000 for taxes, compared with $1,165,500 for the 1943 period, and $175,000, as a special reserve for contingencies, including renegotiation of war contracts and conversion and readjustments for civilian production as against $150,000 for the 1943 quarter.

Rae F. Bell, former First Vice-President, has been elected Chairman of the board of directors of the A. O. Smith Corp. to succeed the late L. R. Smith. Anthony von Wening, formerly a Vice-President of the Continental Illinois National Bank & Trust Co., of Chicago, who joined the A. O. Smith Corp. in 1940, has been elected Vice-President and Controller.

Other officers were re-elected as follows: W. C. Heath, President; John M. Floyd, Vice-President in charge of manufacturing; R. Furrer, Vice-President in charge of engineering and J. J. Stamm, Secretary and Treasurer.

The Allis-Chalmers Manufacturing Co., according to data filed with the SEC, has reduced outstanding borrowings under its V-loan agreement with 22 banks from $75,000,000 to $40,000,000 by pre-payment of $35,000,000 of notes due on Aug. 10, 1946.

The company has declared a regular quarterly dividend of $1 per share on its $4 preferred stock payable March 5 to holders of record February 13.

Commodity Exchange Re-elects Weld Pres.

Philip B. Weld of Harris, Upham & Co. was re-elected for a third term as President of Commodity Exchange, Inc., on Jan. 31. Floyd Y. Keeler of Orvis Brothers & Company was re-elected Treasurer. The Vice-Presidents elected were Richard F. Teichgraeber, Milton R. Katzenberg, Paolino Gerli, and Louis V. Keeler.

At the annual election of members of Commodity Exchange, Inc. the following Governors were elected to represent the various groups of the Exchange: Commission House Group, Floyd Y. Keeler and Philip B. Weld; the Hide Group, Milton R. Katzenberg and Albert O. Trostel, Jr.; the Silk Group, Alexander D. Walker and Nathan Lewis; Metal Group, Ivan Reitler and Hans A. Vogelstein; Rubber Group, Aage Bendixsen and Nathan W. Diamond, and the Non-Trade Group, Kuo G. Li.

The Economic and Political Consequences Of Lord Keynes' Theories

(Continued from first page)

is manifestly pursuing political and social aims, and its success would jeopardize our essential liberties.

What are the exceptional virtues or serious defects of the gold standard that it should arouse so much praise and such bitter opposition? If the gold standard had only defects inherent to any man-made instrument or mechanism, we could hardly explain the struggle led at present by some English groups against the gold standard, since the British Empire is one of the greatest gold producers and since it is indispensable to her in order to balance her international accounts. If the gold standard did not have anti-totalitarian and pro-democratic virtues, the Nazis would not be conducting a campaign against gold which they haven't ceased even during the war.

Respect for gold as money is not due to the color and the odor of the metal nor is it merely a barbarous relic as Lord Keynes has been trying to make us believe since 1923. No impartial and objective individual will dispute the faults of the gold standard, but its virtues are so exceptional, that did it not exist, it would have to be invented. We would be wiser not to renounce the instruments which mysterious and providential nature has put at our disposal until human beings prove by their behavior that it is advisable to do without some automatic controls over the stupidity, folly, and selfishness of men. The more we contemplate the actions of men, the more we are convinced that they are their own worst enemies. Isn't it preposterous that "liberals" whose devotion to liberty is sincere and profound, preach, at the same time, a social and economic policy which would lead inevitably to totalitarianism? Isn't it also surprising that the champions of private enterprise and economic liberalism adopt an uncompromising conservative attitude with regard to social and political problems, which lacks foresight and the necessary flexibility to assure its orderly evolution and thereby, its conservation?

Gold—Instrument of International Cooperation

Regardless of what its slanderers may say, the gold standard has served the cause of peace and has been an admirable instrument of international cooperation. It has coordinated the movements of prices in the different countries and it has thus unified the international monetary system. It is thanks to the gold standard that the good functioning of the international monetary system has been spared the evil influences of the doctrine of national sovereignty. It is the gold standard which has made possible the expansion of international commerce and the distribution throughout the world of the benefits that are derived from the international division of labor. It is gold and its general acceptance which permits each individual to buy what he wants and to sell the fruit of his labor any place in the world, thereby spreading the benefits of competition. It is gold which assures the individual his independence and which is the best shield of the small states against the arbitrariness of the large ones. Contrary to what a superficial judgment would indicate, gold and the gold standard are not the weapons of oppression of the well-to-do, but rather the weapons of defense of the weak and the disinherited. It is the stability of gold, its general acceptance and its liberty of movement which have made possible the development of backward countries by the savings of the capitalist world (which means privations and individual risks!). It is gold, to sum up, which has been the best weapon against economic nationalism and its dangers. It is not merely by chance that Lord Keynes wrote in 1932 in the American publication Foreign Affairs, an article entitled, "National Self - Sufficiency," in which he stated his hatred and his contempt for the system of "laissez-faire" and gave his reasons for favoring economic nationalism. There is a direct relation between his contempt for gold and his dislike of economic internationalism. Just imagine the obstacles to trade between nations if, deprived of an international money, prices in the different countries were free to move according to domestic contingencies, resulting thereby in disparities that could be corrected only by instability of exchanges and economic war. The government of men is confronted with many problems, complex and difficult. No question, however, presents as difficult a problem as that of harmony between nations, and it is indisputable, I think, that international trade and foreign investments serve to spread well-being through the entire world, thus contributing to the maintenance of peace among men. The English socialist, G. D. H. Cole, does not hesitate to state in his book, "Great Britain in the Post-War World" (1941), that it would be difficult to prove that even (sic!) a socialist nation whose problems of poverty were not solved, would consent to tighten its belt for many years for the purpose of contributing capital to the development of backward countries. We would not have any difficulty in proving, on the contrary, that it is more probable that a capitalist nation would, more readily than a socialist one, impose on itself, as a result of the very functioning of its economic-financial mechanism, immediate privations for the sake of benefits (or losses) in the future. Ohlin, Benes, and A. Basch agree that those countries whose economy is controlled by the Government cannot hope to obtain even the benefits of a customs union; without the mechanism of economic liberalism, we are compelled to have recourse to an economic union and even a political one (that is to say: to submit the nations to the orders and directives of a central authority in order to derive the potential benefits from a large market).

Gold and Lord Keynes

The critics of gold can be classified in two categories. Firstly, there are the pure technicians (the great majority of critics) who accuse gold of being an imperfect mechanism for the control of the quantity of money and credit which economy is supposed to need to be prosperous and stable, and of being a bad instrument for bringing about an international balance of payments. The second category of critics of gold (or rather slanderers), small in number, is strongly influenced by a certain political and social philosophy; these are the most dangerous. The most famous and influential among these latter is Lord Keynes. One would misinterpret my intentions if the remarks which follow were taken as an attack directed against the person of Lord Keynes himself; it is the ideas, or rather the philosophy with which his name is associated, that I am fighting against. It is he, himself, who stated, and with good reason, that ideas, whether false or just, of political philosophers and economists are more powerful and more dangerous than the possessors of vested interests. And Lord Keynes has not only a philosophy and economic monetary theories with which he would like to "experiment." His prestige is considerable since he has created for himself the reputation of having been a prophet whose predictions have been confirmed by subsequent events. The respect paid him in the House of Lords is significant. While he is fighting to relegate gold to the rank of a "constitutional king," he has established himself as the monarch of the new monetary doctrinaires. As a matter of fact, Lord Keynes is already looking in another direction and is manifestly endeavoring to find a compromise between economic nationalism and internationalism. However, the danger is that his disciples and neophytes are not disarming and are even going so far as to contend that Lord Keynes has betrayed them at Bretton Woods (read the attack against the projects adopted at Bretton Woods published in the English magazine, Banking). It is, nevertheless, in examining the ideas and past predictions of Lord Keynes that we have the best chance of discovering the fundamental ideas and aims of the critics of gold, and especially of those who have a political and social philosophy. I intend to make this analysis not only with all the objectivity of which I am capable, but with all the deference due the author of "The Economic Consequences of Peace," a book still worth reading by all leaders of people and men in politics.

The Philosophy of Lord Keynes

It is essential to study the philosophy of Lord Keynes if we want to explain and understand his attitude toward gold. It isn't the presupposed tyranny exercised by gold on men and economy which has led him to espouse his philosophy, but it is this last which determined his attitude regarding gold.

First of all, what does Lord Keynes think about human nature? The answer to this question seems of primary importance for it is impossible without it to have a workable political philosophy and also because economic phenomena are determined, to a large extent, by psychological factors. Men seem to him to have natural inclinations toward cruelty as well as a desire for personal power. Lord Keynes also admits that man has a passion for money. He even feels that it is better for humanity that man's desire for power be directed towards increasing his bank account. Lord Keynes does not believe that we can change human nature, but he is of the opinion that we can "direct" it. (I am indeed, very much afraid that if we push too far our control of money and economy, we will be obliged to direct human nature ... with the help of a knout.) For what purpose should we educate human nature? The ruling class, answers Lord Keynes, should be trained to be satisfied with smaller returns than in the past in order to allow a more equitable distribution of revenue.

To the question of whether what Lord Keynes calls an equitable distribution of revenue is not going to decrease savings, he answers with satisfaction in the affirmative, since for him there is not only too much saving, but this latter is practically a sin. Too much saving and not enough consumption and investments, these are the source of all our evils, according to the diagnosis of Lord Keynes. He maintains that the needs for capital are too moderate and that interest rates on savings should tend toward zero. He is in favor of "the euthanasia of the rentier" and he predicts their eventual disappearance . . . when they will have finished their job (?). On the other hand, only last September, the "Economist" published a series of articles asserting that the increase of productivity of English industry—without which increase England is facing serious dangers—depends on savings, and, furthermore, that the investment of these savings will be governed by the possibility of realizing profits in proportion to the risks involved. Lord Keynes is fighting against savings maintained in the form of money and bank deposits. He has even declared himself in favor of "melting money" as recommended by a German, Silvio Gesell. This consists in a penalty on money not used which should be proportionate to the time it has not been utilized. One may recall that in France a former Prime Minister endorsed, in 1935, "melting money" as a remedy for the depression from which she was then suffering. But, may I ask, with such theories on savings and the functions of money, what part can gold well play?

Assuming that the national needs of well-to-do countries are satisfied, could the excess savings not be invested in those countries which need to be developed and equipped industrially? The development of backward countries was in 1932 not only the last and least of Lord Keynes' worries but he frankly declared himself as being opposed to the export of capital. In the article published under his signature in the American publication, Foreign Affairs, (1932) entitled "National Self-Sufficiency", he states: "above all, let finance be primarily national." Perhaps in none of his other writings is the philosophy of Lord Keynes as clearly expounded as in this article. He herein states that he detests "individualistic and decadent capitalism" and he adds that he is beginning to be contemptuous of it. But does not economic liberalism contribute to the maintenance of peace through commerce and international division of labor? On the contrary! says Lord Keynes; it stimulates the struggle for markets between nations; it fosters the progress of economic imperialism and it necessitates the defense of investments abroad. One is certainly not misinterpreting his thought in attributing to him the conviction that the war of 1914 was due to economic internationalism. What is more, he can only see advantage from a national point of view that capital be prevented from emigrating. In reading Lord Keynes, one cannot help discovering a sort of aversion towards competition, the cornerstone of economic liberalism. For him, the Stock Exchange is only a casino for gambling! Summing up, Lord Keynes in 1932, was advocating the adoption of a form of economic nationalism (national self-sufficiency) which might lend itself for "experiments" in accordance with his doctrines and in order to bring about the realization of an "ideal social republic." One is wondering what could well be the role of gold in such an "ideal social republic" and how should one be surprised at the pride Lord Keynes takes in having called gold "a barbarous relic"?

During the last few years, Lord Keynes has been defending exchange instability and disparity in national price levels in the name of the "full employment" dogma. He has published in the British magazine, "The Economic Journal" (Sepember, 1943) a curious and rather obscure article in which he rejects stability of prices as a desirable objective of monetary policy. He justifies his position with the argument that politically it would not be expedient or possible to prevent the constant rise of wage rates, or rather what he calls "efficiency wages". Furthermore, Lord Keynes thinks that the quantity of money available should not be an obstacle to the "natural" rise of wages. If we understand him correctly, he now declares himself against exchange stability in the name of the "full-employment" doctrine which has as a corollary a constant rise of nominal salaries, which rise would be difficult or impossible to control. It is clear, however, that exchange instability is defended presently by Lord Keynes for political rather than economic reasons. Lord Keynes also makes (innocently or facetiously?) the remark that a communist country is in a position to be very successful in preserving stability of internal prices and efficiency wages. Nazi Germany has demonstrated to the world by what means this double objective can be attained. They are simple and obvious: dictatorship, suppression of liberty and of labor unions, and last but not least, exchange control.

The political and economic-social philosophy of Keynes would suffice alone to explain his animosity for gold which has been the excellent servant of liberalism and economic internationalism.

The Anglo-American Economic Rivalry

Another reason, however, for his position against the gold standard is the fact that after 1918 England lost her industrial and financial supremacy. It can be proven that the ideas, leanings and prejudices of many economists are often determined by the problems with which their era or their particular country is confronted. The struggle involving the gold standard is fundamentally only an aspect of the economic-financial rivalry between English and Americans. The extraordinary rise of American industrial power after 1918 and the switch of the financial gravity center of the world from London to New York, explain, to a great extent, Lord Keynes' hostility, as well as that of other English economists, toward the gold standard. Among these latter, we must mention Paul Einzig, one of the influential editors of the newspaper, "Financial News," and also author of the "Daily Express" article to which we have already referred. He has the merit of speaking in plain terms of the economic-financial rivalry between the Anglo-Saxon cousins. For several years he has been campaigning against the gold standard. To read what he has to say on it at present, we cannot help but wonder if he has ever read the book, "The Future of Gold," written by Paul Einzig in 1935 in which he himself states that if the gold standard did not exist, it would have to be invented.

There is still another reason which should incite us to listen with a critical mind to the ideas and opinions of Lord Keynes. He is the author of several new monetary theories, of which the most important is the one which deals with the influence of low rates of interest on investments and economic activity. It often happens that philosophers who have a system of their own, or economists who believe they have discovered the philosopher's stone, suffer from a particular blindness which prevents them from being objective; they become prisoners and sometimes victims of their own theories. To the extent that Lord Keynes' position against the gold standard is influenced by consideration of monetary doctrines, it is due to his theory concerning interest rates.

What is equally surprising in reading the writings of Lord Keynes is to discover his confidence in human judgment to "direct" money, savings, investments, economy and presumably even human nature. It is evident that his monetary strategy is based on psychological manipulations and, if necessary, on coercion. The fact that in matters of monetary doctrines he is more often than not, in complete disagreement with an economist as eminent as Hawtrey, to cite but one example, hardly disturbs Lord Keynes. He detests economic liberalism; England is in search of a new formula to keep her power; and in addition, he is the author of a new monetary theory—these are apparently good enough reasons to plunge England and the rest of the world into great experiments, however hazardous and dangerous they may be!

These are the seeds sown by one of the most brilliant and intelligent men living. The main economic and political consequences of his philosophy and economic doctrines may be summarized and restated as follows:

(1) The theory of deficit spending and the idea that the government debt may rise harmlessly to any figure.

(2) The idea that savings are excessive in countries like the U. S. A., England and France, and that to save is sinful.

(3) He propagated the purchasing power theory as against the equilibrium theory. In doing so, Lord Keynes lent his support to inflationary processes and higher prices. He seemingly does not share the view that the best means to distribute income and wealth is by lower and lower prices.

(4) The doctrine that exchange instability is harmless. This doctrine implies the choice in favor of nationalism as against internationalism.

I consider the last one the most dangerous of the four, for the simple reason that the most difficult problem confronting society is harmony among nations. I shall, therefore, discuss in the second part of this study mainly the false ideas or pre-conceptions underlying the present campaign in Great Britain against exchange stability and for the maintenance of exchange control.

[The second installment of this article will appear in the February 15 issue of the "Chronicle."—Editor.]

FHLB Sell Debentures

The Federal Home Loan Banks sold on Jan. 4, 1945, at par, an issue of $50,000,000 0.85% debentures, dated Jan. 15, 1945, due July 15, 1945. The issue was offered through Everett Smith, fiscal agent, New York. Proceeds were used to retire a portion of the $54,300,000 debentures due Jan. 15, 1945.

The Securities Salesman's Corner

"Two Million People Never Saw An Elephant"

By JOHN DUTTON

"Between the time you saw the elephant in the circus last year and the time you see him next year, 2,000,000 newcomers will come into the world." "Each year brings throngs of new people who never saw an elephant, never tasted Wheaties, smoked a Camel, drank Stag Beer, OR PURCHASED SECURITIES."

That's the way Edward D. Jones, of Edward D. Jones & Co. of St. Louis, introduced the subject of why it is important to SECURE NEW CUSTOMERS, in addressing a meeting recently held by his sales organization. The soundness of his premise is well illustrated by some of the interesting facts which he developed during the course of his address on this timely subject.

For instance, he brought out the point that nearly 24,000,000 voters today scarcely remember any other President except Roosevelt, because they were 12 years old or less when he was inaugurated. That 20,000,000 people have come of age in the last 10 years. That firms and products famous to their fathers are unknown to them. That next year another 2,000,000 will come along who never saw an elephant, heard of Edward D. Jones & Co., Wall Street, New York Stock Exchange or Stocks and Bonds. In five years there will be another 10,000,000. Not all will become security buyers, but their good opinions are important to his firm and to the securities business.

Conversely, Mr. Jones went on to illustrate that nearly 10,000,000 people have died in the past 10 years. Each year nearly a million people pass on. THEY ARE OUT OF THE MARKET, and for the forward looking investment banker, merchant, broker, or salesman, their places must be taken by newcomers. Those who never saw an elephant.

Then he went on to point out that not only is the memory of most of us very short, but some of the things which we believe to exist in the minds of the general public are to millions only a hazy and scarcely remembered recollection. A new generation has been born to whom 1929 was only a year in which market history was made. Sixteen years pass quickly and so why not—forget 1929 and the panic.

Then Mr. Jones made a point which in our opinion goes right to the heart of today's merchandising problem for most of us engaged in the securities business. He stressed continuous, positive, forward-looking advertising and sales promotion. He pointed out that all these new prospects which have been accumulating during the past 16 years present one of the greatest potential markets which we have ever known in the history of this business.

This is true providing we avail ourselves of the opportunity by telling the public about ourselves, our securities, our services, and by doing this consistently. Publicity is the answer—good publicity. In every community some firm has the opportunity of stepping out ahead of the crowd by using the daily papers to tell their story in language the PUBLIC LIKES AND UNDERSTANDS. In every sales organization there are men who are going to reap the benefits from consistently following up NEW ACCOUNTS, radiating from old clients who are satisfied customers and who will cooperate in helping such a salesman extend his business. In the field of direct mail, the opportunity to inform this NEW PUBLIC, is likewise one of the best mediums to employ in building an ever increasing clientele of satisfied customers. As Mr. Jones pointed out, the opportunity is so much the greater today. For 16 years the securities business has hid its light under the proverbial bushel—there are 32,000,000 new people who can be added to our prospect list, 16,000,000 more who have passed on, and untold millions who have forgotten 1929.

"A lot of people who should have heard of securities and how easy it is to buy them—haven't." It's our opinion Mr. Jones is right—and that more and more progressive firms throughout the country will join with him when he says—"let's go forward—it's a new day!"

New York Stock Exch. Borrowings Decrease In Month of January

The New York Stock Exchange announced on Feb. 3, 1945, that the total of money borrowed as reported by Stock Exchange member firms as of the close of business Jan. 31 was $912,994,801, a decrease of $59,941,137 from the Dec. 30 total of $972,935,938.

The following is the Stock Exchange's announcement:

The total of money borrowed from banks, trust companies and other lenders in the United States, excluding borrowings from other members of national securities exchanges (1) on direct obligations of or obligations guaranteed as to principal or interest by the United States Government, $348,613,498; (2) on all other collateral, $564,381,303; reported by New York Stock Exchange member firms as of the close of business Jan. 31, 1945, aggregated $912,994,801.

The total of money borrowed, compiled on the same basis, as of the close of business December 30, 1944, was (1) on direct obligations of or obligations guaranteed as to principal or interest by the United States Government, $412,500,688; (2) on all other collateral, $560,435,250; total, $972,935,938.

The Stock Exchange also included in its report a comparison of member borrowings for Jan. 1, 1944, compared with Jan. 1, 1945. They are: Jan. 1, 1945, direct obligations, U. S. Government, $412,500,688; all other collateral, $560,435,250; total, $972,935,938; Jan. 1, 1944, $234,215,073; $448,558,470; total, $682,773,543.

Post-War Problems in Their Relation to Securities

(Continued from page 619)

History making events have happened since our last meeting. Although it was beginning to take form at that time by the invasion of Africa, Sicily and Southern Italy, we have now reached, sustained and passed the turning point from defensive to offensive war, both against the Hun in the West and the barbarians of the Pacific in the East, and with Divine help we hope both enemies will have been completely subdued and peace shall have returned to our topsy-turvy world before we meet again next year.

Mr. President, the theme chosen for this convention is "Post-war Problems in Securities Matters," and you have honored my State by your invitation to discuss the subject. I should prefer to approach this subject from the angle of "Post-war Problems in their Relation to Securities," because every problem which we will be called upon to solve after the war will have its effect upon the issuance, marketing, distribution and sale of securities, and consequently upon the administration and enforcement of the so-called Blue Sky Laws of each State and the Federal Government, whether it be the problem of capital or labor, state, federal or international.

Transition Problems

After the war is over the country will not go through one simple transition—the transition from war to peace. On the contrary, it will go through a succession of transitions. The first decade after the war will be punctuated with transitions. It will be a period of major shifts in demand— a period in which economic stability will depend upon our success in offsetting decreases in demand for some products, with increases in demand for others. As the accumulated demand for goods subsides, we must depend for stability upon a rise in demand for industrial construction and residential building. Awareness of the great potentialities of our economy will help us keep our sights high; it will stimulate our confidence in our power to achieve it; it will help us retain and develop the spirit of pioneering and innovation—which is the greatness of America. And just what will these transitions be? No one can tell with certainty. The first, of course, is the establishment of a world organization to make and maintain a good and lasting peace, and the world knows from bitter experience that to make a good peace is more difficult than to wage a victorious war. To erect a world organization to preserve peace is a difficult, complex and technical business. Yet, in its potential effects on our future and that of our children it is the most important task ever faced in the history of civilization. Our leaders recognize this to be true, both Democrats and Republicans, as witnessed by the fact that the formation of such a world organization was not made an issue of the 1944 Presidential Campaign. And here, may I digress long enough to say it has been my experience in our relationship in the Association that no political party lines have been recognized and that we have worked together harmoniously in a common cause. Every man stands on his own footing and it matters not what his political affiliations may be. So, there must be a transition from the old power politics—balance of power of the past, to a complete world co-operation of the future.

Approaches to World Economic Recovery

There is an abundance of literature on the subject of World Economic Recovery, and in it two general points of view reveal themselves.

The first is the idealistic approach; those who see the world shattered into a thousand pieces and believe it our duty to put it together again, piece by piece, but on a greatly improved pattern. They suggest that we must see to it that other countries are placed under what we regard as democratic government, and that the standard of living of all peoples be raised and the differentials between theirs and ours be greatly reduced. Perhaps, after all, we are not yet strong enough nor sufficiently wise to reform the world immediately.

The other approach is more practical and realistic. These people maintain that potential forces exist even now in every country for its rehabilitation, and we only need to release these powerful affirmative forces. The farmer wants to till the soil, the artisan wants to fashion shoes or clothes or machines, the trader wants to trade. In every country there are groups of able and energetic men and women ready to restore the normal ways of life and add to its richness. What they need is not charity but opportunity. No people, no nation, can be handed a better life—they must work it out for themselves. Let us then strive in every way possible to assist in eliminating the obstacles to the initiative and enterprise through which alone the better life for these unhappy peoples can be achieved. Spokesmen for all parties, all faiths, in all parts of this country are today saying in chorus that after this war we cannot back away from international responsibilities as we did after World War I. We must see that these good intentions are not forgotten when the war is over and we turn with relief to the pursuits of peace. Time does not permit a full development of the gigantic part our own country can play in a world organized for peace, but may I suggest that each of us use our influence with our representatives in the Congress of the United States to work for the lowering of trade barriers, and for further development of our reciprocal trade agreements with other nations. The accomplishment of these two things will go far in maintaining peace and to advance the economic development of our own country. It is not easy for friends who are trading with each other to their mutual advantage to fall out and fight. We can no longer live alone. We must have world cooperation—and cooperation is a two-way street. We cannot accept the benefits of world trade without assuming the responsibilities of making it easier for other nations to trade with us.

Domestic Post-war Problems

Now, in order to have economic stability after the war, there are several domestic problems which must be solved. The first is the prompt payment of cancelled war contracts. After World War I the government took an average of three years to settle such contracts and then settled them at approximately thirteen cents on the dollar. Profits then had enabled business men to set aside funds for the future. This time, limits imposed on profits have not allowed many industries sufficient surplus to carry them through a long waiting period. If private business is to have the money to meet its reconversion costs, to provide jobs quickly, and to get started on a peace program, cancelled contracts must be paid promptly.

The second problem in the reestablishment era is disposition of surplus goods. It is estimated that the government now has on hand fifty billion dollars worth of equipment, supplies and materials. Disposition of this will have a terrific impact upon our economy unless intelligently handled. The sudden release of this enormous quantity on the market would destroy the industry and replace the employment of workers otherwise kept busy making new products. Surpluses are the sword of Damocles over the heads of business men. There should be an orderly disposition of these surpluses, acceptable to both government and business.

Third, there is the disposition of government-owned industrial plants. The government has over thirty billion dollars in such plants and equipment, and the government should state its policy on what is to be done with them, so that business can go ahead and plan without threat of ruinous competition. These problems must be met before business can clear the way for post-war jobs. Nobody needs to be reminded that mass unemployment is the worst threat in our post-war economy.

It is estimated that when peace finally comes, there will be approximately nine million ex-service men and women, beside six million released from war industry, looking for jobs. The industrial states will have the most serious problem, as there will be fifteen people for each ten jobs available. Creating jobs after the war is necessarily the concern of private enterprise, if our present economic system is to continue. For full employment we must have about fifty-five million people at work with annual production of about one hundred and forty billion dollars. Industry says it can do the job, but industry must be encouraged by a tax rate which is not confiscatory; otherwise why should business men take the risk? It is pointed out in the Baruch-Hancock report that lower tax rates stimulate a higher volume of business and a higher national income, which will ultimately yield greater total taxes than high rates which depress business volume, employment and income. There must be adequate incentive to encourage risk and responsibility; otherwise dollars saved will not be dollars dared for backing new possiblities for new jobs, opening up new ideas, nor will the new ideas themselves be forthcoming. We must not be satisfied with the past; we must have a better future.

Eric A. Johnston, President of the Chamber of Commerce of the United States, in his new book, "America Unlimited," sums up the question succinctly when he states that while he is not an expert on taxes, he is an expert of sorts on job making. He finds our present tax system haphazard. "It is almost an accidental accumulation of imposts—one tax after another having been added, piece-meal fashion, and the whole tax structure needs to be revised." "Taxation," he says, "is a terrific power for destruction." We must also realize that it can be no less a terrific power for construction. The present tax structure must be revised and reformed to remove barriers to investment and to wholesome business enterprise. It can be—it must be—planned to make jobs, to coax savings and other capital out of hiding, into the active stream of productive investment.

Please understand that it is not my purpose to attempt to cast you into the "slough of despond," because the picture is not all dark. The widespread impression that former wars have always resulted in prompt collapse and stagnation is not correct. The Brookings Institution, in **Collapse Or Boom At The End Of The War,** points out that post-war patterns in the past have been about as follows:

Expect Prosperity To Get It

(a) A few months of hesitancy.
(b) A year or more of active busi-

ness. (c) A relatively short period of trade and financial readjustment. (d) A successful period of prosperity extending over several years. Whether we have collapse or boom at the end of the war largely depends upon us—the people. If people generally expect a post-war depression we are likely to have one, because then people with spendable funds will withdraw their purchasing power, refuse to make commitments and stagnation must result. If, on the other hand, people expect prosperity and act accordingly, current money incomes and funds from past savings will be put to work, thereby creating prosperity. Thus we have on our hands a technical job in both social and economic engineering. No amount of magic or sorcery will sustain a bridge which is grossly overloaded; the economic system is pliable, sensitive, and subject to the human will.

Our job is to state the conditions which will give the system a fair chance to deliver the goods and then create those conditions. We are aware of the large demand for certain consumer's goods and for many kinds of producers' goods that have not been manufactured in any volume for many months. We know about the tens of billions of dollars that have been saved by industry and labor and we know this will be available to finance, at least in part, the satisfaction of needs and wants that cannot be met now. New and modern plants and equipment will bring an enormous increase in our capacity to produce, and our skilled labor force will be unparalleled. A war torn world is waiting anxiously for the day of reconstruction and the reestablishment of normal life. Perhaps most important of all, American industry, labor and the consumer are acutely aware not only of the desirability of utilizing as fully as possible our enlarged productive capacity but also of the necessity to do so, if we would reap the benefits of our resources in a higher standard of living.

Create Prosperity Conditions

Yes, our job is to state the conditions which will give our economic system a fair chance to function properly, and then ourselves go forth and create these conditions. To do this we must abandon the road of riskless economy down which we are marching. Mr. John Clifford Folger, President of the Investment Bankers Association, in a recent address stated that approximately 60% of the invested assets in savings banks are in cash or government securities and only 40% in real estate mortgages and private enterprise securities, but in 1931 the ratio was 85% in private enterprise to 15% in government securities. In the commercial banking field only 30% is invested in assets related to private enterprise, as compared with 80% in 1920. Of securities registered with the Securities and Exchange Commission, and known to have been offered for sale, over 90% in dollar value are either bonds or preferred stocks. The private investor is also playing safe; he is crawling under the bed with the banks; he hesitates to take a chance and is letting his money pile up in the banks. If everybody plays safe, who is going to fight the big wolf of stagnation and depression? Where is the money coming from for expansion of private enterprise?

This riskless economy will not enable us to give employment and pay off debts. We must strengthen the machinery for distributing private enterprise securities, and our investment business must be allowed to make enough money to attract new blood. Our regulatory agencies should, without giving license to the swindler, take their foot off the punitive pedal which they have pressed so heavily in recent years. Venture capital must be encouraged.

Must Encourage Investment

The people of this country have the capital needed for post-war development. The banks are overflowing with it, and it is said to be increasing at the rate of forty billion dollars a year. Investment firms must devise new and broader methods for the legal distribution of securities. Fundamentally, the instinct of the American is towards thrift and private business. He would like to establish his own business. He is irked by his idle dollars in the bank growing anemic from disuse. Let's put these idle dollars to work; get the ball in play; create the conditions to give our economy a fair chance.

I agree with Mr. Folger that in order to do this, we should streamline the securities laws to eliminate bottlenecks and encourage the free flow of investment capital. We should give the small investor throughout the country the same chance to purchase securities as the large and sophisticated buyer now has. Compulsory bidding and like regulations are hurting both the little investor and the little dealer. The little dealer is the one the small investor will patronize, and he should be encouraged to remain in business. We should correct the present system of taxation on venture capital. If continued after the war it will kill the goose that lays the golden eggs. There must be some relief from this so-called excessive double taxation—first the corporation's income and then the stockholder's income. Give capital that takes a chance a run for its money. We should eliminate this so-called capital gains tax. This will bring the large investor into the picture. He now has little or no incentive to increase his income. We need the large investor in development of new industry.

Finally, let us strive to administer a good dose of optimism and faith in the future of our country. The trend toward riskless economy must be arrested. There is no such animal as "riskless" business, and our securities regulatory bodies should remember this when considering applications for the sale of stock in a new enterprise. It is not our province to guarantee that any particular business will pay dividends, or even be a success. We can only analyze the application, and if in our opinion the sale of the securities in question would not be fraudulent, nor work or tend to work a fraud upon the purchasers, and if the enterprise is not founded on unsound business principles, then permit should issue. This is the only yardstick by which we can measure such applications. We are not prophets and haven't the power to look into the future as to the success of the undertaking.

Post-war Securities Regulation

As for our own individual problems as officers charged with the duty of administration and enforcement, they are going to remain largely the same in the post-war period, except on a greatly accelerated scale. The swindler, like the poor, is ever with us. He will come forth with new and streamlined schemes to initiate the unwary victim into the ancient order of suckers. Many good men and women will fall victim to his fantastic claims of fabulous profits, and there is ever present Barnum's "one a minute" bunch always ripe for plucking. We can never entirely eliminate the swindler; we can only hope to keep his activities at a minimum by the exercise of eternal vigilance, and by educating the public to deal only with legitimate, registered dealers.

So it can be seen that the intelligent and successful solving of these problems, and other problems which are sure to arise, will have a direct relation to our post-war securities problem, whether we be an issuer or dealer, broker or investment banker, or one charged with the duty of enforcement. They are inter-dependent problems, and our economic success in the years to come depends upon just how they are solved. Economic failure or success in the post-war years is entirely up to us and we must deal with the problems intelligently. We must be neither conservative nor radical in our thinking or our acts, but always liberal.

And now, Mr. President, upon this note of liberalism, I quote Dr. Walter J. Matherly, the able Dean of the College of Business Administration of the University of my own State of Florida, in his masterly discussion of the subject "Post-war Development of Private Enterprises":

"In post-war America an ever increasing number of liberals will be required. Liberals occupy a position midway between conservatives on the right and radicals on the left. Conservatives, on the one hand, believe in things as they are or as they have been; they resist change; they oppose progress; they are content with the past and desire to see that the past continues unchanged. Radicals, on the other hand, want to ignore the past, abolish it, to break with it, to cut it off; they reject the old—all of the old; they do not see progress as a continuous process; they see it as something which comes in jerks or in series of revolutions. Liberals, however, accept the principles of natural change in man and things; they hold that the new grows out of the old and that it adds itself to the old, but that it does not sever connections with the old. They agree with Kallen that 'the persistence of the old is just as ineluctable as the influx of the new.' In the post-war economy of America, therefore, there will be no room for either conservatives or radicals. There will be room only for liberals—liberals who want to add the best of what we have to the best of what we have had, and thereupon erect a finer superstructure than anything that exists in the present or anything that has ever existed in the past."

Senate Confirms Mahaffie And Alldredge to ICC

The Senate on Jan. 18 confirmed the nominations of J. Haden Alldredge and Charles D. Mahaffie, both of whom were named for re-appointment as commissioners of the Interstate Commerce Commission by President Roosevelt on Jan. 3. Under date of Jan. 3 Washington advices to the New York "Times" said:

"In nominating Commissioner Mahaffie the President ignored demands from Southern members of Congress for the substitution of a Southerner who would be sympathetic to the efforts of his constituents to end what they regard as freight rate discrimination.

"By nominating Mr. Mahaffie the President left it to members of Congress to decide whether or not they want a different Commissioner."

Bank and Insurance Stocks

This Week—Bank Stocks

By E. A. VAN DEUSEN

Two weeks ago this column presented the 1944 net operating earnings per share of 16 leading New York City banks, compared with 1943 and previous years. This week 1944 and 1943 earnings are shown for 16 leading banks in cities other than New York, also annual dividends and book values as of Dec. 31, 1944 and 1943.

As in the case of New York City's banks, these banks generally show substantial gains in 1944 over 1943. It will also be observed that dividend coverage in the majority of cases is generous, and that increases in book-value have been good. There has been a definite attempt on the part of these banks to strengthen capital funds in view of the exceptional expansion of deposits that has been experienced during the war years.

	Net Operating Earnings per Share 1943	1944	Dividend Rate	Book Value 12-31-43	12-31-44
Boston					
*First National	$3.56	$3.79	$2.00	$43.35	$44.49
National Shawmut	†1.31	†1.32	1.00	39.09	39.41
Philadelphia					
Corn Exchange Nat. B. & T.	4.92	4.96	2.00	63.10	65.63
Fidelity-Philadelphia Trust	28.17	25.37	10.00	315.16	339.94
Girard Trust	4.82	5.54	2.00	40.55	41.61
Pennsylvania Company	2.56	2.93	1.60	27.68	28.55
Philadelphia National	8.39	8.46	5.00	70.97	74.23
Baltimore					
First National	7.49	5.67	2.50	30.55	31.73
Pittsburgh					
First National	2.19	2.50	1.60	46.66	48.60
Cleveland					
‡National City	3.09	2.94	1.40	36.14	36.59
Detroit					
National Bank	3.89	4.90	1.00	30.17	33.40
Chicago					
Continental Ill. Nat. B & T.	8.45	8.96	4.00	72.45	77.48
First National	15.27	17.31	8.00	186.33	207.69
§Harris Trust	25.42	22.98	12.00	337.96	267.45
Northern Trust	35.27	37.66	18.00	507.27	626.93
San Francisco					
American Trust	6.45	7.02	1.60	50.35	54.91

*Includes Old Colony Trust. †Indicated earnings. ‡450,000 shares in 1943; 562,500 in 1944. §60,000 shares in 1943; 80,000 in 1944.

A continuation of the growth of deposits and earning assets, which growth has provided the basis for the upward trend in earnings, is expected to persist at least until the end of the war. After the war some districts may be affected more or less seriously through the closing down of war industries. The rapid expansion in deposits has, in practically all cases, come about through war industries being located in the territory served by each bank, as well as through the "deficit financing" program of the Government. Thus, in some cases, a substantial proportion of total deposits may well be Government war-loan deposits and war contractors' deposits, subject to withdrawal from a particular area as the war comes to a close, unless sufficient peacetime industry and payrolls are available to step into the breach.

For example, in an area where wartime shipbuilding has caused a large influx of workers and necessitated the purchase and shipment of great quantities of supplies and materials, the cessation of this war activity can have serious local repercussions. What will take the place of shipbuilding? Stuart Chase, in his new book, "Democracy Under Pressure," points to the problem that will face union labor in some regions, and which thus will face the community, as follows: "Take the Kaiser shipyard in Portland, Oregon, as an example of what labor is up against when the war ends. We know that whatever they may make in these shipyards it will not be many ships. The company, the Portland Chamber of Commerce, and the U. S. Maritime Commission sponsored a joint survey in early 1944 of the 81,831 workers in the plant. Almost two-thirds of them, it was found, came from **outside** Portland, and almost half of these intended to go on living in Portland after the war. Yet 86% of the whole force, 70,000-odd workers, **had no postwar job in sight except with Kaiser!** Can you imagine the stampede when the men realize that there are no more ships to build?"

The point to remember is that, after the war, deposits may tend to move from war production centers to financial and consumer-goods centers. Thus, dealers and investors in the stocks of banks out of New York and other large financial centers, should study with great care the situation of each bank, not only as to its current condition, but more particularly with regard to its post-war prospects and the extent to which it may be affected by the change-over from a war-economy to a peace-economy.

True, it appears inevitable that for a number of years after the war our Government will be unable to balance the budget and must, therefore, continue its program of "deficit financing." Consequently, the banking system in general will continue to extend credit to the Government, expand its holdings of Governments and increase its income from this source. In addition to this, it appears certain that a large demand for bank credit will be made by industry for reconversion purposes and for the production of peacetime goods, while consumer goods financing and the revival of foreign trade will also require a considerable volume of bank credit.

In the case of New York City's leading banks, their business is so largely national and international in scope, that they are relatively unaffected by regional upsets and maladjustments. And as for the banking system as a whole, many years of prosperous business extending well into the post-war years appears to be in prospect. However, unusually great care in selection, coupled with adequate diversification, would seem requisite for the bank stock investor today, particularly if his interest is in those banks which have been especial beneficiaries of war industries.

Broker-Dealer Personnel Items

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

(Special to The Financial Chronicle)
BOSTON, MASS. — **Ralph A. Barron** has joined the staff of **J. H. Goddard & Co.**, 85 Devonshire Street.

(Special to The Financial Chronicle)
BOSTON, MASS.—**George Higginson** is with **Russell, Berg & Company**, 75 Federal Street.

(Special to The Financial Chronicle)
CLEVELAND, O. — **James C. Brooks, Jr.** and **A. Julius Weidenkopf** are now with **Hawley, Shepard & Co.**, Union Commerce Building. Mr. Brooks has recently been in the armed service. Mr. Weidenkopf has been in business as an insurance broker.

(Special to The Financial Chronicle)
DENVER, COLO.—**Laurence C. Inman**, with Sargeant, Malo & Co. for the past nine years, has become associated with **J. A. Hogle & Co.**, Equitable Building.

(Special to The Financial Chronicle)
JACKSONVILLE, FLA.—**Howard S. Huffman** is with **Southeastern Securities Corp.**, 308 West Adams Street.

(Special to The Financial Chronicle)
LONG BEACH, CAL.—**Ansley L. Oltman** has been added to the staff of **Tucker & Company**, 132 Pine Avenue. Mr. Oltman was previously with Halbert, Hargrove & Co.

sociated with **Gross, Van Court & Company**, 639 South Spring Street.

(Special to The Financial Chronicle)
LOS ANGELES, CAL.—**Daniel W. Hanson** and **Rae Field Hyman** have joined the staff of **J. A. Hogle & Co.**, 507 West Sixth Street.

(Special to The Financial Chronicle)
LOS ANGELES, CALIF.—**Al Esswein, Jr.** and **J. Laurence Rosenfield** are with **E. F. Hutton & Company**, 623 South Spring Street.

(Special to The Financial Chronicle)
MIAMI, FLA.—**Frederick J. Veith** is now with **Cohu & Torrey**, Alfred I. du Pont Building.

(Special to The Financial Chronicle)
MIAMI, FLA.—**Richard Ricks White** has been added to the staff of **Blair F. Claybaugh & Company**, Mercantile National Bank Building.

(Special to The Financial Chronicle)
OAKLAND, CALIF. — **Edmund L. Levy**, previously with Conrad, Bruce & Co., is now affiliated with **Merrill Lynch, Pierce, Fenner & Beane**, Central Bank Building.

(Special to The Financial Chronicle)
OAKLAND, CALIF.—**Frank A. McGinley** has become connected with **Blyth & Co., Inc.**, Central Bank Building.

(Special to The Financial Chronicle)
PASADENA, CALIF.—**F. Stuart Roussel** has become associated with **Nelson, Douglass & Co.**, 510 South Spring Street, Los Angeles, Calif. Mr. Roussel was previously with Blyth & Co., Inc.

(Special to The Financial Chronicle)
PORTLAND, Ore.—**A. J. Peaper** has joined the staff of **Foster & Marshall**, Porter Building.

(Special to The Financial Chronicle)
ST. LOUIS, MO.—**Laura May Kinkead** is connected with **Herrick, Waddell and Company, Inc.**, 418 Locust Street.

(Special to The Financial Chronicle)
ST. LOUIS, MO. — **Elmer L. Rehmer** has become associated with the **Metropolitan St. Louis Company**, 718 Locust Street. Mr. Rehmer was formerly with the U. S. Army.

Business Connections With Belgium, Italy

The three-year blackout on business and commercial communications with Belgium was lifted on Feb. 2 by the Treasury Department. This action coincided with the restoration of closed letter service with liberated Belgium and is a further step in the resumption of normal relations with the liberated areas of Europe.

As in the case of France, Treasury licenses no longer are required to exchange financial and commercial information with persons in liberated Belgium. Concerns in Belgium and the United States may resume business contacts and negotiate for the commencement of private trade. Creditors may communicate with their debtors in Belgium to pave the way for obtaining payment orders or documents to substantiate their claims. Banks, brokerage houses, and other financial institutions may advise their customers of the status of their accounts. Bank statements, financial records, commercial reports, wills, and death, birth and marriage certificates may be transmitted. Proxies may be solicited and signature cards may be obtained.

As soon as banks in this country are able to establish the necessary arrangements with Belgian banks, support remittances up to $500 per month to individuals in Belgium may be made through banking channels under General Licenses Nos. 32 and 33. Currency, money orders, checks or drafts cannot be used for this purpose, since their transmission continues to be prohibited.

In connection with Italy the Department said:

"Support remittances may now be sent to the recently liberated Italian provinces of Ancona, Arezzo, Livorno, Perugia, and Siena, to the cities of Florence and Pisa, and to those portions of the provinces of Florence and Pisa south of the Arno River. Remittances of this type have previously been authorized for other liberated provinces of Italy as well as Sicily and Sardinia.

Making Democracy Effective

(Continued from page 618)
government planners righteously laying down the law to, and collecting taxes from, an obedient and subservient populace. There is so much that appears on the surface to justify moving in that direction. If people don't want to send their children to school, they must be made to send them—so we have compulsory education. If they don't want to avoid smallpox, they must be made to avoid smallpox, and we have compulsory vaccination. Some such uses of force we know are necessary in order to protect the rest of us. But—if people don't want to stop drinking alcohol, they must be made to stop drinking alcohol—and we have prohibition. If people don't want to grow the right crops, they must be made to grow the right crops—and we have crop control. It is perilously easy to call upon government to enforce our own wishes on other people and to think of government control as being the best way to make other people behave. When we get in the habit of doing that we are undermining democracy.

Closely allied with our native dangerous reformers are the equally high-minded immigrants and the children of immigrants who have been brought up not only with very little understanding of what democracy has stood for in this country but also with carefully cultivated cynicism towards those of us who try to tell them about it. Such people interpret America in European terms. They want to destroy the old order here because they distrust the old order in Europe.

Then of course there is a third group to which almost all of us have unfortunately belonged at one time or another—good loyal Americans, who believe that government should serve all the people fairly, but who pull every wire to get special privileges, special perquisites, special legislation, to favor our own group at the expense of the people as a whole. Whenever we join selfish special pressure groups, we also destroy democracy.

The intentional enemies of democracy, the avowed totalitarians, are very few in number, but they are cold-blooded, unscrupulous, clear-headed, and skilful; and they infiltrate idealistic groups. They persuade the sincere reformers to do their destructive work for them. They encourage minorities to demand more and more special privileges. They furnish the cohesive force for apparently uncongenial political groups.

That is what has been happening with quietly accelerating speed in the United States. The war has hurried up the process; for the war has made dictatorship attractive to many people. In a war a country must go totalitarian to some extent. We can't fight a war with volunteers; the only fair method is the draft. We have to take measures to fix prices and wages; we have to levy taxes that in some cases are confiscatory. In war the whole nation has to go under orders in very many things.

For the moment, our whole objective is to carry through and win the war, but we must give sober thought to the direction in which we shall be moving when the war closes. The post-war problems will be complex and we are already committed in advance to many controls. Both parties in the autumn election committed themselves to a floor under agricultural prices. Certain of the inflation price controls and certain types of rationing will continue at least for a time. National and international controls over the prices and production of some basic commodities are planned.

Money and Banking Controls

We are pretty well committed to the control of interest rates at low levels. Rises in interest rates used to be one of the natural checks to over-expansion of credit. If rates are fixed by government, and that seems hard to avoid in view of the size of the debt, there are likely to be other controls such as the continuance of control over consumer credit, and over security and other loans. We shall thus have increased regimentation of credit.

The fundamental problem which we all face in the post-war period is the kind of government and country we want. The danger is that unconsciously and by the force of circumstances we shall be influenced to accept the kind of government we don't really want.

We may as well confess that the banker is already to a considerable extent in the hands of the government. More than half of his assets are in government securities. Other assets are guaranteed by the government, such as V and VT loans, CCC loans, and FHA mortgages. Our deposits are guaranteed by a government insurance corporation. Still more proposals are before us for a guarantee of commercial loans and for a guarantee of veterans' loans.

These forms of guaranteed credit are attractive because they remove the risk from banking and it would be easy for each of us to sit back and become a kind of glorified slot machine. This is well on the road to socialized credit. It moves in the opposite direction from democracy and enterprise. It is a kind of opiate that dulls initiative.

The farmer is in exactly the same fix. Guaranteed farm prices inevitably mean government control over production. If the government is to guarantee the price, it will tell the farmer what and how much he may plant and how much he may harvest. Since this price and production will be determined by political rather than economic reasons, the long term results are usually unfortunate. I call to witness simply the loss of a large part of America's markets for export cotton.

The educators also are putting their necks in the noose in asking for grants of Federal funds for education. They say they want these funds granted without any Federal control. That sounds like eating your cake and having it too.

The housing people want Federal money in large blocks—also without control.

Guaranteeing Jobs

The latest idea for curing all the country's economic diseases is the plan to have the Federal Government guarantee 60,000,000 jobs. How can they do it? By spending and lending money—and it would take lots of it. But the rub is that the money has to come from somewhere and there are only two places—borrowing and taxes. Continued borrowing means inflation danger and that means continued control over prices and wages. Taxes mean the stifling of enterprise and that means the government has to employ still more people itself and interfere still more with business. It's a first-class plan for enlarging the bureaucracy and leading us far down the road to totalitarianism in which the state owns all business.

Most of the advocates of these plans are thinking of their own interests—not of the long distant results, but the results will follow just as surely as though they were the object sought.

All our experiences shows that state socialism is the opposite of democracy. That was true in Italy and is true in Germany and Russia. In a democracy the supreme goal is the worth of the individual—his freedom to live his life and make his own choices.

The methods of Hitler are compulsion and lies. The Gestapo is supplemented by a perverted emotional mass appeal. The result is to rob the individual of dignity and freedom of choice.

The method of democracy is persuasion, education, the appeal to reason, integrity in government which brings confidence.

What Bankers Should Do

What do we do about all this? We can't turn the calendar back to the good old days. It won't do any good just to fulminate against the trend.

The first thing is for each of us, in whatever walk of life he is, to do his own job better and lessen the excuse for the government to be called in to take over. We bankers are trying to do this in our loan policies, especially our loans to small business and veterans.

Second, we must pay more attention to political questions and their relation to us. It will no longer do to send just anybody to Congress — its powers are too great. We must try to get good people into Congress and into the adminsration of government also. We ought to pay them more.

Third, each business ought to have people whose main business is working with government. It is now a regular part of any business. We bankers have an agency for this in the American Bankers Association and it is operating effectively. Its effectiveness and that of other such organizations depends on two things: Having the facts and having the right point of view. I have sometimes spoken of our secret weapon: we will ask the Congress only for what we believe is in the public interest. If every one followed that rule we should have a better country.

The ferment of today about the future of this country is more wholesome than an unimaginative longing to return to normalcy. It is the ferment of progress. But it will boil over if it is not watched. The French Revolution became the dictatorship of Napoleon.

Inevitably we shall have more government than we have had before. We have learned some of the things government can do—just as we did with the Federal Reserve Act. Some of these new things are wholesome. But the price of liberty—of keeping the stream from becoming a flood to drown out our democracy—is vigilance.

That this is not just one man's fear let me quote from a wise old Swedish professor who has recently died—Gustav Cassel. He lived, remember, in a country which has tried many social experiments—many considered successes: "The leadership of the State in economic affairs which advocates of Planned Economy want to establish is, as we have seen, necessarily connected with a bewildering mass of governmental interferences of a steadily cumulative nature. The arbitrariness, the mistakes and the inevitable contradictions of such policy will, as daily experience shows, only strengthen the demand for a more rational coordination of the different measures and, therefore, for unified leadership. For this reason Planned Economy will always tend to develop into Dictatorship. . . ." "What stands to be lost is nothing less than the whole of that civilization that we inherited from generations which once fought hard to lay its foundations and even gave their life for it."

Supreme Court Rules Against Treasury In Computing Tariff—Upholds Reserve Bank Rate

In a 6 to 2 decision the United States Supreme Court on Feb. 5 ruled against the right of the Treasury to direct customs officers in computing tariff duties to use only an "official" rate in converting British pounds sterling into dollars. The majority held instead that the "free," or lower, rate of exchange prescribed by the N. Y. Federal Reserve Bank, should have been used. In its account of the findings of the Supreme Court, Washington advices to the New York "Times" Feb. 5 said:

John Barr, woolen importer of 489 Fifth Avenue, New York, was the successful appellant in this suit against the Government, which won in the Court of Customs and Patent Appeals only to lose in the highest court today.

Associate Justice William O. Douglas wrote the majority opinion, which was opposed by a combination rare indeed in Supreme Court annals Associate Justices Felix Frankfurter and Hugo L. Black. Associate Justice Robert H. Jackson did not participate.

Before March 5, 1940, the Reserve Bank set a single rate for the exchange, and this was universally employed. But on that date the United Kingdom established an "official" rate for export. The Reserve Bank told the Secretary of the Treasury of the two rates, and he determined that the "official" figure must obtain. Mr. Barr's woolens, exported from England May 3, 1940, and arriving here May 13, were paid for at the "free" rate, but because on the exportation date the "official" rate prevailed, the Treasury used it.

"We think," Justice Douglas stated, "that the use of the 'official' rate of exchange in assessing and collecting duties upon these imports transcended the authority of the collector and of the Secretary and that the 'free' rate of exchange certified by them (Reserve Bank) should have been used.

"In the present case," Mr. Douglas said earlier, "the British Government fixed the 'official' rate for the purchase of specified commodities for export. One who purchased woolens for export need not acquire pounds at the rate. A lower rate was available and was indeed taken advantage of by petitioner (Barr) when he purchased pounds to pay for the woolens. If the higher 'official' rate is used in the valuation of the woolens, the cost of the goods will be distorted and an inflated value for customs purposes will be placed upon them."

Justice Frankfurter wrote the dissent in which Mr. Black joined. the dissenters concluded that the Treasury Secretary had ample authority to fix a rate for dollar conversions of foreign currencies on a uniform basis "reflecting the dominant value among multiple values of a foreign currency and one not subject to manipulations or influences adverse to our interests."

"Withdrawal of this power of the Secretary," Mr. Frankfurter added, "implies a radical curtailment of his historic and appropriate authority to protect the nation's fiscal interests. If it chose, of course, Congress can so curtail the Secretary's powers. But such an important change in the executive responsibility for our fiscal affairs ought to be disclosed through some unequivocal Congressional expression."

Business Man's Bookshelf

China's Relief Needs—National Planning Association, 800 21st St., N. W., Washington 6, D. C.—paper—25¢ per copy (discounts on quantity orders).

Federal Income Tax Withholding Charts—Manufacturers Trust Company of New York.

International Conciliation for January, 1945—Carnegie Endowment for International Peace, 405 West 117th St., New York 27, N. Y. paper—5¢ (25¢ for one year's subscription).

Production Management — and How It Affects Productivity, Costs and Employment — Albert Ramond and Associates, Chrysler Building, New York 17, N. Y.—paper.

Tool and Die Industry Comes of Age—William R. White, Jr., and Stuart H. Sinclair—National Tool and Die Manufacturers Association and The Tool & Die Institute of Chicago—Copies may be purchased by writing George S. Eaton, Executive Secretary, National Tool & Die Manufacturers Association, Union Commerce Building, Cleveland 14, O.

What Foreign Trade Means to You—Maxwell S. Stewart—Public Affairs Committee, Inc., 30 Rockefeller Plaza, New York 20, N. Y.—paper—10¢.

G. I. Loan Procedure—A portfolio of instructions for making loans under the Servicemen's Readjustment Act of 1944—New York State Bankers Association—33 Liberty St., New York 5, N. Y. —paper.

Strengthening the Congress—Robert Heller—National Planning Association—800 Twenty-first St., N. W., Washington 6, D. C.—Paper—25¢

Government Controls and Industry's Pricing Policies

(Continued from page 621)

you will find profits taxes are ignored, as indeed they may well be if there are to be no profits.

But how can business operate without profits! Henry Wallace himself couldn't think up any better scheme to undermine the foundations of a sound and prompt reconversion. We must have both employment and profits. Without either we can have neither.

OPA is supposed to work out some of these problems in consultation with industry. Do they do it? No!

When any industry looks ahead to the days of reconversion and immediate post-war, and in dismay contemplates the effects of such a profit-pinching policy on its ability to do its part in reemployment, in getting the producing and distributing machine going at the tremendously increased rate necessary to provide all the needed jobs, and find the powerful price control bureau deaf to the economic facts, what can the industry do about it?

Well, 103 stove manufacturers got together and decided the public and Congress ought to know something about it. They even contributed a little money to implement a better understanding of their predicament. For, although a few small stove manufacturers had been permitted to make stoves during the war at full blast and with a volume which, taken from their shipping rooms with practically no selling cost, had made them good profits, the great majority of the manufacturers, including a lot of small ones, had been put out of the stove business, and realized they would be up against it to continue to pay the wages developed in their plants in war production, and the increased cost of material, and at the same time to sell their goods under OPA, announced price policies which would not permit any profit or, at the most, not enough to support a sound business.

When Mr. Bowles heard that these stove people were going to the public and to Congress with their case, what did he do?

He went to the radio. He said: "Recently a pressure group scheme was brought to my attention which illustrates vividly some of our problems in holding the line against inflationary price increases."

He said: "These minority groups of inflationists and profiteers used every possible method to influence public and Congressional opinion to get higher prices for the products or services which they sold in wartime."

And then, horror of horrors, these stove people hired a publicity man. Mr. Bowles said: "He saw this little group of manufacturers wanted higher profits. He outlined for them a plan by which he felt Congress and the OPA could best be intimidated into granting higher stove prices."

Mr. Bowles then implies that a number of economists were improperly influenced to lend their weight to the selfish profiteers and inflationists, thereby casting aspersions on some of the best regarded and best informed economists in the country. He outlines at length this plot to influence public and Congressional opinion.

He says, after stating that **some** stove-makers have been making good profits during the war: "In a handful of cases, however, a few stove manufacturers have really been squeezed by rising costs. In some of these cases special price adjustments have been made."

He says: "One small group in the stove industry, however, lacks confidence in the fairness of this essentially American and democratic way of doing business in war time."

Have these adjustments provided for any profit? OPA has not only limited price increases to manufacturers to the recovery of their costs, but in its recent pronouncements has stated that any such increases must be absorbed by distribution and not passed on to the public.

Now what have these few stove-makers who, by the way, are 103 stove-makers and represent most of the industry—what have they asked for that should subject them to such incriminations?

First, they have pointed out that OPA is not carrying out the intent of the Price Control Law but is arbitrarily tinkering with the American profit system which tinkering Mr. Bowles calls: "This essentially American and democratic way of doing business in war time."

Second, they are looking ahead as to their ability to reconvert and produce stoves when the green light comes, rather than worrying about the prices of stoves they do not make at the present time.

Third, as to price, they are simply asking that when they get to making stoves again the increased costs which they cannot avoid be recognized and that they be allowed their pre-war or so-called **historic** margins of profit over these increased costs. That is the **maximum** they are asking for.

There is no slightest basis for the charge of "profiteers and inflationists" in the action of these stove makers. They can't get him to listen to them and he says they should not go to the public nor Congress. This narrows down the choice of places where he might tell them to go.

Let's get some sense into this question of post-war prices of durable consumer goods, and any other goods similarly mishandled by OPA. Price ceilings should be held on such scarce goods at a point which absorbs the unavoidable increases in cost and prevents the inflation of profit margins but does not eliminate nor substantially reduce the profit margins. Under such a general policy business could go ahead with that confidence which must be created if we are to see the bold and swift reconversion we all want. Under such a policy supplies would rapidly increase and the forces of competition would stimulate engineering and plant and process improvement so that the abundance of goods would soon remove any need for price control.

Any assumption that goods will sell themselves and that the margins of distributors and dealers can be cut is as fallacious as the assumption that manufacturing margins can be safely cut by government. It has been demonstrated, I think, that a greater distributive effort than ever will be required to insure the greater consumption we must have. The rapid rebuilding of sales organizations and the retraining of salesmen should not be delayed nor prevented by the government reducing distribution margins. Here again the historic margins should not be squeezed down. These ratios of selling price over cost have been evolved in the intensively competitive business of the past. Government tinkering with them is exceedingly dangerous.

For OPA to recognize and respect the historic spread ratios between cost and selling price would not, I believe, increase prices beyond what is necessary to stimulate reconversion nor beyond the ability of consumers to buy and would be a sound control of inflation.

May we now consider briefly another phase of government control of pricing? Government should not be permitted to extend discriminatory nor socialistic favors to any particular types of business. Co-ops should have to stand on the same competitive basis as other forms of manufacturing and distribution. For Co-ops to get a large part of their capital from excessively long government loans at practically no interest puts government capital into competition with private business. And for government to favor Co-ops in taxes adds to a trend to socialize business.

It is not pressure group opposition but enlightened self-interest for all of us to oppose the use of government capital and the extension of government tax favors to any form of competitive private business. If Co-ops can thrive on such capital as they can attract from individuals or banks or from all of the sources used by private industry and pay taxes in the same way as other business in the same fields, they may be a useful and desirable factor in business. If they are provided with government capital and do not pay their fair share of taxes, their existence will tend to drag other business down to the government owned and patronized level, and to become an increasing burden on all of those who still pay taxes. Although Co-ops usually sell at prevailing prices and refund a portion to subscribers, they constitute essentially price competition. To that there can be no objection if and when they play the game to the same rules as other forms of manufacturing and distribution.

In the few minutes at my disposal it would seem to me that the two subjects I have touched upon are the most generally important present phases of government controls in industry pricing. I hope your own knowledge of these subjects rather than my brief remarks about them, makes you wish to do all you can to bring about a more general understanding and a consequent enlightenenment of public and Congressional opinion which will free private competitive enterprise from some of its shackles.

Los Angeles Banks Organize Credit Group

A group of Los Angeles banks on Jan. 17 announced plans to form a credit group with a $30,000,000 pool to aid small and medium size business in the post-war period. We quote from the Los Angeles "Times" which also said:

"Participating in the pool will be the Los Angeles banks constituting the Los Angeles Clearinghouse Association, according to Victor H. Rossetti, President of the association, who made the announcement.

"Under the plan now in process of preparation, a loan committee will be provided, which will make available the combined facilities of credit and counsel of the member banks, which can be called upon to consider the financial needs of small business in the Los Angeles area."

Fred O'Donnell Associated With Lester & Company

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Fred C. O'Donnell has become associated with Lester & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange. Mr. O'Donnell in the past was active as an individual dealer in Los Angeles, and was with Crowell, Weedon & Co. and Edgerton, Riley & Walter.

Bowles Says Distributors Must Share in Absorbing Higher Costs

(Continued from page 621)

a set of standards comparable in precision to those applied at the manufacturing level. The need for renewed attention and a more careful working out of standards of obtaining cost absorption at the wholesale and retail levels has become urgent for a number of reasons, the Administrator explained.

"Since the President's hold-the-line order became effective, the cost of living has been held to an increase of only one per cent," he said. "During those same 18 months, wholesale price increases have been limited to three-tenths of one per cent. These figures are from the Bureau of Labor Statistics.

"That excellent record was attained in large degree because of OPA success in reducing retail prices of food by 4.5 per cent since May, 1943. Record crop yields, subsidies and effective control of food prices at all levels, including distribution, have made this possible.

"Had it not been for this successful operation of the food price program, the story of price stabilization might have been far different. Lower retail food prices have helped to offset increases of 11 per cent in clothing prices and a rise of 13 per cent in house furnishings prices. The decline in food prices—some to below ceiling prices—has almost wholly counterbalanced these other increases because food prices represent about 40 per cent of the cost of living budget of the average middle and lower income groups.

"In 1945, inflationary pressures are likely to be greater than ever before in the nation's history. We cannot hope blindly that unusually favorably growing weather for farmers will continue year after year. If crop conditions should be adverse this summer all food prices would push hard against the ceilings and the stability of the cost of living would be threatened seriously.

"This possibility plus the fact that price rises in consumer goods constitute the most dangerous threat to stable prices, makes it absolutely essential that a policy of reasonable absorption by distributors be carefully developed and uniformly applied."

Conditions exist in the distributive trades which permit reasonable absorption of cost increases, Mr. Bowles said.

"As in the case of other business groups, operations of retailers, wholesalers and other distributors have been very profitable during the war period," he said. "Department stores, when greatly increased volume of sales are taken into account, are making dollar profits before taxes which are much more than ten times their 1936-39 earnings.

"Greatly increased profits have also been experienced by many other types of stores. In the retail field, these include men's clothing stores, women's specialty shops, variety chains, hardware stores, furniture stores, music stores, and others. Dry goods wholesalers, hardware wholesalers and other wholesale distributors are experiencing highly favorable earnings.

"These facts indicate that the distributive trades are in a position, with few exceptions, to share cost increases that occur under standards which fulfill the requirements placed on the OPA by the Congress and Executive orders. Under these standards, we believe that distributors at the end of the war, with rare exceptions, will still be in a far more profitable position than they ever experienced in peacetime.

"We have an obligation to protect consumers against increases in retail prices on those occasions where some increase is necessary at the manufacturing level.

"I believe there is no question of the reasonableness of our stand. I am confident that the vast majority of store owners, wholesalers, and other merchants will cooperate with us to the hilt."

OPA Pricing Standards Explained

Mr. Bowles outlined to the distributors attending the meeting the pricing standards developed by OPA, approved by Congress and upheld in the Courts to carry out the provisions of the Emergency Price Control Act that ceiling prices shall be "generally fair and equitable."

"According to these established standards ceiling prices of the products of a trade or industry as a group are 'generally fair and equitable' so long as they yield to an industry or trade as a whole at least its peacetime profits before taxes," Mr. Bowles said. "In addition, for industries producing more than one product OPA would not consider the price on one of these products to be fair and equitable if the price failed to cover the out-of-pocket cost of all but the high-cost marginal producers.

"Our pricing standards require the absorption of increases in cost before price increases are allowed except where the result is to make the price below the 'generally fair and equitable' level. OPA has employed this absorption principle at the manufacturing level practically since Pearl Harbor.

"If it had not been for this principle the level of all prices would be far higher than it is today. We would be headed toward a dangerous inflation.

"In working out a program of comparable principles for absorption by retailers and wholesalers, we will not require them in any trade to absorb increases in the prices of goods they purchase or increases in other costs if it reduces that trade's over-all profits below its peace-time earnings.

"This does not mean that ceilings must be set so that every wholesaler and retailer can obtain a profit regardless of individual efficiency. It means that ceilings must be such that a trade as a whole can earn as an absolute minimum its full peacetime profits. The vast majority will, of course, continue to earn far more than that.

"We will also work out principles by which to determine the minimum point beyond which a margin of a wholesaler or retailer on a particular commodity will not be reduced by increases in his suppliers' prices."

The Emergency Court of Appeals handed down a decision last August upholding OPA's authority to require cost absorption at wholesale and retail when increases in prices at some level in the manufacturing stage may occasionally be required by law, Mr. Bowles pointed out. The court found that:

"When such increases are prescribed, it is the duty of the Administrator so far as possible to require them to be absorbed at some appropriate intermediate stage in the process of production and distribution at which there may be an existing margin of profit reasonably satisfactory to absorb them."

Ability of Distributors to Absorb Increases

Mr. Bowles stated that gross dollar margins actually realized by most wholesale and retail trades have risen sharply during the war. These increased margins have been due to:

1. Fewer clearance sales and smaller mark-downs required to get rid of less desirable merchandise.

2. Percentage mark-ups added to higher prices; resulting either from some price increases permitted by OPA, or a shift to higher-priced lines.

The results have been that the dollar rise in average prices paid by consumers exceeds that of prices paid by wholesalers and retailers. Profit margins have also risen—sharply in most trades—because realized dollar gross margins have increased more than operating expenses.

These figures and other data, Mr. Bowles continued, indicate that most wholesale and retail trades are enjoying increased sales, higher realized margins, reduced expenses in relation to sales and greater profits.

"Clearly, many trades have acquired cushions to withstand the impact of increases in manufacturers' prices when required by our pricing standards," the Administrator said. "Hence, corresponding increases in prices to consumers are not always needed. Thus, wholesalers and retailers are in a position to aid the stabilization program by absorbing increases in costs where possible and reasonable, according to standards similar to those applied to manufacturers."

Proposed Standards Discussed

In working out refined standards of cost absorption for the distributive trades, OPA officials attending the meeting pointed out that the main difficulty is not to meet the earnings test but to find a method of equitably measuring minimum margins beyond which increases in suppliers' prices for one commodity or group of commodities will not be permitted to reduce margins of the distributive trades. This is true, they said, since cost accounting techniques for the distributive trades have not been developed, or records obtainable, to an extent comparable to those of manufacturing industries. At the meeting OPA officials presented some alternate ways of solving this problem and urged distributors to make their own recommendations.

OPA indicated that it proposed to divide absorption of increases in manufacturers' prices, where necessary, between wholesalers and retailers and presented several methods of measuring amounts each group should be asked to absorb. It was pointed out that, of course, neither wholesalers nor retailers would be asked to absorb cost increases to an extent that margins would be reduced below minimum "fair and equitable" levels.

H. S. Hensel Sworn in as Ass't Navy Secretary

H. Struve Hensel, New York attorney, who was nominated by President Roosevelt on Jan. 22 to become Assistant Secretary of the Navy under James A. Forrestal, was sworn in on Jan. 31 by Rear-Admiral Thomas L. Gatch, Judge Advocate General. The nomination had been confirmed by the Senate on Jan. 29.

Washington advices from the N. Y. "Times" reported that Mr. Hensel practiced law in New York City from 1925 to 1941, when he joined the Navy Department and later become its general counsel, in which position he will be succeeded by W. John Kennedy, of Los Angeles, who has served as Assistant General Counsel and as Chairman of the Navy's Price Adjustment Board. It was also noted in the "Times" that Mr. Hensel will fill a post that has been vacant since Ralph Bard moved up to become Under-Secretary when James Forrestal succeeded the late Frank Knox. Mr. Hensel, it is said, will take over procurement and production problems.

Mutual Funds

Investment Company Advertising

A number of Good, informative advertisements concerning the nature and purpose of investment company shares have appeared recently in leading newspapers and trade publications. Notable among these advertisements was one by **The Parker Corp.** entitled "A Few Words to the 'New' Investor." An equally intriguing ad, "The Open-End Investment Company—What It Is—What It Does," was published by **Hugh W. Long & Co.** A third and larger ad, "Financial Questionnaire for 1945," was published by **Lord, Abbett.**

We are firm believers in the need for and value of this type of "educational" advertising in the investment company field. There can be no doubt that mutual investment companies will some day occupy a position in our national economy comparable to that presently enjoyed by mutual savings banks and mutual life insurance companies. One of the first steps in achieving this status will be to establish clearly and accurately in the public mind just what mutual investment companies are and what they do.

1944 Sales

The National Association of Investment Companies reports that gross sales of the 67 open-end member funds during 1944 totaled $169,228,000. Net sales, after repurchases, amounted to $98,413,000.

Distributors Group, in a letter to dealers, compares these figures for the industry with the sales of **Group Securities, Inc.,** and reports that, "During 1944 gross sales for the industry increased 47% over 1943, as compared with an increase of 116% for Group Securities, Inc." Stated in percentages, Group Securities accounted for 14.31% of the industry's gross sales and 17.78% of its net sales.

Keystone Custodian Funds

As of Jan. 31 the combined assets of the 10 **Keystone Funds** stood at a new high total of $110 million, representing a gain of roughly $39 million from the total a year earlier.

Net assets of **Keystone Series B-1** on Dec. 31, 1944, amounted to $3,030,264, as compared with $2,237,383 at the close of 1943. **Keystone Series K-2** had net assets of $3,461,527 at the year-end, compared with $1,265,503 a year earlier.

Lord-Abbet Funds

The **Lord-Abbett** group of investing companies reported total assets of $63,197,017 at the end of 1944. The largest, **American Business Shares** with assets of $31,845,288, increased from $4,460,629 a year earlier, principally due to taking over the assets of **Quarterly Income Shares** and **Maryland Fund** during the period. **Affiliated Fund** had $25,036,174 at the year-end, compared with $22,368,908 a year earlier, including $10,000,000 of prior obligations at each date. **Union Trusteed Funds** had $6,315,554.36, compared with $3,296,598.48 a year earlier.

Fundamental Investors

From the Annual Report: "The year marked a continuation in the growth of the company. Net assets rose from $9,700,000 at the beginning of the year to $12,400,000 at the close. Shares outstanding increased 38,736, or 8.4%. The per share asset value increased from $20.89 at the beginning of the year to $24.73 at the close, an advance of 18.4%."

General Investors Trust

The Trustees of **General Investors Trust** report net asset value on Dec. 31, 1944, at $2,131,529, equivalent to $5.65 per share on the 377,133 shares then outstanding. This constitutes an increase of 12% from $5.04 per share on the 389,737 shares outstanding at the close of 1943.

American Foreign Investing Corp.

In the Annual Report to shareholders, Robert S. Byfield, President of **American Foreign Investing Corp.** lists per share year-end asset values and annual dividend payments of the fund for the last five years. In 1944 **AFI** paid a total of $2.50 per share in dividends as compared with $1.75 in 1943, $.60 in 1942 and $.40 in 1941.

Accompanying the mailing of this report to dealers was a reprint of Barron's Quarterly Investment Company review. This study reveals that **AFI's** long-term performance record (Dec. 31, 1938, to Dec. 31, 1944), with a net

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The Recent International Civil Aviation Conference

(Continued from first page)

sphere problems only. It was modeled in large part on the Paris Convention except that no permanent commission was set up and no minimum technical requirements were laid down. In fact, one signatory State sometimes refused to accept a certificate of airworthiness issued by another. Freedom of innocent passage for commercial planes appeared to be accepted but was not observed in practice. When the recent Chicago Convention is ratified and goes into effect, its provisions will supersede all those of the above two conferences.

While some highly important contributions to international civil aviation were made by the Chicago gathering, its achievements fell far short of what had been expected. It drew up a plan for an International Civil Aviation Organization with powers to recommend only; it presented a lengthy report on technical matters which should result in common signals and traffic rules throughout the world, and it defined freedoms of the air and clarified differences of opinion about them but failed to harmonize these conflicting views. Commercial air lines must still untangle a mass of red tape before setting up foreign services in many parts of the world. This was the reason the Conference was such a disappointment.

Reasons for Sudden Calling of Conference

A successful international conference is often but a dramatic climax to careful preliminary negotiations with the outcome a foregone conclusion. For over a year Assistant Secretary of State, Adolf Berle, Jr., discussed the future rules of international civil aviation with Britain's Lord Beaverbrook. The two seemed reasonably in accord and there was every expectation that eventually agreements would be reached. Suddenly in September, time seemed to be running out and some sort of an immediate agreement was most essential. Allied armies were chasing the Germans in headlong flight across France and it was widely prophesied that the war in Europe would soon be over. In the period of reconstruction and trade development to follow air transportation would be of growing importance. The antiquated rules under which international civil aviation had operated before 1939 obviously had to be streamlined, or the growth of air transportation would be tragically stunted.

There were other reasons for speeding up the holding of an air conference although not all of them are yet clear. It was to American interest that the Conference be held while we were still doling out lend-lease money in large gobs. At least the experience of the Conference indicated that smaller nations were inclined to let Santa Claus have whatever he wanted within reason. Likewise there are hints that our commercial air lines with overseas ambitions were beginning to bring pressure on the Government to clear the way for their post-war development. Foreign areas were being liberated and our airplane production had reached the point where overseas transport planes could be made available for commercial use.

Nations Attending

The State Department invited 55 nations to attend, of whom 52 sent voting delegates and two more sent observers. Present were delegations from six parts of the British Empire, each one with the same voting strength as ourselves, from all the Latin American nations but Argentina, from the Philippines, and from such neutral nations as Spain, Portugal, Switzerland and Sweden. Most conspicuous for its absence was Russia, which gave a last minute excuse that "pro-Fascist" powers had been invited. There were others besides Russia who wondered why "slacker" neutrals were permitted to attend what was frequently referred to as the civilian aviation branch of the peace conference. However, this was probably not Russia's real reason for staying away. What it was is not clear. Possibly it was her reluctance to grant planes of other nations the right to fly over her territory during the period of post-war reconstruction. Since Russia occupies one-seventh of the earth's land surface, much of it surrounding the North Pole and hence blocking some of the direct air routes of the future, her abstention was more of a blow to the Conference than was generally admitted. With Russia out, the Big Three or ABC powers of the Convention were literally America, Britain and Canada. Altogether, the Conference was attended by 185 delegates, 156 advisers and consultants, 332 secretaries and stenographers and 124 military police. The scene of this very considerable gathering was the Hotel Stevens, reputed to be the largest hotel in the world.

Principal Personalities

The United States sent ten delegates to the Conference. At their head was Adolf Berle, Jr., an original brain truster and Assistant Secretary of State, but incidentally, not among the battery of secretaries recently appointed for the fourth term. Berle matriculated at Harvard at the age of 14, speaks several languages, affects the diplomatic mannerisms of George Arliss' Disraeli and is known to intimates as "The Brain." Berle proved himself an able negotiator and earned the respect of many American Airline magnates. Other American delegates were William A. Burden, Assistant Secretary of Commerce for Air; L. Welch Pogue, Chairman of the Civil Aeronautics Board, and Edward Warner, Vice-Chairman, all of them suitable selections. Then there were four Congressmen with appropriate committee backgrounds. Most prominent of these was Senator Brewster, of Maine, who participated in the famous Senatorial junket around the world in 1943. Their appointments may not have been such a help at the Conference but may be very important when treaties or agreements have to be approved. And last, there were Fiorello LaGuardia, ubiquitous Mayor of New York, and Rear Admiral Richard E. Byrd, the explorer, who apparently did not even want to come. It would seem that the places of these two might better have been filled by some prominent air executives, such as Juan Trippe, whose combined business and diplomatic ability has carried Pan American Airways into all corners of South America in the last decade, or W. A. Patterson, President of United Air Lines. American big business in the air was unrepresented.

Great Britain at the last minute decided not to send Lord Beaverbrook and his chief technical adviser, but appointed in their stead Lord Swinton and other advisers. Lord Swinton is Britain's newly created Minister of Civil Aviation and ace trouble shooter. Canada sent C. D. Howe, Minister of Reconstruction and Transport, able industrial engineer and famed go-getter, and also H. J. Symington, President of Trans-Canada Air Lines. The Union of South Africa appointed John Martin, perhaps the outstanding business executive in that part of the world and adviser of Jan Smuts, the Dominion's Prime Minister. It has appeared to some that the British Empire chose men of higher calibre than we did. However, the six delegations of the Empire did not hold together throughout the Conference. France was a better ally than some of England's own Dominions. Canada maintained a middle ground between the United States and Britain and essayed the role of the compromiser.

"Closed Sky" Principle Antiquated

Once the "closed sky" principles prevailing before the war are understood and it is realized that these rules would go into effect again automatically when the war ends, the need for a conference of nations to remodel this antiquated system becomes apparent. Under it, if Canada wanted to establish an international air route overland to Peru, she would have to obtain the consent of all the nations over whose territories her planes would have to fly. Oliver T. Lissitzen in his standard work, *International Air Transport and National Policy*, described the old method thus: "Routes which are technically feasible and commercially promising . . . remained unopened. . . . Small but favorably situated countries . . . exacted conditions for the grant of landing rights . . . financially burdensome to the foreign carriers involved. . . . Turkey barred all foreign air lines from passing over it in an east-west direction, primarily for military reasons and, as a result, European services to Southern Asia were deprived of the use of the shortest route. Turkey's attitude redounded to the advantage of Greece, which, it was reported, required all foreign air liners passing over its territory to land at Athens and to coordinate their schedules with those of the internal Greek services."

Obviously the "closed sky" principle would retard the growth of international air transport.

During the last five years peacetime rules governing air routes and the persons eligible to fly those routes have been largely suspended in the interest of getting supplies to the various fronts as quickly as possible. People have become air-minded to an astounding degree; millions have learned to fly, tens of thousands have piloted huge planes across oceans and continents, the public has become used to the idea of traveling from Europe to America in a day or from Asia to America in a few days. A soldier on leave in the South Pacific war theater recently hitch-hiked home to see his family and got back to the front again without being A. W. O. L. The world has seemingly shrunk to a fraction of its former size. At the war's end, we do not want to return to a set of rules that would bar us from important trade routes, nor be prevented from using airfields which American money has built, and forced to dicker endlessly with every nation over which, or into which, our planes would like to fly.

The Five Freedoms

On the other hand, some orderly rules had to be set up to guide and regulate international civil aviation. A condition of complete laissez-faire was out of the question. Governments desired air travel routed so that tariff and immigration laws could still be economically enforced and the spread of diseases from remote parts of the world prevented as far as possible. To determine the extent of air freedoms each nation was ready to allow, the Conference set up five so-called "freedoms of the air," which are as follows:

1. Freedom of innocent passage over any country by established air routes.

2. Freedom to land for technical stops, such as refueling.

bre than we did. However, the

3. Freedom to carry traffic from the home country to another.

4. Freedom to bring traffic back.

5. Freedom to pick up and deliver traffic at intermediate points along world air routes.

These five freedoms of the air taken together are comparable to "freedom of the seas." Specifically excluded is the freedom of a nation to carry goods from one city to another in a foreign country, the equivalent of coastwise trade. The aviation term for this privilege is "cabotage."

American and British Viewpoints

The opening of the Conference found the United States and Great Britain with diametrically opposed viewpoints. The United States wanted all five freedoms accepted by multilateral agreement, and virtually free competition, while Great Britain desired a pooling or cartelization of the world's air transportation. Each had good reasons for its views and each had the support of some other nations. As one reporter described the situation, the United States considered the air transportation pie big enough to feed everyone, while Great Britain felt the pie should be carefully divided.

To the United States, international air transportation is a rich prize which we have an excellent chance of winning since we have a head start in the race. We shall have a vast fleet of transport planes: indeed a few have already been made available by the Surplus Property Board. During the war Great Britain concentrated on the manufacture of fighter planes leaving to us the responsibility of producing transport planes. We also have a host of pilots who are acquainted with air routes everywhere. Both our fliers and our commercial aviation companies have a keen desire to carry passengers and freight to all parts of the world. At the war's end we shall be able to provide air service cheaper than anyone else. Consequently we want competition with a minimum of hampering restrictions.

Great Britain feels it is desperately urgent that she have a large portion of the post-war air transportation business. As soon as the Conference opened she demanded a 50-50 share of the traffic on the North Atlantic run although 80% of that traffic normally originated or terminated with us. She wanted a world organization like our Civil Aeronautics Board to assign routes and fix traffic quotas. The reasons for this attitude are not hard to find. During the years before the war her imports exceeded her exports by from one to two billion dollars.

This sizable import balance was paid for largely by the re-

BALANCE OF INTERNATIONAL PAYMENTS OF UNITED KINGDOM

Date—	Excess of Merchandise Imports	Net National Shipping Income	Returns from Investments	Other Income
1913	£145,000,000	£94,000,000	£210,000,000	£35,000,000
1924	363,000,000	140,000,000	220,000,000	75,000,000
1929	381,000,000	130,000,000	250,000,000	104,000,000
1931	408,000,000	80,000,000	170,000,000	54,000,000
1933	265,000,000	65,000,000	160,000,000	40,000,000
1934	294,000,000	70,000,000	170,000,000	47,000,000
1935	263,000,000	70,000,000	185,000,000	40,000,000
1936	348,000,000	85,000,000	205,000,000	40,000,000
1937	447,000,000	130,000,000	220,000,000	45,000,000

Gold shipments omitted, House of Commons Sessional Paps. Vol. 25, 1938-39, p. 438.

turns on capital Britain has loaned abroad and by payments for shipping services. Great Britain used to own over a quarter of the world's ocean tonnage. During the war Britain has virtually mortgaged a large part of her overseas investments. She owes three billions of dollars to India. A considerable portion of her Merchant Marine has been sunk or rendered obsolete and the remainder is bound to have keen competition from a greatly enlarged American Merchant Marine. Her famous luxury liners may never again provide first class transportation because airplanes will be handling that assignment. Moreover, since planes make the crossing more rapidly, hence more frequently, comparatively few will be necessary. One authority has estimated that 30 to 50 passenger planes could carry as many persons on the North Atlantic run to Great Britain as were carried by all first class steamers in an average year between 1928 and 1938. Thus, if Britain is to continue to import as much as she formerly did, thereby maintaining her standard of living at a high level, and if she is to pay her debts, she must insure herself of the means. She rightly regards a large air fleet as important to her in the future as a merchant fleet was in the past.

Britain's far-flung Empire enables her to support her viewpoint with considerable strength. She is in an excellent position to map out and control routes to nearly every portion of the globe without having to ask of other nations more than the right to land at the terminal airport. Few countries have the island possessions to compete with her in this regard. And for other reasons, her bargaining position *vis-a-vis* most nations of the world is strong enough to obtain many concessions. At the air Conference she had the backing of France, who, like Britain, does not want to see this country get a head start, and of Australia and New Zealand.

Parenthetically, it might be asked which is the better policy, the English one of pooling or the American one of competition. Obviously, each has its merits. A decision is not easy to make.

It may be argued in favor of the English system that it is the policy we have adopted for aviation within our own country after experimentation with competition. The Civil Aeronautics Board assigns routes and fixes rates just as the English wanted the ICAO to do. After early years of jungle warfare between competing companies this was found to be the more satisfactory system, producing better and safer service. Incidentally, the history of railroading points much the same moral. Despite all the talk of competition being the American way, it really is not in the field of civil aviation.

A second argument for pooling is that it will reduce international rivalries and bitterness in one field—enough of such economic conflicts produce wars—and lessen the chances of a subsidy race. Nations will tend to subsidize their air services for military reasons, for prestige purposes and to further their foreign trade. In most of the world's leading nations, a larger percentage of the national income is derived from foreign trade than is the case with the United States. Hence, the furtherance of foreign trade seems urgent to their governments and they would subsidize their air lines in order to advertize their nation and its merchandise. A subsidy race would ensue. Of course we too could subsidize and probably lead in the race if we wished, but, judged by our past behavior in the analogous field of ocean shipping, we are not inclined to be generous with subsidies. Compare our modestly subsidized pre-war Merchant Marine with the heavily subsidized luxury liners of Great Britain, France, Italy and Germany. Furthermore, look at the history of our Merchant Marine during the past century. In the 1820's we carried about 90% of our foreign trade in our own ships; by 1900 we carried only 9%. The decline was steady. Before the Civil War it was chiefly owing to our failure to build iron vessels with steam engines, but later a principal reason was our inability to compete with heavily subsidized foreign lines and the unwillingness of our Government to provide adequate subsidies. Thus it might be wiser to accept quotas for international civil aviation to begin with and avoid, so far as possible, competition that is likely to end in subsidy races in which in the past we have been bested.

However, it may be argued in favor of the American policy of competition that it is what England adopted as her general foreign trade policy in the 1850's when she had an industrial supremacy somewhat similar to our present aviation supremacy. She maintained that policy until about a decade ago when she finally changed to a system of high tariffs. Thus both Britain and the United States are preaching economic policies for their international civil aviation that are inconsistent with their past practices. But perhaps that fact is more interesting than it is persuasive.

A stronger argument for competition is the well known economic one that it is most likely to produce the best service at the lowest price. That is how economic progress is made. Government chosen and regulated monopolies have less incentive to improve their methods and lower their fares. We should consider very carefully whether we want international air service limited by quotas. Similar international schemes for pooling the production and marketing of sugar, rubber, tin and copper have been tried and been severely criticized. So has our own AAA program which is somewhat analogous.

The Escalator Clause Compromise Nearly Succeeds

Canada early assumed the role of compromisor between the mother country and the United States by proposing what was known as the "escalator" clause. This required the United States to agree to the establishment of quotas at the outset on major air routes. For example, we would begin by sharing the North Atlantic run on a 50-50 basis with Britain, thus preserving her prestige in world economic affairs. But the "escalator" idea also required Great Britain to concede that if her planes consistently did less business than ours—if theirs operated below 65% of capacity and ours carried more than that —then her quota would be periodically reduced and ours increased. This would never be carried to the point of her complete elimination, however. Both the British and Americans accepted this working compromise and began dickering over the amount of the quotas on various world air routes. Our own commercial aviation company heads complained that Berle had needlessly sacrificed a strong position. However, Berle felt that a general agreement was more important for world peace and progress than exploitation of our momentary advantage. At least he felt that way to a certain extent, but, as will be seen, there was a limit beyond which he would not go.

The "escalator" clause idea came very close to reconciling the American and British views and making the air Conference an outstanding success. But at the last moment the delegates failed to agree on their interpretation of the fifth freedom as it applied to the "escalator" clause. The fifth freedom, it will be recalled, was the freedom to pick up and deliver traffic at intermediate points along world air routes. For example, on an air route from New York to Warsaw via London and Amsterdam, we would be permitted to deliver an American cargo in London, pick up an English one there and deliver it in Amsterdam and pick up a Dutch cargo and deliver it in Warsaw. Both sides agreed to that, but the English refused to let the intermediate tonnage be counted in determining quota changes under the "escalator" clause. To illustrate, the British maintained that if our share of the New York to Warsaw traffic was 50%, it could be increased only if our planes were consistently "full" of cargoes loaded in New York and not unloaded until the planes reached Warsaw. We could not increase our quotas merely because our planes were loaded between New York and London, then emptied and reloaded for Amsterdam, emptied again and reloaded for Warsaw. We insisted that these intermediate cargoes should be counted. The English countered that to do that would give us a great advantage over the small nations who would gradually be squeezed out of the short haul business. Britain's attempt to line the small nations up on her side did not succeed, for they seemed more interested in obtaining early and adequate air transportation than in who provided it. Most of them wanted the Canadian compromise with the United States' interpretation of the fifth freedom. The English complained that our introduction and interpretation of the fifth freedom was a last minute thought and we replied that their refusal to accept it was a last minute change of mind. Feelings, though kept under control, were bitter.

When it became apparent that the English delegation would make no further concessions on the fifth freedom, Berle and his delegation dramatically announced their complete abandonment of the quota idea and the "escalator" clause compromise and their return to the original American contention that international civil aviation should be on a free and competitive basis. For this Berle was enthusiastically applauded by American air transport company heads who felt sure that our share would be larger without quotas. They also thought that the appointment of one chosen company to operate each route would be less likely to occur. Since the chosen instrument policy would prevent most of them from participating in overseas transportation, they opposed any world policy likely to cause its adoption here.

What We Salvaged

In order to salvage as much as possible from the now half wrecked Conference it was proposed that two sets of freedoms be drawn up to which as many as wished might adhere. One list contained only the first two freedoms; the other included all five freedoms. Our refusal to be bound by quotas necessitated the lumping together of the last three freedoms. By mid-December, 22 delegations had agreed to grant the first two freedoms and as many more were expected to adhere later, while by mid-January 19 were willing to grant five freedoms. However, when Britain granted two freedoms, she at first excluded the right to land for refueling in Newfoundland which is a rather vital stopping place on the shortest route to most of Europe. Of the 19 nations signing the five freedoms pact, practically all were our Latin American neighbors: the only European nation was Sweden. Nations agreeing to the five freedoms were in some cases keenly interested in those agreeing to two freedoms, for that might open up more direct air routes. Flying over such nations would be permissible even though pick-ups and deliveries were barred.

The question naturally arises of how much better off we are now than we were under the old "closed sky" rules. The answer is that five freedoms of the air will prevail in many parts of North and South America. Special permission will no longer be necessary to fly over, or land for refueling in, a number of European nations which have agreed to two freedoms. The way is open to increase the number of nations in both categories and undoubtedly more countries will take advantage of the opportunity as time goes on. But in most cases permission to enter by the air or fly over nations can only be obtained as a result of diplomatic negotiation. We may expect a great buzz of negotiating of bilateral agreements in the next few months. We have already arranged for trans-Atlantic air service to Spain, Sweden and Iceland, using bilateral agreements. Other similar agreements will doubtless follow, for we are in a strong position to obtain concessions, probably in a stronger position now than is Britain.

Other Accomplishments of the Conference

It is very possible that the Chicago Conference will be remembered for other achievements than defining and attempting to inaugurate the five freedoms. If the home governments approve the 95 articles of the document known as the Convention of International Civil Aviation which the delegates approved, much will have been accomplished. The Convention provides that landing and airport lights, radio signals, aircraft markings shall be standardized. It permits foreign aircraft not making scheduled stops to fly into or over any signatory's territory and make stops for noncommercial purposes without securing prior permission. In other words, the way is wide open for tourist flying. However, international aircraft must carry radio transmitters, certificates of registration and airworthiness and a log book. The Convention provided also for the establishment of a world organization known as the International Civil Aviation Organization, already called ICAO, which will tie in with the Dumbarton Oaks proposal for a General International Organization (see Chapter V, Sec. B, No. 7 of GIO). This ICAO is to have an assembly in which all participating nations will be represented and a council of 21. A seat on the council is being saved for Russia. ICAO does not have power to fix rates, establish routes or determine quotas; it may only give advice and make recommendations. However, it may suspend a member by two-thirds vote for violating the Convention. If 26 nations signify their adherence to ICAO, it will go into effect after the war. During the period between the war's end and the adoption of ICAO, an interim organization with similar powers may be set up if enough nations agree.

Air Conference One of Several Recent Disappointments

In the light of the above, it can hardly be said that the Conference was still-born but it was a disappointment. Because of what it failed to accomplish, international civil aviation's growth in the next few years will undoubtedly be less rapid than it might have been. Ominous are the facts that Russia refused to attend, Great Britain and the United States held widely opposite views and just a little more concession might have produced a reconciliation of those views. Set these alongside the recent bickerings over petroleum, copper and cocoa and add the apparent international rivalries in Poland, Italy and Greece and the outlook becomes dismal indeed. No wonder the Germans still hope for a split between the Big Three and a negotiated peace. Yet so long as no one loses his head, we can, and it is to be hoped, we shall find a solution to most of these problems. Another air Conference, adequately prepared for this time, might be a good beginning.

Canadian Securities

By BRUCE WILLIAMS

The direction of the "straw in the wind" represented by the Grey North by-election result can now be analyzed. On the surface a significant Progressive-Conservative gain has been registered. But on closer observation we find that the successful candidate is a former local Mayor in a rural community who, in the 1940 Federal election, ran as an Independent Liberal. Furthermore, Ontario is the last Conservative stronghold.

The poor showing of the C. C. F. which although represented by a solid personality in the form of an Air Vice-Marshall, only goes to confirm the waning trend of this movement which possibly reached its zenith following the striking C. C. F. successes in the last Ontario election.

As a pointer, therefore, to the trend in the forthcoming Federal election, this result is not of paramount importance. On the other hand, it can have a decided bearing on the timing of the call to the country. The probability of any deferment within the scope of established parliamentary procedure now seems ruled out and an early announcement of a definite date can be expected.

As a matter of conjecture, it would appear that the period immediately following the next Victory Loan in May could very well have favorable consideration.

In view of the imminence of political events of a possibly critical nature, the continued unruffled calm and strength of the security markets is perhaps somewhat surprising. However, as already pointed out, other factors for the moment are strongly predominant.

In the first place, the current accentuation of the downward trend of the interest curve is having a powerful effect on all bond prices. This influence is supplemented in the case of Canadian external securities by an increasing shortage of supply from Canada.

In aggravation of this situation, the demand in this country is growing, and for the first time since the outbreak of war in Europe, commercial banks are ready purchasers of high grade Canadian bonds. Furthermore, there are few replacements of maturing and called issues, and in accordance with the policy established since

(Continued on page 640)

Thomson & Co. Opens Branch in Toronto

TORONTO, ONT., CANADA—Thomson & Co., members of the Montreal Stock and Curb Exchange, and Toronto Stock Exchange, will open a branch office in Toronto at 38 King Street West, as of March 1. Col. Carson McCormack, who will acquire the Toronto Exchange membership of Henry H. Rath, a partner in the firm, and Andrew J. Davis will be admitted to partnership.

The firm's main office is located at 355 St. James Street, West, Montreal.

International Investment Position Of the United States

(Continued from page 619)

With respect to long-term investments only—which comprise the chief earning assets involved—the United States is still a substantial creditor, although its net holdings are much smaller than in former years. On either basis, whether measured by total assets or by long-term investments only, the United States is far from being, as sometimes supposed, the greatest creditor nation of all time by comparison either with its own past experience or with that of the United Kingdom.

It probably would be a mistake to attribute any profound significance to the net position indicated by the present estimates, especially in view of its probably short-run character. The excess of liabilities may be quickly eliminated after the war by the utilization of foreign dollar balances to pay for United States exports or by their conversion and withdrawal in the form of gold. In this connection, the net debtor position appears small indeed by comparison with the huge gold stock held by the United States, which amounted to $20,825,000,000 at the end of September, 1944.

The estimate of the net position depends to a significant extent on several more or less arbitrary decisions as to the types of assets and liabilities included and the methods of valuation employed. It may also be open to question whether the value of outstanding assets and liabilities, however determined, affords the most significant criterion of a country's creditor-debtor position.

What Is a Creditor Nation?

Part of the confusion regarding the position of the United States as an international creditor or debtor seems to be attributable to different conceptions of the meaning of these terms. At least four interpretations are possible, and it is not always clear which concept is employed in contemporary discussion.

The four possible criteria are: The net-outstanding basis, the net-income basis, the net-movement basis, and the investment-potential basis.

TABLE I

International Investment Position of the United States, September, 1944

(In billions of dollars)

Assets (United States investments abroad):		
Long-term:		
Direct	7.3	
Foreign dollar bonds	1.7	
Miscellaneous private	1.0	
United States Government	.6	
Total long-term		10.6
Short-term:		
Private	0.3	
Official	.2	
Total short term		0.5
Total asests		11.1
Liabilities (Foreign investments in the United States):		
Long-term:		
Direct	2.2	
Preferred and common stocks	2.7	
Corporate and government bonds	.7	
Miscellaneous	.6	
Total long-term		6.2
Short-term:		
Private	2.8	
Official	3.3	
Total short-term		6.1
Total liabilities		12.3
Net creditor (+) or debtor (—) position of the United States:		
On long-term account		+4.4
On short-term account		—5.6
Net position		—1.2

Net-Outstanding Basis

This is the concept most commonly employed and may be defined simply as the excess or deficit of a nation's investments abroad over foreign investments within its territories. This method, which was used in measuring the net position in the opening paragraphs, involves merely an evaluation and summation of a country's outstanding assets and liabilities on international account. While the concept is simple, its application involves matters of judgment, especially with reference to the types of holdings to be included.

Residence of the owner, rather than nationality, is probably the most significant test of whether an obligation is international in character. Thus, investments abroad of all residents of the United States, regardless of nationality, are herein considered part of this country's "foreign investments," while even the holdings of United States securities by American citizens more or less permanently residing abroad must be considered as foreign investments in the United States.

Holdings which do not ordinarily give rise to payments with respect to principal or service are omitted from the present estimates. Personal property (such as homes or objects of art), property of charitable, religious and educational institutions, and governmental property held for governmental use (such as embassies and military installations) are thus excluded. Moreover, intergovernmental obligations resulting from World War I are also excluded.

Bank deposits, although not strictly speaking an "investment," are customarily counted along with other short-term claims in computing gross assets and liabilities outstanding. However, the question which naturally follows from this treatment is how to consider earmarked gold, which, at least from the owner's point of view, is very similar to foreign exchange reserves held in the form of deposits in a gold standard country. In other words, why distinguish between foreign "official" holdings of dollar balances in New York and earmarked gold held for the account of the same foreign official entities, principally central banks and governments? Such gold amounted to $3,843,000,000 at the end of September, 1944, the date covered by table 1.

The distinction lies in the fact that foreign deposits constitute a potential claim on the monetary reserves—the gold stock—of the United States, while gold earmarked on foreign account is held here simply as a matter of convenience and does not form part of these reserves. The physical withdrawal from the country of gold held under earmark has no effect on the monetary reserve position of the United States, while the withdrawal of dollar balances would tend to reduce its gold reserves.

As a potential claim on the real resources—goods and services—of the United States, earmarked gold and dollar balances are probably of equal importance. But in this sense, all gold wherever held is a potential claim on United States resources, limited only by the cost of shipment and the willingness of its foreign owners so to make use of it. By the same token, the United States gold stock constitutes a potential claim on the goods and services of other countries.

The problems of valuation are also complex. Bonds, for instance, may be stated at par or market value, while equity investments, such as common stocks, offer three alternatives: par, market, or book value. The methods used in this article are described in the methodological note appended, but it may be noted here that if par rather than market values had been used to measure current United States holdings of foreign dollar bonds, the net-debtor position would have been considerably smaller.[1]

As a statement of international assets and liabilities, the debtor-creditor position is significant in two major respects. In the first place, from the standpoint of countries that may have balance-of-payments problems, it measures the amount of international assets which may be subject to at least partial liquidation, depending upon their nature and ownership, to meet either short-run foreign exchange deficiencies or more severe strains such as those associated with war-time or post-war dislocations. The converse of this situation, from the viewpoint of the country in which the assets are located, is the possible effect that such liquidations might have on its securities and commodity markets or its monetary reserves.

Secondly, the creditor-debtor position, especially on long-term accounts, is significant for the bearing on the current balance-of-payments position of investment service—that is, income and amortization payments resulting from international investments. This aspect of the question, ordinarily the more important, leads to the second of the four basic criteria suggested for judging a country's creditor-debtor position.

Net-Income Basis

This concept involves basing the decision as to whether a country is a creditor nation on whether it receives more income on investments abroad than is paid out to foreigners on their investments in the country. This criterion may yield very different results from the net-outstanding approach, especially if large amounts are held in liquid form yielding little or no return.

Net-Movement Basis

Familiar from writings of the nineteenth century, the net-movement basis does not specifically involve the determination of whether a country is a debtor or a creditor, but whether, currently, it is borrowing or lending. It is obvious that a creditor country, as defined by either of the first two criteria discussed, could at any given time be either a net exporter or importer of capital.

Potential-Investment Basis

The potential capacity of the United States to provide capital for foreign investment appears to lie behind the sometimes voiced expectation that, at the close of the war, the United States will be "the greatest creditor country the world has ever known." This is again a completely different criterion and one far less subject to accurate appraisal than any of the foregoing. A country's potential foreign-investment capacity depends on a number of factors, including the volume of private and corporate savings, the willingness to invest abroad, the availability of foreign investment opportunities, and the ability to create and maintain a surplus on trade and service account.

[1] In previous estimates by the Department of Commerce, including those presented in the accompanying chart for years prior to 1944, foreign dollar bonds have been computed at par rather than market values.

Position of the United States

The accompanying chart shows the varying position of the United States over the past 30 years, based on the best estimates of outstanding assets and liabilities available. Although the data for all years are not strictly comparable (see methodological note) the trends shown are unquestionably significant. Present foreign long-term holdings of the United States are only about two-thirds of their previous maximum of $15,200,000,000 in 1930. By comparison with the British experience, moreover, the United States has scarcely approached the total foreign long-term investment of the United Kingdom prior to World War II of about $19,000,000,000 (computed at the rates of exchange then prevailing).

The decrease after 1930 in United States foreign investments, chiefly through the redemption and repatriation of foreign dollar bonds and their decline in value, was accompanied by a movement of foreign capital to the United States prompted largely by unsettled political and economic conditions in Europe. This gave way in 1940 and 1941 to a reduction in foreign holdings, principally British, to finance war purchases here. The trend reversed itself again, however, after the entry of the United States into the war, as Government expenditures abroad for the procurement of materials and for the pay and maintenance of troops resulted in substantial acquisitions of dollar balances (as well as gold) by foreign countries.

On interest and dividend account (the net-income basis) the United States was still a substantial net creditor in 1939, as shown by table 2.

Although the war has reduced income from United States investments in many foreign areas, preliminary data indicate the continuation of a substantial excess of receipts over payments during the war years.

TABLE 2

International Investment Income: Receipts and Payments by the United States

(In millions of dollars)

Year	Receipts	Payments	Net Receipts
1919	544	130	414
1930	876	295	581
1933	417	115	302
1939	541	230	311

Not on this basis, either, has the United States ever approached the position of the United Kingdom as a creditor. Maximum net receipts of $652,000,000 in 1929, for instance, may be compared with British net receipts of $1,220,000,000 in the same year. In 1932, the depth of the depression, United States net receipts fell to $325,000,000, compared with $730,000,000 for the United Kingdom (computed at the old par of exchange).

As judged by foreign investment activity, or the net-movement basis, the position of the United States underwent a drastic change during the inter-war period. Beginning well before the first World War and continuing on until 1930, the net movement of long-term capital was strongly outward, first chiefly in the form of debt repayment and later predominantly in the form of new investment of United States capital abroad.

During the twenties this new investment activity reached unprecedented proportions. In this special sense the United States was for a brief period the largest "creditor" nation of all time, although, as already noted, its aggregate foreign holdings never reached the total built up by the United Kingdom during more than a century of foreign investment experience. After 1930 the flow was abruptly and decisively reversed; as new United States investment activity ceased, outstanding investments were reduced, and foreign capital sought refuge in the United States from monetary, economic, and political uncertainty abroad.

From being an active investor in the preceding decade, the United States became during the middle and late thirties the greatest "borrowing" nation on record, although the influx of foreign capital was altogether unsolicited. United States investments abroad nevertheless remained larger than foreign holdings here until further offset by the growth of foreign dollar balances during the war.

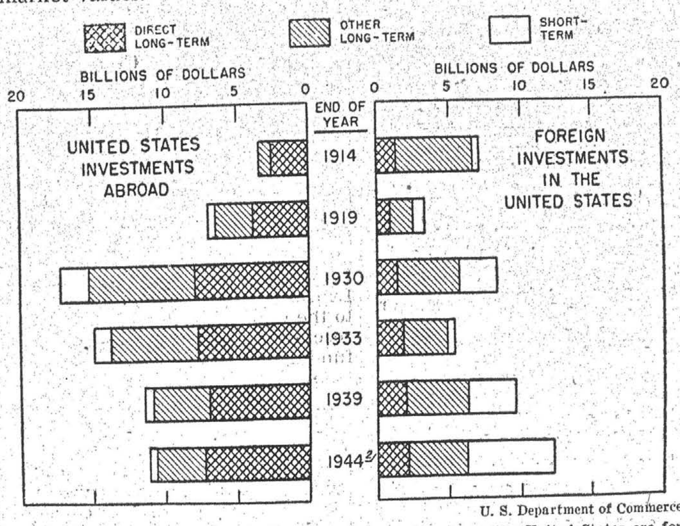
Changes in British Position

As compared with its larger creditor position immediately prior to the war, the last several years have produced even more sweeping changes in the status of the United Kingdom. British investments have undergone substantial liquidation not only in the United States but also in the Dominions, India, and elsewhere, while its holdings in the war areas have undoubtedly suffered heavy damage. At the same time, foreign-owned sterling balances have mounted rapidly in London.[2] Like the United States, the United Kingdom may emerge from the war a net debtor.

The significance of the change is, however, altogether different for the two countries. This is because, first, against its external obligations the United States holds vast gold reserves, by comparison with which British gold stocks are very small. Secondly, the future balance-of-payments position of the United States is expected to be very strong and may well yield a substantial surplus on current account, whereas it is generally anticipated that the United Kingdom will experience some difficulty in restoring and increasing its export trade and in otherwise compensating for its losses in income from shipping and investments.

In other words, the changes wrought in the United States position are likely to be more transitory than those experienced by the United Kingdom. The future status of the United States in this respect will depend largely on how foreigners use their accumulated assets here, especially

[2] See "Sterling Balances and Britain's External Debt," "Foreign Commerce Weekly," Oct. 28 and Nov. 4 and 11, 1944.



U. S. Department of Commerce

[1] Data for direct and "other" long-term foreign investments in the United States are for 1929 instead of 1930, and for 1934 instead of 1933.

[2] As of September 30.

their liquid claims in the form of dollar balances, and on the extent to which the United States exercises its large potential investment capacity.

Significance for the Future

A frequestly commented-upon aspect of the present position is the prospective employment of gold and dollar holdings by foreigners to ease the shock of the transition period. International economic stability is not likely to be quickly restored after the cessation of hostilities; in the meantime foreigners can cover many of their essential needs from the United States without waiting for the resumption of United States lending or even for the full restoration of their own export capacities—the latter a consideration of great importance for the occupied areas. In Latin American countries large gold and dollar holdings will be of material assistance during the transition period when there may be some decline in the demand for and the price of many of their principal export commodities.

Of greater importance in the long run would be the retention of a sizable portion of present dollar holdings as a buffer against future balance-of-payments fluctuations. Although not adequate to withstand the onslaught of a world-wide depression of the magnitude experienced in the early thirties, such reserves would help temporarily to counterbalance variations in dollars supplied by the United States and thus to prevent unfavorable repercussions on United States exports and the United States economy. In this sense, of course, the proposed International Monetary Fund would act as an additional and more systematic stabilizing factor. The gold reserves of foreign countries, wherever held, also would be of assistance in this regard.

The net-creditor position of the United States on long-term account—currently estimated at some $4,400,000,000—is small by almost any standard of comparison. It is less than one-half of the net position of the United States in 1930, although the national wealth and income have expanded greatly since that time. It is only about one-fourth of the maximum creditor position reached by the United Kingdom, whose population and resources are much smaller than those of this country.

These comparisons suggest that there may be an opportunity for a substantial expansion in United States investments abroad in the post-war period. Whether such an expansion is feasible and desirable will largely depend on the following factors:

1. The existence of productive and profitable investment opportunities abroad and the willingness of foreigners to accept, and of Americans to invest, capital on mutually advantageous terms.

2. The maintenance of a reasonably regular and continued outflow of United States capital with no abrupt declines in the amount invested, such as occurred in 1928-29 and again in 1931.

3. The willingness of this country to adopt policies which will permit the servicing of the investments during the capital outflow and after it has ceased. This means not only the liberalization of commercial policy to allow for a substantial expansion in imports but also the pursuit of domestic policies which will promote a high level of production and employment, and hence a large demand for foreign, as well as domestic, goods and services.

Municipal News & Notes

The municipal bond market has maintained the upward trend initiated by the memorable decision of the United States Supreme Court at the turn of the year in the Port Authority tax-exempt litigation, and at the present time the price level represents a new all-time high. Aside from the buoyancy occasioned by the favorable court decision, the market was further stimulated by the quick success which attended distribution of the recent New York City offering of $75,000,000 bonds.

The speed with which the consolidated Chase National Bank-National City Bank syndicate disposed of the huge city issue served to invigorate the market as a whole and its effects show no sign of diminishing. Under the circumstances, dealers lost no time in "cashing in" on the situation, with the result that inventories have been pared sharply.

A further favoring influence is the fact that the new issue department has been rather quiet since the advent of the New York City deal. Then, too, the handful of important items that have reached the market since then were received with considerable enthusiasm in investment circles. Thus the market is in an excellent position to accommodate such new business as may materialize.

In looking over the calendar of scheduled awards, however, we find that there is little of consequence in prospect for the time being. Aside from the $2,087,500 Kansas City Life Insurance Co. portfolio offering today (Thursday), there are only two issues of more than $500,000 proposed for sale during the balance of February. These comprise the $1,200,000 Houston, Texas, offering on Feb. 14, and that of $1,970,000 by Royal Oak, Mich., on the 19th. Accordingly, it will be seen that the outlook for any substantial volume of new business is not very attractive, at least on the basis of current indications.

There is, of course, one very important piece of financing definitely in prospect. This is the proposed $100,000,000 refunding operation by the Triborough Bridge Authority, which has been confidently anticipated by the market for some time.

In order to accomplish the refunding the agency is awaiting final legislative action on a bill which would increase from $100,000,000 to $110,000,000 the amount of bonds it may have outstanding at any one date. The larger amount is required to cover the premium required to be paid in calling the outstanding bonds prior to maturity.

When the legislative process has been completed, it is likely that the new refunding issue will be sold as soon as possible.

In connection with projected Triborough refunding, it is of interest to note that a new attack on the tax-exempt status of public revenue bonds is in the offing.

This takes the form of a bill to be sponsored by Representative Carlson (R. Kans.), to provide for the Federal taxation of interest on certain types of revenue bonds issued by municipalities, subsequent to Jan. 1, 1945, in connection with acquisition of privately-owned utilities. The measure would apply to bonds which are payable solely from utility revenues. Mr. Carlson is a member of the House Ways and Means Committee.

Galloway, Former Bond Attorney, Now N. Y. State Deputy Comptroller

Co-incident with the resignation of Mr. Galloway as a partner as of Feb. 1, 1945, the firm name of Vandewater, Sykes & Galloway, municipal bond attorneys of New York City, has been changed to Vandewater, Sykes & Heckler. Mr. Galloway, who had previously been on leave of absence from the firm and acting as Counsel to the New York State Department of Audit and Control, is now Deputy State Comptroller.

Chemical Bank Bridges Low and High Span of Municipal Prices

The tremendous rise in state and municipal bond prices since 1933 is strikingly portrayed in the eleventh annual price and yield survey of the Chemical Bank & Trust Company, New York City, covering more than 200 tax exempt state, municipal and authority bonds over the 12 year period from December, 1933 to December, 1944, inclusive.

The all-time high and low prices for municipal bonds are seen to have been reached during this period; the extreme low in the spring of 1933, or just prior to the bank's first annual comparison of state and municipal bond prices and yields; and the high, as measured by an average of all bonds in the list having maturities of from 10 to 25 years, at the close of 1944, or just prior to the favoring U. S. Supreme Court decision in the Port of New York and Triborough Bridge Authority tax cases.

According to this average, state and municipal bond prices stood at 90¼ on Dec. 31, 1933, to yield 5.29% to maturity, and moved up, over the intervening years, to an average price of 133¼, yield coincidentally dropping to the record low of 1.61%.

In a second tabulation, the Chemical Bank's study presents price data on 20 selected bonds which represent a geographical cross section of the entire country. This is interesting because it gives the data on each of the 20 individual issues used. As an index, it presents an accurate picture of what has happened to the prices of what might be considered as a theoretical portfolio consisting of bonds of these 20 representative issues.

For the entire period under study there has been a run-off in maturity of these issues which has brought the average maturity of the 20 bonds down from 21½ years in December, 1933 to 10½ years in December, 1944. However, despite this shortening of maturities, the average dollar price of these bonds shows an appreciation of no less than 34 points, while basis price has moved from 5.18% to 1.35% during the relatively brief span of 11 years.

This price comparison now in its 12th year has come to be one of the valuable statistical publications in the municipal bond field and one which is looked forward to with interest by municipal bond men and institutional bond buyers throughout the country.

Atlantic City Tax Collections At 20-Year Record

Current tax collections of 92.7% of the levy during the calendar year 1944 bore out the prediction of a new 20-year record made in mid-October by Daniel S. Bader, Director of Revenue and Finance of Atlantic City, New Jersey, according to a statement issued on Feb. 7 by Wainwright, Ramsey & Lancaster of New York, advisors to the City in connection with the recently completed $22,000,000 refunding program.

The statement pointed out that, "In 1944 Atlantic City collected $4,339,442 or 92.7% of the 1944 levy of $4,679,796. Collection of delinquent taxes and liens amounting to $768,778 brought over-all tax collections to $5,108,220 or 109.2% of the 1944 levy. Sale of foreclosed property brought in an additional $220,891, with the result that total delinquent taxes, tax title liens and foreclosed property outstanding at the end of 1944 showed a reduction from the previous year of $687,427.

"The excellent business conditions that prevailed in 1944, which was one of the best business years the City has ever had, was also reflected in miscellaneous revenue collections well in excess of budget estimates.

"The over-all results of the year's operations were that the City entered the year 1945 with substantial unencumbered cash balances in all operating accounts. Coupled with the completion in November of the program of refunding, which effected future interest savings of some three and one-quarter (3¼) million dollars, the City's credit is now at the best level of its entire history."

Dealer-Broker Investment Recommendations and Literature

(Continued from page 627)

—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

New York, New Haven & Hartford Railroad Company, 13-page study of present status of reorganization—**E. W. Clucas & Co.**, 70 Pine Street, New York 5, N. Y.

Old Colony Railroad Company, detailed evaluation of situation—**Graham, Parsons & Co.**, 50 Congress Street, Boston 3, Mass.

Oswego & Syracuse R. R. Co. 9% Stock—current appraisal contained in the February issue of "Railroad Securities Quotations" published by **B. W. Pizzini & Co., Inc.**, 55 Broadway, New York 6, N. Y.

"Over-the-Counter Review"—February edition—**Bristol & Willett**, 115 Broadway, New York 6, N. Y.

Oxford Paper preferred and common—analytical study—**Goodbody & Co.**, 115 Broadway, New York 6, N. Y.

Performance—an e l e v e n-year study of market action and income—**Butler-Huff & Co. of California**, 210 West Seventh Street, Los Angeles 14, Calif.

Pickering Lumber Co.—memo regarding possibility of oil discovery on properties owned by the company—**White & Company**, Mississippi Valley Trust Building, St. Louis 1, Mo.

Pittsburgh Railways — current study—**First of New York Corporation**, 70 Pine Street, New York 5, N. Y.

Post War Earnings and Debt Reduction Possibilities for Seaboard Railway Company—circular on written request—**Pflugfelder, Bampton & Rust**, 61 Broadway, New York 6, N. Y.

Public National Bank & Trust Company—comparative figures—**C. E. Unterberg & Company**, 61 Broadway, New York 6, N. Y.

Rail Stocks, V-E Reaction Risk—appraisal of situation—**Paine, Webber, Jackson & Curtis**, 25 Broad Street, New York 4, N. Y.

Schenley Distillers Corporation—brochure of articles they have been running in the Chronicle—write to Mark Merit, in care of **Schenley Distillers Corporation**, 350 Fifth Avenue, New York 1, N. Y.

Seaboard All-Florida—detailed resume of developments—**L. H. Rothchild & Co.**, 52 Wall Street, New York 5, N. Y.

Skilsaw Inc. and **American Arch Co.**—analyses—**W. J. Banigan & Co.**, 50 Broadway, New York 4, N. Y.

Southwestern Public Service Company and **Empire District Electric Company**—memorandum on why these situations appear attractive "bargains"—**G. A. Saxton & Co., Inc.**, 70 Pine Street, New York 5, N. Y.

Special Offerings and Secondary Market Distributions, a review for the period January 1, 1940 to December 31, 1944—**Shields & Company**, 44 Wall Street, New York 5, N. Y.

United Piece Dye Works—discussion of long term possibilities for those speculatively inclined—**Ward & Co.**, 120 Broadway, New York 5, N. Y. Also available are late memoranda on:

Du Mont Laboratories "A"; Great American Industries; Massachusetts Power & Light $2 preferred; Majestic Radio; Magnavox Corp.; Electrolux; Brockway Motors; Scoville Mfg.; Bird & Sons; Riley Stoker; Alabama Mills, Inc.; American Hardware; Douglas Shoe; Hartford-Empire; Maine Central Pfd.; Purolator; Moxie; and P. R. Mallory.

Walker & Co. Cumulative "A" Stock—bulletin and summary of income account—**F. J. Young & Co., Inc.**, 52 Wall Street, New York 5, N. Y.

Wellman Engineering Company—prospects discussed — **Wm. J. Mericka & Co., Inc.**, 29 Broadway, New York City.

Western Railway of Alabama—position of capital stock—**O'Connell & Janareli**, 120 Broadway, New York 5, N. Y.

Wilson & Co., Inc.—brochure discussing speculative price appreciation possibilities—**H. Hentz & Co.**, Hanover Square, New York 4, N. Y.

Col. E. A. Halsey Dies

Col. Edwin A. Halsey, Secretary of the Senate for 11 years, and one of the leading figures of the Democratic Party in Washington circles, died on Jan. 29 at 63 years of age. In reporting his death Washington United Press advices said:

"He had been an employee of the Senate for nearly half a century, beginning as a page in 1887. He was elected Secretary in 1933 when the Democrats organized the upper chamber and was re-elected in 1943.

"The Senate suspended legislative business for 45 minutes in tribute. Democrats and Republicans alike lauded his service.

"Mr. Halsey was sergeant-at-arms for several Democratic National Conventions but was unable to serve in that capacity at the convention last summer because of a heart attack. He appparently had recovered and resumed his Senate duties in the fall.

"He served as secretary of the committee which arranged President Roosevelt's fourth-term inauguration, but immediately after the ceremony was forced to bed by exhaustion."

Form Hamilton & Sherman

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Harold R. Hamilton and Thomas E. Sherman have formed Hamilton and Sherman with offices at 6030 Wilshire Boulevard, to engage in the securities business.

The Significance of Public Debt

(Continued from page 619)

experience in the growth of its national debt over a period from the early 1700's to the 1930's is missed by many observers. In the early years we do not have a continuous series, but the major increases in debt are all associated with war periods. In each of these earlier war periods the debt nearly doubled (1739-48, up 60%; 1756-63, up 75%; 1775-81, up 71%); during the Napoleonic Wars (1793-1815) it increased nearly 250%, and during World War I it rose over 1,000%.

Some interesting commentaries on this growth in British public debt are made in the nineteenth chapter of Lord Macaulays "History of England," published in 1855, from which the following excerpts are taken:

At every stage in the growth of that debt the nation has set up the same cry of anguish and despair. At every stage in the growth of that debt it has been seriously asserted by wise men that bankruptcy and ruin were at hand. Yet still the debt went on growing; and still bankruptcy and ruin were as remote as ever. When the great contest with Louis XIV. was finally terminated by the peace of Utrecht (1713), the nation owed about fifty millions; and the debt was considered not merely by the rude multitude . . . but by acute and profound thinkers, as an incumbrance which would permanently cripple the body politic. . . . Then came the War of the Austrian Succession; and the debt rose to eighty millions. Pamphleteers, historians, and orators pronounced that now at all events, our case was desperate. . . . Soon war again broke forth (1756); and, under the energetic and prodigal administration of the first William Pitt, the debt rapidly swelled to a hundred and forty millions. As soon as the first intoxication of victory was over, men of theory and men of business almost unanimously pronounced that the fatal day had now really arrived. . . . David Hume, undoubtedly one of the most profound political economists of his time, declared that our madness had exceeded the madness of the Crusaders. . . . Better for us to have been conquered by Prussia or Austria than to be saddled with the interest of a hundred and forty millions. . . . Adam Smith saw a little and but a little further. He admitted that immense as the burden was, the nation did actually sustain it and thrive under it in a way which nobody could have foreseen. But he warned his countrymen . . . the limit had been reached. . . . The attempt to lay a portion of the load on the American colonies produced another war 1775). That war left us with an additional hundred millions of debt. . . . Again England was given over; and again the strange patient insisted on becoming stronger and more blooming in spite of the diagnostics and prognostics of State physicians. . . . Soon, however, the wars which sprang from the French Revolution, and which far exceeded in cost any that the world had ever seen, tasked the powers of public credit to the utmost. When the world was again at rest and the funded debt of England amounted to eight hundred millions. . . . It was in truth a gigantic, a fabulous debt; and we can hardly wonder that the cry of despair should have been louder than ever. . . . Yet . . . the beggared, the bankrupt society . . . proved able to meet all its obligations. . . .Those who so confidently predicted that she must sink, first under a debt of fifty millions, then under a debt of a hundred and forty millions, then under a debt of two hundred and forty millions, and lastly under a debt of eight hundred millions, were beyond all doubt under a two-fold mistake. They greatly overrated the pressure of the burden; they greatly underrated the strength by which the burden was to be borne.

There is no denying the fact that over the past two centuries British national debt rose tremendously without the resultant economic disasters which were so generally feared by contemporary observers of the times. The important point, however, for us to learn from this British experience —and one which has been missed by many who like to point to the British record—is that each successive increase in the debt was matched by a tremendous growth in economic activity and private enterprise.

Growth of U. S. Debt

For the same period some of the data on the growth of British industry and trade for the early years is skechy, but it is sufficiently complete and accurate to illustrate the basic truth that increasing debt need not be ruinous if it is accompanied by a commensurate growth in the production of economic goods and services. There was a tremendous upsurge in the cargo tonnage cleared, pig iron production, and coal production. Growth in population was much less than economic growth. This difference tends to emphasize even more the dynamic nature of the economic growth which took place in Britain during this period. Clearly, the lesson to be learned from British experience is not that increasing debt is harmless, but rather that it need not prove unduly burdensome or ruinous if it is paced by a proportionate or bigger growth in economic productivity.

The debt record of the United States covers a shorter period than that of the British, but in its broad outlines it follows the same general pattern of development. Beginning in 1850 the public debt of the United States, Federal, State and local combined, has risen from less than a half billion dollars prior to the Civil War—most of this State and local debt—to approximately $245 billion at the end of 1944, the major increases, as in the case of Britain, occurring in times of war.

Not only in dollar amount but in proportion to its previous level, the increase in our public debt in the past twelve years exceeds that of any other period in American experience. But it is important to bear in mind that the burden of debt is relative to the productivity of the debtor, and as we all know, the capacity of America to produce is the marvel and the envy of the world. The development of our economic resources and productivity has proceeded at a tremendous pace over a long span of years as is evident from the rapid increases which have occurred in national wealth, national income, and industrial activity. In the past five years America's ability to produce has been demonstrated anew and the crux of the matter is that there is no way in which the economic problems of America can be solved as well or with greater assurance of permanency than by bending our efforts to the maintenance of a high and ever-expanding level of economic productivity.

Inflation Danger

The danger of wild inflation has been a lively topic of discussion for years as we have piled one budget deficit upon another and financed those deficits by placing a large part of the increased debt in our commercial banks with a consequent expansion in money supply. But the fact of the matter is that we haven't had price inflation yet, as is best proven by the relatively moderate rise in our commodity prices during recent years. While the full explanation lies in a complexity of economic relationships, the key reason is that American productive ingenuity and American private enterprise have combined to bring forth a deluge of goods and services. In the war period when the production of civilian goods was necessarily curtailed, reasonably effective price control devices have been applied. However, in the post-war period when price controls will be necessarily less effective, our best protection against the threat of price inflation—one might almost say our principal safeguard—is to free the forces making for expansion in private enterprise so that our vast potentialities for increased production of goods are fully exploited. We possess the ability to match the greatly expanded money supply with a larger and larger supply of goods and services, and if we do so the risk of uncontrolled inflation will be remote.

It is frequently said that we need not worry about the debt because we owe it to ourselves, but this idea can be at best no more than a half truth, for so rapid and great an increase in our debt as has occurred in recent years cannot fail to leave us with serious and pressing financial problems at war's end. Our national wealth and income will have undergone a material redistribution, much of the cost of the war will have been "monetized" so to speak by the sale of government securities to the commercial banks, and many real disruptions to our normal economic processes and relationships will have occurred. The ultimate consequences of an increase in debt such as this nation has experienced will depend upon the wisdom of our decisions and terminating the economic and political policies to be followed in the post-war periods. But in certain respects the economic signposts appear relatively clear.

It is obvious, for example, that relatively high taxes are inevitable for an indefinite but prolonged period ahead. In all probability, the costs of servicing the Federal debt in the post-war period will alone exceed our largest peace time budget prior to the 1930's. And there is scant reason for doubting that many of the other costs of government in the post-war period will be well in excess of their former peace time amounts. Clearly this means that government revenues must be held at high levels and as a corollary that our national income must be maintained well above our best pre-war performance—not alone in dollars, but in terms of physical production. Lower rates of taxation will be more feasible if our national income is high than if it is low, for the burden of taxes is a function not only of rate but of ability to pay. It seems clear, therefore that in drafting our tax laws for the post-war period the emphasis should be upon the objective of unleashing capital investment into productive enterprise so that our economic organization can function effectively without the stimulant of deficit spending. The real burden of servicing our post-war debt would then be reduced.

Investment Effects

In the investment field the results of our vast expansion of public debt will be felt in many ways for a long while ahead. At the peak of the Federal debt, following the close of World War I, United States Government obligations amounted to a much smaller proportion of the total outstanding volume of so-called "investment grade" securities than will be the case when victory is ours this time. According to estimates prepared under the financial research program of the National Bureau of Economic Research, the total of outstanding corporate bonds of Baa or better quality amounted to roughly $16.5 billion in early 1920 and $15.5 billion in mid-1944. United States Government debt reached a high of approximately $26.6 billion in 1919 as compared with $232 billion at the close of 1944. In other words, the Federal Government debt comprised about 60% of the combined dollar volume of United States Government and "investment grade" corporate bonds at the end of the last war, whereas, the corresponding percentage now is already over 90%. Hence, it seems clear that since United States Government obligations will be not only pre-eminent in quality, but dominant in size of market in the post-war period, they will continue to be, as they now are, the principal outlet for the funds of institutional investors.

The size of the nation's debt confronts the authorities with a colossal problem, for they are under the necessity of managing a Federal debt that may well approximate from 11 to 13 times as much as that with which we closed World War I—and of doing this with respect to a debt which has been financed at very low rates of interest compared with those at which the last war was financed, and which in distribution as to maturity and class of holder leaves much to be desired. This clearly means that financial statesmanship of the highest order, both in wisdom and courage, will be required.

In the very size of the debt there is some risk that restrictions may be placed in the investment freedom of our private financial mechanism. Management of a debt of $300 billion can —unless conditions are propitious —be so difficult that there may be a temptation to follow the easy course adopted in certain other countries involving varying degrees of government control over the investment operations of our financial institutions. As a safeguard against any such tendency here, it is to be hoped that by concerted effort of the financial community and the fiscal authorities an increasing proportion of the debt can be placed in the hands of the public on a permanent investment basis so that resort to radical devices of control can be avoided. That an opportunity exists for placing a greater proportion of the government debt in the hands of our people is clear from the fact that vast accumulations of savings have thus far been only partially tapped. According to figures released by the Securities and Exchange Commission, liquid savings—currency and bank deposits—in the hands of individuals and unincorporated business have accumulated to the total of approximately $44 billion in the period since 1939. It would be a salutary influence if in future offerings of government securities a greater proportion of the funds held by individuals could be drawn into investment in such securities and less reliance were necessary upon subscriptions based directly or indirectly upon commercial bank credit.

For the many problems connected with our greatly expanded public debt, there is no easy panacea. It is important to recognize, however, that a higher and higher volume of production represents the nearest thing to a single solution of these problems and that all of them can more easily be dealt with in an environment of high employment and high production, i. e., of business prosperity. In proportion as high production is realized, the real burden of the debt will be reduced and the threat of inflation and of financial disruptions growing out of the war will be lessened. In proportion as it is realized, the confidence of the nation in the integrity of its debt and its money will be assured.

The essential elements of a program which will bring real prosperity to the country is a story in itself, but if the maximum production is to be obtained, then we clearly must have a peace time environment in which the relations between business and labor and the attitude of government toward each is such as to unleash the demonstrated driving force of our private enterprise system.

Extension of Limited Mail Service to Belgium

Postmaster Albert Goldman announced on Feb. 3 information has been received from the Post Office Department, Washington 25, D. C., that letters not exceeding one ounce in weight are now accepted for mailing to civilians in Belgium.

The postage rate is 5 cents.

Heretofore the service was restricted to non-illustrated postcards on business, personal or family matters.

Registry, money order, airmail and parcel post services are not yet available.

Enclosures of currency, checks, drafts and securities continue to be prohibited.

Communications on business as well as personal matters may be sent. However, financial or business communications must be restricted to the ascertainment of facts and exchange of information except when they constitute instructions relating to support remittances and to the protection, maintenance and management of property interests in Belgium or are documents regarding patents, copyrights and trade-marks.

Canadian Securities

(Continued from page 637)

the war, there has been no raising of new money in this country.

Consequently, during the past week there was no departure from the overall pattern of strength with a restricted turnover. Nationals were again in popular demand and there was a growing inquiry for the less attractive direct Dominions. As a result of a broadening interest Montreals made further headway and there was considerable activity in Abitibis. Albertas held firm at their recently established new high level, and general market opinion is beginning to share the view that it is likely that the Alberta Government will make an acceptable offer direct to the bondholders and thus arrive at a satisfactory solution of this long outstanding problem.

Internal issues shared the strength of the general market and free funds appreciated to 9½% discount. In this connection, bearing in mind the world-wide trend towards lower interest rates, it might now be opportune to consider the possibility of a reduction of the customary 3% coupon on future Dominion of Canada internal issues.

With regard to the possible future course of the market, the present firm trend is so well established that political developments in connection with the forthcoming Federal elections, unless of a sensational and unexepected nature, are likely to constitute a subordinate factor. Moreover, the recent upsurge in domestic issues has not yet been fully reflected in the Canadian bond market in this country.

New York Chamber of Commerce Opposes Repeal of Johnson Act

(Continued from page 624)

$6,200,000,000 invested in American real estate, American securities, or in cash deposits rather than in the liquidation of their obligations.

"Quite aside from this fact, Mr. President, there is nothing in the report of the committee to show that the situation alleged by the committee to have existed between the wars will be cured by the passage of the resolution now before you.

"Mr. President, I think the statement in the second 'Whereas' in the preamble of the resolution should be challenged. In that paragraph it is asserted 'that a nation's trade follows its investments.' All that means is that we hope if we lend these foreign bankrupt nations money, they may purchase with the proceeds of those loans some of our exports, but there is nothing to prevent these bankrupt nations from using the dollar exchange, which they obtain through these loans, for any purpose they may see fit—be it making war, or be it in investing in American securities instead of the purchase of our exports.

"Furthermore, let me point out in connection with this question of creditor payments that through our dishonest devaluation of the American dollar, we made possible an expansion of funds available for the payment of debts in the United States, or for the purchase of American securities, which was nothing more or less than a gift to these foreign bankrupts.

"This report says that many of the most brilliant minds in the business and government life of this country failed to foresee the acute financial depression which engulfed the United States and the world at large. Quite true, but there is nothing in this report to show that we would be wise now in advocating the identical policy which, in the past, brought colossal losses to the American people.

"Let me say, Mr. President, that there is a peculiarly potent reason why it would be deplorable for this Chamber to endorse a plan which would pave the way for additional loans to bankrupt nations. We all know that the affiliates of many of our large financial institutions sold to innocent investors throughout the United States great masses of foreign securities which offered little assurance of continued payment of interest and very questionable possibilities of redemption at maturity. Everyone in this room knows that a large quantity of these foreign securities which have been in default for years have been bought back, or are being bought back, at vastly depreciated values. That fact certainly does not justify the original sale to investors who lost their savings in reliance on false representations, nor does that incontestable fact justify the passage of this resolution. The truth is that the passage of this resolution would make this Chamber particeps criminis in the renewal of these same pernicious practices, which put shame on Wall Street in the 20s and brought down upon business the wrath of the American people.

"I am aware that there are plans which are expected to enable foreign bankrupts to reconstitute their currency in the expectation that they will in future be enabled to meet their foreign obligations. There is no argument to show in this resolution that any one of these plans is sound. As a matter of fact, I think, the chief plan under consideration is demonstrably unsound. You know, and I know, that these plans are based on one fundamental proposition; that is, for our Government to pour billions of good American dollars down some foreign rat-hole.

"In conclusion, let me say that if the principles upon which this resolution is based are carried out to their logical conclusion this Chamber should advocate the financing of American bankrupts on the theory that if they are adequately financed they may in future be able to pay for the goods and services which they purchase from American industry. As a matter of fact, there is a better argument for the proposition to finance American bankrupts than European bankrupts, because such tangible assets as the bankrupt does acquire would at least be within the jurisdiction of United States courts and subject to levy.

"Remember, gentlemen, the Johnson Act was placed on the statute books to prevent the American people from being swindled. It ought not to have been necessary to pass such a law, but it was. The question now is: will you cast your vote to undermine this legal barrier erected by Congress to protect ill-informed and trustful American investors from the rapacity of persons unworthy of their confidence?

"That is the issue. For the honor of this Chamber and the general welfare of our business community I ask your vote to reject this resolution."

Following the action on the Johnson Act the Chamber took a decided stand against legislative interference with business on the ground of racial discrimination by adopting the following resolution:

Resolved, That the Chamber of Commerce of the State of New York declares itself in opposition to any legislation

(1) That declares or enacts it to be, directly or indirectly, a misdemeanor to discriminate against a person in employment because of race, creed, color or national origin;

(2) That creates a permanent State Commission with power to investigate the employment practices of business concerns in this State and with power to order an employer to employ or reinstate or to promote any employee found by the Commission to have been discriminated against because of race, creed, color or national origin; and

(3) That this Chamber is opposed to any legislation which dictates to any employer in private enterprise whom he shall employ; and, be it further

Resolved, That a copy of this resolution be sent to the Government of the State of New York and to each member of the Legislature, and to others concerned.

The Chamber registered its opposition to the Hampton-Devany bill granting absolute preference in civil service appointments and promotions to veterans irrespective of disability and recommended a seven-point amendment to the State Constitution to limit preferences and safeguard the civil service.

It approved the creation of a New York City Transit Authority to place the subways on a self-sustaining basis and take the transit system "out of politics." It also urged the enactment of the McCarran-Ferguson bill to give the States continued regulation and taxation of the insurance business.

The members voted in opposition to extending the moratorium on mortgage foreclosures to July 1, 1946, and urged the Legislature to establish a State Board of Assessment Review and to carry out the recommendations made by the Bewley Committee.

Mutual Funds

(Continued from page 635)

gain of 183.4% for the period, far exceeds that of any other mutual fund.

"Spread"

In the current issue of **Abstracts**, the long-term spread between bond yields and stock yields is portrayed and discussed by **Lord, Abbett**. The present spread of 1.77%, according to Abstracts, "should invite considerable investment in common stocks."

"Based on 1944 dividend payments of $6.56, the Dow would have to go to 218 to be on a 3.00% basis. That is more than 40% above present levels."

Monthly Dividends

Keystone Corp., in the current issue of **Keynotes**, stresses again the advantages of "an extra pay day each month." "Capital," writes this sponsor, "creates wealth for its owners only when it is employed productively — when it is invested to produce more capital or to provide income."

An investment in six of the **Keystone Custodian Funds** will provide a distribution check on the 15th of each month throughout the year, and at the same time permit the investor to plan a diversified program in bonds, preferred stocks and common stocks.

Bond Investment Trust—Net assets of this fund have doubled during the last 12 months and now amount to over $4,000,000. On Dec. 31, 1944, net assets were $3,789,534.

Century Shares Trust—Net assets on Dec. 3, 1944, amounted to $19,437,566, equal to $30.06 per share as compared with $27.69 per share a year earlier.

Mutual Fund Literature

Calvin Bullock—A revised prospectus on **Dividend Shares** dated Feb. 1, 1945. . . . **Keystone Corp.**—Revised folder, "10 Securities," revised portfolio folders on **Keystone Custodian Funds K-1, K-2, S-1, S-2, S-3** and **S-4**, Current Data folder for February on all Keystone Custodian Funds. . . . **Distributors Group** — A revised memorandum on **Railroad Equipment Shares**, "Need + Money to Buy = Profits," a new issue on **Railroad News**. . . . **Vance, Sanders**—A revised prospectus on **Boston Fund** dated Feb. 1, 1945.

Dividends

Keystone Custodian Fund Series K-1—A dividend of 65¢ a share payable Feb. 15, 1945, to shareholders of record Jan. 31.

New York Stocks, Inc.—The following dividends per share payable Feb. 26, 1945, to stock of record Feb. 5:

NEW YORK STOCKS, INC.—
Special Stock

	Amount of Dividend Per Share
Agricultural Industry Series	$.07
Alcohol & Dist. Industry Series	.13
Automobile Industry Series	.06
Aviation Industry Series	.16
Bank Stock Series	.07
Building Supply Industry Series	.05
Business Equip. Industry Series	.11
Chemical Industry Series	.05
Electrical Equip. Industry Series	.07
Food Industry Series	.10
Government Bonds Series	.00
Insurance Stock Series	.08
Machinery Industry Series	.10
Merchandising Series	.09
Metals Series	.10
Oil Industry Series	.08
Public Utility Industry Series	.03
Railroad Series	.06
Railroad Equip. Industry Series	.08
Steel Industry Series	.05
Tobacco Industry Series	.12
*Diversified Investment Fund	.10
Diversified Speculative Shares	.00

*Initial Dividend.

Institutional Securities, Ltd.—A cash dividend of 2¾¢ per share on **Bank Group Shares**, payable March 31, 1945, to stock of record Feb. 28.

Will Discuss British Post-War Problems

The Honorable Robert H. Brand, Representative in the United States of the United Kingdom Treasury, will address a luncheon meeting of the Bond Club of New York, to be held at 12:15, February 20, at the Bankers Club, Henry G. Riter, 3rd, President of the Club, announced. Representative Brand will discuss "Some British Post-War Problems."

Roger Flint & Leroy Hall With Pearson, Erhard Co.

(Special to The Financial Chronicle)

BOSTON, MASS.—Roger Flint and Leroy M. Hall have become associated with Pearson, Erhard & Company, Inc., 50 Congress Street. Mr. Flint in the past was a principal of B. F. White & Company, Inc.

International Air Trade and Travel Routes of the Future

(Continued from page 623)

submarines stalked the sea lanes, they drove their human prey into the air lanes. This war experience does not represent theorizing; it is the practical laboratory test which proves the case.

International Air Routes

Alert to the very great possibilities of expansion and growth in international air trade and travel, the Civil Aeronautics Board in 1943 consulted extensively all aeronautical interests, twice solociting their views, as to the international air transportation routes which the United States should seek to operate in the future. After further consultation with all interested governmental agencies, and with the approval of the President, the Board made our proposed world routes public last June. If existing United States air routes established before the war are included, there are 20 world routes in all which were so announced. They do not include any routes, existing or prospective, between the United States and the contiguous territories of Canada and Mexico. These routes reach every continent and important region of the world. Europe with approximately 25% of the world's population and the important areas of east Asia, south Asia and southeast Asia, including approximately 47% on the world's population, are reached by these new routes. Generally speaking, these routes are based upon commercial considerations. They represent the Board's judgment as to the best routes for airborne trade and travel prospects from and to the United States. With minor exceptions they constitute reasonably direct routes out from and back to our homeland.

About 100 applications were filed by American citizens to operate international routes. The Board has divided the world into four areas for the purpose of conducting hearings on these applications and reaching decisions in the cases. All applications in each area have been consolidated in a single proceeding. The areas are (1) the Latin American, (2) the North Atlantic (reaching eastward as far as Calcutta, India), (3) the South Atlantic, and (4) the Pacific, including Alaska (and reaching westward as far as Calcutta, India), and Australia. Hearings have been held in the Latin American, North Atlantic, and South Atlantic proceedings. Under the law, when the Board has reached its decision after a hearing in these international cases, that decision is submitted to the President. The issuance or denial of each certificate is subject to his approval.

The Board realized, of course, that many of the applications, and most of the additional proposed routes which were not in operation before the war involved air transportation to and through the air space of nations with which the United States currently has no operating air arrangements. But in setting these cases down for hearing and decision in a timely manner, the Board was following the necessary statutory requirement that findings of public convenience and necessity should be made as a result of hearings. This action by the Board was designed to permit the prompt inauguration of additional air carrier services abroad when time and conditions are appropriate. Obviously no services can be inaugurated on any of the new routes unless and until suitable arrangements have been concluded with the foreign nations concerned.

It is, of course, clear that after as well as before the war there will be many foreign air carriers operating in the international field. Under existing law, no foreign air carrier can operate to a United States point without a permit issued by the Civil Aeronautics Board after a public hearing and after approval by the President. Although there may be exceptions to this general rule, these hearings upon applications for permits by foreign air carriers would normally take place following the negotiation of suitable air transportation arrangements with the country whose air line seeks such a permit.

We are approaching, therefore, a period of great importance to this country in that the decision period is now almost upon us with respect to the applications of American flag carriers. These applications will require the determination of many important issues such as the question of whether there should be more than one American flag carrier in the international field; if so, whether they should operate as much as possible in different world areas or whether there should be competition between American flag carriers; whether, if there is to be more than one, there should be any prohibition against a domestic carrier proposing to operate beyond the borders of the United States; and many related questions of an economic and political nature.

Future International Aviation

Although, as I have indicated, the United States has had a very considerable volume of international operations in the past—it led the world in this respect—the volume of operations in peace times was insignificant compared to what is in store in the future. We expect that international trade and travel routes can be opened up widely and rapidly after this war is over. These routes will give access directly to commercial objectives, unimpeded by shore lines, barriers, and bottlenecks which have plagued other forms of transportation in the past. The impact of air commerce of the future upon our economic, social, cultural, and political life will be enormous. We are riding the crest of a wave of discovery and invention which got underway a hundred or so years ago and which, we hope, is still accumulating force for a much greater future. Someone has said that transportation is civilization. In any event, civilization and this wave of discovery thrive and develop best when it is possible for the people everywhere to profit from the best that is thought and developed by every people elsewhere in the world. High speed, time arresting, worldwide travel and the resulting acceleration in the exchange of ideas can be a powerful agent in stimulating the creative developments which are possible in the future.

It was under these promising prospects that the Chicago International Civil Aviation Conference was held last November and December. That conference achieved some of the greatest and most progressive steps ever taken in the field of aviation. Before this Conference there had been two major attempts to organize the world, or portions of it, in the safety and technical fields of aviation. Neither of them had achieved the widespread acceptance necessary to meet the world-wide requirements of civil aviation for the future.

The first and most important of these attempts was the Paris Convention of 1919. Although an original signatory to this Convention, the United States did not ratify it. It was not placed in effect in many imporant regions of the world. The other major attempt was the Habana Convention of 1928. This Convention was expected to apply only in the Western Hemisphere, but it has not been ratified by many important countries in this hemisphere. Each of these Conventions related to safety and technical matters and neither of them undertook to provide in any way for the establisment of commercial air routes. Although each Convention purported to grant so-called "innocent passage" to private aircraft, there was, in many cases, a good deal of red tape involved even in that limited class of international travel.

The Chicago Conference

The Chicago Conference produced, among others, five documents of chief importance which were drafted and opened for signature at the Conference. The first of these was a new International Air Navigation Convention. It represents one of the most outstanding contributions in the field of civil aviation ever achieved by an aviation conference and reflects the experience gained under the Paris and Habana Conventions. It represents a strictly modern, up-to-date attempt to provide for order and regulation in the safety and technical fields for all types of civil airplane international operations and, if accepted by the nations, will, for the first time, have organized the whole world with respect to the regulation of these very important matters. In provides for a world organization consisting of an Assembly and a Council. In the Assembly each country is to have one vote. Twenty-one nations are to be represented on the Council, eight of them nations constituting those of chief importance in air transport, five constituting those not otherwise included, which make the largest contribution to the provision of facilities for international civil air navigation, and eight not otherwise included whose election will insure that all major geographical areas of the world are represented. In addition to the jurisdiction of the Council over safety and technical matters, it has certain powers of investigation and reporting in other fields as well. It is also to be the repository for the recording of a good deal of statistical information regarding the operation of international air lines and of international agreements relating to air transportation between nations and between any nation and air lines of other nations.

A second document drafted and opened for signature at Chicago is known as the Interim Agreement. It provides, during the period (not to exceed three years) from now until the time when the International Convention can be properly ratified by the countries of the world, for a temporary or interim world organization similar in structure to that provided for in the permanent convention. The seat of the Interim Council is to be in Canada.

The third is the co-called "Two Freedoms Document." The first of these freedoms is the privilege accorded by each signing nation to the aircraft operated in civil air transportation by each other signing nation to fly in transit through its air space without any additional specical authorization. The second of these freedoms is the privilege accorded by each signing nation to the aircraft operated in civil air transportation of each other signing nation to make nontraffic stops within its territory. The purpose of a nontraffic stop is to take on gasoline and oil, to make repairs, to take refuge from storm, or to meet an emergency. I do not have the time here to appraise accurately the great value of these two so-called "Freedoms." They are really privileges mutually exchanged in order to promote the cause of international air transportation. Suffice it to say that they are, in my opinion, very great steps forward in connection with the establishment of international air routes; and that is true generally and not only with respect to a particular nation's operations. The second privilege, that of nontraffic stop, in effect throws open those important and much discussed air bases built during this war which will be needed for international civil air transportation so far as they do not have to be used exclusively for military purposes.

The important fourth paper produced at Chicago is the so-called "Five Freedoms Document." In addition to including the abovementioned Two Freedoms, this document also includes the right to carry traffic embarked in the home state to any other state in the world (the Third Freedom), the right to pick up traffic anywhere in the world destined to the home state (the Fourth Freedom), and the right to pick up traffic along the route in a foreign state and carry it to another foreign state (the Fifth Freedom). In the exercise of the so-called "Five Freedoms," routes operated thereunder must be reasonably direct out from and back to the homeland.

The fifth document produced by the Chicago Conference is the so-called "Standard Form of Bliateral Agreement." Realizing that, of course, not all countries will adhere to the Five Freedoms Document and that even with respect to those that do so there may well be an interim period during which the international air lines must be operated, some standard clauses for bilateral agreements providing for air routes were developed at Chicago and unanimously recommended by the Conference to all nations for use in any bilateral agreements authorizing such routes. The most important provisions of these standard clauses are: first, that discrimination against any country or its air lines is forbidden; second, the building up of air blocs providing for the exclusive use of air space by any nation in any part of the world is outlawed; and third, the making of international air transport agreements whether between countries or between a country and an air line is required to be filed with the international body and made public. The Conference thus unanimously voted to eliminate the era of secret agreements in the field of international air transportation.

It is too early to prophesy as to the extent to which these agreements will be accepted by the nations of the world. It is not too early, however, to express the very earnest hope and confident expectation that the Interim Agreement will come into force at a very early date. It will do that when twenty-six nations have confirmed their signatures to the United States.

Effect on American Shipping

As we contemplate the establishment of these important international air trade and travel routes of the future, whether pursuant to bilateral air transport agreements between nations or eventually under the Five Freedoms Agreement or under some other international arrangement, it is appropriate to inquire about the effect of these routes on trade and travel by sea.

Mark well the point that in the long run the largest portion of international air transport business will be new business which has never before existed. The railroads had developed yearly average per capita railroad passenger miles in the United States to 114 by 1880; to 350 to 1915. But in a very short time the automobile created a whole new volume of traffic; before the war the average yearly per capita motor vehicle passenger miles were around 1500. Better and faster ships increased foreign travel by United States citizens from around one person annually out of 5,000 to about one out of 350 before the war. We do not know the limit of our capacity to trade and travel as the transportation medium improves and the rates go down. Thus a tremendous growth of entirely new business in international air trade and travel is sure to develop when the enlarged opportunity to use the service comes. And as fast travel becomes available to the business man, his markets and his business expand. Bulk shipments following his business trips will, in all probability, as I shall explain later, go by ship and not by plane, thus enlarging—not diminishing—the business of our Merchant Marine.

I want to make it unmistakably clear that, as I have just indicated, I do not believe that the air trade and travel routes will be the only trade routes of the future over which the commerce of the world will move. Every new form of transportation, as well as creating new traffic, has diverted some traffic from older forms of transportation. To the extent that air transportation diverts traffic from surface vessels, it will initially consist principally of passenger traffic. When a greatly expanded network of world wide airways is available, persons interested in speed who might otherwise travel abroad as first or cabin-class passengers on steamships will have strong motives to go by air. The cost of traveling by air will be competitive with that of first and cabin-class travel by sea; the time saved by air will range from days to weeks; the inducement to travel by air will be compelling; but the first and cabin-class sea travel which is destined to go to the air will, in the long run, be but a minor fraction of the total of international passenger air travel. New air passenger business will constitute the major fraction.

Some limited diversion of ocean cargo to the air will also take place but it will not constitute more than a very small fraction of the sea total, so far as we can now see. Until international air cargo rates can compete economically with ocean shipping rates the percentage of diversion will be small. Of the 7,225,124 tons of exports from the United States to the United Kingdom in 1938, only 260.4 tons, or .004 per cent, bore rates of more than five cents a ton-mile; over one-third of the total tons exported was shipped at less than half a cent a ton-mile. Air cargo rates up to now have been many times higher. It will be a long time, if ever, before air cargo rates will be able even to approach most of the ocean rates. Ocean transport, so long as it remains the cheapest means of freight movement in the world, must be counted upon to continue to transport bulk cargo. Air transportation will be obliged to be content with only a small amount of diverted cargo where time, competitive considerations, or unusual circumstances control the medium of shipment.

Thus, the division of passenger traffic, and the limited diversion of cargo traffic, to the air most decidedly does not mean a destruction of the United States Merchant Marine. Ships will still carry the bulk of the exports and imports of the United States.

In 1938 the United States Merchant Marine consisted of 27,155 vessels having a gross tonnage of 14,651,000. Of this total, however, only 1,575 vessels, having a gross tonnage of 3,550,815, were registered and engaged in the foreign trade. Sixty per cent of the vessels engaged in the foreign trade, representing 54 per cent of the gross tonnage, were in the freight services; 5 per cent of the vessels, representing 14 per cent of the tonnage, were tankers, and 22 per cent of the vessels, representing 3 per cent of the tonnage, had their services classified as dredging, ferry, fishing, oystering, pile driving, towing, wrecking, pilot boat, patrol boat, refrigerator, whaling and miscellaneous. Thus, a total of 87 per cent of the number of vessels, representing 71 per cent of the gross tonnage engaged in the foreign trade, are in services which stand to benefit from an increase in exports and imports brought about by increased world trade which, as I have already indicated, I am certain, will be stimulated by the quickened movement by air of business mail and the swift transportation of business men throughout the world. I would like to stress here that, in my opinion, the new business which will be developed cannot be measured accurately by any formula applied to past business. As I have shown, this acceleration of business activity resulted from railroad operations. It was the same again when the automobile arrived. I prophesy with confidence that history will repeat itself in this respect when the airplane blazes the way for new kinds and volumes of trade.

Two hundred and five, or 13 per cent, of the 1,575 vessels of the United States Merchant Marine engaged in the foreign trade carried passengers; these vessels had a gross tonnage of 1,047,632, or 29 per cent of the 3,550,815 gross tonnage of vessels engaged in the foreign trade. These 1,575 out of the total 27,155 vessels constitute the group which stands to have its first and cabin-class passenger traffic subject to diversion to the air. That may appear to some of you as a large, and to others of you as a small, number of vessels and amount of tonnage to be so affected. Of more interest to me at the moment, however is the fact that to the extent that his diversion to the air is captured by American flag air lines, it will be captured primarily from operators of foreign ships. So far as I know, the facts relating to this and certain related matters were for the first time placed in air transportation perspective in a recent study made by F. H. Crozier of the Civil Aeronautics Board.*

[*Overseas air Service Patterns; Travel Distribution and Composition—All Areas: Report by F. H. Crozier, Chief, Research and Analysis Division, Economic Bureau, Civil Aeronautics Board, Washington, D. C., December, 1944. The material in the next four paragraphs is drawn in large part from this report.]

In the first place, first and cabin-class sea travel constitutes only a portion of the total sea travel. In 1938, there were a total of 1,057,516 overseas sea passengers between the United States and other countries. Four hundred ninety-five thousand, five hundred and seven, or 46.9 per cent, were second, third, or tourist class; 562,009 were first and cabin class. We are dealing, therefore, with the effects of diversion upon roughly 53.1 per cent of the total sea passenger traffic between the United States and other countries. The important fact in this possible diversion, however, is, as I have indicated, that it would not all come from our Merchant Marine.

In 1938, only about 25 per cent of the gross revenue received for transporting passengers between the United States and overseas destinations was received by vessels of United States registry; foreign vessels received approximately 75 per cent of such revenue. This was despite the fact that United States residents were contributing about 70 per cent of the gross passenger revenue in overseas travel between this and other countries. These are general averages. Different areas vary widely. For example, in the transatlantic region, vessels of United States registry secured only 9 per cent of the passenger revenue although United States residents contributed 72 per cent of the total passenger revenue for travel in this area; vessels of foreign registry secured 91 per cent of the passenger revenue at the same time that foreign residents were contributing only 28 per cent of the total passenger revenue for travel in the transatlantic area.

A diversion then of even all first and cabin-class passenger traffic to the air would have its principal effect upon foreign surface carriers rather than upon our own Merchant Marine. If, as first and cabin-class traffic is diverted to the air, United States air carriers step in and capture only one-half of the diverted traffic, there will be a net gain to United States interests. The initiative and resourcefulness of our air carriers should enable us to establish a merchant air fleet in keeping with the importance of the contribution which we make to world passenger travel.

Another important consideration in the penetration of sea by air travel is the probability that the revenues of ships serving United States overseas traffic which is normally attributable to first and cabin-class travel are approximately 8 per cent of the aggregate operating revenues of these carriers. The area of competition between air and sea in terms of total steamship revenues promises, therefore, to be relatively small in the immediate future.

Air transportation will not destroy ocean shipping or our Merchant Marine. It is not at all improbable that these limited adverse effects upon ocean shipping will never be noticed for the reason that the increased business activity which will be stimulated by air transportation will produce other new traffic in such abundance that the losses will be more than compensated for. Ocean shipping and air transportation are both destined to remain and both destined to grow.

The Supreme Court and the Power of Congress to Regulate Money

(Continued from page 622)

And the "contract clause" was directed at the legal tender, stay, installment and commodity payment acts of the States, laws which materially impaired the obligation of private contracts. These laws were largely responsible for the economic chaos which made a "more perfect union" imperative and the Constitution possible.

Power Without Stated Limits

Not only is the Federal power over money and currency exclusive, it is also without stated limits. The Supreme Court has supported the Congressional exercise of this power with rare consistency. In only one important case did the Court refuse to approve the action by Congress, the case involving the cancellation of the gold clause in government bonds, and then by confessing its inability to restrain Congress it impeached the soundness of its own decision. A recent three-volume work on constitutional law pays tribute to the undisputed authority of Congress in this field by devoting only eight lines to the subject of "Coinage" and commenting significantly that "The authority thus given has been freely exercised by Congress but this legislation has given rise to very few constitutional questions."[6]

As necessary and proper means or tools for the exercise of its money powers, Congress has, with the blessings of the Federal courts: not only chartered a United States Bank for carrying on the money transactions of the government;[7] it has incorporated national banks with authority to issue bills to circulate as money;[8] created a Federal Reserve Banking System providing central co-operative banking under the supervision of a Federal board;[9] established Federal Land Banks and Joint Stock Land Banks (now liquidated) to act as depositaries of public money, to lend money upon farm lands, taking notes and mortgages as security, and to issue farm loan bonds secured by these notes and mortgages;[10] and organized a Federal Deposit Insurance Corporation.[11]

There would seem to be no constitutional objection to the monopolization of the banking field by the national government by bringing all commercial banking institutions into the Federal Reserve System. In this matter Congress has been guilty of acts of omission rather than of acts of commission; it has been too mindful of State sensibilities. The national authority over the subjects of revenue, finance and currency is broad enough to embrace the important functions of every commercial bank.

Broadly stated, the monetary power of Congress is the power to establish a uniform national currency, either in coin or in paper, and to make that currency, dollar for dollar, legal tender for the payment of debts.

The power to coin money and to regulate the value thereof is the power to determine the denominations, the kinds of metals to be used, the metallic content, and the legal tender quality of circulating coins. Bimetallism and the mint ratio of gold to silver have been political issues since our colonial days, that have from time to time materially affected the stability of our monetary system. The Free Silver Movement, resulting in the Bland-Allison and Sherman Silver Purchase Acts of 1878 and 1890, respectively, bear eloquent and disquieting testimony to the scope of the Congressional power.

When, under authority of the Agricultural Adjustment Act of May 12, 1933,[12] and the Gold Reserve Act of Jan. 30, 1934,[13] the President, by executive order of Jan. 31, 1934, reduced the gold content of the dollar from 25 8/10 to 15 5/21 grains, this action was sustained in *Norman v. Baltimore and Ohio Railroad Co.*[14] as an incident of the monetary power, against the charge that creditors were deprived of property without compensation or without due process of law, since debts due them became solvable with less gold than was required to pay them before.

Further, by virue of the coinage power, Congress may impose certain limitations upon the ownership of the monetary metals. These limitations "arise from the fact that the law 'gives to such coinage a value which does not attach as a mere consequence of intrinsic value.' Their quality as legal tender is attributed by the law, aside from their bullion value."[15]

In the exercise of this regulatory authority Congress, in the Emergency Banking Act of March 9, 1933,[16] authorized the President, among other things, to regulate or prohibit the exporting, hoarding, melting or ear-marking of gold or silver coin or bullion or currency by any person in any territory subject to the jurisdiction of the United States. There followed a series of executive orders forbidding the removal from United States territory of any gold coin or bullion, except as prescribed by the Secretary of the Treasury, and requiring all holders to deliver to stated banks, with certain exceptions, all gold coin, gold bullion and gold certificates, in exchange for currency of an equivalent amount but not redeemable in gold. This control of the monetary metals has been sanctioned by the Court.[17]

On June 5, 1933, Congress passed the new famous Joint Resolution declaring that "gold clauses" in private or public contracts obstructed "the power of Congress to regulate the value of the money of the United States," that they were "against public policy," and that, therefore, they were henceforth void both as to existing and future contracts.

This Resolution was held valid as applied to private contracts, and by implication as applied to contracts or obligations of States and political subdivisions thereof, "that is, to such engagements as are within the reach of the applicable national power."[18] Gold clauses in such contracts were held to be contracts for the payment of money, not coin as a commodity or bullion, and were intended to afford a definite standard or measure of value as a protection against a depreciation of the currency. Such contracts, therefore, interfered with the Congressional policy for a currency having a uniform legal value in all the States, and "when contracts deal with a subject matter which lies within the control of the Congress, they have a congenital infirmity." If valid, such contracts would create a dual monetary system.

The Congressional resolution and the majority opinion of the Court were denounced by Mr. Justice McReynolds, with Justices Van Devanter, Sutherland and Butler concurring. In a vitriolic oral peroration from the bench, the intransigeant McReynolds declared that "The Constitution is gone."[19] In another fiery oral dissent in a "gold clause" case in 1937, McReynolds declared for himself and Justices Sutherland and Butler that "In our opinion, this judgment sanctions a fraud, gives effect to an act of fraud, and in our opinion is a straight-out repudiation of an honest obligation."[20] In short, in their opinion, the Congress, the President and a majority of the Court conspired to debase the dollar and to destroy "valid rights lawfully acquired" in flagrant violation of the due process clause. Thus the divine right of judges to censor and to cesure is exercised in the name of due process and under authority of a Constitution which is supposed to establish independent, co-equal departments of government.

But the Joint Resolutions of June 5, 1933, was held invalid so far as it applied to obligations of the United States, that is, government bonds. In an opinion in which there is much confusion as to the nature of sovereign power, the Court held that a government bond is an inviolable contract of the United States made by the Congress under the authority to borrow money on the credit of the United States. To say, as did Mr. Chief Justice Hughes, quoting Mr. Justice Strong in *Knox v. Lee*, that "The United States are as much bound by their contracts as are individuals" just is not true, not even morally speaking, since repudiation might conceivably be for the greater public good, and the State, not the individual, is the guardian of the public welfare. "When the *United States*," said the Chief Justice, "with constitutional authority, makes contracts, it has rights and incurs responsibilities similar to those of individuals who are parties to such instruments. There is no difference, . . . except that the United States cannot be sued without its consent" and "The fact that the United States may not be sued without its consent is a matter of procedure which does not affect the legal and binding character of its contracts."[21] But the fact that a State cannot be sued without its consent is *not* a mere matter of procedure—it is a basic attribute of sovereignty. To say that there is a legal right without a legal remedy—that there is no difference between an obligation that is enforceable and one that is not—that sovereignty can bind but not unbind—are strange doctrines. Any agreement between the sovereign state and its people can bind the State only in a moral sense. Mr. Justice Stone, dissenting, was on much firmer ground when he said:

> I . . . do not join in so much of the opinion as may be taken to suggest that the exercise of the sovereign power to borrow money on credit, which does not override the sovereign immunity from suit, may nevertheless preclude or impede the exercise of another sovereign power, to regulate the value of money; or to suggest that although there is and can be no present cause of action upon the repudiated gold clause, its obligation is nevertheless, in some manner and to some extent, not stated, superior to the power to regulate currency which we now hold to be superior to the obligation of the bonds.[22]

As an aftermath of this ruling, the Fourth Federal Circuit Court of Appeals in Richmond, held in April, 1937, that a holder of a Government gold clause bond could not be required to surrender the bond when called unless the Government was prepared to redeem at full gold value, and that the Treasury was obligated to pay the contractual 3½% interest rate on such bond.[23] It would be interesting to know how this court would enforce its judgment against the Treasury in the face of an Act of Congress directing the Treasury to stop payment.

The gold clause decision led to considerable speculation here and abroad as to how foreign holders of United States (Liberty) bonds could collect in gold or its equivalent. Such persons might have assigned their holdings to their governments for collection through diplomatic channels. But a diplomatic agreement to pay in gold would require Congressional approval; and an agreement to permit suit in the Supreme Court would have left the judgment of that Court unenforceable except by Congressional action or by war. The only practical remedy open to foreign investors was to sue in the United States Court of Claims and that remedy could be withdrawn by Act of Congress. The bond issues were floated in the United States, not abroad, and called for payment of gold at the Treasury of the United States. So even if they had been paid in gold coin, the bondholders would have been required to turn the gold back to the Treasury and would have received in return therefor an equivalent amount of currency based upon the devalued dollar.

Mr. Justice Stone's conclusion seems inescapable, therefore, that the invalidation of the gold clause in both private and public contracts or obligations was a constitutional exercise of the "sovereign

6 W. W. Willoughby, *The Constitutional Law of the United States* (Baker, Voorhis and Company, New York, 1929), Vol. II, p. 1100.

7 *McCulloch* v. *Maryland*, 4 Wheat. 316 (1819).

8 *United States* v. *Bank of Georgia*, 10 Wheat. 333 (1825).

9 *First National Bank* v. *Fellows*, 244 U. S. 416 (1917), sustaining Acts of 1913, 38 *Stat.* 251, 262, c. 6; *Hiatt* v. *United States*, 4 F. (2d) 374 (1925).

10 *Smith* v. *Kansas City Title and Trust Co.*, 255 U. S. 180 (1921), sustaining Act of 1916, 39 *Stat.* 360, c. 245, amended 1918, 40 *Stat.* 431, c. 9.

11 *United States* v. *Doherty*, 18 F. Supp. 793 (1937).

12 48 *Stat.* 51.

13 48 *Stat.* 337.

14 294 U. S. 240 (1935).

15 *Ibid.*

16 48 *Stat.* 1.

17 *Notz* v. *United States*, 294 U. S. 317 (1935). See also *Ling Su Fan* v. *United States*, 218 U. S. 302, 310, 311 (1910).

18 *Norman* v. *Baltimore & Ohio R. Co.*, 294 U. S. 240 (1935).

19 See New York *Times*, Feb. 19, 1935.

20 *Ibid.*, Dec. 14, 1937.

21 *Perry* v. *United States*, 294 U. S. 330, 351, 352, 354 (1935). *Cf. Smyth* v. *United States*, 302 U. S. 329 (1937).

22 *Ibid.*, p. 361.

23 See New York *Times*, April 7, 1937.

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Secretary Morgenthau Answers Bankers' Report on Bretton Woods

(Continued from first page)

In view of the importance of this conference and the conflicting attitude of the bankers associations and the officials of the Treasury Department, we are giving below excerpts from the stenographic report as released by the Treasury Department.

Question. What do you think of the bankers' statement on Bretton Woods?

Mr. Morgenthau: Well, I read it rather hastily in the papers and I haven't had a chance to digest it. I am sorry that they saw fit to give the statement out. We here in the Treasury have been working with some 15,000 banks over the past 11 years, but particularly closely during the war, and I think that I can say unhesitatingly that the banks have done a fine job during the war.

Now, along comes a committee of bankers associations representative of those we have seen and talked to, and I pointed out to them that if they made a statement along the lines criticising what was done at Bretton Woods, the net result would be that if their advice was listened to it would simply kill it.

Now, a great deal of very, very hard work has gone into this, not only by all of the financial agencies in the Government but by a great many consultants and practical and successful bankers. After all, one of the outstanding bankers in the country, Edward Brown, President of the First National Bank of Chicago, was a delegate, and was most helpful in the formative period, before Bretton Woods, at Bretton Woods, and since then. He is for the measure as it stands now, as are all the other delegates as far as I know.

Q. Is he a member of the ABA?

A. He is not only a member of the ABA but he is past President, and he also is Chairman of the Advisory Committee to the Federal Reserve Board, which has a statutory position under the Federal Reserve Act. He is Chairman of that. And there are other bankers and banking associations, but the thing that bothers me and which I talked about to these gentlemen just as hard as I know how, and I talk to you people now, is this: After all, this is the first agreement among 44 nations on any economic issue that will go to Congress. The rest of the world is sitting back and watching the United States take the leadership. Of course this is not a perfect instrument. Nobody expects that. You can't get 44 people, let alone 44 delegates, to sit down and agree on a document and not have a certain amount of give and take, and in this meeting the smallest nation had as much to say as the largest nation, as it should.

Wants No Amendments

But the important thing which I believe, and which those people who partook in Bretton Woods believe, is that we get something like this started. They gave the League of Nations the kiss of death by suggesting amendments, and that is the easiest way to do the same thing with Bretton Woods, and these people know that, because I took great care to point it out myself, and it has been proven, as far as I am concerned, that people in the international banking business cannot run successfully any foreign exchange markets. It is up to the governments to do this in behalf of their people, and that is one of the things which we propose to do, if and when the various legislative bodies approve Bretton Woods.

I just hope that when the time comes for all of us to testify, that representatives of the banking community will see just a little bit further than their own immediate business, and will realize that no instrument of this kind can be perfect, and that they will in the final analysis endorse Bretton Woods.

Q. Whew!

A. Does that mean good or bad?

Q. Awful good.

A. Anyway, I feel it very, very strongly.

Q. I would like to hear you talk about this when you get a chance to digest it, Mr. Secretary. I think you said you hadn't had a chance to do that yet.

A. I haven't, but I will. I am scheduled to speak in Detroit where I will be introduced by Congressman Jesse Wolcott before the Detroit Economic Club, and I will have a chance to speak there on the 26th, but before that I speak before the St. Louis Chamber of Commerce on Feb. 14, both times on Bretton Woods.

Q. February 14?

A. St. Louis, so I have two chances.

Q. The 26th, did you say, in Detroit?

A. Detroit, the 26th—the Detroit Economic Club. I speak in St. Louis on Feb. 14—St. Louis Chamber of Commerce—so I have two opportunities.

Q. Are you going to try to schedule some other talks before this goes up on the Hill?

A. I don't know. I think what other talks I have scheduled this month—that is about all I can handle.

Q. Do you make copies of these two addresses?

A. Yes.

Q. Mr. Secretary, they have reports from neutral capitals, particularly from Basle, Ankara and Stockholm, that German business men——

A. What did you say before Ankara?

Q. Basle, that German business interests are trying to contact Allied business interests, and I assume American business interests are involved, to see what peace terms they could get. Have you heard anything about that?

A. Well, I can answer this one truthfully. I haven't. Normally those kind of questions go to the State Department, but I can truthfully say I haven't.

Q. Thomas H. McKittrick, former President of the Bank for International Settlements, got a visa from the State Department and went to Switzerland on a nondisclosed mission. Has he returned to the United States or is he still over there? He went last October, I believe.

A. Well, I don't know. I have had no communication with him. Has anybody here had any?

Mr. Bell: I haven't heard anything about him returning.

Mr. Morgenthau: Mr. White?

Mr. White: I think he is still in Basle, as far as I know. He is still over there. You recall at Bretton Woods the nations adopted a resolution originally that there will be an investigation of the bank for International Settlements and to force liquidation, and there was a compromise, and they agreed to liquidate it. And Mr. McKittrick was former President of the Bank for International Settlements and a close friend of Montagu Norman. In other words, so far as I know he is still President.

Mr. Morgenthau: As to whether Nick's facts are right as to what we did in Bretton Woods, I don't know whether you stated it right or not. I don't think you did, but just identifying the fellow for me, well, as far as I know, McKittrick is still head of the Bank. I don't know where he is. I have had no communication with him recently.

Q. I wonder if someone else can help us on this McKittrick affair?

A. What is the McKittrick affair?

Q. In view of these peace moves by German business men, I wonder if there is any connection with BIS and these rumors?

A. You better ask the State Department.

Q. You don't want to comment?

A. I have answered you frankly. We have had no connections or overtures of any kind here. I will say this now, if you come around next week, I won't answer the question because those questions should be directed to the State Department. O.K.?

Q. Then we'll get back to Bretton Woods.

A. Suits me.

The Bankers Report

Q. You say along comes a committee of bankers associations. Is this to be interpreted as merely a committee report of ABA, or does the Association stand behind it? I gathered from the newspaper stories this is being put out as the view of the whole Association.

A. As I understand it, and I think it is correct, this was a committee, which I think is a standing committee.

Q. On economic policy?

A. And this report which they have made has not been voted on or referred back to the ABA as a whole.

Q. That's the way I understand it.

A. And that goes for all of these associations who are incorporated in this report.

Q. That's right.

A. Here is a committee which is fairly interlocking, too, and they make this report without, as I understand it, having referred it back to have it voted on by their particular associations.

Q. Your argument, Mr. Secretary, I assume, is that at their last meeting they asked that this committee make a report, but they haven't been voted back.

A. Here is a group of a dozen men, more or less the same in these various organizations. They make this as a report, which at the most is the 25 men.

Q. About 25?

A. At the most.

Q. Did they seek Mr. Brown's advice before they prepared this report?

A. I don't know. I am sure he has been in touch with them and worked—two or three members of this association came and talked to me.

Q. Can you name the members?

A. No. That is not particularly important. They were the heads.

Q. Heads of the group?

A. I would rather keep it off, but what I told you, ladies and gentlemen here, the best I can remember is pretty much what I told them.

Q. Mr. Secretary, have you received any letters from other bankers outside, speaking for themselves only, showing any trend of thought? That is, in connection with this?

A. Oh, yes.

Q. In addition to Mr. Brown?

A. Oh, yes. I believe, as far as I know, the only association that has taken action is the Association of the Pennsylvania State Bankers. They have acted favorably.

Now, I don't know of any other association which has acted as an association. Do you, Harry?

Mr. White: Not bankers, but there must be some forthcoming.

Mr. Morgenthau: As to bankers.

Mr. White: A lot of individual bankers have.

Congressional Action

Q. Mr. Secretary, how soon will it be possible to bring legislation before Congress incorporating it?

Mr. Morgenthau: As I understand it, they made very good headway. This legislation is in the hands of the bill-drafting people in the House and Senate who are working together. Now, it is up to the Senate, or to Mr. Wagner and Mr. Spence to decide when they are ready to introduce this legislation. The next move is theirs. The legislation is being drafted by them with consultation with the Treasury and State and the Federal Reserve. The next move is theirs. It is their ball, and they will have to decide when they are going to throw their lot into the arena.

Q. Mr. Secretary, I notice Winthrop W. Aldrich of the Chase National Bank, perhaps the most vociferous opponent of Bretton Woods, is also a member of the committee in your cursory study of the thing. Does the report represent Aldrich's views?

A. I couldn't say which is his and which is somebody else's.

Q. Do you have enough evidence to express an opinion on whether this report represents the majority opinion in ABA?

A. I wouldn't know.

Bankers' Advice Would Kill Proposals

Q. You said in your remarks that, as you pointed out to them, if they made a statement criticizing the Bretton Woods findings, the net result, if their advice was listened to, would be to simply kill it.

A. That's right.

Q. Do I interpret that correctly as meaning to kill the whole thing, including the bank? It would simply kill it? Are you speaking of the Fund or the whole Bretton Woods agreement?

A. I think the chances are that it would kill the whole thing.

Q. They have made such a report now and you mean that has killed it then?

A. No, I said if their advice was listened to—I don't think it is going to be listened to—I hope not, anyway.

Q. Mr. Secretary, a good many months ago you mentioned an educational program that you expected to have in conjunction with the Treasury to more or less sell Bretton Woods to Congress and to the public. Have you seen any fruits of that campaign or do you feel that sentiment generally is more or less behind the plan?

A. Well, I think that a lot more work has got to be done. I am making these two speeches and Mr. White has made a lot of speeches as well as people in his office. E. M. Bernstein has been around and we have all gone, I don't know how many, but I suppose one hundred one or one hundred and fifty different contacts have been made in places where we have been invited to come and explain it, and we will continue to do so. But as one of the representatives from the Netherlands said, in their country about 40% of the people's livelihood depends on export-import trade. Every child knows pretty much about it. If 3% or 4% in this country are interested in export trade, that is high. And the people by and large don't understand the sort of thing that Bretton Woods really is, because it is too remote, so we have got to a great deal of work.

Congressional Hearings

I think these hearings on the Hill will be most illuminating, and I think they will be helpful. We hope the press and radio people will assist in explaining it.

Q. In the event that Congress listens to the American Bankers Association, and they have their way, do you think it would be advisable to call another conference of the Finance Ministers of the different nations?

A. I am not that defeatist. I am not that defeatist on the thing. I am quite hopeful about what is going to happen. The only thing that has been disappointing is this committee. I thought that their horizon would be a little bit more broad than it was.

Q. Do you think by wrecking this thing the bankers want to keep control of the foreign exchange markets, or the Tripartite monetary agreement?

A. I will let you do the writing and the supposing.

Fund's Loans Misinterpreted

Q. Mr. Secretary, as a point of information, one of the principal arguments presented in this report, of course, says that when nations would draw currency from the Fund that would constitute a loan, and it is not set up on sound lending or credit principles. Now, I have also heard such a procedure defined as purchasing currency, because the countries put their own currency back in in place of that, I believe. Which in your opinion comes closer to expressing that technical transaction, a loan, or purchase of currency?

A. I will let Mr. White answer that.

Mr. White: It is correctly purchasing currency. It is an exchange of one country's currency for that of another. It is precisely the same type of operation you have in the Stabilization Fund. It is exchange of one country's currency for that of another.

Q. Then, according to that view, it wouldn't need to be set up under established principles of credit for lending money. Is that your opinion?

Mr. Morgenthau: I am not quite sure.

Mr. White: There are a lot of considerations involving a country's buying foreign exchange. It is not the same as a loan. There are a lot of other considerations that have to be taken at the time of the decision. A lending operation is a much simpler operation than a stabilization operation. And to characterize the stabilization operation, as described in the Fund as a lending operation is to miss four-fifths of the characteristics of the Fund, four-fifths of the powers.

Mr. Morgenthau: What I want to say—that is a pretty detailed question, and I don't know how much the rest of you want to go into it, but Mr. White is available to any of you if you want to ask detailed questions on that, which I don't think enter into this report particularly, but I may be wrong. But if any of you do want to, he will be available after this meeting is over.

Q. It would seem to me that that is the basic argument against the lending operation; it is not set up on sound principles. Therefore, I just wondered if I could quote you as saying that they have miscontrued it by interpreting it as purely a lending operation.

A. I will have Mr. White answer that.

Mr. White: Many of the considerations that would enter into the extension of a loan would also have to be considered in granting permission to a country to purchase foreign exchange, but there are a number of other considerations which would have to be analyzed and weighed.

Mr. Morgenthau: It isn't as simple as that. I mean, there are other things in this report that are—I think you are oversimplifying it. I know you are trying to be helpful.

Q. I am not trying to be helpful, sir, I am trying to get your reaction to that basic point of their report.

A. Then I differ with you. I don't think it is basic.

Fund a New Approach

Q. All right. I felt that a basic part of the report was that they felt this was something novel for which there was no precedent in international banking proceedings and, therefore, it was no good. I felt this was a novel situation, and a novel way of approaching it, and I wondered if you cared to comment on that.

A. I would be very glad to, and to be helpful. Of course, it is novel in the sense that it is new, and the methods which have

Must Sell Consumers $145 Billion of Goods to Create 57 Million Jobs

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top economists on that point range from the depths of prolonged depression and unemployment to utopia itself.

"But I am going to be so bold as to change that statement and venture my belief that our post-war level of economy will itself depend largely on how good a job we do through vigorous and intelligent selling, marketing and advertising in expanding the consumer demand for goods and services. This belief can be supported by facts which show that a real and tangible opportunity faces this nation to develop and maintain a high level economy with maximum employment—an economy which will be capable of providing, for the great mass of our population, a standard of living fully double our pre-war level."

"When I refer to a high level economy I am asking you to raise your sights to a goal considerably above the figures commonly used—to a national production of goods and services of $200 billion annually in terms of current 1945 prices compared with pre-war peaks of about $100 billion reached in 1929 and again in 1940—to a national income of about $168 billion compared with pre-war 'prosperity' levels of around $80 billion—to consumer expenditures for goods and services of $145 billion compared with about $70 billion—to a retail trade of over $100 billion compared with $50 billion—to an employment of 57 million persons, excluding our peacetime army, compared with 46 million employed in 1940—and to a median family income of about $50 per week compared with pre-war levels of $25 per week, an income justified by the greater productivity per man which has been demonstrated during the war.

"This is in no sence a prediction that these levels of production and consumption will be reached and maintained after the war, but close analysis will show that they really are attainable and that anything less may not be acceptable to our workers and returning soldiers.

"The figures may sound fantastic—just as fantastic as any belief at the time of Pearl Harbor that we could add almost $100 billion of war production without drastically reducing our overall production for civilians. In fact, a leading group of economists, in January, 1942, predicted that the war production program would necessitate a reduction in the average standard of living in the United States to the lowest of depression levels of 1933 with sales of goods and services at slightly over $50 billion, whereas, in actuality, consumers have increased to an all time peak of over $97 billion their purchase of goods and services, and at the same time have produced war materials in unprecedented volume.

Labor Force

"First, let's look at the labor force. As of October, 1944, the civilian labor force total stood at approximately 53 million, and adding the 12 million in the armed forces brings the total labor force to 65 million compared with 55½ million in 1940. Because this war-time total labor force is greater than would have been reached by the normal increment since 1940 the estimates of the number who will want employment after the war vary quite widely. I do not believe our population will be satisfied with anything less than 57 million civilian job opportunities—this is after allowing for an expanded peacetime army of 2 million or 3 million which would set a total goal of 59 million to 60 million employed. Even this means that 5 million to 6 million of the present labor force would have to retire voluntarily or be unemployed.

—Labor Force And National Product—

	Pre-War 1929	Pre-War 1940	War Peak 1945 (est.)	Post-War Opportunity
Total Labor Force—Millions	49.6	55.5	65	62
Civilian Employed—Millions	46.4	46.0	52	57
Civilian Unemployed—Millions	2.9	8.9	1	3
Armed Forces—Millions	0.3	0.6	12	2
Total National Product—Billions	$99	$97	$205	$200
National Product Per Employed Civilian	$2,100	$2,100	$4,000	$3,500

"Is it possible in peacetime for us to reach and maintain this goal of 57 million civilian jobs—11 million more than we employed in 1940? If we don't, the demands of the people on government will most certainly lead to serious economic disturbances. But that goal of 57 million peacetime jobs is not beyond what is needed to meet our own potential market for goods and services—a market that can be developed through utilizing our newly demonstrated ability to produce.

"We have, during this war, demonstrated that our productive ability per man is far higher than had been utilized or even suspected under pre-war conditions. In two peak pre-war years 1929 and 1940 we employed about 46 million persons and produced just under $100 billion of goods and services or at the rate of $2,100 per employed civilian. The 52 million civilians now employed are producing goods and services of about $200 billion per year or about $4,000 per man—almost double pre-war. (The price level as measured by cost of living is now approximately the same as in 1929 but about 26% above 1940.) On the basis of a 40-hour week, therefore, instead of the present average near 45 hours we have demonstrated we can produce at the rate of $3,500 per man.

"Now, if we return after the war to the 1940 level of $100 billion of total production of goods and services, as many think will be inevitable, our economy will be faced with the very serious consequences of two alternatives—or a combination of these:

"1. Spread the work or 'make work' for 57 million people—which would lower our average productivity per man to the lowest of depression levels with a serious cutting of our standards of living, or

"2. Allow a limited number of people to produce at their demonstrated capacity to produce—in which case only 28 million employed would be all that would be needed to produce for the whole economy, leaving around 30 million unemployed.

"It is almost unthinkable that we should allow either of these conditions to exist. For one thing our 12 million returning soldiers and sailors will not be of a temperament either to stand for the widespread unemployment of the last depression or to be content to subsist on a dole.

"Wage rates cannot be reduced substantially without widespread labor unrest. In fact, there will be strong resistance to any lowered weekly earnings, even through reduced overtime.

"Taxes cannot be reduced to pre-war levels since we will need to carry a national debt that probably will reach $300 billion or over, as well as to continue an expanded peacetime army and many other government expenses which history indicates will be difficult to eliminate. A low estimate of the post-war annual needs of government, both Federal and local is $28 billion compared with $11 billion in 1929—a stifling burden at any pre-war level of under $100 billion of productivity, but a burden that could be handled nicely with an economy based on our demonstrated ability to produce at levels of $200 billion.

"With the increased wage and tax levels, business profits would soon be non-existent under conditions of a return to pre-war levels representing an overall drop of volume to half of present levels—and if business profits disappear for any extended period so, too, will disappear the opportunity for employment in private industry regardless of promises and good intentions.

"It is entirely possible that we may return to pre-war levels of lower productivity, high unemployment and lowered standards of living, but if we do it will be because we lack the vision, courage and will to take advtange of the opportunity which our war production has brought to light. This remarkable record of production—the 'know how' that has made possible doubled overall production—calls for a revision of all former estimates of what is possible or desirable and points clearly to the opportunities for a real upsurge in the standards of living of our population to reap full benefit of this productivity."

Future National Income

After explaining his chart which exhibited our possibilities of increasing production and income, Mr. Johnson concluded that "it is perfectly possible for production at efficient employment of 57 million persons to provide consumers in the United States with sufficient income to expand their purchases to $145 billion annually—the amount they must consume to support a $200 billion economy."

"Again speaking of fantasy," said Mr. Johnson in referring to the future growth of the national income, "does a post-war opportunity to attain a national income of $168 billion seem incredible? Only to those who believe we are an aged, fully matured, nation headed for decadence or those whose perception has been dimmed by the ten long years of pre-war depression. Look at our record of increased productivity by 20 year periods back to 1850. In none of these periods have we failed approximately to double our national income. From $2 billion in 1850 our national income increased to over $80 billion in 1929.

Growth of U. S. National Income — By 20 Year Periods

	National Income (Billions)	Per Cent Increase Over 20 Years	National Income Per Capita
1850	$2.2	—	$95
1870	6.7	204%	174
1890	12.1	81	197
1910	30.7	154	338
1930 (1929 figures)	81.1	164	668
(1945 estimated)	(160.0)	—	(1,160)
1950 Post-War Opportunity	168.0	107	1,160

"Our 1945 national income of approximately $160 billion is the equivalent of $1,160 per capita for the 137½ million population which compares with $668 in 1929 and with $95 in 1850."

Marketing Efforts

Pointing out that enlarged production and increased national income does not of itself create demand and that marketing and advertising efforts must be used to raise living standards, Mr. Johnson said that it would be "a serious fallacy to believe that the demand is automatic if the income is available. The standards of living of different income groups shown in the chart is a development over a period of years. They reflect different levels of social and educational achievement. There are more college graduates and more high school graduates in the $50 per week group than in the $25 per week group. The tastes and measures of satisfactory achievement differ between the groups.

"This, then is the job of post-war advertising and marketing—the major task of changing the living habits and standards of the great masses of our population so that consumption can catch up with the great strides we have made in production ability and so that we can benefit through increased productivity per man through having, for each family, more of the goods and services that give human satisfaction.

"Let us assume for the moment that advertising and selling have accomplished the goal of changing the living standards and desires of the $25 per week family to those of the $50 per week family, can the market thus created really give employment to 57 million people at wage rates that will provide the revenue to buy $145 billion of consumer goods and services?

"Keeping in mind the fact that the consumer and his possible demand represents the real key to our employment problem and the possible level of our economy I have carried through an analysis, industry by industry, of the effect of raising our standards of living to an economy typified by the $50 per week family. In this I have assumed that the demonstrated increased productivity of labor should be compensated by annual earnings at least as great in each industry as the present levels.

"As an example, food, beverages and tobacco manufacturing employed 1,310,000 workers in 1940 with annual wages and salaries of $1,761,000,000 of $1,348 per employee. In wartime (taking the full year 1943) this industry has increased the average annual earnings to $1,876 per employee and is employing 1,480,000 workers. Presumably this increase in earnings per worker is justified by greater productivity in terms of total industry sales per employee. The study of the $50 per week family showed an increase of 74% in dollars spent for food and tobacco compared with the $25 per week family. Applying this to the post-war opportunity in a $200 billion economy would indicate an increase of 74% in total dollar sales of the industry, hence, without increasing the labor cost as a percentage of sales the industry could pay approximately $3,100,000 in wages and salaries in the post-war. At $1,900 per employee—approximately the present levels rather than a decrease to 1940 levels—this would provide employment for 1,650,000 workers or 340,000 more than in 1940 and 170,000 more than at present."

Weissman Publishes Economic Program For Small Business

(Continued from page 624)

ficers will be managed by nine directors. Three are to be appointed by the President of the Federal Reserve bank in the district where the office is situated, with the proviso that two must have business experience outside of banking. Three are to be named by the stockholding banks, with arrangements for group voting on the appointments, so that the banks of various size-classes are represented equally. Three are to be designated by the Board of Governors of the Federal Reserve System, with the requirement that two of them have a background of investment banking. In this way the organization will be endowed with a quasi-public character. And as part of the Federal Reserve System, it will have access to the excellent statistical resources of the Board and the Reserve banks, and its policies will be co-ordinated with the general credit and monetary policies of the Reserve authorities.

"Although the institution will not be a government agency, it will still have the prestige of the Federal Reserve System behind it. This is not the place to argue the general merits and defects of government agencies; proper evidence on the matter will be insufficient until the agencies created in recent years have existed for a longer period. Needless to say, it is presupposed Section 13b of the Federal Reserve Act will be repealed.

"The Federal Reserve Investment Corporation will have authority to make loans and purchase preferred stock, with no restriction other than the rules and regulations to be adopted by the Board of Governors of the Federal Reserve System. There should also be a provision that no investment in any one corporation is to exceed $1,000,000. In adopting these conditions the Board of Governors should be guided by the declaration of Congress that the purpose of the new corporation is to aid in the financing of small and medium-sized business."

The author maintains strongly that there is need for Federal action to aid smaller business concerns. He analyzes the effects of taxes, anti-trust provisions and patents as an aid and a hindrance to small business operations. Tax incentive measures seem to have his approval. He asserts that the Sherman Act "has been a failure" (p. 115). The monopoly of big concerns arising from their control of patents has seriously handicapped small concerns. The Federal Trade Commission and the Clayton Act "have not fulfilled early expectations." He sees a need for direct "guidance by government bureaus to small business concerns." He suggests Federal incorporation of industrial concerns. And, what is probably a more practical proposal, he urges a further study of the problems. "Except for private studies, admittedly incomplete," he says, "the collection of economic and statistical data has only just begun. The reasons for business failures have not been surveyed with proper detail. The data on births and deaths of business are inadequate. Analysis of financial statements and credit conditions is fragmentary—there is need for further guidance in the field."

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been in practice heretofore, to my way of thinking, have failed. Now, what are you going to do to bring about a stabilization of world currency? They have recommended they want, to use the word novel, a new approach, that the Governments will do this to take away the risk, handle it for the banks; they will remove the risk and absorb the risks.

Now, if you want to use that, that is a new approach. I think it is an approach worth trying; all previous methods have failed, with the result of financial chaos in a great many countries, and I don't see how these small countries that have been over-run by the enemy are ever going to get started on an economic recovery unless we have something very similar to Bretton Woods. They are never going to get out of the depressing situation they are in now. If we are going to help these countries to help themselves, I think on the financial front Bretton Woods is the answer, and it has to come first, and it has to come very, very soon.

The Supreme Court and the Power of Congress to Regulate Money

(Continued from page 643)

power to regulate the value of money." The action was legal, let others challenge its wisdom.

Prior to the Civil War the monetary powers of Congress were confined to the creation of the First (1791-1811) and Second (1816-1836) Banks of the United States, and the issue by the mint of gold and silver coins, the only forms of money recognized by the Government as legal tender. The Treasury did not issue any circulating notes. The only bank currency in circulation was issued by State banks and the First and Second United States Banks. But under the pressure brought on by the financial crisis created by the Civil War, Congress began to exert its powers on an ever-widening scale. In 1862 and 1863 Congress issued credit money, bills of credit, popularly known as Greenbacks. I am not here concerned with the tragic consequences of the Legal Tender Acts, but only with their constitutionality. They led to a series of cases in the Supreme Court, the net result of which was a judicial declaration recognizing an unstaked Congressional monetary power.

Mr. Justice Gray, speaking for the Court, held:

> Congress, as the legislature of a sovereign nation, being expressly empowered by the Constitution, "to lay and collect taxes, to pay the debts and provide for the common defense and general welfare of the United States," and "to borrow money on the credit of the United States," and "to coin money and regulate the value thereof and of foreign coin"; and being clearly authorized, as incidental to the exercise of those great powers, to emit bills of credit, to charter national banks, and to provide a national currency for the whole people, in the form of coin, Treasury notes, and national bank bills; and the power to make the notes of the Government a legal tender in payment of private debts, being one of the powers belonging to sovereignty in other civilized nations, and not expressly withheld from Congress by the Constitution; we are irresistibly impelled to the conclusion that the impressing upon the Treasury notes of the United States the quality of being a legal tender in payment of private debts is an appropriate means, conducive and plainly adapted to the execution of the undoubted powers of Congress, consistent with the letter and spirit of the Constitution, and, therefore, within the meaning of that instrument, "necessary and proper for carrying into execution the powers vested by this Constitution in the government of the United States."[24]

The War has posed new monetary problems, such as the proposed international bank and the supplying of a currency for occupied territory. Whatever steps will be taken by our Government involving foreign states will be by virtue of the war and foreign relations powers, and not in the exercise of the power to coin and regulate the value of money. I anticipate no judicial interference here. The war and foreign relations powers are political powers in the highest sense, since they have their common source in the law of self-preservation. Inflexible judicial rubrics are not adaptable to political crises. This is the area of political discretion *par excellence*. While it is possible to conceive of acts under these powers which would lead to judicial interposition of constitutional limitations, it is not probable that any government would commit such acts. The President and the Congress, no less than the Court, are mindful of their duties and of constitutional purposes. That either or all of them may falter in the performance of their duties is, of course, admitted; but the judicial formulary offers no mode of escape from official dereliction.

Furthermore, the Court has given wide latitude to these powers, suggesting that they may not be governed by the principle of limited or enumerated powers. In the Curtiss-Wright case the Court said:

> The powers to declare and wage war, to conclude peace, to make treaties, to maintain diplomatic relations with other sovereignties, if they had never been mentioned in the Constitution, would have been vested in the Federal Government as necessary concomitants of nationality.[25]

And in *Missouri v. Holland*[26] the Court implied that the treaty-making power is limited only by specific prohibitions, that is, that this power is not restricted to enumerated powers. And in *United States v. Arjona*,[27] the Court held that Congress has the power to pass any law which is appropriate to the enforcement of any obligation of the United States under international law. One of these obligations, said the Court, was the protection of the securities of a foreign state against acts of fraud within the United States, and the Court quoted with approval the following passage from Vattel:

> There is another custom more modern, and of no less use to commerce than the establishment of coin, namely, *exchange*, or the traffic of bankers, by means of which a merchant remits immense sums from one end of the world to the other, at very trifling expense, and, if he pleases, without risk. For the same reason that sovereigns are obliged to protect commerce, they are obliged to support this custom, by good laws, in which every merchant, whether citizen or foreigner, may find security.

That an international bank, such as provided for in the Bretton Woods proposals, is an appropriate constitutional means to this end is, I believe, without question.

As Commander-in-chief of the army and navy the President "may invade the hostile country, and subject it to the sovereignty and authority of the United States,"[28] and he may establish provisional governments in the invaded territories. Following the conquest of Upper California, in the war with Mexico, President Polk, in 1874, as Commander-in-chief, authorized the military commander in California to form a civil government, make port regulations, and impose import duties for the support of the military government. These orders of the President were held to be "according to the law of arms and the right of conquest."[29] President Lincoln, by executive order, established a Provisional Court in Louisiana in 1862. This court ruled that its existence depended on "the law of nations, and on that part of the law of nations relating to war."[30] And President McKinley, in the exercise of his military powers, issued an order to the Secretary of War, July 18, 1898, giving instructions for the government of conquered Santiago de Cuba.[31]

A provisional government necessarily includes a currency system, such as the "occupation currency." This is not a part of the currency of the United States, but it may be exchanged for American dollars at a rate prescribed by the Treasury presumably in the name of the military authorities. It can be made either a part of or the sole local currency, and so can be made legal tender *within the occupied territory*.

Are there, then, no Constitutional limits to the money powers of the National Government? I am not prepared to say that there are not, for not even Jeremiah would have jeopardized his reputation as a prophet by forecasting the limits of due process of law—and I am not clairvoyant. But when the Three Horsemen—Nazism, Fascism and Communism—are done with their riding, our part in the rebuilding of a demoralized world cannot be circumscribed by Constitutional limitations that embody Herbert Spencer's Social Statics.

As money will be the activating agent in the work of reconstruction, domestic and foreign, the money power may find new uses. For instance, we have observed earlier that the quality of legal tender, attributed by legislative fiat, gives to money, coin and paper, "*a value* which does not attach as a mere consequence of intrinsic value." But this value is affected by the scarcity of the monetary metals, the credit rating of the Government, and by a multitude of other factors. May Congress, therefore, under the guise of improving the credit of the Government, go into business on a large scale? or, for the purpose of stabilizing the purchasing power, the commodity value, of the dollar, embark upon a comprehensive program of price control?

These and other powers equally shocking to the individualist, lie within the undefinable precinct of political discretion. Their proper exercise waits on the emergency which may mean action or injury to the public welfare. Economic salvation, as conceived by the people in their organized political capacity, cannot be unconstitutional. The people may embrace unorthodox or even heretical doctrine in their search for economic salvation, but the Constitution does not guarantee the wisdom of political action, and it does not embody any particular economic theory, whether of paternalism or *laissez faire*.

Conclusion

There are some governmental powers that cannot be hedged about by legal restrictions without danger to the public welfare. Such powers are most effectively controlled through the ballot. There is a tendency to confuse power with policy, and to reason that if there is power it is likely to be abused. Therefore, power must be denied, or judicially strait-jacketed within the due process clause. But to assume that Congress will abuse its power, in the words of Mr. Chief Justice Stone, "hardly rises to the dignity of argument. So may judicial power be abused." And Mr. Chief Justice Marshall pointed out that "All power may be abused; and if fear of its abuse is to constitute an argument against its existence, it might be urged against the existence of that which is universally acknowledged, and which is indispensable to the general welfare.[32]

We would be well advised to put greater emphasis on the protective value of the franchise and less on constitutional limitations. A democracy cannot thrive in the enervating atmosphere of *stare decisis*, it cannot live in a state of judicial pupilage, no matter how wise the judges may be. It must be free to make social experiments uninhibited by its past, if it is to develop the self reliance, the self discipline, without which the democratic process degenerates into some alien liberty-destroying "ism." With the wisdom of such experiments the judge should have the interest of the citizen only, not of the censor.

24 *Julliard* v. *Greenman*, 110 U. S. 421, 449-450 (1884). See also *Legal Tender Cases*, 12 How. 457 (1870).

25 *United States* v. *Curtiss-Wright Export Corporation*, 299 U. S. 304, 318 (1936).

26 252 U. S. 416 (1920).

27 120 U. S. 479, 484 (1887).

28 *Fleming* v. *Page*, 9 How. 603 (1850).

29 *Cross* v. *Harrison*, 16 How. 164 (1853).

30 *United States* v. *Reiter*, Provisional Court, State of Louisiana, Federal Case No. 16, 146 (1865). See also *The Grapeshot*, 9 Wall. 129 (1869).

31 J. B. Moore, *A Digest of International Law*, Vol. VII, p. 261.

32 *Brown* v. *Maryland*, 12 Wheat. 419, 439-440 (1827).

Tomorrow's Markets Walter Whyte Says—

(Continued from page 622)

chances are you won't hear anything more than the usual glittering generalities for a long time to come.

* * *

But so far all the foregoing has no immediate bearing on the stock market. Or maybe it has. I haven't made up my mind yet. For underneath all the action, and lack of confirming action, the market is making encouraging signs. The industrial averages, for example, have just made a new high. Though the rails seem to be out of it. But even that shouldn't come as a surprise to readers of this column. They were warned of that at least a month ago.

* * *

But if the rails have gradually become bashful the utilities are becoming precocious. That too wasn't unexpected by readers. A few weeks ago the position of that group was discussed here when attention was called to the action of two stocks, Consolidated Edison, then at 24 and Public Service of New Jersey at about 17. Currently these are selling at 27 and 20 respectively.

* * *

Last week I indicated that a new list of recommendations would be given here if market action warranted. Here it is:

Buy Allis Chalmers between 40½ and 41½; stop 39.

Buy American Bank Note between 23 and 24; stop 22.

Buy National Lead between 25 and 26; stop 24.

Buy Socony Vacuum between 15 and 15½; stop 14½.

Buy American Radiator between 12½ and 13½; stop 11.

You had an old stop in Glenn Martin at 22. During the week it got to 21⅞ but bounced right back again. Your profit in this one wasn't much to speak about. As a matter of fact with commissions and taxes the chances are that if you sold when it broke 22 you got out just about even. Particularly if it was an odd lot.

Three weeks ago I casually threw out a few stocks which I felt would do okay if the market retained its equilibrium. I didn't stress them for a good reason. In case you bought them, and for the record, I list their prices and names:

American Crystal Sugar about 18⅞, stop 18. Currently about 19.

American Steel Foundries about 28, stop 27. Currently about 30.

Baldwin Locomotive about 26, stop 25. Current price about 28.

Crucible Steel about 38, stop 35. Current price about 42.

That about completes the list. I think both action and volume will now tend to increase. However, don't be surprised if you first see a period of dullness. For oddly enough both action and dullness are indicated. So the chances are you may see both.

* * *

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.*]

Financial Advertisers Elect Norcross Pres.

At the annual meeting of the New York Financial Advertisers, Theodore W. Norcross of the Bank of New York was elected President for 1945. Other officers elected were William Huckel of the Chase National Bank, First Vice-President; P. Raymond Haulenbeek of the North River Savings Bank, Second Vice-President; Lee C. Horney of the New York Post, Secretary, and Edward B. Sturges II of Edward B. Sturges II, Inc. was elected Treasurer.

Directors for the year are: Merrill Anderson of the Merrill Anderson Company, Dorcas Campbell of the East River Savings Bank, George E. Kirby of the Greenpoint Savings Bank, John J. Lawlor of the National City Bank, Louis S. Lebenthal of Lebenthal & Company, Richard Meyer of the Wall Street Journal, Frederick G. Rudge of William E. Rudge's Sons, Inc., Ruel S. Smith of Time, Inc., Harold L. Whittaker of the Brevoort Savings Bank and William T. Wilson of the American Bankers' Association.

Calendar of New Security Flotations

NEW FILINGS

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

THURSDAY, FEB. 8

CARRIERS & GENERAL CORP. has filed a registration statement for $1,872,000 15-year 3¾% debentures due Feb. 1, 1960. Net proceds from the sale with other funds will be utilized for the redemption in March, next, of $1,872,000 15-year 5% debentures due Nov. 1, 1950, at 105 plus accrued interest. Underwriters are Paine, Webber, Jackson & Curtis, $1,272,000; Eastman, Dillon & Co., $400,000; H. C. Wainwright & Co., $100,000, and Brush, Slocumb & Co., $100,000. Filed Jan. 20, 1945. Details in "Chronicle," Jan. 25, 1945.

SATURDAY, FEB. 10

DALTON HOTEL CORP. has filed a registration statement for 4,932 shares of common stock (par $5). The shares are to be issued in exchange for a like number of units of beneficial interest in the Dalton Hotel Liquidation Trust. No underwriters. Filed Jan. 22, 1945. Details in "Chronicle," Jan. 25, 1945.

MONDAY, FEB. 12

SENTINEL RADIO CORP. has filed a registration statement for 150,000 shares of common stock (par $1). Of the total 75,000 shares are being sold by corporation and 75,000 shares by Ernest Alschuler, President, Treasurer and Director. Company will add its share of proceeds to its working capital to be used in general to finance operations, inventories and accounts receivable incident to the company's business. The underwriters are Blair & Co., Inc., Sulzbacher, Granger & Co., Maxwell, Marshall & Co., Shillinglaw, Crowder & Co., Inc., Brailsford & Co. and Straus & Blosser. Filed Jan. 24. 1945. Details in "Chronicle," Feb. 1, 1945.

TUESDAY, FEB. 13

TRI-CONTINENTAL CORP. has filed a registration statement for $7,360,000 3½% debentures due Feb. 1, 1960. Net proceeds will be used, together with other funds of the company, to redeem $2,460,000 5% convertible debentures, series A, at 103½ plus interest and to retire $4,900,000 of bank loans. Underwriters are Union Securities Corp., Blyth & Co., Inc., Goldman, Sachs & Co., Hornblower & Weeks, Kidder, Peabody & Co., Mellon Securities Corp., Stone & Webster and Blodget, Inc., W. C. Langley & Co., A. C. Allyn & Co., Inc., Reynolds & Co., E. H. Rollins & Sons, Inc., McDonald & Co., Ames, Emerich & Co., Inc., Boettcher & Co. and Kuhn Loeb & Co. Filed Jan. 25, 1945. Details in "Chronicle," Feb. 1, 1945.

WEDNESDAY, FEB. 14

NORTHERN PENNSYLVANIA POWER CO. has filed a registration statement for $4,000,000 first mortgage bonds due 1975. The bonds are to be sold under the Commission's competitive bidding rule, with the interest rate to be named by the successful bidder. The proceeds will be used to redeem securities as follows: Sayre Electric Co., $182,000 first mortgage 5% gold bonds due 1947 at 105, and Northern Pennsylvania, $1,369,900 first and refunding mortgage gold bonds, series A, 5% at 102½ and $2,089,600 first and refunding mortgage gold bonds, 5% series due 1962 at 105. Proceeds with other funds of the company also will be deposited with the trustee under the mortgage to the extent of $358,500 to be withdrawn by the company for new construction or to be used in the retirement of new bonds. In addition the company would establish at Dec. 31, 1944, a reserve of $875,000 by charges to surplus for the purpose of absorbing write-offs as may be required by regulatory authorities, and any writedowns deemed appropriate by the management. Filed Jan. 26, 1945. Details in "Chronicle," Feb. 1, 1945.

THURSDAY, FEB. 15

CENTRAL TELEPHONE CO. has filed a registration statement for 35,000 shares of $2.50 cumulative preferred stock, series A (no par), stated value $50 per share. All of the shares registered are issued and outstanding and are owned by Central Electric & Gas Co. (parent). Paine, Webber, Jackson & Curtis and Loewi & Co. are underwriters. Filed Jan. 27, 1945. Details in "Chronicle," Feb. 1, 1945.

A. P. W. PRODUCTS CO., INC., has filed a registration statement for $2,000,000 20-year 5% first mortgage sinking fund bonds and 40,000 shares of capital stock (par $5). Company is offering the holders of its $2,000,000 20-year 6% first mortgage sinking fund bonds due April 1, 1948, the privilege of tendering their bonds for redemption as of April 1, 1945 at 102½ and interest, or, in the alternative, to assent to an extension offer providing for the extension of the maturity date to April 1, 1965 and the reduction of the rate of interest to 5% per annum and to receive in consideration for such extension $25, the amount equivalent to the 2½% redemption premium, and in addition 20 shares of the company's $5 par value common stock. The extension offer will expire at noon Feb. 26, 1945. Bonds not tendered for extension will be redeemed at 102½ and accrued interest to April 1, 1945. After the expiration of the extension offer, an amount equal to the unextended 6% bonds are to be offered to the public by the underwriters at the initial offering price of $1,000 "per unit" consisting of $1,000 20-year 5% first mortgage sinking fund bond and 20 shares of $5 par value common stock. The underwriters are Allen & Co., Bond & Goodwin, Inc., E. W. Clucas & Co., R. H. Johnson & Co., Schoellkopf, Hutton & Pomeroy, Inc., Buckley Brothers, George R. Cooley & Co., Inc., Brailsford & Co., and Ferris, Exnicios & Co., Inc. Filed Jan. 27, 1945. Details in "Chronicle," Feb. 1, 1945.

HERFF JONES CO. has filed a registration statement for 60,000 shares of class A preference stock, par $1. The shares are issued and outstanding and do not represent new financing.

Address—1411 North Capitol Avenue, Indianapolis, Ind.

Business—Manufacture of emblem jewelry and graduation announcements.

Offering—The offering price is $10 per share.

Proceeds—The proceeds will be received by the selling stockholders. The stockholders and the amounts of stock being sold are as follows: Harry J. Herff, 29,000 shares, Howard A. Intermill, 16,000 shares, T. B. Gerber and Orpha Gerber, 7,500 shares each.

Underwriting—Cities Securities Co., Indianapolis, is the principal underwriter.

Registration Statement No. 2-5576. Form S-2. (1-27-45).

SATURDAY, FEB. 17

ACME ALUMINUM ALLOYS, INC., has filed a registration statement for 185,000 shares of common stock (par $1) and 40,000 shares of $1.10 cumulative convertible preferred (par $17.50). Of the shares registered 40,000 shares of preferred and 40,000 shares of common are to be offered by the company and 40,000 additional shares of common by certain stockholders. The registration covered 25,000 shares of common stock issuable upon the exercise of warrants and 80,000 shares of common are reserved for issuance in connection with the conversion rights of the preferred stock. The offering price of the preferred stock is given at $20.75 per share and of the common at $8 per share. The proceeds from the sale by the company of 40,000 shares of preferred and 40,000 shares of common will be added initially to the working capital of the company. Principal underwriters are Reynolds & Co., and Gillen & Co. Filed Jan. 29, 1945. Details in "Chronicle," Feb. 1, 1945.

MONDAY, FEB. 19

ARGUS INC. has filed a registration statement for 3,000 shares of $100 par $5 cumulative employes profit-sharing preferred stock.

Address—Ann Arbor, Mich.

Business—Manufacturer of radios and cameras, etc.

Underwriting—No underwriter.

Offering—At $100 per share to trustee of employees profit sharing savings retirement fund of registrant.

Proceeds—For working capital.

Registration Statement No. 2-5578. Form S-1. (1-31-45).

TUESDAY, FEB. 20

RUSSELL BERG FUND, INC., has filed a registration statement for 40,000 shares of capital stock.

Address—Room 1608, 75 Federal Street, Boston, Mass.

Business—Investment company.

Underwriting—Russell, Berg & Co.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5579. Form S-5. (1-1-45).

WEDNESDAY, FEB. 21

BENDIX HELICOPTER, INC., has filed a registration statement for 1,400,000 shares of capital stock, par value 50 cents.

Address—50 Rockefeller Plaza, New York City.

Business—Incorporated for the purpose of developing and manufacturing helicopters and parts therefor for military, commercial and private use.

Offering—Of the shares registered 1,000,000 are to be offered presently proportionately to the holders of the corporation's outstanding stock on the basis of four additional shares for each five shares held at $1.60 per share. Of the total, 200,000 shares are reserved to be issued when, as and if certain outstanding options granted by the corporation are exercised, and 200,000 additional shares are reserved to be issued when, as and if certain stock option warrants to be issued by the corporation to the underwriters are exercised. Such shares of stock as are not subscribed for by the stockholders will be offered to the public by the underwriters at $2 per share.

Proceeds—The proceeds will provide the corporation with sufficient working capital to carry out the corporation's program for the development and manufacture of Bendix helicopters, and provide the corporation with the facilities and working capital to accept orders.

Underwriting—Kobbe, Gearhart & Co., Inc., and Bond & Goodwin, Inc., are named principal underwriters.

Registration Statement No. 2-5580. Form S-1. (1-2-45).

NEW YORK STOCKS, INC., has filed a registration statement for 1,000,000 shares of special stock.

Address—48 Wall Street, New York City.

Business—Investment company.

Underwriting—Hugh W. Long & Co., Inc., is named principal underwriter.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5581. Form S-5. (1-2-45).

THURSDAY, FEB. 22

SAVANNAH-ST. AUGUSTINE GAS CO. has filed a registration statement for 6,250 shares of 5% cumulative preferred stock, par $100, and 30,000 shares of common stock, par $10.

Address—Savannah, Ga., and St. Augustine, Fla.

Business—Public utility.

Offering—The offering price of the preferred stock is $100 per share and that of the common $15 per share.

Proceeds—The proceeds will be used to retire the bonds outstanding of the St. Augustine Gas Co. at $103—the call price, to pay the purchase price of the properties of Savannah Gas Co. being acquired by the registrant at an estimated cost of $2,145,000 and to pay the cost of new construction estimated at $125,000.

Underwriters—Clement A. Evans & Co., Inc.; Johnson, Lane, Space & Co., Inc.; Robinson-Humphrey Co.; Courts & Co.; Varnedoe, Chisholm & Co., Inc.; Putnam & Co.; Kirchofer & Arnold, Inc.; Milhous, Martin & McKnight, Inc., and J. H. Hilsman & Co., Inc.

Registration Statement No. 2-5582. Form S-1. (1-3-45).

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 $300,000 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.

ARKANSAS-MISSOURI POWER CORP. has filed a registration statement for $2,000,000 first mortgage bonds, series A, 3⅛%, due Dec. 1, 1974. Proceeds together with general funds of the company to the extent required, will be used to redeem, at 105, of $2,350,000 first mortgage bonds, series A, 4%, due June 1, 1965, of the company. The bonds will be offered for sale at competitive bidding. Filed Dec. 4, 1944. Details in "Chronicle," Dec. 7, 1944.

CENTRAL OHIO LIGHT & POWER CO. has filed a registration statement for 11,972 shares of preferred stock, cumulative ($100 par). The dividend rate will be filed by amendment. The company proposes to invite proposals for services to be renedered to it in obtaining acceptances of the exchange offer of new preferred stock for old preferred, and for the purchase from it of such of the 11,972 shares as are not exchanged pursuant to the exchange offer. The 11,972 shares of new preferred are to be issued to retire the outstanding $6 preferred shares. The exchange offer is to be on a share for share basis plus a cash adjustment. Company will call for redemption the unexchanged shares, subject to the consummation of the sale to underwriters of the stock to be sold. The proceeds from such sale will be applied in part to the redemption of any such unexchanged shares. The redemption price of old preferred stock will be $110 per share plus accrued dividends. Filed Dec. 28, 1944. Details in "Chronicle,," Jan. 4, 1945.

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.

Registration statement withdrawn Jan. 17 1945.

DELTA AIR CORP. has filed a registration statement for 102,424 shares of common stock (par $3). It is expected that proceeds will be used in the acquisition of additional flight, communications and other equipment, the construction of hangers, the purchase of machinery, and other facilities in connection, with its present routes, and such new routes as may hereafter be acquired or participated in by the company. Courts & Co., Atlanta, Ga., is the principal underwriter. Filed Jan. 10, 1945. Details in "Chronicle," Jan. 18, 1945

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.

GENII CORP. has filed a registration statement for 1,868 shares of common stock. Company plans to sell the securities registered direct to the public without the assistance of underwriters or dealers. Offering price to the public is $100 per share. Proceeds will be applied to building and improvements, machinery and equipment etc. Balance will be used for working capital and reserve for contingencies. Filed Dec. 23, 1944. Details in "Chronicle," Jan 4, 1945.

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.

KING-SEELEY CORP. has filed a registration statement for 100,000 shares of 5% cumulative convertible preferred stock ($20 par). Proceeds will be used for repayment of $214,393 3½% notes, due Aug. 30, 1945, the acquisition of all of the remaining outstanding shares of common stock of Central Specialty Co. or otherwise to acquire the business and assets of Central, to improve its own and Central's plants and for additional working capital. Offering price to public $20 per share. F. Eberstadt & Co., and Watling, Lerchen & Co., are named principal underwriters. Filed Jan. 17, 1945. Details in "Chronicle," Jan. 25, 1945.

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.

NATHAN STRAUS-DUPARQUET, INC., has filed a registration statement for 25,000 shares of 6% cumulative convertible preferred stock, par $25. The shares are issued and outstanding and do not represent new financing by the company. To be presently offered at $25.75 per share, 19,592 shares. Allen & Co. are named principal underwriters. Filed Jan. 16, 1945. Details in "Chronicle," Jan. 25, 1945.

(This list is incomplete this week)

Post-War Tax Imponderables

(Continued from first page)

of course, advocates relief from wartime rates.

"But as everyone also agrees that tax relief must not impair the value of the dollar, we should not, as is too often the case, lose sight of the economic background behind currently suggested tax changes."

Turning to the economic and fiscal problems following the war, Mr. May said that "by the end of this fiscal year our Government debt will reach the stupendous total of $250 billion and by the end of the war will presumably grow to at least $300 billion. So further Federal deficits after the war surely must be avoided and current expenses must be balanced by the Government's income from taxation. Hence the rate and kind of your tax bill must depend first on Government expenses and, second, on the state of business activity, and the resulting pool of national income from which the tax money is extracted. Looking at these factors, the present writer is strongly convinced that current expectations of post-war tax relief are extremely over-optimistic and wholly unwarranted by the probabilities.

"Let us first consider the expense side of our Federal Government. Of course there are many imponderable and unpredictable elements, such as the length of the European and Japanese wars, our domestic economic philosophy, the permanent expense of our post-war military forces, benefits to veterans of this war, public works expenditures, subsidies to agriculture, and relief to foreign countries.

"In any event, the budget estimates in the current popularly publicized fiscal plans contemplate Federal expenses that give jitters even to the so-called 'spenders' of the 1930s. The Ruml-Sonne as well as the Twin Cities plans are based on budgets of $18 billion. The Committee for Economic Development thinks that they may be kept at $16 billion, and the former Treasury General Counsel, Randolph Paul, as a 'realist,' foresees the possibility of a $25 billion annual expense.

"Now, the coverage of these expenses by the revenue side depends on the business activity and the national income from which taxes must come. As the premise for reductions in present taxes, it seems to me that post-war business activity is being anticipated at a fantastically high rate. For, measuring business activity by national income, the latter is prophesied by the leading authorities at anywhere from $125 billions by Twin Cities to $170 billions by Henry Wallace. Messrs. Ruml and Sonne base their proposal for abolition of the tax on corporations, repeal of the excess profits tax, and reduction of rates on personal taxation, all on an assumption of a post-war national income of $140 billion."

"But," Mr. May continued, "can we blandly assume and base our tax plans on post-war activity great enough to produce a national income of $140 billion or anywhere near it?

"This $140 billion figure assumes a drop of only about 10% from our present war-boom activity—a **doubling** of our income in the prewar year 1939—an annual rate of increase triple that of the roaring 1920s. Prediction of only such small reduction from the wartime rate of activity is made in the face of the peacetime withdrawal of the Government from its present role of **the** huge customer taking almost $100 billion of annual war purchases. With the military establishment withdrawing as buyer, will we be able to stabilize industrial activity at anywhere near our present wartime rate—with production triple the 1933 figure and 70% above 1940? With or without Mr. Wallace's help, will we be able to provide peacetime jobs in excess of the 53,000,000 labor force which is providing our enormous wartime needs?

"A national income of $140 billion implies the conversion of almost all our war production to peace production; 100% employment, and a standard of living 50% greater than in the 1930s.

"Expectation of such unprecedented peacetime activity is based on the assumption that we have during the war years been **under**-consuming civilian goods in the aggregate—thus leaving a great void of demand to be made up. But actually isn't this assumption of current overall starved consumption of civilian goods unwarranted?

"It is not realized that, as Department of Commerce figures officially show, consumers' wartime expenditures have been actually running far in **excess** of prewar years. Consumers are now spending at the rate of $93 billion a year, against only $60 billion in 1939 and $65 billion in 1940. Sales of food and apparel stores are now over double the 1935-1939 average; in 1943 production of women's and children's apparel was 20% higher than in 1939, and even of all kinds of apparel for men, boys, women and children, production was practically the same as 1940. So where is the aggregate peacetime demand to fill the post-war hole left by the withdrawal of the hundred billions of war-inflated expenditure, and relied on to cause a post-war spending spree?

"So I submit that all plans for the manner and amount of post-war taxation should be considered in the light of far closer scrutiny of prospective industrial activity, amount of employment, prices, and the resultant national income whence the tax revenue to pay Government expenses must come!"

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The rise in the government bond market, which continued unabated last week, would lead one almost to conclude that the budget had been balanced and the Treasury at long last had begun to retire debt. . . . Since such a condition will not prevail for a long time, it is the considered opinion of money market experts that the government bond market has now reached levels, where it is advisable to pause and take stock of the situation. . . . As yet there is nothing in the way of concrete indications from the Treasury that during the next War Loan there will be offered a six-year 1¾% bond instead of an eight-year 2% obligation, or that the 2½% issues, will be eliminated and a long 2¼% or 2⅜% bond offered in place of it. . . .

Quite to the contrary, there appears to be considerable unanimity of opinion in informed circles that the series "E," "F" and "G" Savings Bonds and the long 2½% obligations are certainties in the next War Loan. . . . There may be some lengthening of the maturity of the 2½% bonds, by two to four years, but this minor extension of the maturity will make practically no difference to the insurance companies and the savings banks. . . .

MARKET INDICATIONS

With reference to the intermediate term obligations, the market seems to indicate that it is looking for a change in coupon, since the 2% bonds with approximately a six-year maturity to the call date, have advanced to levels that show yields of less than 1.75%. . . . A six-year 1¾% bond if offered during the next War Loan and dated either May 15 or June 1, with a definite maturity, would be due on May 15 or June 1, 1951. . . .

Assuming this to be the case, it is indicated that the 2% due 9-15-51-53 at 101 22/32 to yield 1.72% and the 2% due 12-15-51-55 at 101 20/32 to yield 1.74% are at levels where future appreciation is limited. . . .

On the other hand, these issues with substantial premiums compared with a 1¾% bond at 100 would no doubt be sold in order to reinvest the funds in the lower coupon, lower premium issue. . . . The same condition would seem to be applicable to the 2% due 6-15-52-54 and the 2% due 12-15-52-54. . . . If the ending of the European phase of the war should result in unsettlement in the government bond market, and the next War Loan should be scheduled during such a period, there undoubtedly will be no change in the type issues from those offered in the Sixth War Loan. . . . Under such conditions the market would be in for some sharp price changes. . . . It has been stated that the Seventh War Loan will take place in either May or June, with indications that the new issues to be offered in the drive will be payable either May 15 or June 1. . . .

PROFIT AFTER INTEREST

Based on the assumption that May 15 would be the pay date for the new drive issues, the interest run off between now and May 15, for a 2% bond is equivalent to 17/32. . . . If one sold the 2% due 9-15-51-53 at 101 22/32 the profit above the loss of interest would be 1 5/32 points; on the 2% due 12-15-51-55 at 101 20/32 it would amount to 1 3/32 points; on the 2% due 6-15-52-54 at 101 16/32 it would aggregate 31/32, and on the 2% due 12-15-52-54 at 101 13/32 it would total 28/32. . . . With a June 1 pay date for the new drive issues the interest run off between now and June 1 for a 2% bond is equal to 20/32. For the 2% due 9-15-51-53 if sold at 101 22/32 the profit after allowance for the loss of interest would be 1 2/32 points; on the 2% due 12-15-51-55 at 101 20/32 it would aggregate 1 one point; on the 2% due 6-15-52-54, at 101 16/32 it would amount to 28/32, and on the 2% due 12-15-52-54 at 101 13/32 it would be equivalent to 25/32. . . .

THE INTERMEDIATES

If the new intermediate term issue to be offered in the next drive has a 2% coupon, it would probably be available in the market at a price of about 100 9/32, the level at which the 2% due 12-15-52-54 traded, when the Sixth War Loan ended. . . . The premium of 9/32 to be paid for the new issue would have to be deducted from the profit realized through the sale of the outstanding 2% bonds. . . .

Should the new intermediate term drive issue be a 1¾% obligation the premium would probably not exceed 5/32 and this would be deductible from the gains obtained from the sale of the 2% issues. . . .

For a 2½% bond with a May 15 pay date the loss of interest from now until that date would be equivalent to 22/32, whereas with a June 1 payable date, the loss of interest would equal about 25/32. . . . The 2½% due 3-15-66-71 if sold at present levels of 101 13/32 would show a profit of 23/32 over the loss of interest to May 15, and a gain of 20/32 above the loss of interest to June 1. . . . Since the holders of these issues will no doubt be able to secure these bonds again at 100, there is no need to make any allowances for a premium on this obligation. . . . Accordingly, many informed followers of the government bond market believe that the price at which the 2% and 2½% bonds are selling above the loss of interest to the Seventh War Loan, together with the allowance for premiums for the new issues, is the speculative phase of the market, and this part could be very susceptible to uncertainties that appear from time to time. . . .

DIVERGENT BANK TREND

Since the end of the Sixth War Loan, the New York Federal Reserve district member banks, and the member institutions in the other Federal Reserve districts have shown divergent trends in their operations in the government bond market. . . . The reporting member banks in the districts outside of New York from Dec. 20, 1944, up to and including Jan. 21, 1945, have been buyers of government bonds each week, with purchases amounting to $614,000,000. . . . The member banks in the New York district during this period have been sellers on balance with sales amounting to $90,000,000 as against purchases of $68,000,000. . . .

These figures indicate that the member banks in the outlying districts have been among the principal beneficiaries in the rise in the government bond market, since they have not been sellers of these obligations during the uptrend in prices. . . .

The New York City reporting member banks also during the period from Dec. 20, 1944, to Jan. 31, 1945, sold more government bonds than they bought, with sales amounting to $120,000,000 compared with purchases of $116,000,000. . . . From the week ended Dec. 27, 1944, up to and including Jan. 10, 1945, these banks sold $120,000,000 of government bonds. . . . The rise in price in the 2% due 6-15-52-54 and the 2% due 12-15-52-54, during that period amounted to 5/32. . . . It was reported that the New York City banks had taken profits in their bond holdings during this period, because it was believed at that time that the market had moved ahead too rapidly. . . .

However, the market did not react, and these banks were again buyers, with purchases in the last three weeks amounting to $110,000,000, of which $70,000,000 was reported for the week ended Jan. 31. . . .

From Jan. 17, to the end of last week the 2% due 6-15-52-54 have advanced 24/32, while the 2% due 12-15-52-54 have moved ahead 25/32. . . . It is indicated that the New York City member banks purchases last week were largely responsible for pushing many of the government bond issues into new high ground.

Fifty Years a Trustee Of U. S. Trust of N. Y.

John Jay Phelps, capitalist, on Feb. 7 completed his fiftieth year as a trustee of the United States Trust Company of New York. He has served continously since his election in 1895.

John Jay Phelps

Mr. Phelps, who was born in Paris in 1861, came to this country at an early age. He received his education at Yale and graduated with the class of 1883. During the Spanish-American War he served as a Lieutenant in the Navy, and in the first World War he commanded a squadron of submarine chasers.

He has long been interested in yachting as a hobby, and sailed around the world soon after leaving college. Mr. Phelps is a member of numerous Audubon, Forestry, Natural History and Geographic organizations.

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