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The Commercial and FINANCIAL CHRONICLE

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Diversify Your Investments

Roger W. Babson Suggests Ten Groups

BABSON PARK, MASS.—This week let me talk on the necessity of dividing up your investments in order to get safety. In other words, don't put too many eggs in any one basket. If you have $10,000 invested or to invest, divide it among ten groups of securities. The following groups and ideas are not the only ones to consider, but they serve as illustrations:

Roger W. Babson

Manufacturing: Select some company like a paper, textile or oil company which is in a "repeat" business rather than a company dealing in equipment which lasts a lifetime. Thus, beware of many shipbuilding, aviation or machine tool

Public Utilities: Select the stock of some good company which is being eliminated by the Securities & Exchange Commission and which should liquidate for considerably more than the present market price. Stocks which fulfill such requirements

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Index of Regular Features on page 960.

Future of Small Business Taxation

By RANDOLPH E. PAUL*
Former General Counsel, U. S. Treasury

Asserting That Small Business Is the Backbone of the Nation, Mr. Paul Calls Attention to the Conflicting Reports Issued Respectively by the Senate Small Business Committee and the Research Division of the Federal Reserve Board Regarding War's Effects on Small Business Concerns. Hold Proposals to Mitigate the Plight of Small Business Are Not Specific and That All Are Easier Said Than Done. Advocates Revision of Excess Profits Tax "Carry-Back" Provisions to Assist Small Businesses in Post-War Reconversion, and the Granting of More Liberal Loss Provisions in Computing Taxes. Says Small Business Man Must Shift His Sights to the Whole Tax System and Seek a Tax System That Can Create a Prosperous Post-War Economy.

We hear a great deal these days about the difficulties of the little man in the big world. He is beset with problems and he is constantly wrestling with taxes. I am going to talk to you tonight about the little man and the future of small business taxation.

Randolph E. Paul

It is becoming a good old American custom to pay lip service to small business and to promise it the moon. I am afraid it is becoming an equally good old American custom to do very little to help small business. Back in 1755 Dr. Samuel Johnson wrote in his preface to the dictionary: "Words are the daughters of earth and things are the sons of heaven."

*An address by Mr. Paul at a dinner meeting of the Employing Printers Association, Hotel Commodore, New York City, Feb. 26, 1945. Mr. Paul is now a member of the law firm of Lord, Day & Lord, New York City.

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History and Forecast of Rail Credit

By PATRICK B. McGINNIS*

Contending That Knowledge of Railroad Credit in the Past Looked to Only Maturities and Yields, Mr. McGinnis Points Out That the Market Collapse in Railroad Bonds Due to Defaults Indicated a Mechanical Situation in the Relationships of Buyers and Sellers, Rather Than Their Intrinsic Value. Wall Street, He Says, Was Not Geared to Sell Defaulted Bonds to the Public, With the Result That Prices of These Issues Fell to Very Low Levels. Points to Reduced Charges of Reorganized Railroads and the Fact That Refunding Bonds Are Approaching Call Prices as a Basis for Belief in Future of Railroad Credit. Sees Further Rise in Defaulted Issues as Reorganizations Are Effected, and Does Not Fear Competition Against Railroads.

Railroad securities, bonds and stocks, are the oldest form of corporate security we have, and still represent the major amount of such securities, particularly so far as bonds are concerned. We have had railroad bonds with us for almost a hundred years, in some cases, and railroad stocks likewise.

Patrick B. McGinnis

Most of the railroad bonds are listed on the New York Stock Exchange; as are most of the utility bonds. As of the first of this year, the

*An address by Mr. McGinnis at a meeting of the Bond Club of Detroit, Hotel Statler, Detroit, Michigan, Feb. 21, 1945. Mr. McGinnis is a partner in the firm of Pflugfelder, Bampton & Rust, Members of the New York Stock Exchange.

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Tax Speculation and Stop Progress

By A. M. SAKOLSKI

Economist Points Out the False Assumptions of the Proposal of Chairman Eccles of the Federal Reserve Board to Tax Speculative Transactions As a Check Against Inflation. Holds That Speculation Is a Result and Not a Cause of Inflation and That a Special Tax on Speculation Will Not Eliminate Inflation, but Would Discourage Business Enterprise and Risk Capital. Says Tax Would Be Extremely Impractical to Administer Because of Inability to Distinguish Between Investment and Speculation Transactions.

A. M. Sakolski

Of the many schemes and proposals put forth in the last two years to prevent or diminish inflation and its dangers, none, perhaps, is more fantastic, erroneous and impractical than the project (if it can be called such) of Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, to impose a special tax "on gains from speculation in stocks and real estate." This proposal was made at a hearing before the Senate Banking Committee on the bill to reduce the reserve requirements of the Federal Reserve Banks in order to permit a larger currency circulation and a further expansion of bank credit—both inflationary incentives.

Conceding the danger of currency inflation arising out of a post-war boom due to an excessive money supply and easy credit

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Guide Posts for Judging Stock Market Ahead

By DR. WILLIAM F. EDWARDS*

Partner, Naess & Cummings, New York

Contending That Forecasting Is No More Difficult Than in the Past, Dr. Edwards Asserts We Should Look Ahead With the Courage of Those That Succeeded Before. Says Civilian Regimentation Has Produced Static Thinking Toward the Stock Market, but Points Out That First the Fear of the War, and Then the Fear of the Peace Has Given Way to Reserved Confidence. Holds Present Stock Prices Supported by Earnings and Dividends, and That It Is Thoroughly Tested, Though Downward Influence May Temporarily Dominate. Predicts a Reasonable Up-Side Level of the Dow-Jones Average of 170. Hits Morgenthau's "New Era" Credit Policy as a Modern Tower of Babel, and Urges Brokers to Keep Market in Bounds Rather Than Have It Done by Government Order.

Our prospective and mutual understanding will be aided, I believe, if at the outset we eliminate two erroneous thoughts that have been too prevalent.

Judging the Opportunity Ahead

Dr. Wm. Edwards

Many of us see the uncertainties on every hand and tend to postpone decisions and temper judgment, expecting that in time the outlook will become more apparent. But this will become true only as the opportunity becomes less. We shouldn't alibi, believing that our problem of looking ahead and planning is more difficult than it was in the past. If we put on the glasses of yesterday so that we see it as it was then seen, and as we now see our tomorrow, we find on the threshhold of periods of unusual opportunity turmoil and confusion that frequently bewildered our predecessors in the financial district.

In retrospect, could there be a cleaner period than when our economic society was cultivating the soil and planting the seeds that subsequently produced such profitable crops. We remember the development of the steam engine, the steamship and the locomotive;

*An address made by Dr. Edwards before the Association of Customers' Brokers in the Governors' Room of the New York Stock Exchange Feb. 27, 1945.

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John F. Donnellan Joins E. F. Hutton

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—John F. Donnellan has become associated with E. F. Hutton & Co., 160 Montgomery St. He was previously with Sutro & Co. and prior thereto for many years was an officer of Donnellan & Co.

Harry F. Stemper Is With Fairman & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL. — Harry F. Stemper has become associated with Fairman & Co., 650 South Spring St., members of the Los Angeles Stock Exchange. Mr. Stemper was in the past an officer of Franklin Wulff & Co., and Ehni & Wood, Inc.

Economic Adjustments From War To Peace

By AMOS E. TAYLOR*

Director, U. S. Bureau of Foreign and Domestic Commerce

Commerce Department Official Distinguishes Two Post-War Periods, viz.: (1) the Immediate or Reconversion Period, and (2) the Longer-Run Period. Holds in First Period the Deferred Demands of Wartime Are Not in Themselves Sufficient to Offset Shrinkage in Government Expenditures but, Because of Large Savings and Cash Assets Held by Public and Business, an Inflationary Tendency Can Develop Unless Post-War Spending Is Synchronized With Rate of Reconversion. Says Foreign Trade Expansion Must Be Inter-Related With Domestic Activity and Urges Foreign Investment for Sound Industrialization of Undeveloped Areas as a Safeguard Against Forces Leading to War.

In dealing with post-war adjustments it is well that we first take note of the fact that in time of war the Government is an insatiable customer that at present is demanding more than 40% of our total output. This figure suggests the size and scope of the problem which will confront us when we seek a balance in our post-war economy which will assure us of maximum output and the means of distributing and consuming such output. At the same time we shall have to achieve this result in a world which is becoming increasingly interdependent and which cannot maintain prosperity unless the flow of goods can be kept on a high level.

Amos E. Taylor

We shall have to deal with these problems of adjustment at a time when the world atmosphere is surcharged with highly emotional tensions and when conflicts of opinion both at home and abroad are sharply drawn. Our ability to overcome the immediate difficulties will in large part depend upon the degree of objectivity with which we can appraise a condition of disequilibrium with calm deliberation and coordinated effort. With the general nature of the problem we are of course familiar. We know that when the

*An address by Mr. Taylor before the Executives' Club of Chicago, Chicago, Ill., Feb. 16, 1945.

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

Bretton Woods Proposals Will Help Exports: Morgenthau

Treasury Secretary States That if Adopted the Automobile Industry Can Look Forward to a Steady Export Market of a Million Cars a Year. Holds International Fund Will Eliminate "Blocked" Payments and Bilateral Trade Will Prevent Losses From Exchange Fluctuations. Says Critics' Arguments Boil Down to: "It Will Not Work."

Secretary of Treasury, Henry Morgenthau, Jr., in an address before the Economic Club of Detroit, on Feb. 26, which was broadcast over the Blue Network, upheld the Bretton Woods Proposals mainly on the ground that it would increase our exports and restore the sales of automobiles abroad to the figures of 1929. He predicted that if Congress passes the Bretton Woods legislation that we can look forward to a steady export of at least 1,000,000 cars a year, and he condemned the criticism of an "interested" minority that the plan "might not work." The complete text of his address follows:


Sec. Morgenthau

The world's money market has a language of its own that can be made to sound as incomprehensible as a tobacco auctioneer and as remote as Mars. But its results in every business are as plain as red ink in the ledger and as close as next week's payroll. One reason is that international monetary stabilization has a good deal to do with the color of the ink, and with the payroll, too.

One man out of seven in the automobile industry, for instance, used to depend for his job on foreign trade. Fourteen per cent of the industry's sales were made

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Objections to Bretton Woods Pacts

By HON. JESSE P. WOLCOTT*
Representative in Congress From Michigan

Member of the House Banking Committee and Delegate to the Bretton Woods Conference Outlines the Objectives of the Proposals and Notes the Skepticism Regarding Their Accomplishment. Lists 14 Alleged Deficiencies Relating to the Proposed International Bank and 54 Relating to the International Monetary Fund. Sees "Much Study" Ahead by Both the People and the Congress of the Proposals, and States That "the Economic, Social and Political Future of America Was at Stake at Bretton Woods" and That "the Final Decision Will Be Dictated by the People."

I consider it a distinct honor to share this discussion of post-war international exchange stabilization and reconstruction and development with our distinguished guest, the Secretary of the Treasury, Hon. Henry Morgenthau, Jr.

Secretary Morgenthau represents an Administration with which many of us have frequently disagreed; however, the Treasury Department is outstanding in the manner in which it has functioned under his very able management. No finer tribute has ever been paid to a man than that expressed by Hon. Frank Keefe, an ardent

(Continued on page 958)

*Remarks by Congressman Wolcott before the Economic Club of Detroit, Detroit, Mich., February 26, 1945.

Holds Initial Phase of "Bull Market" Nears End

Edson Gould of Research Department of Smith, Barney & Co. Sees Top in Stock Prices and States Important Decline Is Likely to Occur Before Resumption of a Major Advance. Says American Economy at Present, so Far as Manufacturing Is Concerned, Is not in Balance.

Edson Gould of the Research Department of Smith, Barney & Co., and formerly Editor of Moody's Stock and Bond Surveys, has issued a memorandum dated Feb. 23 on significant conditions affecting the stock market.


Edson Gould

"It looks as though the initial phase of the big bull market of the 1940s is coming to an end," Mr. Gould states.

"Stocks are not high priced on the basis of current earnings and dividends and are low priced in relation to probable post-war earnings, but it becomes increasingly probable that a sizable portion of the present structure of earnings on which a large section of the market rests may soon be swept away.

"The significance for stock investors is that for the first time since the major rise started in April, 1942, the market carries risks of a sizable reaction represented by 25 points or more in the Dow-Jones Industrial Average. This suggests, where intermediate term operations govern policy, defensive operations on the part of stock investors, the taking of profits, the shifting from speculative to higher grade issues to reduce risks of reaction and the accumulation of cash resources to

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Economic Disarmament

By JOHN THOM HOLDSWORTH
Professor of Economics, University of Miami

Economist Reviews the Domestic and Foreign Problems Which Must Be Solved in Accomplishing a Satisfactory Peace, and Points Out the Antagonism of American and Other Nation's Policies Regarding Cartels. Contends That Although the International Conferences Have Contributed Toward Creating Something Like Political Harmony and Have Set Up Concrete Plans, There Is Too Much Optimism in Hoping for Full Economic Accord and Cooperation Among All Nations of the World.

Though much fighting and dying must still be expected with the slowing down of the "March to Berlin," final victory over the Nazis is assured. Then will come the complex and difficult peace arrangements. What kind of a peace? The war-weary world prays for, expects, a permanent peace the terms of which will insure against another global war. What terms? Unconditional surrender followed by complete military disarmament of the warmakers? Positively, yes. Economic emasculation of Germany? No. To reduce highly industrialized countries like Germany and Japan to economic impotence and hopelessness would only provoke another war, which with such hellish weapons of destruction as the V-2 (or V-10 ?) and others still more deadly would annihilate modern civilization. The natural resources, the industrial aptitudes and activities of these countries can be, must be, directed again to the ways of peace, expansion of production and world trade, and higher levels of living everywhere. We would weaken, not strengthen, international economic vitality by reducing Germany and


John T. Holdsworth

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Some Elements of Post-War American Life

By J. REUBEN CLARK, JR.*
Former Under-Secretary of State

Prominent Attorney and Diplomat Warns Against a Post-War Dole Complex, an Intense Hostility Between Labor and Capital and Alien Revolutionary Leaders. Sees Lack of Manpower for Full National Economic Operation and Contends That Revolutionary Manpower, Not Reduced by Casualties, May Become Controlling Element. Advocates Reduction of Government Employees and Return of Women to Maintenance of the Home. Sees Dangers to Free Enterprise in Trends Toward Communism, Regimentation and Wider Social Security, and Holds That Big Post-War Problem Will Be Rebuilding Returning Youths for Civil Duties.

I have an unusual sense of high compliment over this invitation to speak to you, for I am a cattleman, albeit a very, very small one. I am uncertain whether by asking so trifling a cattleman as I am to speak to you modern shepherd Abrahams, you meant to indicate that a little cattleman was as good as an Abraham, or whether you meant to show how little you thought of the class cattlemen, by choosing one of their very least to talk to you. I may say to begin with that all of my sheep raising experience has consisted in herding a bunch of bucks my father took for summering; and all I really know about sheep is that there is no other mutton in the world like sheep-camp mutton.


J. Reuben Clark, Jr.

*An address by President Clark before the Utah Woolgrowers Association in Salt Lake City, Jan. 24, 1945. Mr. Clark is a recognized authority on international law; was Chairman of the American Preparatory Committee to represent the United States at the Third Hague Conference; General Counsel for United States before the American British Claims Commission; former Solicitor of the State Department, and former Under-Secretary of State. He is President of the Church of Jesus Christ of Latter-Day Saints and Chairman of the Executive Committee of Foreign Bondholders Protective Council, Inc. He is also a director of the Equitable Life Insurance Society.

However, here I am, and I am honored to be with you.

What I propose to say today may not be popular with everybody. Furthermore, I am not aiming to recite a comedy; these are not comedy days. I shall say nothing new; it has all been in the press. On some other occasions I have discussed several of the matters that I shall touch upon today. But it seems well to repeat. For there always comes a time when unpleasant truths must be retold, even though the retelling disturbs the ease and quiet of a luxurious error. Today seems to be such a time. On such occasions the criticism, slander, misrepresentation that one gets are of no consequence.

If I remember rightly, when Mr. Hoover asked me to speak to you he suggested you would like me to tell you what post-war United States would be like, and how to meet its problems. Well, if I knew, I would tell you. But I do not know, and I do not *know* anyone, and I do not know *of* anyone who does know. Yet I do know that the communists and their co-conspirators, our American revolutionists, have planned out what post-war America is to be, and I also know that unless the rest of us are awake they will have their way. For, as their sort have worked in other countries, they stop at nothing—intimidation, lawlessness, plunder, arson and murder, which they have rechristened with the sweeter name, "liquidation." In other countries they have used all of these things wholesale wherever they have operated. They will do the same here if their opportunity shall come.

But I believe I do know some

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Kassebaum, Retallick At Van Alstyne Noel

Van Alstyne, Noel & Co., 52 Wall St., New York City, members of New York Stock Exchange, announce that John E. Kassebaum and Arthur B. Retallick are now associated with them in charge of their trading department.


John E. Kassebaum Arthur B. Retallick

Mr. Kassebaum was formerly manager of the investment bond department of Ingalls & Snyder. Mr. Retallick was manager of the corporation bond department of Coffin & Burr, Inc., in New York City.

Pacific Northwest Co. Formed by Merger

SEATTLE, WASH.—The formation of Pacific Northwest Company as a merger of the investment business and personnel of Ferris & Hardgrove and Drumheller, Ehrlichman Company, is announced effective today. Offices of the company will be located, in addition to its office in the Exchange Building, in Seattle, Spokane, Portland, Tacoma, Aberdeen, Yakima, and Eugene.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes: George Linne retired from Bonner & Gregory, New York City, as of February 28th. Russell S. Cooney, partner in Hoppin Brothers, New York City, died on February 17th.

Aspects of Tax Exemption of Municipals

By HENRY EPSTEIN*
Formerly Solicitor-General of New York State

Aside from Constitutional and Political Grounds, Mr. Epstein Supports His Contention That State and Municipal Bonds Should Continue to Be Exempted from Federal Taxation Because (1) the Investor Pays for the Exemption, and (2) the Resulting Increased Interest Cost to Local Governments Offsets the Additional Federal Revenue. Points Out That Municipalities, If Their Debt Charges Were Increased, Would in Many Cases Face Insolvency Because of Inability to Obtain Added Revenues, Since They Are Limited to Real Estate Taxes, All Other Sources Having Been Preempted by Federal and State Governments, and He Holds Loss of Tax Exemption Would Be a Disruption of the Balance of Federal Power and Local Self-Government.

In discussing the immunity of State and municipal financing from Federal taxation we are dealing with a many-faceted question of public and private finance, economics, law, politics and, above all, philosophy of government.


Henry Epstein

The legal aspect is the simplest. The Supreme Court has always held that the Federal Government has no constitutional power to levy such a tax and that the Sixteenth Amendment did not confer such a power (**Pollock v. Farmers Loan & Trust Co., 157 U. S. 429; Evans v. Gore, 253 U. S. 245**).

Just this month the Supreme Court refused to review the question in test cases commenced by the Treasury Department in attempting to reverse the 50-year-old doctrine of immunity. In **Commissioner v. Estate of Shamberg**, the lower courts held the bonds of The Port of New York Authority exempt under a statutory exemption of the interest upon "the obligations of a State or political subdivision"; they therefore refused to consider the constitutional point and the Supreme Court, by denying certiorari, has allowed these decisions to remain as the law of the land.

*An address by Mr. Epstein at the new School for Social Research, New York City, on Jan. 30, 1945.

Constitutional Immunity

Let us consider the policy arguments underlying the constitutional immunity and also this statutory exemption which was enacted in the first income tax law in 1913 and which Congress has repeatedly refused to repeal. The purpose of this exemption is to preserve the balance between the States and the Federal Government by protecting our States and cities against invasion by the Central Government of their functions, their independence, their home rule. How, you may ask, is the freedom of local government threatened by a tax of local financing? And is local government worth preserving? I wish to answer both these questions tonight.

Let us begin with Mr. Justice Brandeis, astute observer of economic processes. He said:

"It is true that the tax-exempt privilege is a feature always reflected in the market price of bonds. The investor pays for it." (**National Life Ins. Co. v. U. S., 277 U. S. 508, 528.**)

There is no question about that. Investors are paying much higher prices for exempt bonds than for equivalent taxable obligations. That difference is what the investor pays for his exemption; he is not getting something for nothing. Conversely, the public, by receiving higher prices and paying lower interest on exempt obligations, saves a great deal through the exemption.

Indeed, your morning paper will show you just how much the tax would compel the States and their agencies to raise their interest rates in financing public projects. Exempt New York State bonds, due in 1970, sell to yield about 1.25%. But taxable Federal Government bonds of the same maturity yield about 2.50%, twice as much as the State bond yield, with a differential of about 1.25%. To be conservative, we may estimate the average differential at about 1%.

Applying this 1% differential to the outstanding State and local debt of about $20 billion, we find the tax would cost local government about $200 million per year.

In 1937, before the issue had become quite so controversial, L. H. Parker, Chief of Staff of the Joint Committee of Internal Revenue Taxation of Congress, said:

"It is the opinion of this office that if the income tax were applied in full to all future issues of these bonds, the increased interest cost would nearly offset the additional revenue secured."

That is my opinion today. The revenue loss to the Federal Government closely approximates the $200 million gain to local government. The tax would yield no net fiscal gain to the public as a whole.

But that does not mean that it makes no difference whether the Federal Government may tax local borrowing or not. It makes a tremendous difference in the delicate balance of powers in our Federal system.

Remember that local government is not a single entity like the Federal Government—it is a conglomeration of thousands of units of varying size and prosperity. Many are perennially on the ragged edge of bankruptcy. Many more are driven over the edge by any sharp depression. And still more can remain financially stable in times of stress only by sharp curtailment of essential public services. The picture of unpaid and starving school teachers in Chicago a decade ago is still vivid in our minds. And in 1933 New York City itself barely escaped default and insolvency.

Effect on Municipal Credit

The last depression exploded the myth that municipal credit is indestructible. The fact is that municipal government relies on real estate taxation for about 85% of its revenues. All other sources have largely been preempted by the Federal and State governments. But it is common knowledge that the real estate taxpayer is already overburdened. Raising the tax rate often increases delinquency so that you end up with even less total revenues.

Now consider the impact of a Federal tax which increases the debt service of municipal government. And remember that debt service is frequently 25% or more of the total expenditures. Either the city must curtail its functions and abandon projected capital improvements in the face of the added cost of borrowing, or it must try to raise taxes. If it curtails needed public services or declines to undertake new projects, you create a vacuum of the type which politics abhors. And the Federal Government may well move in to fill that vacuum, ready to spend the very money it has taken from the municipal treasury by taxing the city's bonds. But now the expenditure of the money is not controlled at home by the local citizen. Either it is doled back to the city from Washington, on conditions which sap

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Home Insurance Premium Income $71,422,544 in 1944

The Home Insurance Co. in its annual report for 1944 shows net premium income of $71,422,544, an all-time high for the company. This compares with $61,567,060 reported in 1943. In 1941, when the company's premium income nearly approached this record, the total included $26,081,500 in automobile business consisting largely of premiums on financed automobiles. In 1944, with this finance business eliminated, automobile premiums amounted to $4,023,360. Ocean marine premiums amounted to $6,106,739, compared with $4,917,889 in 1943.

Total admitted assets at the end of 1944 also hit a new high level amounting to $147,045,440, compared with $132,106,901 as of Dec 31, 1943.

The balance sheet of the company shows cash of $21,220,339; U. S. Government bonds, $34,764,718; all other bonds and stocks, $76,426,405; first mortgage loans, $368,006; real estate, $3,772,528; agents' balances, less than 90 days due, $8,637,873; reinsurance recoverable on paid losses, $1,697,961, and other admitted assets $157,610.

Under liabilities of $78,134,958, the reserve for unearned premiums amounted to $56,900,611; reserve for losses, $17,391,935; reserve for taxes, $2,870,000; reserve for miscellaneous accounts, $913,951, and funds held under reinsurance treaties, $58,462, leaving a surplus to policyholders of $68,910,481. It will be noted that cash on hand plus Government bonds, totaling $55,985,057, practically equals the unearned premium reserve of $56,900,611, reflecting the extremely liquid condition of the company.

Dealer-Broker Investment Recommendations and Literature

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

Bank Stock Evaluator—Comparative analysis of 38 banks—**Butler-Huff & Co. of California,** 210 West Seventh Street, Los Angeles 14, Calif.

Bank Stocks—Memorandum discussing favorable situation for banks created by strength of Government bonds—**Eisele & King, Libaire, Stout & Co.,** 50 Broadway, New York 4, N. Y.

Break Down Government Bond Portfolios—Circular—**Laird, Bissell & Meeds,** 120 Broadway, New York City.

News and Views—Recent developments and comment on insurance stocks and comparative figures on several leading companies **Butler-Huff & Co. of California,** 210 West Seventh Street, Los Angeles 14, Calif.

Portfolio Fund Changes—Portfolio giving effect to changes made Aug. 25, 1944, by Henry A. Trundle of **G. A. Saxton & Co., Inc.,** 70 Pine Street, New York 5, N. Y., in Barron's Contest $100,000 Fund for a Widow.

Possible Excess Profits Tax Liability for 1945—Circular—**Laird, Bissell & Meeds,** 120 Broadway, New York City.

American Bantam Car—Circular on this situation—**Hoit, Rose & Troster,** 74 Trinity Place, New York 6, N. Y.

American Hardware — Special study—**Goodbody & Co.,** 115 Broadway, New York 6, 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.

E. G. Brooke Iron—Descriptive circular—**Buckley Brothers,** 1529 Walnut Street, Philadelphia 2, Pa.

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

Central Soya — Discussion of possibilities — **Buckley Brothers,** 1529 Walnut Street, Philadelphia 2, Pa.

Cross Co. Common Stock—Analysis of reasons for considering this an attractive low-priced situation—**F. H. Koller & Co., Inc.,** 111 Broadway, New York 6, N. Y.

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

Flour Mills—Descriptive circular—**J. F. Reilly & Co.,** 111 Broadway, New York 6, N. Y.

Foundation Co.—Circular on current situation—**J. F. Reilly & Co.,** 111 Broadway, New York 6, N. Y.

Garrett Corporation—Brochure and statistical information, available to dealers—**Fred W. Fairman & Co.,** 208 South La Salle Street, Chicago 4, Ill.

M. A. Hanna Co.—Engineering field report—**Herzog & Co.,** 170 Broadway, New York 7, N. Y.

Indiana Gas & Chemical—Late memorandum—**First Colony Corporation,** 70 Pine Street, New York 5, N. Y.

Industrial Brownhoist first preferred — Descriptive circular — **Gillis-Russell & Co.,** Union Commerce Building, Cleveland 14, Ohio.

Iowa Southern Utilities Company—Detailed circular—**Rogers & Tracy, Inc.,** 120 South La Salle Street, Chicago 3, Ill.

Interstate Aircraft & Engine Co. —Circular—**Hirsch & Co.,** 25 Broad Street, New York 4, N. Y.

Kentucky & Indiana Terminal Railroad — Details on prospects and yield—**B. W. Pizzini & Co., Incorporated,** 55 Broadway, New York 6, N. Y.

Laclede Christy Clay Products—Memorandum—**Herzog & Co.,** 170 Broadway, New York 7, N. Y.

Lehigh Valley RR.—Circular on the general consol. 4s-4½s-5s, 2003 — **McLaughlin, Baird & Reuss,** One 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.

Magnavox Company—Brochure and statistical information, available to dealers—**Fred W. Fairman & Co.,** 208 South La Salle Street, Chicago 4, Ill.

Magnavox Company — Timely statistical report—**Kaiser & Co.,** 25 Broad Street, New York 4, N. Y., and Russ Building, San Francisco 4, Calif.

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

Maryland Drydock Company—Analysis—**W. J. Banigan & Co.,** 50 Broadway, New York 4, N. Y.

Merchants Distilling Common—Memorandum—**Buckley Brothers,** 1529 Walnut Street, Philadelphia 2, Pa.

Moxie Co.—Descriptive circular—**J. F. Reilly & Co.** 111 Broadway, New York 6, N. Y.

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

National Monthly Stock and Bond Quotation Service — Free trial offer being made by **National Quotation Bureau, Inc.,** 46 Front Street, New York 4, N. Y.

National Radiator Co.—Analysis, for dealers only—**C. E. Unterberg & Co.,** 61 Broadway, New York 6, N. Y.

(Continued on page 935)

NSTA Notes


Byron Brooke

ATLANTA BOND CLUB

At a meeting of the Atlanta Bond Club the following officers were unanimously elected to serve for a period of one year:

President—Byron Brooke, Brooke, Tindall & Company.

Vice-President—J. F. Settle, J. H. Hilsman & Co., Inc.

Secretary-Treasurer—J. R. Hirshberg, Norris & Hirshberg, Inc.


J. Fleming Settle

H. B. Kirkbride With Hicks & Price, Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Henry B. Kirkbride has become affiliated with Hicks & Price, members of the New York and Chicago Stock Exchanges. Mr. Kirkbride was previously with H. Hentz & Co., Lamson Bros. & Co., and Harris, Burrows & Hicks.

First Securities Co. Adds Hummel to Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—George F. Hummel has become connected with First Securities Co. of Chicago, members of the Chicago Stock Exchange. Mr. Hummel in the past with with Hicks & Price, Lowell Niebuhr & Co., and Rogers & Tracy, Inc.

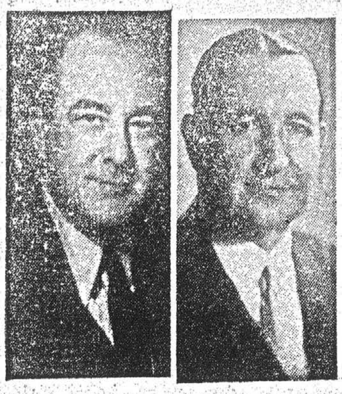
John J. O'Brien Co. to Be NYSE Members

John J. O'Brien & Co., 231 South La Salle Street, Chicago, Ill., members of the Chicago Stock Exchange, will acquire membership in the New York Stock Exchange, when Joseph M. Fitzgerald, New York Exchange member, becomes a partner in the firm on March 9th. Albert J. Payne will become a general partner and Julian A. Acosta a limited partner on the same date. Mr. Fitzgerald has been active in New York City as an individual floor broker; Mr. Acosta has been active as an individual dealer and as principal of J. A. Acosta & Co. in New York City. Mr. Payne was with Wayne Hummer & Co. in Chicago. S. E. O'Brien will no longer be a partner.

The firm will have a New York office at 14 Wall Street.

Swan and Thoben Are Hayden, Stone Partners

Hayden, Stone & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, announce that Joseph E. Swan and Frederick W. Thoben have become



Joseph E. Swan Frederick W. Thoben

partners in the firm. Mr. Swan has just retired as a partner in E. F. Hutton & Co. and Mr. Thoben is resigning from that organization, where both have been since the dissolution in 1942 of their former firm of J. E. Swan & Co.

The firm of Swan, Culbertson & Fritz, through which J. E. Swan & Co., formerly handled the foreign accounts in which it specialized, will now become a correspondent of Hayden, Stone & Co. Until war broke out Swan, Culbertson & Fritz was the largest banking and brokerage firm in the Far East, with offices in Shanghai, Hong Kong, Manila and Singapore. More recently the firm has established branches in Buenos Aires and Montevideo.

Through its new correspondent Hayden, Stone & Co. will be in a position after the war to make available to its clients a great deal of information regarding investment opportunities in both South America and the Far East.

Admission of Mr. Swan and Mr. Thoben to partnership in Hayden, Stone & Co. was previously reported in the "Financial Chronicle" of February 22nd.

A. D. Mayfield With Hornblower & Weeks

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Arthur D. Mayfield has become associated with Hornblower & Weeks, 39 South La Salle Street, members of the principal national exchanges. Mr. Mayfield was formerly with C. W. McNear & Co., was an officer of Providence Securities Corp., and prior thereto was with Otis & Co. and Stifel, Nicolaus & Co.

Dealer-Broker Investment Recommendations and Literature

(Continued from page 934)

New England Public Service Co.—Report—**Ira Haupt & Co.**, 111 Broadway, New York 6, N. Y.

New York Bank Stocks—Comparative analysis and significant ratios for eighteen stocks in 1944—**Laird, Bissell & Meeds**, 120 Broadway, New York 5, N. Y.

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

Panama Coca-Cola—Discussion of this situation—**Hoit, Rose & Troster**, 74 Trinity Place, New York 6, N. Y.

Peoples-Pittsburgh Trust Company—Analysis—**W. J. Banigan & Co.**, 50 Broadway, New York 4, N. Y.

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

Public National Bank & Trust Company—Analysis, for dealers only—**C. E. Unterberg & Co.**, 61 Broadway, New York 6, N. Y.

Rohr Aircraft—Descriptive circular—**J. F. Reilly & Co.**, 111 Broadway, New York 6, N. Y.

St. Louis Bank Stocks Manual, 1945 Edition—Facts and figures on St. Louis bank stocks—**G. H. Walker & Co.**, Broadway and Locust, St. Louis 1, Mo.

St. Paul Arbitrage—Memorandum—**Frederick M. Stern**, 61 Broadway, New York 6, 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 Railway Company—Complete arbitrage proposition on request—**Sutro Bros. & Co.**, 120 Broadway, New York 5, N. Y.

Southern Railway — Analysis showing how the common stock is acquiring investment characteristics and appears to offer outstanding appreciation potentialities—**H. Hentz & Co.**, Hanover Square, 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.

Wellman Engineering—Circular—**J. F. Reilly & Co.**, 111 Broadway, New York 6. N. Y.

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

Yuba Consolidated Gold Fields—Analytical discussion of possibilities for price enhancement—**Cartwright & Parmelee**, 70 Pine Street, New York 5, N. Y.

Wm. G. Hobbs, Jr., is With Barcus, Kindred

CHICAGO, ILL.—William G. Hobbs, Jr., has become associated with Barcus, Kindred & Co., 231 South La Salle Street, as manager of the trading department. Mr. Hobbs was formerly manager of the municipal department of the Chicago office of Boettcher & Company with which he had been associated since 1932.

Municipal News & Notes

The new issue side of the municipal bond market remains relatively quiet, a condition, incidentally, that has prevailed in large measure since the advent of the eminently successful New York City financing operation of $75,000,000 in mid-January. The paucity of new borrowings is the more impressive in view of the exceptionally favorable conditions prevailing in the market for local government obligations.

As a matter of fact, it may be said that at no time in the recent past have conditions been as attractive for the disposal of new issues as now prevail. This is the case with respect to the level of prices and insofar as investment demand for tax-exempts is concerned. However, despite the excellence of these essential market factors, the volume of strictly new financing continues somewhat negligible.

The dearth of new credit operations has, of course, been compensated for to some extent by the recent flow of old bonds that have reentered the market via portfolio liquidations. In this connection mention may be made of the award on Tuesday of $4,018,000 bonds by the State of California Employees Retirement System.

The offering, which embraced various bonds of the City of Los Angeles and its school districts and the Los Angeles Flood Control District, attracted a number of bids. The accepted tender of 142.2631 was made by a group headed by the First National Bank of Chicago, and the unsuccessful offers ranged between prices of 141.983 and 140.651.

Previous recent financing of similar character included sales of $9,805,430 City of New York securities by the State of New York; $2,555,900 New Jersey municipals by the State's Teachers' Pension and Annuity Fund, and $2,087,500 of various State and municipal bonds by the Kansas City Life Insurance Co. The company is scheduled to dispose of another block of $1,255,500 of its municipal portfolio today.

As for new business in sight over the next several weeks, the calendar of pending awards, at this writing, shows only one issue of more than $1,000,000, this being the $2,000,000 State of Mississippi loan for which bids will be considered on March 13. There is good reason to believe, however, that the anticipated $110,000,000 Triborough Bridge Authority, N. Y., refunding operation will be undertaken sometime during the current month. The appropriate legislation has already been approved by Governor Dewey, and the report is that the issue will be underwritten by a group formed by Dillon, Read & Co. Based on market performance of existing obligations of the bridge unit, it is likely that the prospective new issue will attract considerable demand.

Of interest to the municipal field on this side of the border was the public offering yesterday of a new issue of $15,000,000 Province of Quebec 2% debentures, which was cleared through the SEC a day or so earlier. The underwriting group is headed by the First Boston Corp. The bonds, due March 1, 1950, are being offered to investors at a price of par.

Real Estate Securities

That much discussed picture "A Tree Grows in Brooklyn" opens today at the Roxy Theatre in New York and it is expected to attract capacity attendance.

This picture is typical of the type of pictures that are first shown at the Roxy Theatre under a franchise they received from Twentieth Century-Fox Film Corporation, which runs for the entire life of the mortgage on the theatre.

Bonds issued for this first mortgage have an interest rate of 4%, are due Sept. 1, 1957 and offer a yield of approximately 5% to maturity.

The bonds are the obligation of Roxy Theatre, Inc., and are secured by a first mortgage on land owned in fee on West 50th Street, running through to West 51st Street, improved with a theatre of approximately 6,200 seats. The entrance and lobby of the theatre are on the corner of 50th Street and Seventh Avenue in space part of and leased from the Hotel Taft.

As a medium to judge the value of the bonds, it is interesting to note that in reorganization in September, 1937, the Twentieth Century-Fox Film Corporation paid $4,248,208 for this property, represented by $650,000 in cash above the bond issue of $3,595,208 for the preferred and common stocks of the Roxy Theatre Company. This $3,595,208 bond issue has since been reduced by sinking fund operation to $2,899,800. At current market price of the bonds, approximately 88%, a value of $2,551,824 is placed for the mortgage. In 1944 the property was assessed at $3,950,000.

Monthly deposits are required to be made with the trustee equal to 1/12 of accruing taxes, 1/12 of the entrance and lobby rent, 1/12 of the annual interest on the bonds and 1/12 of sinking fund monies.

Until 1947, $65,000 a year or $5,416.67 per month is used for sinking fund and thereafter $70,000 a year or $5,833.34 per month is used for sinking fund. The trustee has been buying bonds for retirement each month and this month purchased bonds at a price of 88¾.

Standard & Poor's give the bonds a "B" Quality rating and a market rating "above average."

We are of the opinion that soundness of bonds of a theatre depends in a large measure on the mass appeal of the pictures released to that theatre. Helpful to this theatre is the franchise from Twentieth Century-Fox Film Corporation for first run selection of motion pictures released by that prominent film producer until 1957, when the bonds mature.

18-Year-Olds Fight After 26 Weeks

An official of the War Department said on Feb. 26 that under normal circumstances the minimum time between induction and assignment to combat duty is about 26 weeks, including 15 weeks at a replacement training center and that most 18-year-olds are sent overseas for combat duty much less than a year after they are inducted. We quote from an Associated Press dispatch from Washington on Feb. 26, which added:

Senator Robert A. Taft, Republican of Ohio, had announced that he would call on the War Department to explain why 18-year-olds were being sent into combat with relatively brief training.

The War Department official, reporting that not less time than about 26 weeks elapse between induction and combat assignment, said the time is alloted as follows: three weeks' post-induction furlough, one week at the reception center, 15 weeks at a replacement training center, two weeks' furlough, one week in a staging area, two weeks aboard ship and two weeks in a replacement pool at the war zone.

But in actual practice, he said, the average 18-year-old has an extra month or two before being sent into battle. Practically all, however, are sent overseas less than a year from the time they are inducted, and most are filtered into infantry units as replacements for battle casualties.

N. J. O'Hanlon Opens

DENVER, COLO. — Nicholas J. O'Hanlon is engaging in a securities business from offices at 1325 Glenarm Place. Mr. O'Hanlon has recently been serving in the United States Army Air Corps. In the past he was with G. Brashears & Co. in Los Angeles.

Aspects of Tax Exemption of Municipals

(Continued from page 933)

the vitality and independence of local government, or the Federal Government itself may undertake the abandoned local functions, again upsetting the balance between the local and central governments.

But suppose the city increases its real estate tax rate to meet the added cost of borrowing. In normal times this will succeed in many localities. But then you have increased the most regressive tax in our fiscal system. You have pushed up rents and the cost of owning a home. You have violated the principle of taxation according to ability to pay—and this, in order to attain theoretical perfection in the progressive character of the Federal income tax.

And often the municipality cannot increase its revenues by raising tax rates. Then you are back in the vicious cycle of increased tax levies causing increased delinquency, causing decreased revenues, causing increased tax levies, and so on. And then you have curtailed functions, deferred maintenance, more crowded classrooms, less policing, less sanitation, and again the picture of unpaid school teachers. Or else the Federal Government magnanimously invades the local sphere and takes on the functions which its own taxes have kept the municipality from financing with local credit.

The record in the recent Port Authority bond tax case contains many examples of municipal bond issues which would have been impossible without exemption. Many State and municipal agencies might be willing to promise an added 1% interest to offset the loss of exemption. But they would still find investors unwilling to lend the needed funds. It is one thing to promise to pay more interest and another to be able to pay it. If the investor feels that the increased debt service is beyond the city's ability to pay, the bond issue will find no takers. In other words, the proposed tax can destroy the ability of the States and their agencies to exercise their power to borrow funds.

A strong case can still be made then for the continued validity of John Marshall's simple but cogent statement that the power to tax involves the power to destroy. But however that may be, the power to tax certainly involves the power to control. Suppose the Federal Government had the power to tax all local bonds. Soon some bright young educator would say: "Wouldn't it be a good idea to encourage municipalities to build new school houses. Let's exempt municipal bonds issued for that purpose." Then his friend down the hall would add: "And let's exempt bridge bonds too. But if school bonds are to be exempt it should only be if they don't waste good public money on silly courses. They should get the exemption only if their curriculum is first approved by the Federal Bureau of Education."

"An excellent idea," his friend might rejoin, "and on your bridge bond exemption, shouldn't the location first be approved by the Federal Bureau of Roads?" This hypothetical conversation shows what I mean by the power to control which is inherent in the power to tax. From the power to tax flows the power to classify and to exempt bonds issued for certain purposes favored by the Federal Government. Indeed that is almost happening today. At the same time as the Federal Government is attacking the exemption of State and local bonds generally, it is still fostering the exemption of local housing bonds. In other words, where the purpose appeals to the Federal sense of propriety or prejudice, an exemption will be in order whether or not the local citizens desire to borrow for that purpose.

And then there is the power to attach conditions to the exemption. In the face of such a combination, local initiative would be dead and over-centralization of power in a single omnipotent central state would be upon us.

You will notice that we are already considering the second great question—should the freedom of state and local governments be preserved?

This is no small homogeneous country with unified interests and problems capable of government by a single central authority. We can thank our dual form of government for having kept us from centralized dictatorship on the one hand and from disunion and dissolution on the other.

Political Aspects

It has become quite the fashion in certain circles to sneer at the states and to imply that they have outlived their usefulness and that we should be governed by departments of an omnipotent central government. Yet all political philosophers agree that as you extend the size of a democracy you weaken it and if you attempt to concentrate its power you destroy it. Franklin D. Roosevelt said in 1930:

"We are safe (from the danger of obligarchy) just so long as home rule in the states is scrupulously preserved and fought for whenever it seems in danger."

And after he became President he said, in 1937:

"* * * it was clear to the framers of our Constitution that the greatest possible liberty of self-government must be given to each State and that any National Administration attempting to make all laws for the whole nation * * * would inevitably result at some future time in a dissolution of the Union itself."

Woodrow Wilson wrote:

"It would be fatal to our political vitality really to strip the states of their powers and transfer them to the Federal Government."

And Charles Evans Hughes put it neatly when he said: "An overcentralized government would break down of its own weight. * * * If we did not have states we should speedily have to create them. * * * (New York State Bar Association, Vol. 39, p. 273).

In these desperate times of world travail we have a further reason for strengthening our dual system of government. Federalism is obviously a necessity in the reconstruction of many of the governments in tortured Europe which must control lands with large minorities. The same doctrine of federalism which has preserved this country despite its size and the diversity of its interests may help to bring peace to other nations and thus to the world as a whole. But if we are to make our federal form of government worthy of emulation we must make sure that it works in this country. If we submit our states to continued inroads on their independence by the central government, we cannot expect the federal form of government to be adopted by other countries which need it.

Who Holds Municipals?

With so much at stake in retaining the fiscal independence of state and local government free from taxation by the central government, we may wonder that the attempt to tax state and municipal borrowing has such a tenacious life even after it has been battered down again and again by the Supreme Court and the Congress. I explain this in terms of a great fallacy. Many people believe that exempt municipal bonds are a vehicle of wholesale tax evasion on the part of the wealthy. That simply is not so. Only about one-third of all the state and municipal bonds outstanding are owned by individuals with incomes over $5,000 a year. Much of the balance is owned by sinking funds, pension systems, charitable trusts, and other bodies which pay no taxes at all; and the remainder is owned by banks, insurance companies, and other institutional investors which are not subject to high personal surtaxes and who, therefore, receive no greater advantage than they surrender by accepting a lower yield on municipal bonds.

But even the one-third of the state and local debt in the hands of individuals has not been exploited for large-scale tax evasion. The fact is that millionaires have, on the average, only about 12% of their wealth invested in state and municipal bonds, according to the Treasury's own Estate Tax Return statistics. Great fortunes have never been built by the ownership of public bonds; they have arisen from the control of industry and land, and in order to retain that control, wealthy individuals must keep the bulk of their wealth invested in taxable private securities and real estate.

So we must conclude that the attempt to tax state and municipal financing is an attempt to end only a hypothetical evil and that it would bring down upon us the desperately real danger of disrupting the delicate balance of our federal system and the freedom of local self-government and the democracy which is the essence of self-government.

I conclude with the words of John Fiske:

"If the day ever arrives (which God forbid) that the people of the different parts of our country shall allow their local affairs to be administered from Washington—on that day the progressive political character of the American people will have come to an end and the hopes that have been built upon it for the future happiness and prosperity of mankind will be wrecked forever."

Public Utility Securities

Portland Electric Power

Portland Electric Power Company is a holding company formed in 1906 to acquire various utilities in the State of Oregon. In 1930 Portland General Electric Company was formed to take over all its electric subsidiaries, and Portland Traction Company to take over the street railway and bus operations in the City of Portland. The holding company ("Pepco") in 1934 issued $16,157,600 Collateral Trust Income 6s due 1950, secured by practically the entire stock of PGE and Portland Traction. However, no interest was paid on these bonds and after 30% arrears had accrued, a default was declared and the securities were transferred to the trustee, the Guaranty Trust Company, in March, 1939. Shortly thereafter, the company filed a petition for reorganization in the U. S. District Court at Portland, and it was subsequently announced that the SEC had become a party to the proceedings.

Reorganization negotiations have been pending for several years, with four principal interests—the independent trusteees, the Guaranty Trust Company as trustee for the bondholders, the bondholders committee headed by Dr. Thatcher C. Jones of New York University, and Lehman Bros., and the Prior Preference stockholders committee representing local Portland interests. Proceedings were first held before the SEC. The Commission scrapped several proposed plans and formulated its own along the usual lines, giving bondholders approximately 95% of assets and Prior Preference stockholders about 5% (the four other classes of preferred stocks and the common receiving no consideration). The proceedings then moved to Portland where Special Master Snedecor, appointed by Federal Judge Fee, has been holding hearings on the SEC plan.

In these proceedings, it appears that the various parties at interest have divided along sectional lines. The independent trustees and the Prior Preferencce stockholders committee appear to favor a higher valuation for PEPCO's assets than was fixed by the SEC, while Dr. Jones of the bondholders committee and the Guaranty Trust representatives favor a valuation closer to the SEC level. Naturally, the bondholders are interested in a conservative valuation in order to support a relatively high participation in assets for the bondholders. The stockholders and their local friends, on the other hand, seem interested in obtaining a higher valuation so that they can claim a more substantial proportion of assets for the senior stock, in the distribution of assets.

It is impossible to go into the detailed figures in this brief analysis, but the situation may be summarized approximately as follows: The bonds have a total claim for principal and accrued interest as of Dec. 31, 1944 of about $26,600,000. The Prior Preference stockholders, with 56,824 shares outstanding, have a total claim for par value and accrued dividends of about $10,456,000, making total claims slightly in excess of $37,000,000. The SEC decision of Dec. 8, 1944, found a valuation of assets approximately the same as the Guaranty Trust's, as follows:

Stock of PGE	$21,175,000
Stock of Traction	4,200,000
Consolidated Elec. & Gas secs.	835,000
Interurban street railway	800,000
Miscellaneous assets	465,000
	$27,475,000

In the court proceedings, consideration has been given to a factor in the valuation, not included in the SEC calculations—a favorable offer from the Chase Bank for settlement of some long-standing litigation over a bank loan to Portland General Electric, which the company has claimed was made adversely to its interests. The Chase has offered to write down its claim for principal and interest totaling almost $6,000,000 (less any counter claims) to around $2,500,000 (taking about $1,840,000 cash and some 53,500 shares of preferred stock of Consolidated Electric & Gas currently quoted about 48), and to advance the company a new $5,500,000 serial 2% loan. The net proceeds of the deal would be applied to retirement of the PGE 1st 5s due 1950, which would pave the way for a refunding of the $39,565,000 1st & Refunding 4½s of 1960, possibly with new 3¼s. The value to PEPCO of the proposed PGE-Chase deal is estimated by the independent trustees at roughly $5,000,000 and by Dr. Jones at about $2,500,000. Hearings on this proposal are being held currently.

There has been some controversy in the court hearings regarding the proper valuation to be placed on the stock of PGE, based on that company's earnings record, capitalization, etc. The independent trustees arrive at a figure of about $29,000,000, including $1,000,000 for "excess working capital"—to which they add about $8,000,000 for the traction company and miscellaneous assets (the SEC allowed about $6,000,000). Their estimate would apparently "cover" the total claims of bondholders and Prior Preference stock, giving the bonds a theoretical value of 165 and the preferred stock $185. The bonds are currently quoted at about 130 (having advanced from 15¾ three years ago) and the Prior Preference is around 75 (up from ½ four years ago). Dr. Jones' valuation would work out at about 165 for the bonds and $24.75 for the preferred. His valuation is based on a price earnings ratio for PGE of about 11 (due to the relatively low depreciation allowance, the high debt ratio, and the lack of a firm Bonneville contract for power).

Judge Fee's decision may prove at variance with that of the SEC. It seems unlikely that the trustees' maximum valuation, covering the entire claim of the Prior Preference stock, will be allowed—doubtless some compromise will be worked out. This, of course, will result in a new ratio for division of assets, possibly such as 85-15 or 80-20. The case would then doubtless be remanded to the SEC for consideration, and an eventual compromise between the views of commission and court would probably be necessary. It is difficult, therefore, to fix any time schedule for eventual distribution of assets.

Senate Bill To Up Gold Value To $56 An Ounce; Existing Gold Ratios Would Be Continued

Legislation to increase the price of gold from $35 to $56 an ounce was introduced on Feb. 26, this proposal following that of the Federal Reserve Board to reduce the gold reserve ratio to 25%. The bill in the case of the reduction in the minimum required reserves, introduced on Feb. 12 by Senator Wagner, was referred to in our issue of Feb. 22, page 860.

The legislation calling for an increase in the price of gold was sponsored by Senators McFarland, Democrat, of Arizona, and Scrugham, Democrat, of Nevada, it was indicated in Associated Press advices from Washington on Feb. 26, which further reported:

This is the answer to the attempt on the part of the Federal Reserve Board to reduce the gold reserve ratio to 25%, Senator Scrugham said.

If the price of gold is advanced to $56 per ounce it will permit the same expansion of Federal Reserve notes as decreasing the reserve ratio to 25% and, to my mind, in a much more healthy fashion.

The bill would continue existing gold ratios required to be maintained against Federal Reserve notes in actual circulation and Federal Reserve Bank deposits by increasing the monetary value of gold already held by the Treasury or to be bought or sold by it.

It would require an adjustment of the gold content of the United States dollar to correspond with a gold value of $56 an ounce.

Senator Scrugham said the Reserve Board's move "looks to me like a deliberate attempt to start the United States toward an experiment in a 100% managed currency." He added:

"If the metallic backing for money is to be altered at all it should be revised upward, rather than downward.

"I believe we have enough gold and silver to support the amount of money required for doing business, but if the Federal Reserve experts think we need more money, let's increase the price of both gold and silver before we think of starting toward the perilous path of reducing our money to mere paper."

W. Randolph Burgess, President of the American Bankers Association, was scheduled to testify on Feb. 28 on a bill to lower gold reserve requirements. It was learned, said the A. P. advices Feb. 27, that Mr. Burgess, who also is Vice-Chairman of the National City Bank of New York, intended to oppose both measures and may ask a uniform ratio of 30% and that the Reserve Bank be required to apply to Congress every two years for authority to continue operations under whatever ratio ultimately is set.

Meyer & Oppenheimer With T. J. Feibleman

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Frank Meyer and Melville Oppenheimer have become associated with T. J. Feibleman & Co., Carondelet Building, members of the New Orleans Stock Exchange. Mr. Meyer was formerly with Beer & Co. and Larz E. Jones & Co. Mr. Oppenheimer was with A. L. Sizeler & Co.

Pennsylvania Authority Revenue Bonds

Some of the Reasons for the Steadily Growing Investor Interest in This Type of Obligation

By B. NEWTON BARBER

Since the passage of the Municipal Authorities Act of 1935 by the Pennsylvania State Legislature, numerous authority bonds have come on the market and have received an increasingly good reception.

B. Newton Barber

Investment houses, particularly those dealing in municipal obligations, were quick to recognize the sound investment position of such bonds and have carried on a campaign of educating their clients to their merits. Much has been written on the subject, including articles which have appeared in these columns, so that it is no longer necessary to deal with elementals.

There have been logical buyers who have turned a deaf ear to offerings of this type of security for sound and obviously sincere reasons. Time has, and will continue to supply the answers to such objections and these columns present an opportunity to point out some of the constructive developments.

The Tax Status

For several years the exemption of interest received on such obligations from Federal Income Taxes and Surtaxes has been clouded by the efforts of the U. S. Treasury Department to have such income declared taxable by the courts. These efforts were carried on principally through the Port of New York Authority "Shamberg" test case. The recent decision of the U. S. Tax Court, which was subsequently upheld by the U. S. Circuit Court of Appeals, and the recent refusal of the U. S. Supreme Court to review the case determines the matter favorably for the bondholders. It would, of course, be possible to make future issues taxable through legislation, but it now appears that the tax-exempt status of outstanding issues could only be altered by constitutional amendment—an extremely remote possibility.

Record of Performance

Most of the bonds issued under the Act have been for the purpose of acquiring existing privately owned water systems, so that we generally have had an established earnings history for the properties for a number of years. Such a record, together with an independent water engineer's estimate of costs under authority operation and all the protective provisions that could be logically incorporated in the indenture, provided the basis for the original offerings.

We now have the advantage of actual operating results for a number of Authorities for periods covering from one to five years. In addition it is possible to make comparisons to measure the soundness of the debt by the proper relation between its size and the revenues produced.

Any number of examples of how operating results compare with the engineer's estimates can now be cited. For the purpose of illustration let us take the Hazleton City Authority Water Revenue issue. This Authority has been operating the former Hazleton Water property since April, 1943, and below is the actual average revenue and expense under private ownership, the engineer's estimate for Authority operation and actual results under the Authority.

	5 Year Avg. Private Oper. (1938-1942)	Fiscal Year 4-19-1943 to 3-31-1944	Forecast	Difference
Operating revenue and other income	$355,616	$342,257	$324,355	$17,902
Operating and general expense	122,870	125,328	121,250	4,078
Maintenance	29,741	18,431	20,000	*1,569
Taxes	41,700	-----	-----	-----
Uncollectible accounts	1,489	472	1,489	*1,017
Administrative expense	-----	3,420	6,487	*3,067
Total operating costs	$195,800	$147,651	$149,226	$1,575
Income available for debt service	159,816	194,606	175,129	19,477

*Decrease.

The major items of difference between private and public ownership are the taxes and depreciation expense. The Authority is not subject to taxes and the elimination of depreciation is offset by the serial maturity of the debt. In the first 11 months and 12 days of Authority operation, revenues were sufficient for interest, payment of $22,000 of bonds that matured and the accumulation of $50,231.19 of reserve funds as of December 31, 1944. This actual showing exceeded the Engineer's estimate and is not due to abnormal conditions since Hazleton is not what might be termed a war boom city. The bonds of Hazleton Water Authority mature serially to 1983 and there is every reason to believe that the Authority will meet its obligations punctually and probably anticipate the longest maturities.

The 1943 Amendment to the Authorities Act of 1935

The acquisition of utility properties by authorities was not subject to the approval of the Pennsylvania Public Utility Commission under the original act, and the lack of public approval has been the subject of critical comment in the past.

The Act of June 28, 1935 was amended by the Act of May 26,

Pennsylvania Brevities

Pittsburgh Railways Special Master's Report

The validity of long-term leases and operating agreements binding the 54 underlying companies of Pittsburgh Railways into an operational units is strongly upheld in the 229-page report submitted by Special Master Watson B. Adair to the U. S. District Court for Western Pennsylvania on Jan. 29.

The report, the compilation of which represents over two and a half year's work, is in answer to the City of Pittsburgh's petition filed Oct. 23, 1942, praying the Court to assume and exercise jurisdiction over the property of the underliers for the purpose of effecting a trustees' plan of reorganization.

As a result of a particularly exhaustive and well documented study, the Special Master concludes that (a) without the filing and approval of petitions by or against the several underliers in the manner and form prescribed by the Act of Congress relating to bankruptcy, the Court does not have jurisdiction to reorganize such underliers, (b) that the leases and agreements under which the properties of the underliers are operated by Pittsburgh Railways do not, as the City claims, represent a conveyance in fee, (c) the facts do not justify disregarding the corporate entities of the underliers and (d) the petition of the City of Pittsburgh should be dismissed.

Since May 11, 1938, when Pittsburgh Railways Co. entered receivership, no rentals have been paid by the parent and, in consequence, the underliers have defaulted on their own outstanding obligations. Cash or equivalent now in the hands of the trustees is reported to be in excess of $17,000,000.

In respect to the possibility of a partial distribution of this cash to the underliers on account of payments overdue, the Special Master quotes a U. S. Supreme Court opinion in the case of Philadelphia Company v. Dipple (1941). 312 U. S. 168, 61 S. Ct. 539, as follows:

"If, in the opinion of the officers of the underlying companies, a reasonable time has expired those companies are not without redress. They may declare a forfeiture of the leases and abrogate the agreements for non-performance on the part of the trustees or, they may apply to the District Court to compel an election by the trustees to affirm or disaffirm. In the meantime, if the situation were such as to permit a proper calculation of the amount due for use and occupation, it would be proper for the Court to order the trustees to pay a reasonable sum to be treated as a payment for use and occupation in the event that the leases and agreements are disaffirmed, or, on account of rent, in the event they are affirmed."

The above specific and authoritative opinions and conclusions of law are gall and wormwood to Pittsburgh City Solicitor Ann Alpern, who is quoted as saying:

"Not until the Pittsburgh Railways system is treated by the courts as a unit and reorganized as a single company can the car riders of the city hope to procure adequate service at a reasonable cost. The city will continue its fight in the district court, the circuit court and the supreme court if necessary."

Holders of the minority publicly outstanding underlying security issues consider the Special Master's report as substantially strengthening their claims. They consider it likely that the district court will accept Adair's recommendation and dismiss the City's petition. The Philadelphia Company, parent of Pittsburgh Railways, has indicated its continued willingness to enter into negotiations with the public holders looking toward a lifting of the receivership and an offer to purchase outstanding issues.

City of Philadelphia

Annual savings of more than $1,000,000 in debt service are anticipated by City Controller Robert C. White under the terms of a proposed bond refinancing and redemption plan.

At present, the City has outstanding $12,983,800 in bonds which bear interest from 4 to

(Continued on page 939)

Bankers Securities Directors Elect

PHILADELPHIA, PA.—At an organization meeting of the board of directors of the Bankers Securities Corporation, 1315 Walnut Street, Alfred Blasband, heretofore secretary and treasurer, was elected vice-president and treasurer, and Charles J. Green, heretofore assistant secretary and assistant treasurer, was elected secretary and assistant treasurer. All other officers of the Corporation were re-elected as follows: Albert M. Greenfield, chairman of the board; Walter T. Grosscup, president, and Clifford B. Hawley, vice-president.

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.—**Herbert Bancroft** and **David C. Hoover** have become connected with **Russell, Berg & Co.**, 75 Federal Street. Mr. Bancroft was formerly with Massachusetts Distributors, and prior thereto was in business for himself in Hingham, Mass.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—**Charles L. Perry** has been added to the staff of **B. C. Christopher & Co.**, Board of Trade Building.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Geo. A. Landis** is with **Conrad, Bruce & Co.**, 530 West Sixth Street.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—**Rudolph Wihl**, formerly with E. F. Hutton & Co., has joined the staff of **Dean Witter & Co.**, 634 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—**John R. Haines** has become connected with **Herrick, Waddell & Co., Inc.**, 418 Locust Street. Mr. Haines was formerly with Taussig, Day & Co., Inc., and Slayton & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—**Frederick Georgi** has been added to the staff of **Davies & Mejia**, Russ Building.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—**Lauren G. Hannaford** is with **Hannaford & Talbot**, 519 California Street.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—**Dorothy M. Munro** is connected with **Wulff-Hansen & Co.**, Russ Building.

(Special to THE FINANCIAL CHRONICLE)

YOUNGSTOWN, OHIO—**Glenn I. Kerr** has become affiliated with **The S. T. Jackson & Co., Inc.**, Union National Bank Building.

1943 which remedied this situation through Section 9 (b) which reads in part, as follows: "(b) No Authority shall acquire by any device or means whatsoever, including a consolidation, merger, purchase, or lease, or through the purchase of stock, bonds, or other securities, the title to or the possession or use of all or any substantial portion of any project as defined in this Act, which said project is subject to the jurisdiction of the Pennsylvania Public Utility Commission, without the approval of the commission, evidenced by its certificate of public convenience, first had and obtained in accordance with the procedure and investigations as to value as outlined in section two hundred and three of the act, approved the twenty-eighth day of May, one thousand nine hundred thirty-seven (Pamphlet laws, one thousand fifty-three), known as the 'Public Utility Law'. The word 'acquire' as used in this paragraph shall include only the acquisition of existing facilities."

The Pennsylvania Public Utility Commission has interpreted this to mean that the value standard must represent a fair price to the interested parties and that the prospective earnings of the Authority must be high enough to support the intended bond issue.

In view of this combination of favorable developments and the constantly widening recognition of the facts by investors, excellent secondary markets are now possible and in fact are active on a number of the outstanding issues.

Wm. McCullen Heads W. H. Newbolds Dept.

PHILADELPHIA, PA.—W. H. Newbolds Son & Co., 1517 Locust Street, members New York and Philadelphia Stock Exchanges, announce the opening of a Bank Stock Department under the direction of William J. McCullen. Mr. McCullen has been a specialist in Philadelphia bank stocks for the past 25 years. He was associated with H. N. Nash & Co. and Belzer & Co., and more recently was a partner in F. J. Morrissey & Co.

William J. McCullen

Business Man's Bookshelf

Manual of St. Louis Banks Stocks, 1945 Edition—G. H. Walker & Co., Broadway & Locust St., St. Louis, 1, Mo.—paper—copies on request.

Railroad Retirement and Unemployment Insurance Systems, Changes Proposed in the System by a Bill in Congress and Reason Why the Bill Should Not Be Passed—Association of American Railroads, Washington 6, D. C.—Paper.

Standing Room Only—Thoughts and Comments on Bank Buildings and Equipment—Joseph C. Wilson, President of the Wilkinson Equipment Company of Philadelphia, and the Upper Darby National Bank of Upper Darby, Pa. —paper.

Byllesby and Collings Firms Phila. Exchange Members

PHILADELPHIA, PA.—H. M. Bylllesby and Company, Inc., Stock Exchange Building, and C. C. Collings & Co., Fidelity-Philadelphia Trust Building, have been admitted as member corporations of the Philadelphia Stock Exchange.

Pennsylvania Brevities

(Continued from page 938)

4½%. The Controller explained that there are sufficient funds in the sinking fund to pay off all except $1,200,000 of these bonds, and that the balance could be refinanced with a new serial issue at a rate of perhaps less than 2%. Dr. White estimated the City would save $537,000 a year through this transaction.

The second step in the debt reduction program provides for the refunding of $41,016,200 of bonds during the current year under the Drexel-Lehman plan adopted in 1941. Through lower interest charges, this exchange is estimated to save another $468,677 annually.

In preliminary figures subject to final audit, Warner Company, producers and distributors of sand, gravel, limestone products and central-mix concrete in the Philadelphia area, reports 1944 profit, after depreciation and depletion and all interest and ground rents and after provision of $245,500 for income and excess profits taxes, in the sum of $440,071. This compares with $606,844 similarly reported in 1943. Current operations are considered satisfactory in view of building restrictions.

"V" Day in Europe is expected to bring a substantial release of manpower and materials, following which Warner Company is prepared to expand its activities in connection with a large backlog of local projects. An early statement is expected in reference to the company's proposed plan of recapitalization.

Under date of February 15, Crescent Public Service Co., Philadelphia-managed utility holding company, announces that its plan for dissolution and distribution of securities is being held in abeyance by the SEC pending a final court ruling on the Standard Gas & Electric Co. plan. The latter, which is held to involve certain novel questions of law, will, if approved by the court, set the pattern for virtually all holding company plans.

The SEC has granted C. B. Wiggins, C. B. Carter and H. J. Belander, all of New York, permission to represent preferred stockholders of Scranton-Spring Brook Water Service Co. in reorganization proceedings.

Hillman Coal & Coke Co., Pittsburgh, has agreed to purchase 2,200 acres of coal lands from Emeral Coal & Coke Co. for $826,400.

Employe retirement plans, unanimously recommended by the respective boards of directors, will be submitted for approval of stockholders at annual meetings of Fire Association of Philadelphia, Lumbermen's Insurance Co., Reliance Insurance Co. and Philadelphia National Insurance Co. on March 21.

Riegel Paper Corp., Easton, Pa., announces the election of Walker Hamilton, Philadelphia, as Executive Vice-President.

Steel production in Pittsburgh started the week with a schedule of 92% of capacity, compared with 89.5% the previous week and 88% a month ago.

Donner Estates, Inc., of Philadelphia, has contracted to purchase from Engineers Public Service Co. all of the latter's holdings of Savannah Electric & Power Co. for a consideration of $3,387,500. The SEC had ordered the divestment.

Edmund J. Davis, Rambo, Keen, Close & Kerner, returned last Monday from his Florida honeymoon, is alleged to have visited the local Blood Bank—for a withdrawal.

History and Forecast of Rail Credit

(Continued from first page)

market value of all the corporate bonds listed on the New York Stock Exchange was about $14,-100,000,000. Of that amount the railroad bonds represented a market value of about $8,100,000,000, which is about 57%.

Public utility operating company bonds represented about $2,700,000,000, telephone securities about $1,000,000,000, and the balance were miscellaneous; so that by far the greatest amount of corporate bonds available to the fiduciaries and investors of this country are railroad bonds.

Until 1931, we had outstanding about $10,500,000,000 railroad bonds, and in the great majority, these bonds were owned by fiduciaries, savings banks, insurance companies and trust funds. It was rare that an individual was asked to buy a railroad bond, because the bonds traded in blocks of $100,000, $200,000 or $500,000, somewhat the way utilities do now, and they were sold to institutions throughout the United States. As a result, it was unusual for an individual to own any railroad bonds.

In retrospect, almost 100% of us railroad bond men in the days, 1920 to 1930, didn't know much about railroad credit. We were students of maturities and yields. If you knew the maturity and the yield, you were a railroad expert, in those days.

There is hardly a defaulted bond in existence today, with a coupon of 4½% or 5%, that did not sell at a higher dollar price than Norfolk & Western 4s of '96; and likewise Rock Island 4s of '88, sold at exactly the same yield as Norfolk & Western 4s of '96, although even in that period the coverage on Rock Island was about 1.30, and the corresponding coverage on Norfolk & Western was about six times.

Looking back, therefore, we didn't know much about railroad credit; all we knew was maturities and yields, and that generally is the way the institutions bought bonds.

In the depression which came along in '31, '32 and '33, the railroads were hit twice as hard as most industries, because during the period 1920 to 1932, the trucking industry came into being. It was then unregulated, and although the trucks took a considerable amount of business, the major effect of the unregulated trucks was the lowering of railroad rates, unnoticed to some extent while the industrial activity was high, but thereby creating a double depression for the railroads in the Thirties, operating under rates reduced because of the development of the trucking industry, and also operating in a great depression.

As a result, our one buyer, the institutions, in 1932 stopped buying. Now you know that prices are made by buyers and sellers, and whether it was railroad bonds or sugar or coffee or municipal bonds, if your one buyer had stopped buying, it would be bad enough. You had a frozen situation.

I can remember, late in 1930 for example, Mobile & Ohio 4½s of 1977 selling at 98. Suddenly you couldn't get a fiduciary buyer for railroad bonds. These bonds in 1931 sold on the New York Stock Exchange at 8. In other words, the declines were caused two ways, first by the buyer leaving the market and then, as you all know, over the last 13 years—1944 was the first exception, these institutions have been sellers on balance of railroad securities.

As a result, the low prices to which railroad securities went did not indicate their value, they indicated a mechanical situation in the relationships of buyers and sellers.

In the first place, Wall Street was not then and is not now geared to sell defaulted bonds to the public. Rare is the occasion when you see a discount bond offered to the public by the syndicate houses, as we have them organized now. As a result, Wabash refunding 5s of 1980, which came out in 1930 at 100½ and were sold to the institutions in 1932, sold on the New York Stock Exchange at 2⅜, a decline of close to one thousand dollars per bond.

Why? Certainly not because the value had changed that much, where a bond could be worth one thousand dollars one year and $27.50 the next year. It was only because of the mechanics of buying and selling. The buyer quit the market and became a seller. There was no buyer at any price until they went down to where people called them "rank speculations," and then we had to go out and get the "rank speculators," the individuals in the United States, to buy these bonds at $27.50, which the institutions bought two years previously at one thousand dollars, and it wasn't easy. Therefore, when you look up the low prices to which railroad securities fell, it may or may not indicate the value of that security now or then, because, in my opinion, those tremendously low prices of railroad securities were due to this mechanical situation of lacking buyers.

As a result of the depression and the lower rates, some railroads became bankrupt, some of the roads became border-line, but nevertheless a great many of them retained their credit.

Today another cycle is about to be completed, because with the exception of the obligations of the defaulted railroads, or those in bankruptcy, almost 80% of all the fixed interest-bearing bonds of the American railroads are now selling at the call price, or on a 3¼% basis. The cycle has almost been completed in bonds, as I will explain to you in detail.

We have a tremendous amount of confusion about railroad bonds, because there are 137 Class I railroads and there are about 35 terminal companies, but let us eliminate a bit to see if we can visualize the problem a little clearer.

Although we have 137 Class I railroads, six railroads in this country do about 40% of the business — the Pennsylvania, New York Central, Southern Pacific, Baltimore & Ohio, Atchison, and Union Pacific. Those are your six major railroads in the United States, and year in and year out they do about 40% of the business.

Now I add to this group a few more. I take the railroads whose average gross in normal times is more than $25,000,000, and I have 41 railroads that do about 88% of the railroad business.

Fourteen of those 41 retained their credit, and by retaining their credit, I mean they are railroads which were never in any danger of bankruptcy or receivership, and those railroads, in order of gross, are the Pennsylvania, the Atchison, the Union Pacific, Chesapeake & Ohio, Great Northern, Norfolk & Western, Louisville & Nashville, Chicago, Burlington & Quincy, the Reading, the Duluth and Iron Range, Texas Pacific, Pittsburgh & Lake Erie, the Elgin, and the Virginian; 14 railroads out of the 41, and those 14 railroads do 36% of the business.

So when you hear the generalization made that all railroad credit was endangered, it was not true. Never for one month or one day was the credit of any one of those 14 railroads in any difficulty whatsoever. In some cases they have paid dividends each and every year.

These 14 railroads carried fixed charges, at their height, of $158,-000,000, and although most of the publicity has been on the border-lines reducing their debt, as a matter of fact these 14 railroads which enjoyed good credit have reduced their over-all fixed charges, percentagewise, more than the border-line railroads.

At the present time they carry fixed charges of $118,000,000, against a high of $158,000,000. At the fixed charges of $158,000,000 they had to save 8.1¢ to pay their fixed charges (based on 1941 gross), and they were able to pay this 8.1¢ out of each dollar and retain their credit. Right now, under their reduced charges, and I am using the 1941 gross as a normal gross, they have to earn 6.6¢ to pay their fixed charges.

Now obviously the problem of the next group, the 13 border-line railroads, is to reduce their fixed charges at least down to where they only have to earn about eight cents, because at that level, even going back to the worst days of the last 13 years, they should be able to retain their credit.

These 13 border-line railroads, in order of their gross, are the New York Central, Southern Pacific, Illinois Central, Southern Railroad, Northern Pacific, Atlantic Coast Line, Delaware, Lackawanna & Western, "Nickel Plate," Boston and Maine, Lehigh Valley, Pere Marquette, Missouri,

McKellar With Nat'l Securities & Research Corp. Coast Branch

Douglas Laird, Vice-President of National Securities & Research Corporation, 120 Broadway, New York City, announces the addition of Mr. Daniel H. McKellar to the Pacific Coast wholesale distributing organization.

Mr. McKellar will make his headquarters in the Los Angeles office, 634 South Spring Street. He started in the securities business in 1919 in the bond department of the Security First National Bank and since then has had wide experience in all branches of the business. Among his past connections were the Pacific Company of California, Blyth & Co., Transamerica Company and as partner of Welch-McKellar. Mr. McKellar comes back to his host of friends in Spring Street after two years in war work.

Kansas & Texas and Delaware & Hudson.

I label them "border-line" because they were, in my opinion, all border-line at some time in the depression. With one or two exceptions, they are now in the good credit class. These 13 border-line railroads doing about 28½% of the business in America, formerly carried fixed charges of $190,000,000. They escaped bankruptcy in most cases by RFC loans, by bank loans and by loans from subsidiaries.

In the last five years they reduced their fixed charges to $148,000,000, so that previously while they had to earn 13 cents out of each dollar to pay their fixed charges, they now have to earn 9.7c. They are still not down to the level of the good credit railroads.

The other 14 railroads in this group of 41 went into bankruptcy and, in order of gross, they are the B. & O., the Missouri Pacific System, the St. Paul, Chicago & North Western, the New Haven, the Erie, the Rock Island, the Seaboard, the 'Frisco, the Wabash, Central New York, the Denver, the "Cotton Belt" and the Western Pacific.

These 14 major railroads which are in bankruptcy, or which were in bankruptcy and have been reorganized, carried fixed charges of $175,000,000, so that they needed to pay out 15 cents of their gross for fixed charges and couldn't do it when the combination of lower rates and depression came together, and that put these railroads into bankruptcy.

Under the ICC system of reorganization, these fixed charges of $175,000,000 are reduced, or will be reduced at the completion of the reorganizations, to $54,000,000, so that whereas they formerly had to earn 15 cents to pay their fixed charges, they now have to earn four cents out of each dollar, so they are now in twice as good protection so far as fixed charges are concerned than the good credit railroads were during the depression.

* * *

There are about $8,900,000,000 par value railroad bonds on the New York Stock Exchange and they represent practically all of the railroad bonds except equipments. This compares with about $10,500,000,000 available as of 1930. This is a reduction of about $1,600,000,000 over the last few years.

Now, out of this $8,900,000,000 these 41 railroads represent $7,600,000,000. The terminal railroads represent about $400,000,000. The reorganized income bonds represent about $450,000,000; the reorganized first mortgage bonds represent about $284,000,000 and the obligations of small railroads, such as the K. S. U., the Maine Central and the Bangor & Aroostook, represent the balance, about $173,000,000.

We have had already a loss in fixed interest-bearing bonds, that is a decrease in actual amount, of $1,600,000,000. The bond obligations on NYSE of railroads now in bankruptcy represent $2,700,000,000 par value. So, looking to the investment in fixed interest-bearing railroad bonds of solvent companies, whereas you had a choice of $10,500,000,000, your choice has been reduced by $1,600,000,000 through reductions, and by $2,700,000,000 because institutions cannot buy, generally speaking, the obligations of railroads in bankruptcy.

If you assume that institutions will not or cannot buy the income bonds, we have a further elimination of $427,000,000, so that the actual amount of fixed interest-bearing bonds on the New York Stock Exchange today is $5,700,000,000, a decrease of about 45% in the amount of railroad bonds available for investment.

Now taking the three groups again, the obligations of the 41 represent about $7,600,000,000 out of $8,900,000,000 par value.

First taking the 14 good credit railroads, these railroads have obligations on the exchange, of $2,100,000,000 par value. There isn't a single bond on the Exchange of that $2,100,000,000 that is not selling at the call price or on a 3¼% basis, not a single one out of that $2,100,000,000. Therefore their credit, representing these railroads that maintained their credit throughout the depression, is now generally speaking as good as industrial bond credit or public utility bond credit.

Furthermore, about 58% of this $2,100,000,000 is callable or due within the next two and one-half years, and in my opinion will be refunded. In other words, in the next 18 months I believe these 14 good credit railroads can refund every callable bond they have, with a lower coupon bond, the same as the utilities are doing, and don't forget: because the Burlington, for example, refunded at 3¾, and accomplished one step, they can't do it again with 2¾, to accomplish the second step, the same as the utilities have done.

The $2,100,000,000 obligations of the 13 "border-line" railroads; of that total, $1,500,000,000 is selling at the call price, or on a 3¼% basis, so out of the fixed interest-bearing bonds available at a discount, there remains out of this $7,600,000,000, excluding the obligations of the defaulted railroads, $1,200,000,000, and of that all but $197,000,000 are selling above 80. The great majority is selling above 90.

So excluding the defaults, there are only $197,000,000 railroad bonds, fixed interest-bearing railroad bonds on the Exchange, selling now below 80. In my opinion, within the next six months, 90% of this balance of bonds at a discount, will sell at a premium.

Of those 13 railroads, only 18 months ago, hardly a single bond sold at a premium; out of this tremendous total of $2,700,000,000 hardly a single bond was selling at par. Today, as I have just said, over $1,500,000,000 is selling at the call price, or on a 3¼% basis. As you see, most of the financial problems among the "border-lines" have been completely cured.

You saw only day before yesterday the Pere Marquette, whose bonds sold at 20 and 30-point discounts only two years ago, and 10 and 12-point discounts only a year ago, sell 3⅜ to the public at a premium. That solves that problem, so far as bonds are concerned.

Likewise, with the Nickel Plate. Did price indicate anything? In predictings things, I cannot prove the future and neither can you, but I have little patience with people who prove facts to me and tell me Nickel Plate notes sold at $10. I say they also sold at $1,000. Those are just facts, information. Information is not judgment. I want to know whether they were too high when they were originally sold at $1,000, or too low when they sold at $10. The Nickel Plate has now solved its bond problem, they are all selling at a 3½% basis.

The Boston & Maine fixed interest-bearing bonds, — there are no bonds at a discount, they are all selling above par. The Delaware & Hudson, all the bonds of the system are selling above par.

In the New York Central System, we still have bonds at a discount. Some bonds of the Southern Pacific are selling at a discount. Only one direct obligation bond of the Southern Railway is at a discount, and that is only a point from par, Southern Railway 4's.

Northern Pacific—we still have the 3's selling at a substantial discount, but the refunding bonds in my opinion will sell at the call price within a few months, and you will probably be buying 3¼'s of the Northern Pacific to replace 6's, 4½'s and 5's.

The Illinois Central is the third large system where you can still buy bonds at a discount, so our problems among the large railroads are New York Central, Southern Pacific, and Illinois Central. In my opinion you will be buying Southern Pacific 3¼'s some day to refund their 4½% debentures, and the 5's, all of which are callable.

With Illinois Central, fortunately about half their debt is callable, and the balance of their debt is due '51 to '55. Their problem and the Southern Pacific problem—you all hear about the Southern Pacific's maturity problem, and the Illinois Central's maturity problem. That is not the problem. The problem is their credit. **If you have credit,** maturities are not a problem.

Now how can they restore their credit? Simply by getting the refunding bonds up to the call price, in the case of Southern Pacific, and Illinois Central, and then their credit is restored, and you will buy 3¼'s from them. That will restore their credit long before the Central Pacific 4's are due in '49, and long before any of the Illinois Central debt is due in 1950 and '51.

If this callable debt of the border-lines is refunded at 3¼%, their fixed charges will be down from a high of $190,000,000 to $126,000,000, where they will need 8¢ out of each dollar of gross to pay their fixed charges, which puts them on a par with the good railroads which retained their credit through the worst period we will probably ever see, at least if we go back to that period with our present debt and our present budgets, that we will have a lot more to worry about besides railroad credit.

Now so far as bonds are concerned, to you as investors and bankers and trustees, I obviously believe in the future of railroad credit. I think we are bankruptcy-proof, through these:

No. 1. Reorganizations.

No. 2. Good credit-reducing fixed charges, and the border-lines restoring their credit by some method.

In these 41 railroads there are a few problems still to be solved, like Lehigh Valley and D. L. & W., but they are being solved. I think we are definitely bankruptcy-proof, and if we have removed the danger of bankruptcy, there is no reason why railroad credit shouldn't be as good as industrial credit and go up and down with industrial credit, which means you go up and down with this country.

I don't know what is going to happen three or four years from now, but I can conclude that if I have a bankruptcy-proof industry in the form of their securities, that I can prove to you that when Detroit has good business so do the railroads, and when you have poor business, the railroads are right there with you. When General Motors has good business, so do the railroads, and vice versa.

Despite all the inroads that have been made, including the Great Lakes traffic with the railroads, because most of the Great Lakes business is rail-water, the railroads will still do almost 87% of all the ton-miles carried in this country, which is an awful lot of business.

Going now to the bankruptcy railroads, I mentioned them. Four large ones have completed their reorganization, the Chicago Northwestern, the Erie, Western Pacific and the Wabash. Two more will be completely reorganized, in my opinion, this year, the Seaboard and the B. & O.

Next year, in my opinion, the St. Paul and the Denver will be completed, and, dependent upon the passage or non-passage of the so-called Hobbs Bill, will depend the progress of the Rock Island, the Missouri Pacific, the New Haven, Frisco, Central New Jersey, and Cotton Belt, which is the total of that group of 14 railroads in bankruptcy, or which have been.

There, again, the mechanical relationship of buyer and seller is so well illustrated.

Four years ago I talked in Cleveland and tried to convince the audience there that Wabash first mortgage bonds in the form of the old security, 5s of 1939 at 30, represented deflated value, because of only a mechanical situation in the market. Do you realize that if all the institutions of this country, in March, 1931, agreed not to sell any railroad bonds they would never have gone down to those extreme levels? You can't put a market down by wishing it down. You put it down by selling, selling, selling, and if you can't find buyers, it will go right to 1. It did in a lot of cases in railroad bonds.

Then you wait a few years; you take the railroad out of bankruptcy like they did the Wabash, the 5% bonds, which I recommended at 30, including the back interest of five years, were worth 130 as 4s.

Now those same bonds are selling at par or above as 3¼s. The cycle is now complete in Wabash. They were with the institutions, they were sold out of the institutions. They have now got their new dress on and they are back with the institutions. Institutions not being able to hold them, apparently, being forced to sell them willingly or unwillingly by bank examiners and other regulations; enabled individuals for the first time in history to buy railroad bonds, because institutions generally speaking cannot buy "defaults," and over the course of the last four or five years individuals have done all right by holding defaulted bonds while they changed the dress and made them new, witness Erie, Chicago & Northwestern, Wabash. A tremendous mechanical profit, representing at times two, three, four, five or 600%, was set up while they changed the situation from an "insolvent" to a "solvent."

Take B. & O. first mortgage bonds today at par, the refund mortgage bonds at 76, the income bonds at 64, preferred at 27 and the common at 14½, why? It is under a temporary cloud of bankruptcy, under the Chandler Act. Now is the time to purchase B. & O. securities, not to wait until they are high priced. It is the fourth largest railroad. It is reducing its fixed charges about 50% from the high point and the most obvious thing that the market has completely overlooked, in my opinion, is that as part of this plan practically all of the $571,000,000 of debt is callable. Figure it out for yourself.

Their average coupon is about 4½%. Reduce that to 3% by subsequent refunding. It is the same thing as buying one-third of the debt in the open market and cancelling them.

It is somewhat to us today academic whether Northern Pacific 3s, due Jan. 1, 2047, are paid then or not, or Elmira and Williams-

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History and Forecast of Rail Credit

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ort 5s at their due date of Oct. 1, 361. Did you know we had one at long? The interest charges e the important thing.

As far as institutions are conerned, if I were an institutional an, I would certainly see if I ould exchange my callable railad bonds for non-callable bonds; nd I think that we are going to uy Illinois Central, Southern Pafic and the New York Central ¼s over the next two years; so, hy not buy 5s and 4½s at toay's discounts.

Now, on the defaulted bonds, e situation obviously is not as crative as it was three or four ears ago, but in my opinion in tuations like the B. & O., the ., L. & W., the Lehigh, the Seaoard and St. Paul at the present me, there are vehicles in there which you can more than ouble your money as an indiidual simply by buying value at discount.

When you use the word "cheap," ou say it is cheap relative to omething. Relative to what? omething else. "Defaults" are ore than that. They are cheap ecause of a routine mechanical tuation where you cannot sell ese securities under the cloud bankruptcy to the greatest reositories of wealth in the world, e institutions in this country. hey can't buy them. As soon as hey can, they become high rade and they are refunded. You can see for yourselves what happening, because the tremenous amount of money in this ountry available for investment will not permit railroads to sell n a 5% basis and everything lse on a 2¾% basis.

Now, so far as railroad stocks re concerned, it is a little bit more difficult to explain that. Somebody said, "You have been ight on bonds, now why do ou pick on stocks?" For this eason, stocks went down with he bonds. Why is it wrong for tocks to go up with the bonds?

"Nickel Plate" bonds sold at 12, he stock sold at 1. The bonds re now selling at 107½. They ave been refunded as 3¾s. The tock is at 38 and they say, 'Look how high 'Nickel Plate' s, because it sold at a dollar." But they fail to say it sold above ar for many years. Nobody tells ou that. They say it is up from dollar. All it is doing is folowing the bonds.

I admit from these levels on, aturally you have to look forard to dividends to increase the rice to 60, 70 or 80, which I think ill be done in most of these order-line cases when they are ble to put themselves on a subantial and consistent dividend asis. In each case, however, the ocks will follow the bonds.

Take 3½'s, years ago, Delaware Hudson bonds at 51, the stock a share. The bonds went to r, they are selling at 105, and e stock went to 40. The manement in the meantime had reed sufficient debt to comply th the plan. The stock is now a $4 annual basis and I think is selling around 48 or 50. That the pattern. Bonds are not gog to go from 50 to par and the ock stay at $10 a share or $20 a share. It never happened yet, and it never will.

You can see the model. You can trade the railroad stock market by following bond prices. Take for instance two years ago, when Southern Pacific bonds were at 50, and the stock at 31, it was like bucking your head against a stone wall. After all, you can't get the stock ahead of the bonds, not when the bonds are selling at 50% discount.

Now they think Southern Pacific has gone up an awful lot because the bonds are at 95 and the stock has gone up about $10 since then. It has followed more slowly than some of the others, but it definitely will follow. I think it will be the same with the B. & O. Today the income bonds of B. & O. are at 64. I think they will sell at 95 when most of the debts have been refunded, and you will not buy B. & O. common at $14 or $15 a share or preferred at $28 or $29 at that time. The pattern is there, and I think will be followed in all these situations as they work out their restoration of credit.

* * *

Just a few words about the railroad industry.

We talk about competition. We have had competition for the last 20 years. All that competition is now regulated. I have no patience with the railroads saying that trucks don't pay their way. I think the trucks do. I believe the railroads can compete successfully.

I have no patience with people who say we are not going to build more highways. We are going to build more highways. The railroads will have to find a way of competing with them. It will require able management but it can be found. That is a problem of management, how to compete.

Our competition is now regulated. Let managers figure a way of competing.

With the air lines, it is a little bit different, because we subsidize an air line in the country in the form of air ports. We have got an airport in New York, called LaGuardia, that cost about $50,000,000, and they are building another one that will cost $100,000,000 more, and the air lines pay very little, if anything, either for amortization or interest, yet the New York Central has Grand Central Station, that is assessed at $93,000,000, and the New York Central has to pay full taxes on it, as well as amortization and interest.

Naturally, if they are going to subsidize the air industry forever, it will be real competition.

Now as to wages, we have a high wage scale now relative to industry generally. Going back into the history of the thing, we were always under industry generally, therefore the most vulnerable, but now we are on a par with industry generally, and in most cases above.

I feel that rates will, generally speaking, follow prices of materials and wages.

So on this question of wages, I think it is relative with industry generally.

I think one of the greatest things that has occurred in railroads is the fact that management to a considerable degree realize that they now have to sell what they have to offer. They are a service industry and they have to sell service. The days of monopoly are over with.

The railroads have to sell their service. They have to sell superior service, and I think they are beginning to realize they have to. Perhaps in retrospect, this competition was good for them.

You already have had improvement in the form of central traffic control, lighter cars, Diesels and so forth. In my opinion the surface is hardly scratched for further improvement.

As far as post-war is concerned, looking at it selfishly, we have no reconversion problem. We haven't got to rebuild the plant. We have to rebuild a lot of equipment, particularly passenger equipment.

The Pennsylvania borrowed money the other day at 1.97% for 15-year paper, and as you all know, most all equipment maturities and fixed charges are paid from the depreciation account. The railroads, I believe, can do all the financing they want in the form of equipment bonds. **It is my fervent hope we will never again see any railroad bonds with fixed interest issued to finance railroad fixed plant.** I think it is wrong. I think fixed interest-bearing railroad bonds have been sold because institutions wanted fixed interest-bearing bonds, not because fixed interest-bearing railroad bonds were good for the railroad.

I think if we can, if we once again have to explain our fixed plant as distinct from the equipment, I hope we use income bonds, preferred or common. I don't know that we will do it, but I fervently hope so.

My chief competition, as I have said before, in recommending railroad securities, is that the industrials are better. They are all right after the war, railroads are no good.

Now taking the stocks in the Dow-Jones averages, and going back again, saying industrials are good after the war, rails are no good, and assuming with me we have removed the danger of bankruptcy—just assume it, if you don't believe it, I believe it—but just assume it for the sake of the argument, where are you safe?

Do you remember the quick depression we had in 1937 and 1938? Let's see how safe you were in industrial stocks. Allied Chemical, 258, five months later 124; American Can, 121 to 70—I am reading the 30 stocks in the Dow-Jones averages — American Smelting, 55 to 28; American Telephone, 187 to 111; American Tobacco, 99 to 58; Bethlehem Steel, from 105 to 39; Chrysler, 135 to 35; Corn Products, 71 to 53. In other words, pick out the one you are going to invest in now so you are safe. Dupont, 180 down to 90; Eastman, 198 to 121; General Electric, 64 to 27; General Foods, 44 to 22; General Motors, 78 to 25; Goodyear, 47 to 15; Harvester, from 120 to 48; Nickel from 73 to 36; Manville, from 155 to 58; Loew's, from 88 to 33; National Steel, 35 to 17, and on and on. That is the last depression we had. What escaped? What escaped, using those 30 stocks as being fairly representative investments that you can make in industrials? Nothing did.

To emphasize once again, I have always been discount-minded and value-minded. What the crowd wants has never put the stamp of quality on it for me. Simply because a thing is high-priced doesn't make it high-grade. Unfortunately, that is how a great deal of thinking is done in this country; if it is high-priced, in bonds, it is high-grade. That is not necessarily so and, likewise, low prices to me are not necessarily low-grade.

All railroad bonds were high-priced and high-grade, so-called, in 1930 and prior to that time. Two years later they were "no good," "speculative," "footballs for speculation."

Another thing is your memory of railroad securities is not experience and your prejudice against railroad securities is not your judgment, and information, as I said before, is not judgment. It has to be done by a combination of experience and judgment, which gives us knowledge, and I think on the basis of the present condition of the railroads that their credit, both in bonds and stocks, for the foreseeable future, represents one of the best corporate investments and should be included to some extent in all portfolios where fiduciaries or individuals are interested.

Tax Speculation and Stop Progress

(Continued from first page)

conditions accompanied by a relative shortage of goods, Mr. Eccles would not only continue price controls and materials allocations in the period but would levy "an excess profits tax on speculative gains aimed to eliminate the speculation."

The Basic Fallacy

Now what are the fallacies of this seemingly novel, drastic and impractical proposal?

In the first place, it is based on the erroneous assumption that speculation produces inflation. Nothing can be farther from the truth. Speculation is the accompaniment and the result of inflation. One does not buy to sell again at a future date when prices are falling. To do so would mean that he wishes to incur losses. Any simple-minded boy should know this, and it needs no economic textbooks to point it out to him. It is only when a trader, be he manufacturer, merchant or professional speculator sees prices on an upward trend and believes this trend will continue for a time (whether short or long) that he is willing and anxious to convert money into other property for resale with a view to profit from the transaction. This is axiomatic in human nature. Yet, throughout centuries, legislators and social reformers have acted on the belief that wild periods of speculation have raised the level of prices and have caused the evils resulting from the cycle of booms and depressions which have oppressed modern society.

Lord Macauley, in introducing his account of the violent wave of speculation which swept through England at the end of the Seventeenth Century, gives a clear picture of the conditions which produce this condition. He says:

"During the interval between the Restoration and the Revolution, the riches of the nation had been rapidly increasing. Thousands of busy men found every Christmas that, after the expenses of the year's housekeeping had been defrayed out of the year's income, a surplus remained, and how that surplus was to be employed was a question of some difficulty. . . . The natural effect of this state of things was that a crowd of projectors, ingenious and absurd, honest and knavish, employed themselves in devising new schemes for the employment of redundant capital. It was about the year 1688 that the word 'stock jobber' was first heard in London. In a short space of four years a crowd of companies, every one of which confidently held out to subscribers the hope of immense gains, sprang into existence."

A similar situation developed three decades later and collapsed with the South Sea Bubble. It was not speculation which produced the condition, but the condition which produced the speculation. A plentiful supply of money and credit leads to inflation, which in turn incites speculation, and this, when out of hand, brings about the collapse, which abates or curtails the evil.

The Function of Speculation

If the economic function of commercial speculation were correctly and more widely understood, it perhaps would be realized that speculation, instead of being a cause of persistent and rapid price rises, frequently acts as a curb to the trend and, above all, prevents or allays the evil effects of abrupt and drastic price changes. This was clearly expressed by one of the sanest and most practically-minded British economists more than a century ago. John R. McCulloch, who, as evidenced by his classic massive encyclopaedias of commerce and his other voluminous contributions to commercial knowledge, fully understood trade and industry in all its aspects, wrote in his "Essay on Commerce":

"Every transaction in which an individual buys in order to sell again is, in fact, a speculation. The buyer anticipates that the demand for the article he has purchased will be such at some future period, either more or less distant, as will enable him to dispose of it with profit; and the success of the speculation depends, it is evident, on the skill with which the circumstances that must determine the future price of the commodity have been estimated. It follows, therefore, that in all highly commercial countries, where merchants are possessed of large capitals, and where they are left to be guided in the use of them by their own discretion and foresight, the price of commodities will be very much influenced, not merely by the actual occurrence of changes in the accustomed relation of the supply and demand but also by the anticipation of such changes. It is the business of the merchant to acquaint himself with every circumstance affecting the particular description of commodities in which he deals. . . . If he learned that the supply of an article had failed, or that the demand for it had been increased, he would most likely be disposed to buy in the expectation of profiting by a rise in price. . . . If the intelligence received by the merchant had been of a contrary description—if, for example, he had learned that the article was now produced with greater facility, or that there was a falling off in the demand for it—he would have acted differently: in this case he would have anticipated a fall of prices and would have declined to purchase the article except at a reduced rate, or have endeavored to get rid of it, supposing him to be the holder, by offering it a lower price."

And McCulloch, on the basis of the simple understanding of human psychology noted above, adds that "those who indiscriminately condemn all sorts of speculative engagements have never reflected on the circumstances incident to the prosecution of every undertaking," and he concludes that "speculation is therefore really only another name for foresight."

It remained for the late President Hadley of Yale University to elaborate on McCulloch's reasoning. Hadley devoted an entire chapter of his textbook on Economics to "Speculation," and he stressed the economic function of speculation as a price stabilizer, i.e., as a means whereby abrupt and unwarranted price changes are minimized. "Commercial speculation," says Hadley, "is sometimes analogous to insurance and sometimes to gambling." "In the former case," he continued, "it is said to be legitimate, in the latter, it is said to be illegitimate. But the legitimate and illegitimate transactions are so much alike in their form, and so inextricably mingled in practices, that it is often extremely hard to draw the line between them."

This is a point which, as will be shown later, Mr. Eccles neglects to take into consideration in his tax proposal. It would make the whole scheme as impractical as to distinguish an "investment" from a "speculation" transaction in an ordinary purchase and sale agreement.

Wild Speculation Not an Unmixed Evil

Wild speculation is undoubtedly an evil! And when it jumps out of the traces imposed by human caution and insight, it causes great suffering and distress. But without speculation, would there be progress of any kind? Risk is not only an element in all commercial transactions but it is present in every human activity that is concerned with the future. Risks cannot be wholly eliminated, and it is the nature of the business man to take risks. But risks are not taken without a view to compensation and, as the old textbooks told us, the greater the risk the higher the gain to be anticipated.

Moreover, individual losses from speculation, like speculation itself, is not without its economic and political benefits. The sacrifices of American speculators have made this country great! These sacrifices; these individual losses of our pioneer enterprisers have opened up new lands and encouraged new settlements; they have built our canals and railroads; they have established new industries; and they have created new comforts and conveniences for their fellow men. Robert Morris, the Financier of the Revolution, lost his fortune in land speculation, but his activities in this field have been, perhaps, of greater and more lasting benefit to the nation than his services to the Continental Congress. He laid the groundwork for the rapid settlement of western New York and Pennsylvania, and he was among the promoters of early highways and canals. Both Washington and Hamilton were "speculators." Each sought personal gains in promoting enterprises of public importance. Washington expected to profit largely from the Potomac Company, which was a child of his brain. And Hamilton in promoting the Society for Useful Manufactures, out of which grew up the industrial city of Paterson, N. J., had the same objective in view. Would you condemn efforts of this nature by levying a special tax on them?

There is no economic or political objection to controlling wild speculation, i.e., "over-trading," as the English call it. It has been tried time and again. After the South Sea Bubble fiasco in the early Eighteenth Century, the British Parliament passed drastic laws against "stock jobbing." But trading in stocks and pecuniary speculation continued, though somewhat abated. New York State passed similar legislation several years after the Revolutionary War, as a result of the commercial debacle brought on by the speculations of William Duer and his associates in the new United States bonds. During the Civil War Congress attempted to eliminate speculation in gold bullion by enacting legislation prohibiting it, but the mistake was discovered within a month's time, and the legislation hastily repealed. Germany at the end of the last century enacted an elaborate code of punitive measures against commodity and stock speculation, but the whole machinery of it broke down and was finally abandoned. Mass speculation of the populace is the result of a mental attitude produced on the social conscience. It should be controlled, if at all, by action on the causes which produce the mental attitude, and not by punishment of individuals. **Without speculation, without the willingness and the incentive to take risks, there will be no progress. Cupidity and progress go hand in hand!**

The Proposal Is Impractical

Now let us turn to the practical aspect of the proposed tax "on speculators in real estate and securities." The first question that arises is: What is a speculation transaction? As already stated above, in quoting Professor Hadley, it would be extremely difficult and practically impossible to distinguish between a speculation and any other commercial transaction. The distinction, if any, would lie in the mind of the individual. A seller does not ordinarily tell a buyer whether, in making his purchase, he is speculating, of *vice versa*. Whether a purchase of stock or of real estate is for speculation or investment is a matter of personal intent. This can be known only to the individual and, in most cases, both purposes may be present at the same time, and the "intent" can be momentarily changed.

The time factor (i.e., the period of holding of the purchase) is not essential to the intent. Property, such as land, may be purchased to be held over a long interval, and still the intent is not "investment" but "speculation." Astor purchased vacant land in New York as a speculation. He held large tracts, without receiving income from it, feeling that its value would rise after many years. Speculation, it has been said, requires a "quick turn," but the wisest and safest speculation is that which requires time for its maturity. It is this sort of speculation that the farmer indulges in when he plants an orchard that will require years to bring it to maturity. Accordingly, any tax which is based on the period between purchase and resale, as a gauge of speculation, would be based on a false premise. The speculator does not always resell after a short period merely because his purchase was "a speculation." Neither should the investor always hold "for the long pull" when he finds it more profitable to sell at an earlier time than he anticipated.

If the time factor is no gauge of the "speculative" quality of a transaction, then what other criterion should be set up? Would the tax be applied only to those who buy or sell on "margin," i.e., on credit? Would the tax be limited only to those who make a business of dealing in real estate or securities? If either or both of these bases are used, would it not destroy the industries that depend on these factors for stability and a machinery to effect orderly marketing? The dire results of the tax if thus levied can hardly be exaggerated. Investment in securities would be greatly discouraged! Venture capital and equity securities would find no market!

In order to allay an epidemic arising from overoptimism regarding the nation's future and excessive confidence in continued economic stability, it is foolhardy to kill the patients and lay out cemeteries for them, instead of providing stronger and more useful remedies and seeking to modulate the disturbance by getting at the causes of the disease and spreading sound advice on prevention and treatment. It is only by this method that you can mould essential human actions within sane and definite bounds. The Federal Reserve Board, in the exercise of its manifest duties, by insisting on sound monetary and credit policies, and by spreading information regarding business and banking conditions, can do more to control and prevent unsound speculation than all the punitive measures that can be contrived in a tax system or a criminal code.

OUR REPORTER'S REPORT

Historic tie-ups in the investment banking field are beginning to give way under the force of circumstances surrounding the operation of competitive bidding, now the prevalent form of corporate financing in the public utility and railroad industries.

The tendency is for larger firms to demand an interest in a given undertaking equal to that of the house heading up a particular operation. As spokesman for one of the major underwriting houses pointed out this would mean the eventual freezing out of local firms around the country.

He cited one instance where he sought to organize a banking group to bid for an approaching issue. He proceeded to call up firms which had been in a previous underwriting group. There had been a total of 48 houses in the earlier undertaking.

Proceeding to call up ten of the "top" New York firms involved, and ten of the leading houses in a large middle western city as a starter, he ran into a situation where these firms would have taken up the entire issue among them, leaving none for other houses which might have been interested.

It would have meant cutting down the original group by 50 per cent, something which his firm was not inclined to do. Since there are some two dozen large firms which could head up underwriting groups on substantial sized issues, these could be expected to demand equal position with houses acting as managers.

This banker believes that we are destined to see some realignments as time goes on with a larger number of groupings and fewer big fellows in such setups. This, it would appear, foreshadows even keener competition.

Triborough Bridge Authority

The next major operation in the tax-free market will be undertaken by the Triborough Bridge Authority which is engaged now in putting the finishing touches to its program.

Calling for the refinancing of its entire debt structure, now exceeding $98,000,000, this operation is expected to involve an overall total of well in excess of $100,000,000 of new serial and term bonds.

With the new securities expected to reach market after the middle of next month, it is now indicated that the earliest serial maturity will be 1950.

By refinancing its debt on a long-term basis now, the Authority, in addition to strengthening its financial position, would place its bonds beyond reach of any for attempt to make them taxable by the Federal Treasury, at least for a considerable period.

Looking Well Ahead

Although the current week has been relatively dull, from the standpoint of new issues reaching market, activity on the part of underwriters, in forming new groups, indicates they are looking forward to a resumption of emissions through March and April.

Several sizeable offerings, two of them preferred stock issues, are on schedule within a fortnight, but there are indications that bankers are looking further ahead than that.

One group, active in the railroad field, is organizing to bid for any Union Pacific Financing which may develop in the near future, while another is forming to go after new securities which Pacific Power & Light may offer by way of replacing its outstanding $20,500,000 of first and prior lien 5s.

Bell Telephone System

In its report issued last week, the American Telephone & Telegraph Co., which operates the Bell System, reiterated its statement of a year earlier, that at least a billion dollars of new capital would be needed to permit the company to catch up on deferred expansion after the war.

This must have whetted the appetites of the banking world and investors alike, considering the calibre of the security and past performance.

Of course in latter years the big company has done considerable of its finance through the medium of "rights" to shareholders. But in view of its enormous needs and the attractiveness of the money market, it might be inclined to consider long-term bonds when the time comes.

Holds Initial Phase of "Bull Market" Nears End

(Continued from page 931)

provide funds to take advantage of the truly excellent buying opportunities that should occur after the reaction has taken place.

"The long-range prospect is still for great increases in corporation earnings and dividend payments, and therefore in stock prices, but the near-term outlook suggests an intermediate top in stock prices from which an important decline is likely to occur before resumption of the major advance."

Concerning post-war plans, Mr. Gould says that "over the past two years the nation has been deluged with post-war plans designed to provide full employment and prosperity. We have heard that the economic system must provide 60 million jobs after the war, that national income must be at the $140-$150 billion level, that the FRB Index must be at the 150 or higher level, that taxes must be reduced on corporation income, that taxes must be reduced on individual income. But very few of these plans get to the heart of the matter. They speak of and attempt to treat symptoms and results rather than actualities and causes.

"The economic fact of the matter is that the outlook for corporation profits largely determines whether labor is hired, plants built and machinery installed and whether, therefore, a beneficial spiral of expansion or a vicious spiral of deflation gets under way.

"The national economy is similar to a living organism," Mr. Gould contends, "in that it is healthful and prosperous to the extent that its component parts are in balance and permit the free circulation of the fluids that feed and supply the body. When an economy gets out of balance, internal adjustments take place until balance is restored. During wartime, when economic considerations yield to national survival, an economy can be worked under forced draft by government edict and economic laws seem to be suspended, but sooner or later an economy has to stand on its own feet, and that means, unless a totalitarian concept is embraced, a return to the balanced elements that permit prosperity."

Referring to the present situation, Mr. Gould states, "the American economy at present, so far as manufacturing industry is concerned, is not in balance. The rise in wage costs and the fixing of prices have just about eliminated profit margins in industry, all protests to the contrary notwithstanding. The reason the economy functions as well as it does under current conditions is because of the tremendously stimulating effect of the huge volume of government purchases of war goods. With a return to peacetime conditions, even on the basis of a large reduction in tax payments, there is not the remotest chance of profitable operations, of employment of anything approaching 50 or 60 million people, or of producing the volume of goods so needed by the world, unless profit margins are restored."

After discussing statistical data on corporation earnings and profits, Mr. Gould draws the inference that "there is simply no prospect of a high level of employment and prosperous industrial conditions generally on the basis of any reasonable peacetime volume of production and today's cost-price structure, even after reasonable adjustment for wartime effects.

"Profit margins in manufacturing industry in one way or another will be restored. Either costs will be sharply reduced or prices will rise. As a matter of fact, probably both will tend to occur. There is certain to be some reduction in wasteful wartime costs, but there is no chance that enough increased efficiency, even with the elimination of overtime and other wasteful practices, can be accomplished to offset the huge rise in costs.

"Some rise in prices, probably a sizable rise, will eventually occur and the argument that the productive capacity of the American economy will prevent such a rise is not convincing in view of the great rise in costs that has occurred.

"We have at Washington a labor government committed to the dual policy of higher wages and fixed prices. This policy has been relentlessly pursued during the war years to date, but the squeezing process is reaching its limit.

"No diminution in the pressure for wage increases is likely. Average hourly earnings of manufacturing labor increased 10 cents in 1941, 12 cents in 1942, nine cents in 1943 and less than five cents in 1944. Labor is again becoming restive and pressing for further increases. Last fall's steel wage adjustment of five cents an hour for 400,000 workers in 86 companies paved the way for other wage increases. The steel companies have been urging price rises as necessary and are expected to get some further price increases from the Office of Price Administration, but early restoration of profit margins is quite unlikely. Steel happens to be the most virulent instance of an infection permeating all manufacturing industry."

Wall Street Riding Club Competition

The Wall Street Riding Club held its fourth annual competition on Friday, February 16, 1945, at Aylward's Riding Academy on 67th Street here in New York City.

Miss Frances M. Weller, President of the club and associated with Harry Downs & Co., galloped off victoriously with three blues and the trophy. After nabbing the blues in the horsemanship and pairs class, Miss Weller reined in at the number one spot in the championship class. Runners-up in the usual order were as follows: Miss Emily M. Richards; Mr. Gerhard H. Struckmann of the Bank of Manhattan; Miss Virginia McGaffney of Carrere & Co., and Mrs. Gordon Goff.

Miss Louise M. Franco of Blyth & Co. trotted away with the blue in the novice class. She was followed by Miss Ruth E. Hamilton, Mrs. Gerhard H. Struckmann, and Miss McGaffney.

In the horsemanship class Miss Weller was trailed by Mr. Struckmann, Miss Richards and Mrs. Struckmann. Miss Weller and Miss Richards romped off with first place in the pairs class, with the red going to Mr. and Mrs. Struckmann, the yellow to Mr. and Mrs. Goff, and the white to Miss McGaffney and Miss Jean McCulloch.

Miss Weller, in charge of the arrangements, and Miss Richards, Chairman of the ride committee, prepared a night of fun for members and their friends.

Mr. George I. McKelvey, Jr., of Darby & Co., acted as judge.

N. Y. Savings & Loan Ass'ns Mtg. Lending And Savings

The 244 savings and loan associations in New York State showed a record-breaking increase in mortgage lending activities for the month of January, according to figures released on Jan. 20 by Zebulon V. Woodard, Executive Vice-President of the New York State League of Savings and Loan Associations. The advices state:

"Mortgage loans granted during January, 1945, totaled $5,787,684, which represents an increase of 71.8% or $2,418,590, over total mortgages recorded during January, 1944. This also represents an all-time high in lending activities for the month of January having surpassed the previous high mark set in January, 1942, when mortgage loans granted amounted to $4,920,484. Of the $5,787,684 loans recorded during January, 1945, $4,755,134 were for the purchase of homes and $641,532 for refinancing of previous mortgages. Construction, repair and other loans amounted to $391,018.

"Savings in the 244 associations increased during the month by a net figure of $8,455,137, equivalent to a rise of 1.6%, while the liquid resources of the associations in the form of cash and government bonds increased 0.5%."

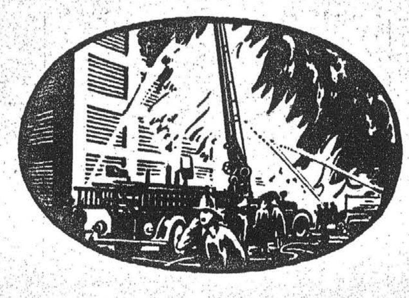
According to figures submitted to the League, Mr. Woodard estimated that the total assets of the associations had reached $605,999,552 on Jan. 31.

Wm. Hanrahan V.-P. of Lafayette Nat'l Bank

William R. Hanrahan has been elected Vice-President of the Lafayette National Bank, Brooklyn, N. Y., according to announcement by George P. Kennedy, President. Mr. Hanrahan had been Assistant Vice-President specializing in commercial and war production loans.

Prior to joining the bank in 1939, he was an Assistant Vice-President of Central Hanover Bank & Trust Co.

Mr. Hanrahan was a Lieutenant (j. g.) in the U. S. Navy during the first World War. He is a member of the Brooklyn Bankers' Club; the Rudder Club; and the Kiwanis Club of Brooklyn. He is also a member of the Brooklyn Committee for Economic Development which is studying post-war planning with the Commercial Enterprisers in Brooklyn.



WHAT INSURANCE HAS DONE TOWARD VICTORY

TODAY, every business and industry must be judged by a new standard—its contribution, direct or indirect, toward the winning of the *war*.

The men and resources of the fire insurance industry have been utilized to the full in the mobilization of our nation's might. A large proportion of the male employees are serving with the armed forces. Many others have been, and are, devoting a large part of their time and energies to unpaid civilian war activities. Further, a large proportion of the income of the industry is converted directly into War Bonds.

In all these ways, fire insurance has aided the general war effort of the United States. Added to this is the immeasurable and vastly important overall support rendered by the whole "industry which protects other industries" in its never-ceasing war on man's ancient, indefatigable enemy—fire.

Through the vigilance, skill and protective work of its inspection and engineering facilities, the fire insurance industry has not only helped prevent many disastrous fires—it has presented the country with the equivalent of hard-won production victories. Toward this end, we intensified our efforts in 1944. Yet, it is unfortunately true that in spite of all efforts, there was an increase in the number of fires in 1944, the result of the accelerated wartime production tempo. Consequently we plan to redouble our preventive activities in the critical year ahead . . . a contribution to the America our men are fighting for.

President

STATEMENT

December 31, 1944

ADMITTED ASSETS

Cash in Office, Banks and Trust Companies		$ 21,220,339.31
United States Government Bonds		34,764,718.31
All Other Bonds and Stocks		76,426,404.54
First Mortgage Loans		368,005.60
Real Estate		3,772,527.58
Agents' Balances, less than 90 days due		8,637,873.31
Reinsurance Recoverable on Paid Losses		1,697,960.88
Other Admitted Assets		157,610.37
Total Admitted Assets		$147,045,439.90

LIABILITIES

Reserve for Unearned Premiums		$ 56,900,611.00
Reserve for Losses		17,391,935.00
Reserve for Taxes		2,870,000.00
Reserve for Miscellaneous Accounts		913,950.86
Funds Held Under Reinsurance Treaties		58,461.60
Total Liabilities Except Capital		$ 78,134,958.46
Capital	15,000,000.00	
Surplus	53,910,481.44	
Surplus as Regards Policyholders		68,910,481.44
Total		$147,045,439.90

Note: Bonds carried at $3,645,555.62 amortized value and cash $50,000.00 in the above statement are deposited as required by law. All securities have been valued in accordance with the requirements of the National Association of Insurance Commissioners. On the basis of actual December 31st market values, total Admitted Assets would be increased to $148,631,517.64 and Surplus to Policyholders would be increased to $70,496,559.18. Surplus adjusted to reflect Canadian Assets and Liabilities on United States Dollar basis.

Directors

Lewis L. Clarke	George McAneny
Charles G. Meyer	Guy Cary
William L. DeBost	Harold V. Smith
Wilfred Kurth	Harvey D. Gibson
Edwin A. Bayles	Frederick B. Adams
Gordon S. Rentschler	Robert W. Dowling
Robert Goelet	George Gund
Harold H. Helm	

☆ THE HOME ☆

Insurance Company

NEW YORK

FIRE • AUTOMOBILE • MARINE

THE HOME, THROUGH ITS AGENTS AND BROKERS, IS AMERICA'S LEADING INSURANCE PROTECTOR OF AMERICAN HOMES AND THE HOMES OF AMERICAN INDUSTRY

Future of Small Business Taxation

(Continued from first page)

I believe you will be more interested in the things that are done than in the words of ineffectual sympathy that are uttered in behalf of small business. As business men, you will be interested in concrete proposals rather than the cloud of pious generalities that so far envelops the subject.

The first step in getting down to the solid granite of fact is to find out, if we can, what we are talking about. Just what is small business? Is a business small or large according to the amount of capital invested in it, or according to the amount of money it earns, or according to the number of people it hires? Upon examination, all of these criteria prove fugitive. A million dollars may be a big investment in a hairpin manufacturing establishment, but chickenfeed for an automobile plant. The corner grocery may have two employees and the machine-tool factory 200.

Do we measure each separate corporate entity without regard to affiliation or ownership? Is a small subsidiary of United States Steel small business? Is a $100,000 corporation owned by John D. Rockefeller small business? Or do we look beyond corporate entity and rule out small corporations which really enjoy the advantages of big business position? The answer depends upon where you sit, and is not clear wherever you sit.

We do know, however, that small business is the backbone of the nation. We do know that its health and vigor are the real measure of our national prosperity. We do know that it is essential to the nation's future—not because it is small and necessarily therefore lovable—but because it has an indispensable role to play in our system of free enterprise. One recent estimate indicates that small concerns constitute a good third of our commerce and industry. There were 3,000,000 separate businesses in this country in 1944. About one-third of them, or 1,000,000, were operated by the owner alone. Two-thirds employed fewer than 100 workers. Less than 2%, or only 35,000, employed more than 100 workers, and only 3,300 firms employed more than 1,000. Without doubt small business is the seedbed of future economic growth.

Conflicting Statements on Small Business

The Senate Small Business Committee recently issued a report pointing out some of the problems which small business will face after the war. According to the committee, war-time mortality has been high, including the infant death rate. Under the pressures of the last four years one-sixth of all businesses have closed their doors. Thousands of little people have held on only by a thread. The committee maintains that the weight of the war-time tax structure has fallen relatively more heavily on new and small businesses than on long-established, large firms; so it has been harder for the small business man to lay aside the funds for reconversion which will give him a fighting chance for survival after the war. It emphasizes the problem of financing that faces small businesses. It says the basic need may be some form of full reconversion loan financing to reach not only small manufacturers, but small distributors as well, particularly those hard-hit by the war who are otherwise qualified to come back. It urges that private banking meet this need. About 10 days ago the New York "Herald Tribune" reported that the American Bankers Association is setting up pools which will provide at least $750,000,000 to aid small businesses requiring credit in the post-war period. The British, who sometimes move faster than we, have already come to grips with this problem. Last month the New York "Times" reported the organization of two private concerns to aid British industry. One of them was to finance large, and the other small, industry.

Despite these melancholy statistics, we need not rush to the conclusion that all of small business is in desperate straits. Evidence to the contrary is assembled in an article in the January, 1945, Federal Reserve "Bulletin" by F. C. Dirks, Director of Research and Statistics of the Federal Reserve Board. Mr. Dirks analyzes the financial statements of nearly 2,000 concerns for the years 1940 through 1943. Very small business may not be adequately represented, but the sample is broad enough to be significant, from the very largest companies down to those with assets of about $250,000. The general picture which emerges indicates that "in most manufacturing and trade lines the earnings experience of small- and medium-size businesses has been better during the war than that of the larger corporations. . . . The effect of Federal income and excess profits taxes, both before and during the war, has been less severe on the earnings of the smaller concerns than on the larger ones." Mr. Dirks presents a number of detailed tables in support of these broad tentative conclusions.

Tax Relief Proposals

Although some suggestions have been made to mitigate the plight of small business, it would be an exaggeration to call any of them specific. In the 1944 campaign President Roosevelt suggested accelerated depreciation on new plants and facilities to replace worn-out equipment. He said this would mean "more jobs for the worker, increased profits for the business man, and lower cost to the consumer." James F. Byrnes repeated this suggestion in his report on war mobilization last December and coupled with it a proposal that the specific corporate exemption of $10,000 be raised to $25,000. Raising the corporate exemption has also been urged by the National Small Business Men's Association. Other proposals include reduced tax rates, graduated corporate taxes, tax exemption during the early years for new businesses, deductions for plant expansion by new enterprises, tax aid to companies financing small business, and tax credits for increased employment and for equity investment in small business.

All of these proposals are easier than said than done. Most of them involve difficult differentiations and serious administrative problems. It is possible that the excess-profits tax may be modified or eliminated, but the reduction of other tax rates is beyond too far a horizon for anyone to see clearly.

The practice of taxing the Aluminum Company of America and the corner drug store in the same way would seem to require more explanation than has ever yet been offered. They are totally different tax subjects and would seem to deserve different treatment. In the days of the great controversy over the undistributed profits tax, Dr. Gerhard Colm, now of the Bureau of the Budget, suggested that a differentiation might be made between corporations on the basis of accessibility to national capital markets—either the stock market, insurance company financing, or other large-scale financing. A small proportion of the 500,000 American corporations enjoy these advantages. They might be subjected to the regular corporate tax. Other corporations could be given the option of reporting their profits on a partnership basis. They would exercise this option and avoid all corporate tax if most of their stock were owned by low and middle-bracket stockholders, but they would always have the right to pay regular corporate taxes and avoid the individual stockholder tax upon undistributed earnings to the extent that the accumulation of surplus was reasonable and necessary in the business. Thus in effect a distinction would be made on the two-fold basis of size and ownership, and one possible disadvantage of the undistributed profits tax—the handicap it imposes upon the accumulation of inside capital by small corporations—would be surmounted.

The small business man is prepared to meet the challenge of stiff competition, but not unfair competition. Some people propose that taxes should be used to protect little business against monopolies. But special treatment of corporations not engaged in monopolistic practices, as proposed in a bill introduced in the Senate a little more than a year ago, is a dubious panacea for small business ills. Federal policy is opposed to monopoly and such a differentiation might be basically in accord with that policy. But monopoly is an elusive concept. Size does not prove its existence, nor do interlocking directorships. It is almost impossible to devise any test that would be readily useful for tax purposes.

Moreover, a differential in favor of independent firms would have significant limitations. If it were based upon income, it would have little influence where business is carried on at a loss. This would make the differential a very blunt instrument in a large number of cases; in each of 11 years, 1930 through 1940, more than half of the corporations in the country reported deficits. The situation has improved since 1940, but many corporations are operating at a loss even today.

Nor would preferential tax treatment for independent firms afford any additional stimulus to competition in industries in which competitive conditions now prevail. A monopoly is not very likely to occur, for example in the women's and children's garment industry, which in 1935 was composed of more than 6,000 establishments, the eight largest of which accounted for only about 2.5% of the volume of total output. Incentive taxation in favor of independents would be a form of bounty in this industry which could have little or no influence over the business practices of business units within the industry.

I want to make it clear that in no sense do I hold a brief for monopolistic practices which sound the death knell of small business. I am only questioning the use of taxes to curb monopoly. One of the reasons which the Committee for Economic Development advances for repealing the excess-profits tax soon after the war is that the tax is too crude an instrument to recapture monopoly profits.

Sponsors Change in "Carry-Backs"

I have in the past sponsored two tax proposals which I believe would be particularly helpful to small business. One of them, which originated in the Treasury, was designed to speed up the operation of the carry-back provisions of the excess-profits tax in order to provide the necessary liquid funds to make reconversion and other similar post-war expenditures. There is no question that many of the little fellows in business will be in a poor cash position when their war contracts are cancelled. They will have piled up heavy tax liabilities and a large part of their working capital will be tied up in inventory and machinery. In many cases reconversion expenses will be heavy. A delay of one or two or three years in the payment of the carry-back refunds would mean that some small firms would have to shut up shop.

To rectify this weakness of the carry-back adjustment, we suggested to the Congressional tax committees in 1943 that business firms be permitted to file a tentative claim when they estimated that a loss would be incurred, or that income would fall below the excess-profits credit. On the basis of an estimate of income or loss for the year, the tax refund could then be quickly computed. We suggested that this estimated refund could be applied as an offset to tax installments owing for the rest of the year.

On the following March a regular tax return would present the actual income or deficit of the taxpayer with a precise computation of the actual tax refund. If the corporation had under-estimated its income and, therefore, postponed too much tax, it would be required to pay the deficiency. If it had erred on the conservative side and postponed too little tax, an additional refund within the shortest reasonable period, say, 60 or 90 days, would be made.

This adjustment would immediately free the cash or securities held to meet quarterly tax payments, and would substantially alleviate working-capital shortages in the reconversion period. It would grant no business anything to which it was not already entitled by law. It would merely provide a mechanism for expediting payments or refunds.

This suggestion was given scant attention at the time we made it and was allowed to die on the vine. Recently, however, it has been revived by business groups who have been advancing similar proposals. The National Small Business Men's Association, for example, is advocating that business be permitted to postpone for a year payment of all or part of its excess-profits tax. Such deferments could be made by any business in the excess-profits tax brackets in one year which anticipated that it would earn a credit in the succeeding year. The company taking advantage of the right to defer its payment would, at the end of the year of deferment, pay a penalty of 6% on the portion of the tax that remained due after it had taken advantage of any earned credit. Under this plan a business could defer its excess-profits tax payment on its own choice without asking permission of the government.

More Liberal Loss Provisions

Since leaving the Treasury last March, I have also called attention to the necessity for more liberal loss provisions. The extent to which investors may use the limited loss provisions of existing law 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 corporations; large corporations are more likely to have other available income against which to offset loss. The same thing is true of large-scale financial investors. The loss carry-back provisions give a greater certainty of loss offset to old corporations with past net income than to new corporations with no past net income. Inequities of this type bear down particularly on small business which has more fluctuating profits and is more apt to show losses than big business; furthermore, these inequities may increase economic concentration and tend to drive venture capital into the foxholes. An improved method of loss offset would be particularly helpful to small and new enterprises. Here improvement lies in the direction of averaging income over the years and in the extension of the carry-forward period for losses.

In the final analysis the small business man must select the road that leads him to the right destination. He will accomplish little by direct pressures which result in special favors or subsidies in his own behalf. He needs more than crumbs from the table. He wants to sit down to a good post-war meal. His prime interest—his enlightened self-interest—lies in a sound tax system for the nation as a whole rather than special tax concessions for himself. He does not exist in a vacuum. His business will flourish best in a favorable social and economic climate. It will flourish best under conditions which permit all business, big and small, to prosper as the people prosper.

What a Sound Tax System Can Do

A sound tax system will materially help toward full employment and a high national income. The small business man needs the vision to see that maintaining high levels of production and employment in the United States will contribute to peace and prosperity throughout the world. He needs to see that world markets are the key to our economic future. He needs to see that depression here will foster depression abroad, and that prosperity here will foster prosperity abroad. These are hard facts, worthy of some hard thinking. They are of particular concern to the small business man because he is especially vulnerable to depressions. Slack employment means reduced purchasing power, and reduced purchasing power means a depression in which the small business man suffers most. He lacks the financial reserve to ride the storm. He loses customers first when purchasing power drops. The gigantic aggregate of machines and plant and capital that add up to big business is not in this precarious position. It may wait out a depression. True, its profits and its dividends may drop. But the odds are that it will be able to stay in the black without a trace of red, while the small business man finds himself in the red without a trace of black. Even if a big business loses money, its reserves reconcile it to temporary inactivity. It can keep the wolf at bay. For recovery will come; many of its small competitors will have perished by the wayside; and it will be ready to forge ahead.

I did not come here tonight to deliver a solemn lecture, but I should like to make a proposal. I should like to suggest that the small and middle-size business man adopt a new philosophy. Of course his own taxes are important. In many cases they will determine whether he will sink or swim. But often tax rates go merely to the question of how much profit a man has after taxes. The more basic question is whether he will have any profits at all. I propose that the small business man shift his sights from his own taxes to the other fellow's taxes, to the whole tax system, to a fresh analysis of what taxes will best promote a post-war economic climate in which he can prosper and grow. For that is the climate we need to foster the all-pervading and restless activity, the superabundant force and energy which are the components of the America we want when peace comes.

McDaniel Lewis Adds R. B. Dixon to Staff

GREENSBORO, N. C.—McDaniel Lewis & Co., Jefferson Building, announce that Robert B. Dixon has now become associated with the company as field representative in the Piedmont section of the state.

Mr. Dixon came to Greensboro in 1938 as manager of the Hooper-Holmes Bureau, Inc., for the state of North Carolina after having been manager in Charlotte, N. C., and Columbia, S. C. He is a native of Decatur, Ga., and was educated at Emory University in Atlanta and Atlanta Law School. He is now secretary of the Greensboro Civitan Club and his special territory in the new connection will be Greensboro and surrounding towns.

Bank and Insurance Stocks

This Week — Insurance Stocks

By E. A. VAN DEUSEN

Fire losses in the United States were high in 1944, the highest since 1932, and 11.4% higher than in 1943. As reported by the National Board of Fire Underwriters the record over the past 20 years is as follows:

Year	(000 omitted)	Year	(000 omitted)
1925	$373,501	1935 Lowest	$259,160
1926	393,021	1936	293,357
1927	320,596	1937	284,720
1928	301,268	1938	302,050
1929	422,215	1939	313,499
1930 Highest	463,613	1940	306,470
1931	452,017	1941	322,357
1932	442,143	1942	314,849
1933	316,897	1943	380,235
1934	275,652	1944	423,538

Highest losses reported were $463,613,000 in 1930, and the lowest were $259,160,000 in 1935. Average annual losses over the 20 years approximate $348,058,000. It is of interest that the average annual losses of the second ten-year period were $320,002,000 compared with $376,092,000 for the first ten-year period, or approximately 15% lower.

The high losses of the 1930 depression years were presumably affected to a somewhat substantial degree by the so-called "moral hazard" which sometimes accompanies periods of low business activity, whereas the high losses of 1943 and 1944 are attributable to high volume production under the strain of war conditions. In 1930 the Federal Reserve Board Index of Industrial Production was 91 vs. fire losses of $463,000,000, while in 1944 it was 240 vs. fire losses of $423,000,000.

It is also of interest to compare the annual rate of fire losses with the net premium volume. In Best's "Insurance Reports" the total net premiums written by all stock fire insurance companies amounted to $909,550,000 in the year 1930 against $463,000,000 fire losses, and in 1943 (latest figures available), $1,043,835,000 against $380,000,000 fire losses. Meanwhile, the average rate of premiums dropped from $0.81 to around $0.60. It therefore is evident that, in relation to the value of risks written, the high fire losses of these war years are far less alarming than were the high losses of the depression years.

In this connection it is pertinent to present the trend in the "burning ratio" since 1925, as published in Best's 1944 "Aggregates & Averages." The "burning ratio" is defined as the "Per cent of Losses Paid to Risks Written," and has been as follows:

Year		Year	
1925	.53%	1935	.24%
1926	.49	1936	.27
1927	.44	1937	.25
1928	.43	1938	.27
1929	.41	1939	.28
1930	.49	1940	.28
1931	.48	1941	.26
1932	.48	1942	.23
1933	.34	1943	Not available
1934	.31	1944	Not available

It will be noted that the ratio jumped from .41% in 1929 to .49% in 1930 and .48% in 1931 and 1932, reflecting, perhaps, the impact of the "moral hazard." It thereafter declined to .24% in 1935, the year of lowest fire losses. In 1942, the last year for which these data are available, the ratio was at its low point of .23%, even though total fire losses had already begun to move up into the war-time highs.

Presumably high fire losses will persist so long as high war production is maintained, though it seems probable that, after the collapse of Germany and a partial let-up is experienced in the pressure for production of war materiel, fire losses may start to decline. Fortunately the fire insurance companies, so called, are not today as dependent upon one line, viz., fire, as they were a number of years ago. They have broadened and diversified their field in a most wholesome manner. Quoting again from Best's "Aggregates & Averages," the allocation of net premiums to the various lines of risk by all stock fire insurance companies has changed since 1920 as follows:

Year	Fire	Motor Vehicle	Ocean Marine	Inland Marine	Tornado & Hail	Extended Coverage	All Other
1920	77.0%	10.0%	5.5%	2.5%	4.0%	0.0%	1.0%
1941	48.4	26.2	10.8	5.8	3.1	3.4	2.3
1943	55.9	12.7	11.6	7.8	3.8	6.4	1.8

It seems certain that, after the war, the motor vehicle field will again resume its prominent position, as in 1941, and that the fire business will relatively decrease to a point below 50% of all premiums written.

The stocks of carefully chosen old-line fire insurance companies still constitute as fine a type of conservative long-term investment as can be found in the United States. The market appears to be shaking off its qualms and once more seems to be paying attention to the sound values offered, as the following data on market performance serve to indicate:

	Dow Jones Ind. Average		Standard & Poors Index Fire Ins. Stocks	
12-31-1943	135.89		114.7	
12-31-1944	152.32		116.3	
Appreciation		12.1%		1.4%
12-31-1944	152.32		116.3	
2-21-1945	159.66		125.7	
Appreciation		4.8%		8.1%

It will be observed that fire insurance stocks appreciated only 1.4% during 1944, compared with 12.1% for the Dow Jones Industrials Average; but that thus far in 1945 the reverse is true, for fire stocks have moved up 8.1% compared with only 4.8% for the Dow Jones Industrials.

Economic Disarmament

(Continued from page 931)

Japan to the impoverishment and serfdom of the forgotten centuries. No country is now more than sixty hours from **here** by plane. The remotest country is "my neighbor." The Good Neighbor policy is the **sine qua non** of international amity and prosperity, no less than of community living. The Golden Rule is at once good religion and good economics.

Peace implies pacification, time and opportunity for economic and spiritual convalescence, time for reflection, repentence and reform. But, after peace? Another brood of war makers? Probably, if the peace is an "easy one, if those who make war for military power, for aggression and conquest, are not convinced that war-making **does not pay.**

A severe but just peace must include among other things:

1. Punishment for all war provokers and war criminals, but not vengeance and vassalage upon whole peoples.

2. Close and unremitting check by international experts upon heavy industry, strategic materials and devices to insure against preparation for future aggression.

3. Re-education, or re-indoctrination of the militaristic aggressor countries for a generation to eradicate the "master race" and "thought control" nonsense, to emphasize the futility and horrors of war and the benefits of peace and the "good neighbor" policy.

Disarm not only the power to make war, but also the willingness to be led into war.

4. Demonstration by the peace-loving peoples of the world that arbitration and cooperation is the best way, that peace is profitable while war brings only destruction and ruin.

5. Creation of an international "police" force, with chief dependence upon an international air patrol, patterned, perhaps, after our state and local patrols, or our Western forest fire patrols, vigilant and alert to report infractions of peace agreements or the earliest evidences of rearming.

6. Recoding of international law, based not upon the rubrics of war but upon the basic principles of peace, and (a step beyond the Dumbarton Oaks agreements) a World Court to adjudicate international disputes as to **facts** as well as law.

7. Removal of barriers to good will and good business through multilateral agreements affecting tariffs, trade restrictions, cartels, immigration, racial, language and religious differences, air fields and communications, and other obstructions to world accord and prosperity.

8. Continuous international conferences, such as those at Bretton Woods (finance), Dumbarton Oaks (political security), Rye (foreign trade), Chicago (aeronautics), etc.

America will emerge from this war, no matter when it ends, the most powerful, the most influential nation in the world. As such it must take the lead in establishing and perpetuating peace—a grave responsibility challenging our wisest statesmanship, and calling for constructive action now before Europe is made over under "spheres" or "orbits" of political and economic influence and authority.

To be worthy of, and competent to assume, that leadership we must do some disarming here at home.

We must forget the political animosities, ill will, and personal grudges engendered by the recent campaign, accepting the will of the majority as expressed at the polls, and so demonstrate to ourselves and to the world that our democratic system has the strength and resiliency to carry on our normal political and economic functions while 11 millions of our men are under arms and fighting freedom's battles all over the globe—an achievement no other country, not even democratic Britain, dared attempt. And we must stop the running to Washington for favors and special privileges, and so regain some of the Jeffersonian simplicity and home rule responsibility in government.

We must disarm economic antagonisms between East and West, North and South; between country and city; between big business and small business; between "special interests" and the common good; between management and labor and between government and business. Especially, must we uproot the "cells" of red and pink ism-ites who by underground burrowing would weaken the foundations of our democracy and faith in our future.

We must disarm the last remnants of guerilla isolationism, pink and red groups, rabble rousers and agitators who are not satisfied with "all this and heaven too." Disarm the advocates of statism, state socialism, communism, collectivism, by demonstrating the superiority of free enterprise, open competition judicially regulated, individualism, fair dealing, and opportunity to get ahead. We cannot shut our eyes to the existence among us of small but persistent groups of men and women temporarily or permanently within our borders who insist that much more of our industry, especially the major key industries, must be taken over by the Government if for no better reason than that after peace comes the political, social, and economic chaos in Europe will necessitate there a great extension of state socialism, communism, or collectivism, and that to meet their competition we, perforce, will be compelled to adopt like controls and practices. To these preachments it need only be said here that while these systems may be desirable, even unavoidable, in some of the war-shattered, impoverished countries abroad, they are utterly alien to our time-tested democratic experience, our ways of thinking and living, and that here in this land of free enterprise and wide opportunity, we will have none of them.

Likewise, to those dismal souls at home and abroad who declare that our American economy has become "static," that from now on we can at best conserve what we have accumulated, and that like older civilizations we shall gradually drift into statism, we must demonstrate to ourselves and all the world that we have lost nothing of our virile pioneering spirit, our responsiveness to change without surrendering or weakening the basic principles of our economic democracy, that we are as productively powerful in peace as we have shown ourselves mighty in war, and that when peace and freedom returns throughout the earth this country will go steadily forward to ever-higher levels of production, of well-being, of pioneering in economic, social and moral achievement.

But while we in this country look forward to and plan for the gradual but purposeful unloosening of war-compelled control and direction of our economy and to the resumption of free enterprise and open competition as soon and as completely as feasible after V-Day, we must realistically face the probability of keen competition in both home and foreign markets from highly cartelized systems abroad. In many foreign countries, conspicuously in Germany since the depression of 1873, cartels have been encouraged, even made compulsory, both in domestic and foreign trade, and their influence has penetrated commerce throughout the trading world. Says a report to the Dumbarton conference:

"Thus a defeated Germany emerged from the war with her imperialist-minded industrial hierarchy intact. While the people of Germany bore the burden of unemployment and depression Germany's industrial management secured loans from abroad which enabled them to consolidate into gigantic domestic and international monopolies . . . The number of cartelized industries increased. Existing cartels extended their areas of international control and at the same time they intensified and strengthened their grip on the German economy . . . Thus in the period following the war German industries were reorganized into closely-knit, highly-integrated combines whose productive and technological capacity constituted a menace to large producers in other countries . . . They launched a second conspiracy for world dominion. Using commercial relations, in particular the cartel system, as a weapon they rearmed their own country and disarmed their prospective victims."

We in this country have been

and are opposed to cartels as "combinations in restraint of trade" and so antagonistic to our economic philosophy of open and unrestricted competition. As one speaker put it in addressing a recent meeting of the American Academy of Political and Social Science, "anti-trust laws are so tenaciously rooted in the American way of life that they appear to be practically unrepealable and almost unamendable," but he thought it possible that "Great Britain and other foreign countries might convince us . . . that in our larger political and economic interest in the international and foreign field we can approve . . . some modification of our anti-trust law policy of free and unrestricted competition without serious sacrifice to our economy." In another address before the Academy, Dr. Virgil Jordon, president of the National Industrial Conference Board of New York, said bluntly "cartel arrangements are the order of the day . . . and they are going to be the main form of organization of international commerce after the war."

How far apart we and other nationals are in this matter of cartels was reflected in the recent International Business Conference held at Rye, N. Y. The report of the Kilgore Senate Committee recommending the outlawing of international cartels was stoutly opposed by the Netherlands delegates who contended that "cartels are necessary for the expansion of business," while yet another delegation denounced "such agreements among private interests of several countries for the purpose of regulating industry and trade."

As a matter of fact hasn't this country leaned toward recognition of the cartel system in the recent sugar agreements with South American countries, and the wheat and cotton proposals for international pooling and distribution of surplus supplies of these and other countries—proposals and agreements made by the Government itself? And where is the line to be drawn between cartelization and competition for foreign business, between private and international cartels? If the root cause of modern wars is economic, and Germany "disarmed her victims" by far-reaching cartelization, as pointed out in the above quotation from the report of the Senate Military Affairs sub-committee at the Dumbarton Conference, is its suggestion that our "present patent laws could be revised so as to require that any discovery originated abroad be lincensed to any American producer who wishes to use it on a non-exclusive basis for payment of a reasonable royalty" —such payments to be registered with a designated federal agency —would such requirements, however desirable in any event, do more than nibble at the funamental issues involved in the cartel system?

Does the three-point plan of the National Foreign Trade Council to give our foreign business a separate status to participate in trade accords of similar cartel-like agreements which would "still respect the fundamental principles of free competition in our domestic trade" offer a defendable or workable solution of this problem? The Council's plan proposes—

"recognition by Congress that foreign laws and conditions under which business is done must be considered in determining the reasonableness of restraints of trade as between domestic competitors. It must also be recognized that the nation's foreign economic policy is entitled to primary consideration in determining the reasonableness or unreasonableness of any restraint of trade which might result from such agreements."

Is this to be understood as an application to international trade agreements of our judicially-interpreted "rule of reason" applicable to our domestic trusts under the Clayton Act to soften the severities of our first vigorous anti-trust legislation of a half-century ago? And if so, who is to interpret or enforce the agreements—the over-loaded State Department, responsible for and committed to the Hull reciprocal trade agreements program, or the Department of Justice now prosecuting some domestic participants in international cartel agreements? The Council's memorandum continues "it is a safe conclusion that collaboration of government and the right of business to make international business agreements subject to revocable clearance will be needed."

What then is to be our answer to the nationalization and cartelization of industry and commerce in other countries? Against these rising monopolistic forces how can our system of individualism, free enterprise, and open competition survive and grow "mightier yet"? The answer is neither academic nor categorical. It is not enough to enunciate a set of principles, however idealistic or basic for ourselves and the world at large. Such principles must be related to the differences, needs, and complexities of living and trading conditions among scores of nations in varying stages of economic desolation or development. It is not enough for this country to announce that we are now the most powerful commercial nation in the world and that we proposed to adopt and pursue a policy of free trade, or protection, or reciprocal trade agreements, and say to the rest of the world "take it or leave it." We tried that brand of economic isolationism back in 1933, when, toward the close of the London Economic Conference, at which delegates from some sixty countries had substantially agreed upon a program to revitalize the depression-stalled economy of the whole world, the President of the United States annulled the good will and the prospective accord and cooperation of the rest of the world by withdrawing our delegates from the conference and announcing in effect that this country preferred to "go it alone," that we contemplated a recovery program of our own which must take precedence over international questions and policies. While the consequences of our withdrawal from the London Conference and the failure or success of the many-sided New Deal program to restore prosperity may be open to debate for political or academic purposes, the fact is that this isolationist policy brought disappointment at home and deep-seated resentment and distrust abroad.

This distrust has been dimmed somewhat by the magnificent contribution of the United States to the cause of freedom and democracy. Yet it has been present in several of the recent international conferences looking to postwar reconstruction. Can powerful, resourceful, prosperous America be depended upon to cooperate fully in the rebuilding of an insolvent, if not bankrupt, world struggling to regain economic stability? Will rich America emerging from the war as the leading creditor nation be willing to play the role of creditor, to her own advantage no less than that of necessitous borrowers? Will she, for example, be willing to continue lend-lease for some time after the war, and if so, to whom and for what purposes? Will she be willing to reduce her tariff barriers by extension of the Hull reciprocal trade agreements, and so permit less-favored countries to find here much-expanded and freer markets for the goods, services, and credit they so urgently need from us? Is she willing to expand the facilities of the Export-Import Bank so that it can begin promptly to finance foreign trade, pending the setting up of a World Bank? Will the all-powerful America, conscious of her economic prestige, attempt to dictate the terms of economic peace, and so increase rather than allay the uncertainty and distrust which in the absence of a clear-cut economic foreign policy lingers in the minds of many observers both at home and abroad? Even amid the thunder of the guns, these and many like questions press imperatively for answer—and, again, it may be later than we think. While we wait and the day of Victory is postponed, Europe is being partitioned into spheres of influence threatening economic and international unity and enduring peace. Through their Congress and President the American people must speak now.

Definite and promising progress has been made toward international accord at the recent conferences. Perhaps the most significant thing about them is that they have been held in the midst of a world-belting war, that representatives of most of the peace-loving countries could have agreed upon a set of principles for postwar rehabilitation and accord, and that these principles have in considerable measure been implemented in concrete plans, specifications and blue prints. To be sure these conferences could only make recommendations, but the willingness of the conferees to reach agreements, to give and take, to forego some desirable but not essential prepossessions and advantages in order to reach an agreement on fundamentals, holds encouraging promise of adoption by their respective governments and of amity and continuous cooperation for the future.

Disagreements there were, of course, and some keen disappointments (especially the non-participation of Soviet Russia), just as there were disagreements and disappointments among our "Founding Fathers" when at the Constitutional Convention in Philadelphia, after numerous compromises and the yielding of each State of something of its cherished "sovereignty," they agreed upon a Federal Constitution, which was to give the country "a more perfect union"—a Union which has survived civil strife, striking differences and changes in political, social, and economic thinking, involvement in two world wars, to become the most influential, the most prosperous, the most envied, respected and feared nation in the world.

Is it too optimistic to hope and expect that out of these preliminary conferences and the international economic agenda they project, supported by flexible machinery for consummating and preserving peace, there will come "a more perfect union," through economic accord and cooperation among all the nations of the world? United We Stand, Divided We Fall—True yesterday, true today and tomorrow.

Diversify Your Investments

(Continued from first page)

may be immune from stock market sinking spells.

Merchandise Stocks: Visit the variety chain stores in your city. Pick out the two or three which you like the best. Ask your local banker which of these have their stock listed on the New York Stock Exchange. Buy the one which yields you the most annual income.

Fire Insurance Stocks: Look at your insurance policies and buy the stock of the company which has been doing business the longest number of years. I also like good casualty stocks. Both types combine ownership of a business and participation in a large list of good investments.

Bank Stocks: Buy either the stock of the local bank with which you deal or else buy the stock of the New York City bank which your local bank uses as a correspondent. Besides earning money on services rendered, most banks now earn on large Government bond holdings.

Building Stock: These should be good although they already are selling rather high due to the big building boom expected after the war. Choose one manufacturing building materials and one making house furnishings. I also like the cement stocks and certain of the steels.

Chemical Stocks: These also are selling pretty high now; but we are going into a chemical age and many miracles are ahead of us. For instance, **Dow Chemical** is making products from sea-water! Remember that while our agricultural soils are getting poorer every year, the ocean is constantly getting richer in chemicals and minerals.

Transportation Stocks: Probably everyone should own a little stock of some well established automobile company. Certainly, these should be safer to hold than most railroad stocks. I think nearly all railroads will suffer in the postwar period. Airplane transportation stocks are now fairly high.

Mining Stocks: This may not be the time to buy any mining stocks; but if so, one should buy the stock of a company which is also well established in the fabricating end.

Food Stocks: This group includes the baking companies, canning companies and other food processing companies. Personally, I would rather buy the stock of some good grocery chain than tie myself down to any one of the manufacturers. If, however, you want a strictly "food stock," I suppose one having both "necessity" and "luxury" foods would be my choice.

Please remember I give the above simply as illustrations—there are other good groups and ideas which I have not included. In this great country there are many good companies. **But whatever you buy—diversify!**

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was concluded Feb. 19 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $26,620,000 0.85% consolidated debentures dated March 1, 1945, due Dec. 1, 1945. The issue was placed at par. Of the proceeds, $17,950,000 was used to retire a like amount of debentures due March 1, 1945, and $8,670,000 was for new money purposes. As of March 1, 1945, the total amount of debentures outstanding was $281,460,000.

Mutual Funds

Income Selection

"Even in normal times," writes **National Securities & Research Corp.**, in a current memorandum on **National Income Funds**, "the importance of careful investment selection cannot be overemphasized. . . . But today the steady pressure of financial forces is placing an even more than normally important premium upon investment selection designed to maintain income."

A long-term chart showing stock and bond yields from 1900 to date emphasizes the difficulty of maintaining income in security investments. The indicated current income rate on the five National Income Series is given as follows:

National Securities Series—	Indicated Rate
Bond Series	4.9%
Low-priced Bond Series	5.3
Preferred Stock Series	6.5
Stock Series	6.0
Income Series	6.3

Quoting the Authorities

A unique and effective piece of sales literature is the large display folder published by **W. L. Morgan & Co.** in behalf of **Wellington Fund**. Entitled, "What Independent Investment Authorities Think of Wellington Fund," the folder presents opinions and performance comparisons published by four independent authorities—Barron's, Arthur Wiesenberger & Co., Fitch Investors Service and American Institute for Economic Research. The excellent record of Wellington Fund is recognized by each of these sources.

Gold Stocks

With public attention again being focused on gold mining shares, **Distributors Group** has issued a revised edition of its folder on **Mining Shares of Group Securities, Inc.** This folder contains a chart which shows that the Dow-Jones Industrial Average has recovered to approximately its pre-war level.

"But to reach their pre-war level, the gold stocks as a group would still have to advance nearly 40%!"

The folder then goes on to discuss in considerable detail "why gold stocks are good 'peace' investments."

New Homes

"Millions of people want new homes . . . the materials will be made by the building supply industry," writes **Hugh W. Long & Co.** in a new and graphically illustrated brochure on the **Building Supply Industry Series** of **New York Stocks.**

The folder contains a chart giving authoritative estimates of the number of new home units to be built after the war, compared with construction in past years. This chart indicates that people best informed in the building industry expect a home-building boom unsurpassed in American history.

"If the post-war decade is to witness an all-time high in construction of new dwelling units, then it should also witness new highs in sales of building supplies."

Business After Germany's Defeat

"In appraising the effect upon business of the ending of the war in Europe," writes **Keystone Corp.** in the current issue of **Keynotes**, "there are three factors to be considered." These factors are listed as:

1. We still have a major war to fight in the Pacific.
2. Deferred demand for civilian goods is increasing enormously.
3. People will have the money to buy these products when they are available.

"In the light of these facts, it is difficult to visualize anything but a high level of business activity not only for the duration of the Pacific War but also for several years thereafter."

Two New Open-End Companies

Investors Syndicate recently filed incorporation articles in Nevada providing for the formation of two new open-end investment companies.

The first, a common stock fund, is to be known as **Investors Stock Fund, Inc.**, and the other, whose portfolio will be made up primarily of investment grade preferred stocks and bonds, is called **Investors Selective Fund, Inc.**

Bonds and ACES

Lord, Abbett has released new folders on **Union Bond Fund A** and **Union Bond Fund B.** They are entitled, "An Investment in Good Grade Bonds" and "A Diversified Investment in Bonds," respectively. Both folders are excellent in their presentation of these two funds, making available at a glance the basic facts which should be of greatest interest to bond investors.

A new booklet, entitled "Leverage—An Extra Factor for Your Investment," is equally effective in presenting the main feaetures of **Affiliated Fund.** The current "leverage" in this fund gives each $1,000 invested in ACES common stock the investment potential of $1,600.

13 Times in 34 Months

Making the obvious but still frequently overlooked point that "a security dealer must be paid for his services just the same as a grocer, a farmer or a steel-mill worker." **Selected Investment Co.** reports in the current issue of **Selections** that the "load" represented in the offering price of **Selected American Shares** has been "made up" 13 times in the last 34 months.

"There are many who believe that the period of rising markets has scarcely started, that with due allowance for periodic corrections one may anticipate rising prices for a considerable distance ahead. If that proves to be the case, the question of cost of acquisition will be of minor consequence."

Post-War Outlook

Broad Street Sales Corp.'s current **Letter** discusses the "powerful money pressure" and asks "where is the inflationary money?" Individual savings, the bulletin points out, have increased $120 billion since 1940, or a total of $3,260 per family. In the same period individual holdings of Government bonds have increased $45 billion, or $1,223 per family, representing a net increase in the liquid savings of individuals of $4,483 per family.

In a companion folder, the record of **Broad Street Investing Corp.** is given. This record covers a 15-year period and among other things reveals that the asset value of Broad Street increased 15.4% between Jan. 1, 1930 and Dec. 31, 1944, while in the same period the Dow-Jones Industrial Average showed a net decline of 38.7%. In addition, Broad Street paid regular quarterly dividends throughout this entire 15-year period for a total of $14.84 distributed from income as against a liquidating value of $31.16 per share at the end of the period.

Rails and Steels

Distributors Group continues to point out the undervaluation in the heavy industry stocks, particularly the rails and the steels. Last week's mailings included a **Railroad News** with a chart from "Railway Age," showing that railroad stocks are still lower in market value than in 1933, when gross was 33% and net 43% less than at present.

The mailing on **Steel Shares** included two up-to-date folders on this group and a **Steel News**, "What About Steel After the War?" quoting Alexander D. Noyes in the New York "Times." Mr. Noyes asks the question: What will be done with this increased capacity when the war demand is over?—and finds the answer in the sequel to the other European War.

"The United Steel Corporation alone increased its productive capacity 41⅜% in that war; yet the company's 5% common stock dividend remained for 10 years at the pre-war rate, with an occasional 'extra divident' in the 'twenties."

Boston Fund

Net assets of **Boston Fund** increased more than $2,130,000 to $13,900,965 in the fiscal year ended Jan. 1, 1945.

Spree

Lord, Abbett, in the current issue of **Abstracts**, sounds a note of caution with respect to low-priced stocks which have advanced so spectacularly over the past two years. A way to buy securities selling for less than $10 per share and yet have your money invested in the best quality, higher-priced issues is to purchase mutual fund shares. The offering price of **American Business Shares**, for example, is around $4 per share, and yet the average price of portfolio issues is $35 for the common stocks and $86 for the preferreds and $90 for the bonds.

More About Trust Investments

The continuing, even accelerating, trend toward increasing the common stock portion of trust investments is discussed in the current memorandum on **Wellington Fund.** A table showing distribution of investments among college endowments of over $15,000,000 reveals that since 1929 the common stock portion of these funds has been increased on average from 9.9% of the total portfolio to over 31%.

Rubber Industry

Calvin Bullock, in the February issue of **Perspective**, presents a careful and detailed analysis of the rubber industry. The conclusion is highly optomistic with respect to the earnings and growth possibilities of the rubber companies after the war.

Mutual Fund Literature

Hugh W. Long & Co.—Revised Prospectus on **New York Stocks** dated Feb. 16, 1945; portfolio folder on all series of **New York Stocks** showing holdings as of Feb. 1, 1945. . . . **National Securities & Research Corp.**—Revised portfolio folders on **National Preferred Stock Series** and **National Income Series.** . . . **Selected Investments Co.**—A new bulletin on Investment Company shares for trust investment; current issue of "These Things Seemed Important." . . . **Hare's Ltd.**—Current issue of the memorandum "Current Considerations."

Dividend

Fundamental Investors, Inc.—Quarterly dividend No. 45 amounting to 22¢ a share, payable March 15, 1945, to holders of record March 1.

Stockholder Defined As Registered Owner

The State Supreme Court at Wilmington, Del., in a case involving a merger, has ruled that the registered owner, and not the beneficial owner of shares endorsed in blank, is the actual stockholder in a Delaware corporation, according to a special dispatch to the New York "Times" from that city. This decision reverses the decision of the Court of Chancery on an appeal by the Salt Dome Oil Corporation, the surviving company in a consolidation.

The dispatch further added:

The Salt Dome Oil Corporation had refused to appoint an appraiser for several thousand shares of stock on the ground that the complainants were not stockholders entitled to demand appraisement and payment. The complainants were beneficial owners of shares of both merging companies and had objected to the merger.

In his opinion Chief Justice Daniel J. Layton said that "the record owner may be but the nominal owner and, technically, a trustee for the holder of the certificate, but legally he is still a stockholder and may be treated as the owner by the corporation."

Corporation lawyers at Wilmington said that henceforth the term "stockholder" used in Delaware statutory law means the registered stockholder, unless otherwise specified, and that corporations do not have to recognize holders of certificates in "street name" as stockholders. They said the decision has far-reaching implications yet to be realized. One forecast was that the decision would be a deterrent to keeping stock in street names.

R. S. Richards Dead

Ralph S. Richards, senior partner of Kay, Richards & Co., Union Trust Building, Pittsburgh, Pa., and a former president of the Pittsburgh Stock Exchange, died of pneumonia after an illness of two weeks. Mr. Richards was sixty-three.

Bretton Woods Proposals Will Help Exports

(Continued from page 931)

abroad. That ratio can be maintained after the war only if currencies have reasonable stability and if exchange restrictions are removed.

Last Summer the best technical experts of 44 United Nations met at Bretton Woods, New Hampshire, to grapple with the problem of post-war money. They worked on the basis of a plan that had been evolved from preliminary discussions extending over two years. The result was agreement on a program which provides for a fund to stabilize currencies and an International Bank to help finance reconstruction and development.

The program is the first of a series of practical measures for putting the everyday business of the world back on its feet and headed for a sounder prosperity than it has ever known. It is a matter of peace and security for the world, as well as dollars and cents for every businessman and worker, every farmer and professional man in the United States. To the people of Detroit, it means a foreign market for as much as a million cars a year, and a goodly proportion of your machinery, metal products and chemicals.

It means that if the foreign branch of a Detroit plant makes money, the company can get its profits out in dollars instead of harmonicas.

Finally, it means that you can carry out your plans for your community, meet your responsibilities to those who look to you to lead them in transforming Detroit from the world's mightiest war production center into an even bigger producer for peace.

That adds up to a lot of meaning. Of course, the Bretton Woods program by itself will not bring you all these blessings. It was not meant to. It is the first step in a series that must be taken by governments and by industry and by labor to set the wheels of world trade moving fast and freely. No, Bretton Woods won't do the job alone. But without Bretton Woods, you will never get a chance to do the job at all.

The first proof of this is the relation of Bretton Woods to Detroit's future foreign trade. The Monetary Fund sets up standards which will prevent discrimination in foreign exchange practices and help member nations keep their currencies stable. Under such exchange policies, an American salesman can go to Belgium and sell a $1,000 car for 40,000 francs without worrying about cancellations because sudden depreciation has put the exchange value of that thousand dollars up to 60 or 80,000 francs and out of reach of most buyers.

Another advantage of the program is that it prevents blocked currencies and other discriminatory restrictions on where a man can buy and sell. Without it, the representative of a Detroit automobile company might line up a great many customers in, say, the Netherlands.

"But," they would tell him, "we can't get dollars under present exchange regulations. We can get francs and pounds but no dollars. We'd like American cars, but we'll have to take French or English."

This is no theoretical prediction. It has happened. In the decade before the war, exchange controls and bilateral agreements were aimed at this country and lost us our market. It was largely because of them that the sales of American cars and trucks went from 700,000 in 1929 to 85,000 in 1932, but came back only half-way five years later.

If you were an automobile manufacturer, this experience only proved how badly you needed a Bretton Woods program. The combination of engineering skill, well-paid workers and managerial organization enabled you to produce better cars cheaper than any other country. Therefore, in a world of monetary order and stability, you would have kept at least as much of the market as you had in 1929. But, although as many cars were made in the world in 1937 as in 1929, America's share went down from 85% to 76%.

The greater part of our loss was in those countries where rigid exchange controls discriminated against us. They not only failed to resume buying after recovery; they actually bought less than in the depression. All the other countries in the world bought more. Here are some examples:

Belgium bought $26,000,000 worth of American cars in 1929, dropped to $7,000,000 in 1932, and came back to $21,000,000 in 1937. Brazil's imports were $30,000,000 in 1929, $1,500,000 in 1932 and nearly $14,000,000 in 1937. Sales of American-made cars to England rose from the depression low of $3,000,000 to more than $12,000,000 in 1937. Germany, on the other hand, used exchange controls against us. Purchases of American cars amounted to $19,000,000 in 1929, dropped to $1,000,000 in 1932, and in 1937, instead of rising as the depression waned, dropped to $385,000.

What that meant to Detroit in jobs and profits is a matter of painful memory. The U. S. automobile industry at the peak of the boom employed 471,000 workers. There were only 257,000, many of them at part time, on the depleted payrolls of 1932, but 505,000 were working in 1937.

The 15 major producers showed a profit of more than a billion dollars in 1929. In 1932, they had a net deficit of $132,000,000, but five years later they were in the black to the tune of $768,000,000.

Can you now doubt that you needed a Bretton Woods in the twenties and thirties?

If you were the owner of a branch plant in Germany, you needed it even more. Because no matter how much money the branch made, Germany held it in blocked funds. Our proposed Monetary Fund prohibits blocking the profits of foreign investments.

The prosperity of the whole country depends just as much on foreign trade as does that of Detroit, although you Detroiters with your close ties to export and import businesses are probably more aware of the fact than most.

In peacetime, about 10% of our national production and about the same proportion of our jobs in industry and agriculture are created directly by foreign trade. A post-war economy of full production and full employment will require American exports of at least $10,000,000,000.

If the Congress of the United States passes the Bretton Woods legislation, world trade will be freed from restrictive exchange controls and depreciating exchange rates. In that event, the automobile industry can look forward to a steady export market of at least a million cars a year.

We can reach such a trade level only if both the producing and consuming powers of all countries are expanded, not merely restored to their old levels.

The International Bank for Reconstruction and Development provides a sound, conservative basis for extending foreign loans for productive purposes. The principal business of the bank will be to guarantee loans made by private investors when such a guarantee is needed to encourage worthwhile ventures. But the Bank will also protect the investor from lending too much and the borrower from borrowing too much.

It may seem strange that any one should object to this program. But some people do. Their whole argument boils down to the criticism that it might not work. These critics want the United States Government to go back to 43 other sovereign states and say that although all of our representatives agreed after mature deliberation that the plan is sound, a few interested people in this country think they know better.

They know quite well that it would be impossible to hold another conference because a minority of one country out of 44 thinks the plan might not work.

I wonder what sort of an audience I would be addressing in Detroit today if Ford and Winton and Olds had looked at the first gasoline buggies they built and turned back to bicycles, saying:

"It might not work."

They were not so faint-hearted nor so easily discouraged. They went back and made it work.

Let us have faith in America and Americans. I think we shall demonstrate again the capacity and the courage to solve the problems of a new day.

AIB Job Relations Institutes In March

Three institutes for instructors, who will teach the job relations program of the American Institute of Banking in their home chapters, have been planned definitely for the present month (March) and a fourth is tentatively scheduled, according to William C. Way, President of the A.I.B., who is also Trust Officer of the Central National Bank, Cleveland, Ohio. The American Institute of Banking is the educational section of the American Bankers Association. Robert C. Rutherford, assistant to the national secretary, will conduct the institutes for chapter instructors as follows:

Columbus, Ohio, February 26 to March 2, for chapters at Akron, Columbus, Dayton and Cincinnati, Ohio; Charleston, W. Va., and Fort Wayne, Ind.; Seattle, Wash., March 12 to 16, for chapters at Seattle and Tacoma, Wash., and Portland, Ore.; San Francisco, Cal., March 19 to 23, for chapters in that territory. Tentatively scheduled is another institute for Dallas, Texas, for April 2 to 6.

The institutes for job relations instructors will be limited to ten persons, in order that each of the chapter instructors may be given as much individual instruction and help as possible during the intensive 40-hour course. The job relations program of the American Institute of Banking is designed to stimulate qualities of leadership among bank people employed in supervisory positions, and to provide them with practical demonstrations of techniques they can use in successfully directing the activities of persons working in their own bank departments.

Canadian Securities

By BRUCE WILLIAMS

Current reports tend to bear out previous intimations that Premier Stuart Garson of Manitoba is steadily forging to the forefront in the Federal political field. It is rumored that the Manitoba Liberal leader has been asked to represent his province in the Government, in succession to the Department of Mines and Resources Minister Crerar, and that it might be the intention of Premier Mackenzie King, now in his seventies, to groom Mr. Garson as his eventual successor to the leadership of the Liberal party.

Such a choice would be in no way remarkable when consideration is given to alternative selections. The Manitoba Premier has demonstrated recently by his forthright enunciation of policy on Dominion matters that he is a natural leader with a profound insight into matters of true national importance. His public chiding of Premier Drew, following the latter's condemnation of the Family Allowances Act, was a masterly exposition of practical economics. His strong advocacy of the necessity of the implementation of the salient recommendations of the Sirois Report evidences his grasp of fundamental Dominion issues. His clear condemnation of "pressure blocs" at the forthcoming Dominion Provincial Conference mark him as a statesman of the highest order.

Last, but not least, is his capable direction of the affairs of his own province. In face of the formidable difficulties which confronted the prairie provinces during the depression era of the early thirties, Manitoba alone stood firm, and the Garson Administration by sound financial practice and shrewdly planned diversification of the provincial economy has raised the status of Manitoba to the level of the leading provinces.

A curious sidelight on this achievement is the fact that the accepted credit rating of Manitoba in this country still places this province in the same category as Saskatchewan, when the per capita debt is now, excepting Prince Edward Island with no external debt, the second lowest in the Dominion, and the tremendous growth in industrial activity has taken Manitoba out of the ranks of the "prairie provinces." The inherent strength of the credit standing of Manitoba, however, is generally recognized in informed bond circles, **and it is only a question of time before the obligations of this province will be generally rated as equal in status to those of the comparable provinces of New Brunswick and Nova Scotia.**

Turning to the market for the past week, the all-important development was the announcement of the new Quebec registered issue of 5-year 2s. As expected, this served to set the pattern of the whole market especially in the short and medium-term maturity range. National 51s for example, appreciated sharply to

(Continued on page 957)

Tomorrow's Markets Walter Whyte Says—

Rumors of increased speculative taxes bends market down just as it hits 160. Main trend still up but dip to 155-156 possible.

By WALTER WHYTE

If it isn't one thing it's another. For weeks the market has been fighting the old highs at approximately 160 in the Dow industrial. There were days when it looked like nothing short of dynamite could get it through the important obstacle. Having finally managed to hit it, market gave all indications of going straight through to the clouds. But, as I started to say, if it isn't one thing it's another. For, along came a new plan from on high.

* * *

This new plan involves bigger and better taxes. Not on corporations or individual incomes; on stock market profits.

* * *

The subject was brought up first by Marriner S. Eccles before a Senate committee. Henry S. Morgenthau, Jr., Treasury head, had the same idea and the fat was in the fire. Both gentlemen gave what they undoubtedly believe are excellent reasons for the additional bite. Both apparently agree that speculation is okay, but they say it encourages inflation. So ergo —let's tax speculation.

* * *

Whether or not the suggestions of Messrs. Eccles and Morgenthau will go further than the present talk is hard to say. Yet if what has come out of Washington in the recent past is any barometer then the chances are the talk will develop into more than rumor.

* * *

Now what will the market do in the face of a new tax on speculative profits? Well, the first effect you have already seen. The opinions alone were enough to make the market turn down. But

(Continued on page 957)

Guide Posts for Judging Stock Market Ahead

(Continued from page 930)

the spinning machine, the sewing machine and the cotton gin; the reaper; electricity; the telegraph and the telephone. Opportunities were abundant. Tremendous growth prospects were ahead. It should have been easy for the Astors, the Vanderbilts and the Rockefellers to build great fortunes.

In reality, during the tender part of this period in particular, strikes and labor demonstrations were often volcanic in character. There surged a torrent of revolutionary theories, largely brought from the Old World. Soap box orators tried to sell Utopian socialism. Radical beliefs kept the industrial sections of the country in constant unrest. Into this scene came a popular British thinker, Robert Owen, making Mr. Keynes a second. He had money and lectured and debated throughout the Nation, trying to convert youthful America to socialism. One of his debates that I have record of lasted 8 days. The newspapers gave him and similar thinkers the front page. On at least one occasion, Mr. Owen was invited to address a joint session of the Congress, attended by the President most of his Cabinet and the Justices of the Supreme Court. Communism was given a national hearing. Over 200 communistic and socialistic societies were organized.

I wager that those confused today would have been equally as confused during those days of golden opportunity. Looking back we see accomplishment and success. But when we place ourselves realistically into the past, we see a people working to overcome problems, proving soap box orators wrong, and exploiting the opportunities that were created. We should today look ahead with the courage of those who succeeded before, believing that the times may be no more uncertain, and that the relative opportunities may be as great.

Avoid Static Thinking

Static thinking must be eliminated if we want to reason profitably. This is a day when most civilian activities are frozen, stabilized, regulated and whatnot. This tends to breed static thinking toward the stock market. Probably the most unprofitable of the static concepts during recent years has been that the end of the European war will cause a decline in business, therefore, a decline in stock prices, and hence, the investor should be cautious. Actually, we have come to what appears the closing act of the European war with Government officials trying to talk down the stock market. I doubt if there has ever been a three-year period so filled with dynamic influences upon stock prices as we have seen since 1942.

Fear of War Eliminated

Early 1942 found the investor overwhelmed with fear. He feared the war. He feared that we might lose and that Germany, Italy and Japan might soon dominate the world. He feared some of the things the managers of our domestic economy might do under stress of the war emergency. Gradually the fear subsided. Fortunately the Congress exercised some restraint. The enemies were not strong enough to exploit fully their initial victories. It soon became apparent that we would not lose. Notwithstanding much fumbling and unnecessary disturbances to our economy, our armed might rapidly grew. By the Spring of 1943 the earlier fears had vanished and there developed confidence in the victorious outcome of the war. This was a complete cycle of investment thinking, as realistic a market influence as if business had varied from bad to good. It was reflected by a rise in the Dow Jones Industrial Average from below 100 to about 145.

Fear of Peace Eliminated

Battlefront successes caused a premature feeling during the summer of 1943 that victory in Europe might be close at hand. A new dominating fear quickly blighted the investor—fear of peace. Many, forgetting the intensity of concern during the early months of the war, feared that winning the peace might actually prove more difficult than winning the war. In those days of confusion and fear the Baruch-Hancock report was prepared. The spirit of this report inspired confidence in the ultimate ability to overcome future problems. Nevertheless these men had to conclude that "Our country's position today is such that if the war terminated suddenly most of the factories in this country would be shut and there would be unemployment of the worst kind." There was real substance to the fear. The Dow-Jones Industrial Average receded to about 130.

Again things began to change. This commendable report, dedicated to reestablishing a strong, vigorous "free enterprise" economy, was accepted as the Bible for Post-War Planning. Much of the defeatist philosophy of earlier Washington planners was discarded. Congress passed most of the necessary legislation, and agencies were reorganized or created to make preparations for the ultimate reconversion. As of Jan. 1, 1945, the Director of War Manpower and Reconversion submitted his first report. In this he stated: "I believe that all administrative actions which pave the way to orderly transitions from war to peace and which are feasible at this time have been taken. . . . . We are in a position to move quickly. We are ready to put into effect the policies, procedures and plans that have already been formulated. . . . During the period of a one-front war, the drop in war production will be offset, after a brief interval, by the reestablishment of peacetime manufacturing."

I am sure we can safely assume that industry has made proportionate progress. The recent stepping up of armament production has put reconversion efforts more into the background but this has affected actual reconversion more than pre-reconversion planning. The fear of peace is giving away to reserved confidence.

Confidence Increases Prices

This is another cycle of investment thinking, again as realistic a market influence as if business had varied from bad to good. I think it is proper to reason that as the replacement of the fear of war with confidence in victory, and concurrent developments, lift the base of support for the Dow-Jones Industrial Average from about 100 to 130, the replacement of the fear of peace with confidence in the future, and concurrent developments, lift the range of support to somewhere between 150-160. These two cycles of investment thinking are the primary causes of the three year advance in the stock market. Other influences have been of definitely secondary importance, and sound thinkers in New York, Philadelphia, and Washington should understand it.

Current Prices Supported by Earnings and Dividends

There are other grounds for accepting this support range. Earnings and dividends for industry generally are frozen under current circumstances. In terms of the Dow-Jones Industrial Average, earnings are running at about $10 per share and dividends at about $6.50 per share. But, while the level of earnings and dividends is static, it should be recognized that the influence of earnings and dividends upon the market is dynamic. If the market is abnormally low against the current level of earnings and dividends, the very maintenance of that level of earnings and dividends will exert an upside pull. This can be as real as if earnings and dividends were actually in an uptrend.

It is my opinion that the current level of earnings and dividends, the level likely to prevail during the one-war stage, and the minimum probable post-war level after a transitory readjustment, conservatively support the market up to recent prices. If downside influences come into dominance their effect upon prices will be moderated and within a reasonable time offset by the upward pull of earnings and dividends created when stock prices are below present levels.

Market Prospects Improved

The stock market was in a period of readjustment from July into September last year. The market was thoroughly tested during this period against a prospect of early victory in Europe. If you remember, victory was almost taken for granted and not only by the meagerly informed investor. The downward reaction was completed at moderately below 145 Dow-Jones. There is tangible evidence indicating that the level of support has risen since then.

On Sept. 11, Douglas Aircraft announced the signing of an order for the post-war delivery of planes with a value of about $50 million. It was also made known at that time that substantial additional orders were on the books and in the offing. On Oct. 3, and again on Oct. 28, other substantial orders were announced. This dramatically altered the attitude toward the airframe stocks. The fear that there would be overpowering difficulties when the large war contracts were cancelled and that the stocks were of doubtful value, notwithstanding their growing financial strength, was displaced by a prospect of peace business that would provide satisfactory earnings. It is obvious that the position of this industry has improved in the investor's eye and that these stocks will not react to the levels prevailing shortly before the flow of peacetime orders.

During the market readjustment culminated in September, steel stocks were under considerable pressure. It was known that wages would soon be increased. There was no evidence that these companies would be granted any price adjustments. Just before Christmas it was made known that the O.P.A. would soon announce an adjustment in prices. The adjustments granted were moderate and were made after a cost analysis that gave no recognition to the increased labor cost from the latest wage increases. This justified the expectation that there ultimately would be further price adjustments. As a result, the investor's attitude toward the steel stocks improved. It was a tangible development of consequence in the market and it suggests that steel stocks are unlikely to decline to the level they were in September.

The copper stocks were under pressure during the downward readjustment from July into September last year in a large part because of fears over the inventories that would be on hand at the war's end. Subsequently, the "Surplus Property Act" became law. The stocks had been driven down to conservative prices under unfavorable conditions and responded favorably to this development. This was a change of consequence in the market. It is unlikely that the same degree of fear regarding the post-war outlook for the copper stocks will again develop.

This same trend toward support at higher prices in these industries has been true with stocks in general. To consider but one approach: During last year's market readjustment there was general discussion about the cut-back in war production following V-E Day. It was reported that plans were being made to cut back at least 40%, and some informed and influential individuals talked in terms of a possible cut-back of 70%. Such a sharp and substantial cut-back suggested difficult problems. Subsequently, the whole outlook has been reappraised. It is generally expected now that following the end of the European war the cutbacks will be much less. This supports an expectation that the decline in business following V-E Day will be less than thought likely a few months ago and that we will continue in a war boom. (In fact, a sober analysis even on the basis of such substantial cutbacks as talked about last September would lead one to believe that business would continue at an active level.

Therefore, on the basis of this approach alone, I would now accept the level of support to be above the level of last Fall, and probably up to at least the lower part of the 150-160 range that has prevailed since mid-December.

Higher Prices Possible

This leads logically to a consideration of where this phase of the major uptrend market is going. If replacing the fear of peace with confidence means as much to the stock market as the elimination of the fear of the outcome of the war, the market could approach 175 Dow-Jones. By itself this is not a very dependable observation. However, it has more substance than at first appears. While these two investment cycles have controlled the profile of the market, there have been at work a melody of lesser important influences which have worked toward higher prices. These include the growing backlog of deferred demand, the development of new and better postwar products which alone justify an anxious desire for peace, the building up of corporate and individual spendable funds, pressure within the markets of funds seeking investment, and many other factors generally talked about.

A statistical appraisal of earnings and dividends gives us a guide as to the level to which the stock market might reasonably appreciate. Before using the reported figures we must make adjustments or else they will be deceptive. Some companies have war inflated earnings, and to that extent the rate of capitalization should be lowered. Bethlehem Steel and United Aircraft would be earning less and paying smaller dividends were it not for the war stimulus. On the other hand, American Can and American Tobacco would be doing better under normal conditions. Checking each of the companies in the Dow-Jones Industrial Average, I believe that adjusted average earnings of $9.50 and dividends of $6.25 is reasonable.

The times earnings ratio that can be used for valuating the market is influenced not only by the general outlook but also by the actual level of earnings and the prevailing rate of return on capital. Following 1929 and through 1934 the market sold at high times earnings ratios largely because of low earnings. During 1935, earnings on the Dow-Jones Industrial Average were $6.95 and the market at its high for the year sold at 21 times these earnings. It would be deceptive to use this ratio, however. Earnings were in an uptrend during the year and as the high price for the year was made in November, the prevailing rate of earnings at that time was above the level reported for the year. A times earnings ratio of 17 would be more realistic. Another way of checking this figure is to compare the average price for the year with the year's earnings. This also gives a ratio of about 17. The actual high times earnings ratio for 1936 was 19. If we make the same adjustment as we did for 1935 we arrive at a typical figure of 16. 1937 and 1938 were such abnormal years that they cannot be studied for this purpose, and subsequent years have been influenced by war conditions.

Allowing for the added uncertainties due to the war economy, and war-end problems, I believe it would be unreasonable to use a lower figure than 15 times earnings, before allowance for the lower rate of return on capital. The market did not sell this low in relationship to current earnings, except for a few weeks during the decline in 1937, from the inception of the New Deal guinea pig days until the threat of war in 1939. The yield on investment grade bonds was about 30% higher during the years 1935 and 1936 than it is today. The change in bond yields and the general monetary background should be allowed for, in my judgment, by increasing this times earnings ratio by 20% or to 18. Applying this ratio to the adjusted earnings of $9.50 suggests a reasonable upside level with current earnings of about 170 Dow-Jones.

During 1935 stocks at their high for the year yielded 15% more than investment grade bonds. The figure for 1936 was plus 25%. During 1937 and prior to the beginning of the bear market the maximum yield on stocks was 35% in excess of the yield on investment grade bonds. Stock yields were inflated moderately during these two years because of the undistributed profits tax. It is my opinion that a condition of confidence could justify stocks selling to yield one-third in excess of bond yields. This would mean stock yields of about 3½%. Valuating the adjusted dividend of $6.25 on this basis suggests a reasonable range of 175 to 180 Dow-Jones.

I believe that on the basis of these statistical figures we can make the following conclusions about the appreciation possibilities of the stock market. The Dow-Jones Industrial Average could appreciate to a range of 170 to 180 and only reflect a full restoration of confidence in the current level of earnings and dividends. The stock market could appreciate to this range before the frozen level of earnings and dividends would exert a downward pull on prices. This is a range to which the market could go before there was danger it had gone to an extreme in relation to current conditions, or was "inflated" or selling on hopes of better times ahead.

New Credit Era

In formulating investment policy appropriate to these dynamic times, we must give proper weight to the underlying philosophy of official post-war planning. The foreigner's dream of America as a wonderful garden with magnificent trees bearing golden apples, is to come true, if the plans work. We are told that any policy of deflating the war-inflated boom is "dead, buried and damned." Our motto is full employment and maximum utilization of our productive resources. Significantly, it is the Government's monetary leaders who are among the new wise men. They seem to believe that they have discovered the fountain of everlasting prosperity, and we are to glide into a new era on credit.

In the latest issue of the F. R. B. Bulletin, E. A. Goldenweiser, Chief economic adviser to the Board, proposes a post-war government guarantee of a job for every person able and willing to work, as well as a guaranteed minimum living standard. This would assure consumer purchasing power and good business. Obtaining the necessary funds would be simple. The Treasury Department would pay by check any amounts needed. Of course, the Treasury Department has no money, but the funds can easily be borrowed from the banks who would "create" the money. It is as easy as that. All the Treasury Department does is print bonds. These are delivered to the banks, their assets are increased by like amount and they pay for them in deposits. This gives the Treasury Department the bank accounts to draw checks against.

Our Secretary of Treasury, Mr. Morgenthau, who should be the number one expert on our ability to do this, since he has borrowed more money for Uncle Sam than all the previous Secretaries of the Treasury combined, is most strongly in favor of this policy. He says we can have our economic cake and eat it too. In a recent report to Congress, Mr. Morgenthau said that there is "no question of the ability of this country to service the large public debt." The payment of interest is a "transfer operatioin by which the amount of interest is collected from taxpayers and paid to the holders of the debt, who are also numbered among the taxpayers."

Consistent with this New Era thinking is the new concept of economic stability. Mr. Morgenthau says that "continued low interest rates will be a major contribution to economic stability and the maintenance of full employment after the war, for low interest rates stimulate business and encourage new enterprise." Economic stability is to be achieved by eliminating the phases of contraction and adjustment and making permanent the credit stimulus. The lessons of the 1920's have been forgotten, and plans are being made to outdo on a staggering scale the fatal mistake of that period.

A Modern Tower of Babel

It all reminds me of the story of the Tower of Babel told in the Old Testament. Their leaders sold the people a fantastic plan for success. All they would need to do is build a tower up to heaven, and then the people could walk into the very parlor of the Lord. Sinners and Saints alike could walk into eternal paradise. No longer would all have to pay the price of being good to achieve that reward. As you remember, they worked on the Tower. It brought upon them the wrath of the Lord, and He confounded them. If we pursue to a conclusion this new philosophy for eternally good business, as fickle and unrealistic as this plan of long ago, the ultimate wrath of economic readjustment will leave us dumbfounded. However, as practical investors, we must correctly appraise the effects of the building and the subsequent destruction of this dangerous Tower of Credit.

Federal Reserve Board's Tactics

The building phase that we are in will see many befuddling experiences. Just now military tactics are being used to confuse the public. Friday, Feb. 2, the Federal Reserve Board raised the margin requirements for purchasing stocks from 40% to 50%. Its purpose was difficult to understand at that time. However, it soon appeared that this was a smoke-screen to cover the bringing forward of heavy inflation artillery. A few days later legislation was proposed to raise the public debt limit from $260 billion to $300 billion, about 7 times the prewar level.

On Wednesday, Feb. 21, the Senate Banking and Currency Committee held a hearing on proposed legislation to reduce the gold reserve requirements for Federal Reserve notes and deposits to 25%. This should be enough for all foreseeable contingencies, as it would permit an approximate doubling of the currency supply and bank deposits. Again a smoke-screen was quickly enacted and it diverted attention. Mr. Eccles at the hearing proposed heavy taxes on capital gains and this attracted more attention than the primary business of the Committee.

Inflation Not Measured by Price Rise

One of the most dangerous concepts told the public is that the degree of inflation can be measured by the rise in prices. Unfortunately this concept is accepted in many circles that should know better. It leads to all manner of absurd proposals and official acts. According to this philosophy, pouring gasoline over a house is not dangerous unless someone lights a match. The Spring Floods down the Mississippi need cause no concern until water starts pouring over the levees. Similarly, debts are no concern because they don't come due until tomorrow. Undermining the value of the dollar is not inflationary so long as prices are held in bounds. This permits the execution of the causes of inflation because nothing is wrong until the unavoidable effects plight the public. This cycle has been dramatized with respect to farm values. After pursuing policies resulting in a doubling of prices for agricultural produce, and then passing laws guaranteeing the maintenace of high prices for two years after the end of war, it is discovered that returning servicemen may have to pay inflated prices for their farms to be bought under "G.I." credit.

Pegging Stock Prices Would Be Dangerous

To attempt pegging stock prices as a means of avoiding inflation could be a mortally dangerous act. It would be somewhat like attempting to alleviate the effects of the recent severe winter weather by sending the snow and ice clearing crews home and adjusting the thermometer so that the weather couldn't register below freezing. The stock market is a gauge of our economic temperature, like a thermometer. But it is also a regulator helping to steady our economy just as the crews get the trains through. Surely the American public has a right to demand of the "doctors" that they leave at least one gauge that will record their success or failure in administering to the needs of our economic body!

Summary and Conclusion

1. Please don't take too seriously the specific figures that I have used. As practical investors, we know that any statistical approach is only useful as a rough guide. A proper appraisal of current and impending developments is essential to avoid serious mistakes. However, I believe on the basis of both statistics and general reasoning that:

(a) The restoration of confidence in our ability to win the war and the peace fully justify the rise that has taken place in stock prices, in general, since early 1942.

(b) Current stock prices, in general, are soundly supported by reported earnings and dividends, and minimum probable earnings and dividends in the period ahead.

(c) There is room for a worth while additional advance in stock prices before they reach excessive levels, or before the frozen level of earnings and dividends pulls downward. In the meantime, the available yield is relatively attractive.

(d) Government officials are right when they refer to inflation-ary dangers. Never before have the funds available for investment remotely approached the astronomical totals of today. More dangerous still, liquid spendable savings of individuals are increasing each three months more than the total rise in brokers' loans during the three years culminating in the 1929 stock-market-credit-boom.

However, so long as we officially pursue the policy of building the Tower of Credit that is supposed to lead into the New Era of permanent prosperity, and until stock prices become excessive, efforts to talk prices down will be little, if any, more successful than were the efforts a little over a decade ago to talk prices up when the economy was breaking down.

(e) The background can be relied upon to occasionally carry the market to extremes. It can anticipate too far ahead, and become over-bought. The time is approaching when we should watch for these intermediate situations and act accordingly with the prospect for profit. In doing this we as a professional group in the money center of the world may do more to maintain a sound, reasonable stock market than can the "orders" of Government agencies.

(f) As the market advances to new highs, we should not forget that other periods of uncertainty will materialize. After all, Henry Morgenthau, whose radical tax proposals probably did more than any one thing to precipitate the final decline in 1942, is still the Secretary of Treasury. Henry Wallace may soon be the Secretary of Commerce. Labor will soon be struggling to maintain large weekly take-homes. Apparently stock prices have approached the "blasting" zone, and later on restrictive measures may be taken to which the investor will have to adjust. It may be true that fundamentally the politician is only the shadow of the substance, but it is also true that the groundhog is not the only creature sometimes frightened by the shadow.

Finally, as we approach the period when war business subsides and peacetime business is restored, we must carefully judge the varied prospects for different companies. Many companies will be aided materially and their stocks should do better than the average. Conversely, there are many companies that are prosperous now but which are marginal high-cost producers. They will again report poor earnings, under peacetime competition and their shares should be appraised carefully in order to avoid losses.

The Securities Salesman's Corner

By JOHN DUTTON

Old Rockin' Chair Got You?

It now looks like the sort of times are here again, when the chair in the office is beginning to feel more comfortable. Business is good. Customers are in a happier frame of mind. Many of them have some substantial paper profits. It is once more a simple matter to dig up a trade or sell out something that shows a customer a profit and suggest a reinvestment. Old customers are calling again and new customers are being recommended.

All this is nothing new to most of us. Yet, one thing of which we are well aware, is that good times **come** and good times **go.** The securities business is a business of extremes: of peaks and valleys. When markets are dull, when the public is not in an investing mood, when there are real bargains around, selling securities is not the easy job that it is today.

All this leads up to one conclusion. Probably more than any other class of people, salesmen need to master themselves. You have to run your own business—be your own self starter—fight off inertia. Most people are naturally lazy—when times are good, it's the easiest thing in the world to follow the lines of least resistance and WARM THAT CHAIR.

This wouldn't do any harm, if it were only possible to control laziness. But laziness becomes a habit just as work can also become habitual. Sometimes it's good to take a letup and a rest. A well timed vacation can accomplish the same sort of benefits that a trained athlete will bring about in his physical condition, when he finds out that he has overtrained, has become stale and takes a rest. This is something entirely different than coming into the office in the morning, looking through the mail, making a few telephone calls, chatting with the boys, putting through a trade or two, taking a leisurely lunch and calling it a day. That sort of routine can quickly develop into a rut that kills initiative and "selling drive."

Now one of the least difficult things to do, is to write a column like this and tell other people what they shouldn't do. One thing we don't like in a column, or in a sales organization, is preaching or moralizing. After all, we are all human—and salesmen are just about the most human people that there are in this world. In fact, more of us know our own faults—most of us know where and when we need a little "bolstering up" once in a while. But when it comes to letting up on hard work when times get a little better—THAT SEEMS TO BE SOMETHING THAT NEARLY EVERYONE IN THE SECURITIES BUSINESS HAS TO GUARD AGAINST DOING. There is a valid reason why this is so. After the past several years of trying and difficult times it is only natural to "let up" a bit.

It isn't only bad business to get into lazy personal habits—it's missing a bet for tomorrow. None of us live for today. Hard times come again—sooner or later. NEW ACCOUNTS PUT ON THE BOOKS TODAY, CAN HELP MAKE THINGS EASIER WHEN BUSINESS WILL NOT BE SO GOOD SOME DAY IN THE FUTURE. Now is the time to see new people—get out of office—keep your tool kit of sales ability in good condition by using it, and by working GET MORE PLEASURE OUT OF YOUR JOB.

Some Elements of Post-War American Life

(Continued from page 932)

of the elements that will loom large in post-war America, elements the revolutionists of other countries have used to subjugate their peoples. I shall touch upon some of these elements.

The "Dole"

We may first name the obvious "dole" complex,—the complex that believes that the Government can and should support the body politic. This, plus planned hunger and want, to give apparent justification for the "dole," have been major factors with the revolutionists of other countries. Any clean-visioned person can see that if the Government is to take care of all the people, it must own all the people own in order to do it. There must be no private property; no one must own anything. As one Utah communist expressed it, when urged to put in a winter's supply of food: "Why should I? Jim Jones, my neighbor, has plenty, and if I run out, I will just go and help myself to his. I don't intend to suffer as long as anyone else has anything." This feeling will last the war out and be with us in the post-war era.

Who Are "Dolers"?

But we should understand that this post-war "dole" complex will affect more than the ne'er-do-wells; they are not the only "dolers." Every farmer, every industrialist, every merchant, every person in any walk of life who takes a gratuity from the Government for not producing, or for not working, or for anything unearned, is just as culpable, in morals and in sound Government finance and in our economic national life, is just as much a "doler" as is the man who takes his dole of $30 or $50 or $60 per month to pay his heat, light, rent and grocery bills. There is no difference in principle between them. I am told you sheep men do not belong in this class. I honestly and sincerely congratulate you. In this you are true Americans. You will not, on this score at least, be part of our post-war problem.

Capital and Labor

Another factor that will be present in our post-war life is an intense hostility between capital and labor, with alien revolutionary labor leaders planning and attempting to destroy free American labor. No one will deny that in the past capital has been grasping, oppressive, unreasoning and unreasonable, but this does not make wise a retaliation in kind by labor now, to the destruction of our economic life. Personally, I am a firm believer in American unions, operated under our free institutions and constitutional guarantees; I think unions have a proper, and at times necessary, function in putting capital and labor on an equal footing. But no real American can approve and support the labor racketeer, sabotage, force and intimidation, the closed shop, and like un-American abuses of true American unionism.

Plans of Revolutionists

It is clear that alien revolutionary leaders now plan so to organize labor that they can take over and operate industry when the exorbitant tribute they lay upon industry no longer permits of its private operation. Then these foreign-born and trained alien revolutionary leaders are to step in and furnish the management. As to the methods they may employ, we should keep in mind the recent seizure of a great merchandising operation, not by legal process properly issuing from a court after an impartial hearing and served and enforced by a sheriff or other proper peace officer, but by a ukase from a Government bureau which made the law, judged the law, and then used the United States Army to enforce the decision. If this can be done to a merchandising institution, it can be done to every industry and to every other vocational activity in the nation, including the sheep business. This seems more or less to follow the pattern set in other countries by these communistic revolutionists.

Strikes

There are those who believe that today some strikes are fomented and called, and some industrial tie-ups are brought about under the tutelage and direction of these alien revolutionists, for the very purpose of forcing the governmental taking over of plants to keep them going, it being the thought of the revolutionists that plants so taken over will not be turned back to private ownership. There will be post-war strikes with similar motives.

American Labor

It must be that American-born and reared labor do not now fully see where all this leads, for if they did they would halt the conspiracy in its tracks. It seems clear that this whole labor problem, even in a more acute form, will be in the post-war era, then aggravated (as there is reason to believe) by the anger and resentment of the returning soldiers who are said to believe that labor has "let them down" by slowing up the production of war stocks, and by strikes, in order to get higher and higher wages, while the soldiers themselves underwent all the hardships of the field and imperiled their very lives, many dying, and all for a mere pittance in comparison with the compensation paid to labor.

Manpower

In post-war America we shall be faced with a lack of manpower for anything like a full national economic operation. Of course, a great depression, which seems sure to come, will for the time give us idle hands and soup kitchens, with long lines of hungry folks waiting their turn for a bowl of soup, the Government then probably being too poor to pay for anything else, if even for that. But we shall need more able-bodied men than we shall have when we begin to turn the wheels of industry for a normal production, to say nothing of progressive development. In this period of depression we may expect those revolutionists to go about telling to the willing ears of the hungry how their plan will cure and end the troubles, and to prove their case they will point to these present lush times, when these poor folks had "good times" and plenty of money. They will fail to point out that the very things they laud and promise to restore—these present "good times" and this present period of financial riot, greed, waste and economic demoralization — are the very things that will have caused the national economic tragedy.

Will America Be "Bled White"?

And bearing on this question of low manpower, we may note that we have heard not a little about other countries being "bled white." We are not likely, at our present casualty list rate, to escape approaching for very long that very condition, particularly if we have many experiences of losing 80 men to our allies' one. We seem to have, as the main spring of our military strategy, as viewed by some, the postulate that since we and our allies have more men than our enemies, we can kill off man for man with them and still have some men left, so winning the war.

Revolutionary Manpower

But the casualties will greatly reduce our American manpower as made up of those men who believe in a free America under the Constitution; but it will not seriously affect the national revolutionary manpower, for these seem, on one account or another, to have stayed away from the firing lines, some by malingering with false diseases or injuries, others by being in places protected as essential industries, or by other means, so that the American revolutionists will form a very considerable part of our national post-war manpower. Of course they hope to become an increasingly powerful, if not the controlling element, in the life of the people. I am sure they now count upon this and some charge them as willing to promote a national economic debacle to bring this about. This would transplant Russia to the United States. And speaking of Russia, did you notice in the news the other day that an official Russian utterance declares that while a free press is all right for the bourgeois nations, it does not fit into the communistic order of things. There can be no freedom of speech among them. Freedom of speech kills tyranny. This threat of a communistic control in post-war America is not only a threat, but is the only real threat to America today, to our free Government, to our free institutions, to our constitutional guarantees, to our free enterprise, to our freedom of the press, of speech, and of conscience. We would better remember this.

Government Employees

Another factor in the post-war days will be the reduction of State and Federal employees. It is said that the Federal employees alone, notwithstanding the announced present drastic need for men, remains at about 3,300,000, with no real effort apparent to curtail them by getting them into the service. It will be interesting some time to learn just who these employees are, to what groups they belong. There is evidence to support the charge some make that the revolutionists have placed their members in key Government positions, getting ready for the take-over when the critical moment shall come. In the post-war period the bulk of these governmental employees must be gotten out into the production end of our economy instead of lodging in the spending end. In this connection it may be noted that the United States Bureau of the Census was reported in the press as announcing that there were 155,000 governmental agencies—State, county, city, township—in this country, with 6,503,000 civilian employees. A great part of these must be eased back into some useful, productive occupation; we cannot support and do not need that much "paper work."

Post-War Woman-Power

Speaking of manpower, we might say a word about woman-power, for we shall face that in post-war America. We need not enter into a discussion of woman's place in the economic world of today, but we can say this much: we shall have in the post-war economy the problem of adjusting therein those women (and there will be considerable numbers of them) who will prefer business careers to motherhood and homemaking.

The Home

If we shall consider the matter, we shall see clearly that our whole civilization has been built, in the last analysis, on the home—father, mother, children. This is the unit around which community life, national life, the economic life, indeed the whole life of the peoples of the world, has been built. The family and home were ordained of God from the beginning. The father brought the shelter, food and raiment; the mother bore the children and, with the father's help, reared them. The economics of the world have been framed and keyed to this end. We have cored our social, economic and political lives around the sacred hearthstone of the home, and the building and support of the family. We have clustered about the family altar our most cherished hopes, our loftiest ambitions, our highest ideals, our most sacred human relationships. Honor, reverence, obedience, industry, honesty, thrift, virtue, love have been born and nurtured beside the family altar. Mother love, the nearest counterpart to Divine love that we know, has burned as a holy incense on that altar. Father, mother, son, daughter have been the magic key words that have unlocked the treasure houses of our purest joys and of our noblest achievements. Some of us have staked our all for the future world in the perpetuation of the home and its holy associations during the eternities that are to come. The home has been the compass by which humanity has held itself along the course alotted to us by the Creator Himself.

Children Under Communism

But the communistic revolutionists of other lands have changed all this; under their concepts children are the property of the State; men and women are merely the brood animals to beget and birth them; great State nurseries care for them; State schools, completely dominated, train them in the doctrines and habits and beliefs they wish them to have; great public dormitories lodge them; food and clothing come from the State; the State determines what and how they worship, if at all; the State tells them when, how, and at what they shall work; the State determines how far they shall go in any and every line of human thought and human action. Man's achievement is no longer measured by his capabilities, but by what the little group of despotic overlords decide. Free speech, free thought, free conscience, free agency, are driven out of mortal ken. And who is the State? Not all the humans living within its territorial limits, but a few despots that by pillage, plunder and murder, "liquidation," shall place themselves at the head. I am not speaking in hyperbole; I am only in a few words setting out the essentials of what the world in my short lifetime has witnessed in other lands.

Our Progress Towards Communism

Let us look at our condition: Already we have begun to move down that trail which we follow like dumb sheep; public nurseries have been set up to tend the children while the mothers work; this is the first time in our America that women have been called out by the State or by our economic system into the field and workshops to do the manual labor of men, as do the peasant women of Europe; public kitchens have been established in the schools where the children may be fed by the State instead of going home (some children are saying: "We get better food there than at home, why should the State not feed us all the time?"); proposed laws would prevent youths from helping earn the family livelihood and governmental recreation has been provided to take the place of work; CCC camps have been created to take youths thus State-fed, clothed and housed, from their home localities, mingling all kinds and classes together and gathering them into large camps that we in this area have seen become, in some cases, breeding places for idleness, gambling, blasphemy, and all the cardinal transgressions; public gratuities have been scattered broadcast for doing something and for doing nothing; they have persuaded many of us good old people, who as a group make up perhaps as much as a third of our total population, that we should be fed, housed, and clothed by the State no matter how able our children are to provide for us, nor, in practice, how able we are to care for ourselves. These youths and we old people make perhaps as much as one-half our population. Do you not see how far we are along the revolutionary road? No small part of our population is already debauched. This whole problem will be with us when peace comes.

In speaking of youth, I am mindful of the old saw: "All work and no play makes Jack a dull boy," but I also know that all play and no work is more than likely to make Jack a worthless boy. I am against what is known as "child labor"—no true Christian could stand for that—but I am for having strong, healthy children and youth given some work to do: to help mother in the kitchen, or father on the farm or in the store, or with the flocks and herds, or, where the need is, to work for others at proper work to help support a family in distress.

"Social Security"

Another angle of this concept of State support is that of so-called social security which, under existing governmental policies, will loom increasingly larger in the post-war period. Here, as elsewhere, plans are building on the basis of the economic returns of free enterprise, whereas those same plans contemplate the abolition of free enterprise with a consequent destruction of the returns that come from it. We are going to try to eat our cake and yet still have it. No one has yet successfully done this.

Small Business

We shall enter the post-war era with small business in a precarious position, if not indeed essentially ruined. What private enterprise is left may be largely in the hands of the few. This would be the pattern that would fit best the system set up by the revolutionists in other lands. It is far easier to bring compelling pressure on a few, easily reached in a few communities, than on the many, widely scattered over the whole land. Our economic policy of the past has been to foster competition and build the many. Diversification of opportunity has been our guiding principle. But this is changed. We shall have this problem with us after the war.

Maintenance and Management

And speaking of small business, we shall, in the post-war era, have added as a part of the problem of its maintenance the problem of management. During the war the existing successful business management has had a constant urge to careless expenditure and sometimes wasteful, because of the practical capital levy, in the higher brackets, which Government has imposed in the form of income taxes of one kind and another. It has become a common practice governing corporate expenditures to consider that this or that can be done, whether really necessary or not, because the Government will pay 95% of the cost. This is obviously wholly unsound, but it exercises its influence everywhere. Existing management must in this regard reorient itself in post-war time.

But there will be an additional element. Men in our military service have seen so much carelessness, extravagance, waste, and actual needless destruction of property (for example the Alaskan scandal) that they no longer think in terms of business frugality and thrift and business care. They have operated on a practice of an inexhaustible supply that costs nothing. It will not be easy to bring this habit and concept under control in the post-war business, so that management by these men, either of large or small businesses, can realize the need for economy to make even small returns. They may well think in billions while handling hundreds.

Post-War National Debt

I shall merely mention one of the most important of the post-war elements: our national post-war debt. That will present a problem that in mere size has never arisen in the world before. It has arisen in a relative proportion before, with (so far as I know) one invariable answer: bankruptcy and financial chaos, with all the suffering and hardships these have entailed. When the pinch comes demands will be made for repudiation or cancellation of the debt, or for abolition of interest, or for partial measures of both sorts, which will almost surely bring great financial distress.

Inflation

As a companion problem to the debt will be the problem of inflation. So far as I can gather, no one, inside or outside governmental circles, can tell us whether or not that will come; that is, come beyond our present inflation. Patriotic men of all shades of political belief earnestly desire that it may not get beyond control. The alien revolutionists would probably view radical inflation with favor, as bringing the economic chaos out of which they expect to rise as dictators.

Survival of Private Enterprise

Intimately connected with the public debt and inflation is the question of financing private enterprise, assuming the war leaves us with private enterprise. If the Government continues its policy of tax-bleeding the people for money to use for all sorts of purposes, including the financing of private enterprises, which money costs the Government nothing, which it has no obligation to return, which imposes no burden if it is lost or stolen, which, indeed, can be actually burned up or given away without founding a call for its return, money that is absolutely free money, if the Government continues to use a part of that money to lend back to the people, at rates which do little more than provide a handling charge, it is difficult to see how private financing can live, and, of course, the revolutionists do not want it to live. Now the funds for private financing come from the thrifty and frugal; they are savings or profits given to the custodian — bank, investment trust, insurance company, or what not—for safekeeping and usually to yield some return; they must be returned to the owners on demand or at a time specified, and the custodian, who is thereto a guarantor, must so handle the funds that he may return them under the terms of deposit, and must have a fund to which he can look to meet this obligation, as also to make good all losses; he must meet the costs of his custodianship, he must build up reserves against losses, and he must pay something (dividends) to those who underwrite his guarantee (his stockholders) for their service. Under these circumstances it is difficult to see how private lending, meeting these charges, can long compete with public lending, having no necessary charges; and if private lending goes, then the public lendings will almost surely be made, in no small part, on purely political considerations. We cannot blink this post-war problem. Private financial institutions have lived during the war, and partially met this Government competition in the private lending field, only because they have bought low-yielding Government securities that bore their overhead.

Post-War Regimentation

We shall come into post-war America in substantial part regimented, and not for free industry and life under a Government of the liberty and the free institutoins and the personal guarantees and protection we have heretofore known and enjoyed, but regimented for a socialized State and Government which deifies the State and makes of men its slaves.

We have gone a long distance down this trail, too. On another occasion I described our progress.

Almost four years ago (eight months before Pearl Harbor) I made this public statement:

> "No thinking person doubts that our people, our nation, and the world are now passing through one of the great crises of the world's history. We are in the midst of a world-wide revolution, which is wholly alien to our free institutions and is foreign in birth, concept, and directing head. No man, of his own power, sees the end. But the end the revolutionists seek is fairly clear; it is the overturning of the whole existing order, political, financial, economic, social, religious, the complete destruction of our Constitution and the Government established under it, and then the setting up of some sort of despotism that shall destroy, in all these fields, the free agency which the Lord gave to man. The revolutionists plan that this is to be largely done during the war, under the plea of war necessity; it is to be continued after the war under the excuse—if we are not then too cowed to require an excuse—that this new political order is necessary that we may rehabilitate the world. They count that then, after a little time, the revolution will be secure. There seems no doubt that this is their conscious, deliberate, planned end. We have gone a long way already down this road."

There is yet no need to retract any word of that statement.

Factors Used in Regimentation

There are certain patriotic, economic and social factors which have been instrumental in bringing us to where we are, and that are common instruments of the revolutionists of other lands. Most of these will persist after the war.

Patriotic Factor

First, there is the patriotic factor: We must do this to win the war! And we, not wishing to hinder the war effort, nor to be charged therewith, but desiring to aid it in every way possible, have held our tongues and bent our backs to every burden lest we should be called unpatriotic and might really hamper the war effort. It was known we would do so, and that knowledge was traded on. After the war we shall have added to the patriotic urge, the urge of serving suffering humanity, to put us behind foreign relief, continuation of lend-lease, international monetary programs, policing the world, and other like schemes and plans.

Mass Inertia

Another instrumentality that has been consciously used in other lands is the well-known inertia of a great human mass, which leads it to endure rather than to act. The conventional procedure has been known and applied of working slowly and cautiously, so as not unduly to arouse the mass, while it was brought under regulation after regulation to its undoing. We have already seen this at work.

Love for Ease and Idleness

Again: the inherent love of man for the ease and idleness, plus his greed and cupidity, have been played upon by giving us something for nothing, letting us live without work. Many of us have come to believe the world owes us a living, whether we work or loaf.

Mental Laziness

Man's natural mental laziness has been taken advantage of by showing us we did not need to think or plan or worry about our shelter, fuel, food and clothing; the State would take care of us and we could forget the anxieties attending upon earning a livelihood. We have blithely walked along that easy road.

Spendthrift Urge

This last argument has been enforced by telling us we could and should spend all we had, make no savings, because the State would care for us. Thus thrift and frugality were killed. The father no longer need provide for the wife, son and daughter; the State would care for that; and wife, son and daughter should thereafter look to the State, not to father, for their sustenance.

Fear of Old Age Penury

Our fears that our old age would find us penniless and in want have been played upon, and we have been persuaded that the State would care for us in our old age, we forgetting that this would make of the nation one great poorhouse. We are not through with that technique.

Fear of Food Shortage

At the moment our fears have been raised that we are faced with a shortage of all foodstuffs, so there is fastened upon us additional regimentation in food. Persons reputedly well informed tell us that there is no real shortage of food and that all this is done: first, to make us more amenable to direction and, next, to make us more war-conscious, as if the sorrow and mourning that has invaded hundreds of thousands of households in the land have not told us in grim words that our sons were dying in a bloody war. This is not our first war. We fought one war when the enemy pickets patrolling the south bank of the Potomac could be seen by Lincoln from the South Porch of the White House. We were then strained to the utmost, but we had not a hundredth part of the regulation and regimentation we now have with a war 3,000 miles away in one direction and twice that distance in another. Relatively we were as hard pressed then as now.

Fright of Industrial Leaders

Our industrial leaders, charged with the responsibility of looking after the interests of stockholders, have been frightened with the thoughts that if they did not accept and carry out the regimentations and regulations imposed upon business, that the State would seize and operate the plants, with a threat of not returning them.

Pretended Helping of Underprivileged

The whole regimentation program and action has been veneered either with a plea of patriotism, too frequently not involved at all, and to which I have already referred; or with a pious pretense of caring for the "underprivileged." So we have been given and have accepted food, fuel, clothing and shelter in exchange for our liberties and our free agency, until now, frequently pauperized, we look for sustenance, not to the results of our own labors, not to the filial obligation of our children, not to the Christian care of our Church, but to the State, which thus takes the place in our lives of self-effort, children and Church.

This is State socialism; it is not democracy; it is not the concept of a republic.

History is repeating itself. Esau being hungry, sold his birthright to Jacob for a mess of pottage. We are a nation of Esaus.

Joseph Sold Into Egypt

The fundamentals of this technique are as old, certainly, as Joseph, who was sold into Egypt. For he, acting for Pharaoh, first purchased from the people with the taxes extorted from the people all the grain produced by the people; then when the famine came Joseph sold this grain back to the people, in the first year, for all the cash they had, which he turned over to Pharaoh; in the second year for all the flocks and herds they owned, which all went to Pharaoh; next, for all their lands, which he turned over to Pharaoh; and finally, he gave them grain in exchange for their bodies, and they became "servants unto Pharaoh." The enslavement of the people was complete, Joseph saying to them: "Behold, I have bought you this day and your land for Pharaoh" (Genesis 47), and thereafter Joseph moved the people as he willed, and they rented back their lands on the terms he prescribed. There is more than one lesson in Egypt's seven years of plenty and seven years of famine.

Returning Soldiers

But the greatest post-war problem, the one nearest our hearts, is the one we shall have with our returning boys. Some seem to think of this problem solely in terms of employment. But in my judgment that is the least part of it.

Fighting Youth

Contrary to our tradition and to a wise statesmanship, we have forcibly taken youths into our armed forces and we have drafted them just as fast as they reached the critical age. We have not only permitted, but we have encouraged them to volunteer before that age. Heretofore in our history we have sought to prevent youths from entering the Army by refusing to enlist them, and by sending them home when we found them in the Army through misrepresentation of their ages. In the first World War we spoke in the most condemnatory terms of the countries that drafted their youth. In the present war it has been rather frankly admitted, as among ourselves, that these boys were desired as soldiers because they placed no value on life, had no sense of danger, would go where they were sent, and do what they were told. That is, they could be sent into a fiendish combat where men of maturity and discretion would not go.

Reorienting from Force

Military men frankly state that these youths have been so taught in the camps and on the fields as to give them the spirit of killers, and the military is itself trying to reorient those who are mustered out, by a 48-hour period of instruction, so that the killers will become quiet-going, peace-loving, law-abiding, orderly citizens. But 48 hours will leave yet much to be done. So our big factor of the post-war problem will be the rebuilding of these returning boys.

Youth Matured Into Men

Again, our sons went out boys, but they will come back men, hardened by thoughts and acts, by the play of passions, the gratification of urges and desires, of which we at home know nothing. They will have passed the period of character forming in an environment which has no counterpart in peace. Their habits of thought, their approach to the problems of daily life, and their methods and means of solving them will not mesh with the ways of civilian life. Force has controlled their army life, but law must direct their post-war life. They will come under new stresses and strains, for the pre-war childhood will be lost in combat. They must be handled so they will not break.

Robbed of Birthrights

Some will come back with a feeling that they have been cheated out of their birthright of homelife, training and education, and peace-time association with their friends, and will be resentful, even revengeful. This will be abnormally heightened if they shall be held abroad for long periods after the war is ended to police the world.

Returning Men Thoroughly Regimented

They will all come back thoroughly and militarily regimented, accustomed to obey orders. The less strong characters will fall easy victims to the domination of our revolutionists. Some, indeed, are returning declaring beliefs that align them with the communists.

Some, we hope many, will return strengthened and stabilized, the pretense and vanity of life all burned out, with nothing but the best remaining. They will be most effective in helping their less fortunate comrades. For, after all, the great post-war problem with the service men will be the rekindling of hope, the re-establishment of confidence in their fellow men, the blotting out of the temptation of forceful self-help, the re-enthronement of industry, thrift, integrity, and all the basic qualities of the peaceful life, the reconversion to the higher spiritual values of life that have been submerged in the demonish combats into which we have forced them, and the elimination of hate. No man who hates one man can truly love another. They must be brought actually to believe and practice the brotherhood of man.

But the most sinister possibility, if one can name a superlative out of this whole mass of serious matters, is this: We are building a tremendous military organization —it may be 13,000,000 of men, it may be as many as 17,000,000, if some of the percentages of our own settlements are maintained throughout the nation, as I think they are not. It is inconceivable we shall need all these man in this war, and yet they are constantly calling for more. In the main, as I have already said, those going into service are the young men, and they are taken as fast as they reach the prescribed age. The bulk of our adolescents and a few years older are gone. Their characters are being cast, so far as possible, in the military mold. They are away from home and the home influences that would make of them normal men. Suppose they are kept in the service for five years or for 10 years after the war, either because they are wanted to police the world or because (as has been said) it is

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Economic Adjustments From War To Peace

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proper time comes certain things will have to be done expeditiously and effectively. Such matters as contract termination, disposal of surplus war supplies and reconversion of industry to peacetime operation are receiving continuous and careful study and steps have been taken with a view to initiating the necessary adjustments.

We have taken considerable satisfaction in the fact that even with more than 10-million persons in the armed forces we have been able to produce goods and services at a rate of nearly $200-billion a year. This record achievement resulted in part from an expansion of the labor force but much more important has been the rise in output per man-hour.

For some time prior to the first world war, world production was rising at a very rapid rate. Even though this upward trend was interrupted by occasional crises and depressions the lowest point of each depression was always higher than the boom point before the preceding depression. During the 19th century England had long been the largest producer but as early as 1880 the United States moved into the lead; a lead which on a percentage basis steadily increased thereafter. As a result the United States by the outbreak of the war in 1914 was accounting for approximately 35% of total world output. After the war this trend continued while Europe fell behind in its share of total world output.

By 1928 United States production exceeded the total European output. In fact we were producing at least 60% more than the three next largest industrial countries combined. On a percentage basis the output of this country declined after 1928, partly as the result of a steady increase in the share contributed by the Soviet Union. Productive capacity remained high and in fact increased, due to the growth of production per man-hour and the increase in manpower itself. The unutilized production capacity was in fact the potential which, under the stimulus of war, was exploited after 1940 to renew the trend of the last half century toward an increasing share in total world output. The significance of the production rise per man-hour had been somewhat obscured by the depression of the early thirties.

In view of the widespread devastation caused by the war a full realization of the production potential of this country would assure the continuation of a sharp upward trend in our share of world output after the war. The postwar needs, reflected in the deferred demands of our people and in the foreign requirements for reconstruction and development, would indicate that the problem of postwar markets should present no exceptional difficulties.

At this point, however, we shall have to distinguish between the transition or immediate postwar period and the longer-run period in which the maintenance of stable business and sustained prosperity becomes the real test of our ability to meet the fundamental problem of postwar adjustment. There is no distinct line of demarcation between these two periods and the degree to which the two will merge into a sound development and growth of postwar markets will depend upon the level of postwar income.

Markets may be divided into three parts: Private consumers, business, and Government. As the war draws to a close and the Government withdraws as industry's greatest customer the other two markets will have to expand if the total market is not to shrink. The deferred demands of wartime are not in themselves sufficient to offset the shrinkage in Government expenditures. Wartime restrictions, price control, rationing and other measures have limited the portion of individuals' current incomes which are being spent for consumer goods. Savings have accumulated accordingly in large volume. Consumers have saved out of current income during the last four years approximately $100-billion of which $30-billion consists of Government bonds and more than $30-billion of currency and bank deposits.

Synchronize Postwar Spending With Reconversion

Wartime restrictions have also reduced business outlays for equipment, construction and other capital goods. Business has accumulated from unused depreciation, undistributed profits and other sources in the last four years about $40-billion in cash and Government bonds. Business decisions after the war will be directly affected by the distribution and ownership of these liquid assets.

These various classes of wartime savings can thus be of profound significance to our economy as expenditures for war decline. If their utilization is properly synchronized with the rate of reconversion and peacetime production the danger of inflation can be minimized. They will determine the conditions and rate of current-income expenditures. The important point to remember, however, is that these savings are not a substitute for current income.

Decisions by business and by Government after the war are vital to the kind of answers we shall find for the questions posed by the need for adequate postwar markets. Our capacity to produce has been demonstrated. The need for maximum levels of production, employment and consumption must be met if our system of private enterprise is to stand the test. Probably the greatest deterrent to capital expenditures is the fear of another depression. Whatever practical method of minimizing business fluctuations can be evolved will require the best efforts and full cooperation of both Government and business.

Provided effective results flow from this joint approach and if the expansion of consumer and business markets measures up to our productive material and human resources, the results will no doubt greatly alter the prewar pattern of expenditure. New products, new services and new markets will mean new opportunities.

Foreign Markets

Let us turn for a moment to foreign markets. I have referred to wartime savings as a stimulant and aid in sustaining the national economy during and immediately following the reconversion period. In connection with postwar foreign trade there is present a similar factor which will be important during the early postwar years. I refer to the dollar balances which have accumulated during the war to the credit of various countries which they will undoubtedly wish to utilize for the purchase of American goods as soon as their requirements can be met. This applies particularly to the Latin American countries from which we have made heavy purchases of critical and other materials throughout the war. In addition some of the European countries also have available substantial dollar balances which have been subject to control during the war but which will no doubt be released after the termination of hostilities.

Our total wartime savings, together with the large accumulation of foreign-owned balances, can thus provide a powerful stimulus for the maintenance of a peacetime production in this country at a high level for some time after the termination of hostilities. There is of course a possibility that industry will be unable to reconvert fully and expeditiously enough to meet the demand and that inflationary pressures will be intensified. Under such conditions certain controls that may have been dropped will have to be temporarily reinstated.

What about foreign markets after the transition period? Export markets are too frequently looked upon as a kind of reservoir which is always conveniently at hand for the absorption of goods and services which our domestic market is unable to absorb. Policies based strictly on this line of reasoning can easily lead to serious difficulties. As we know, markets do not reflect something that is fixed or static; they are relative rather than absolute, and their permanency depends upon the economic health of the community.

The profitable sale of goods abroad should be viewed as part and parcel of an operation which is beneficial to our domestic economy as well as to the economy of the importing country. There is nothing mysterious about the flow of goods across national frontiers. The large volume of business across the U. S.-Canadian border consisting of both goods and services bears ample testimony to this fact. On neither side is the mutually beneficial nature of these transactions questioned.

Domestic Activity and Foreign Trade

There is a special reason for dealing with export markets in connection with an appraisal of domestic markets. The two are inter-related and can not be examined separately. In the long run the real source of export-financing lies in our imports. Payment for imports provides the buying power which is so essential to foreign buyers if our goods are to move into world trade. Fundamentally the level of our domestic business activity determines the volume of dollars available to the outside world for use in our export operations. It is not only illogical but economically unsound to think of our domestic activity and our foreign trade as operating on uncoordinated and unrelated levels. It follows from this that policies designed to stimulate domestic employment and full production must be consistent with policies aiming to develop and maintain foreign markets for American goods.

The United States has long had a tremendous stake in the outside world. This is reflected, for example, in industrial and other so-called "direct" investments valued at approximately $7-billion. These investments have contributed to both the welfare of American industry and the standard of living of countries in which American business operates. In many cases these investments have been identified with the industrialization of relatively undeveloped areas.

Many such investment opportunities for development will exist after the war. The sound industrialization of areas which have available cheap raw materials and adaptable labor is consistent with the growth of foreign markets from which we ourselves can benefit. They need not be looked upon as developments detrimental to our own interests. As standards of living rise in foreign countries the need for our goods as well as the ability to pay for them will rise accordingly. Moreover, an improvement in the standard of living is one of the best safeguards against social and economic upheaval and against the cumulative forces which often lead to war.

The larger the flow of international trade the greater is the contribution that can be made by countries depending upon the sale of goods and services for the maintenance of a satisfactory level of national income. This is particularly true in the case of countries which are dependent upon the sale of one or two primary products as a means of securing foreign buying power. It is also important in the case of countries which are dependent upon the carrying trade or upon the sale of specific services as a means of securing from foreign markets the things essential to the maintenance of a sound level of economic life.

Lessons of Previous Postwar Period

Our effort to guarantee an orderly shift from a wartime economy to a peacetime economy requires therefore that we operate simultaneously on a domestic front and on an international front. It is essential that these operations be so related that we shall avoid the mistakes of the twenties when policies were evolved without relation to each other. We found then that steps inconsistent with each other exerted a downward pull on the entire international economic fabric with the result that by 1931 we experienced a more or less complete breakdown of the international financial mechanism.

To some extent we may be guided by our experience during and after World War I. Yet in many respects our problem will be different from that of 1919. This time the conversion to war production will be much more complete than in 1914-18. The expansion in plant and equipment has also been much greater. In the first world war we had less of a curtailment of non-essential industries. Price controls were less sweeping and less effective. The accumulated demand for goods and accumulated wartime savings were relatively less important than they will be after this war. We have, however, given much more attention this time to the problems of reconversion and to the development of markets after peacetime production again gets under way. More safeguards are being taken for avoiding international currency chaos that characterized the early years after the first world war. Certainly we are much more conscious of the possible consequences if adequate measures this time are either delayed or not taken at all.

Naturally I can not bring to you the solution for the manifold problems relating to postwar markets. The solution can not be pulled out of the air but involves the full effort of all of us. It requires the full cooperation of both business and Government. Above all it is necessary that we attempt by hard thinking to understand the real nature of the problem.

E. H. Rollins & Sons Suspended From NASD For 60 Days by SEC

Commission Finds Firm's St. Louis Office Manager Guilty of Fraud and Violation of SEC Regulations. Revokes Dealer-Broker License of Walter Cecil Rawls and Orders His Discharge From the Firm Along With Perry Dryden, in Charge of Chicago Office.

On Feb. 22, the SEC made public an order suspending the firm of E. H. Rollins & Sons, Incorporated, from the National Association of Securities Dealers for a period of 60 days from March 6, and also revoked the dealer-broker's license of Walter Cecil Rawls, manager of the firm's office in St. Louis, Mo.

These penalties were imposed on the ground that Mr. Rawls in his dealings with the Board of Missions of the Methodist Episcopal Church, South and others, made sales "at prices greatly in excess of prevailing market prices, speculating in securities at the customer's risk, causing excessive trading activity in their accounts, extending credit to customers for periods greater than was permitted under the Federal Reserve Board regulations, and falsifying ledger accounts concerning other transactions." There was also a charge of secret rebating to administrative officials of the funds for which the St. Louis office acted in a position of "complete trust and confidence."

The St. Louis branch of E. H. Rollins & Sons is a sub-office of the Chicago branch, which handles its accounting and which confirms its transactions. It is for this reason that the SEC has ordered that Perry Dryden, Vice-President and manager of the Chicago office of E. H. Rollins & Sons, be separated from its organization, contending that he had participated in the schemes to defraud.

The case against the firm extends back three years, during which time the SEC conducted its investigation. In its final decision, the SEC, in referring to the Rollins suspension, remarked: "In our opinion, a case has been made for the revocation of the Rollins' registration under Sec. 15(b). However, this result might well be avoided and hardship on many innocent persons be made unnecessary if Rawls and Dryden were separated from the organization. We will, therefore, afford Rollins an opportunity to present evidence that such separation has been effected and will withhold our final disposition of this issue under Sec. 15(b) for a reasonable time to permit such a showing to be made."

Following the release of the SEC decision, E. H. Rollins & Sons, Incorporated issued the following statement:

"Briefly, the order which the Securities and Exchange Commission issued yesterday in regard to E. H. Rollins & Sons, Incorporated and Walter C. Rawls refers to an investigation dating back prior to Pearl Harbor. The charges related to dealings carried on solely by Mr. Rawls with a single institutional customer through one of the firm's sub-offices located in St. Louis, Missouri, and was not directed at any other transaction with its thousands of other customers who are serviced by a nation-wide organization consisting of twenty-nine offices and hundreds of experienced employees. Although the transactions in question were cleared through the firm's Chicago office, of which Mr. Dryden was the head, that office in the main acted in reliance upon instructions of the St. Louis sub-office, over which Mr. Rawls had charge. Rollins has been engaged in underwriting and retailing securities since 1876.

"The customer whose account was the basis for this inquiry received over $500,000 in interest income from the securities purchased from Rollins. These investments produced an interest return which increased from 4.91% at the beginning of its dealings with Rollins in 1934 to 7.02% in 1943. The customer subsequently disposed of all the securities which it purchased from Rollins with a net profit to the customer of $188,000. At no time did Rollins exercise any discretionary powers over the customer's funds nor was Rollins a depository for such funds. Any and all differences between Rollins and this customer have been settled to their mutual satisfaction."

Dillon Resumes Post With Dean Witter

Robert G. Dillon, who has been on active duty with the United States Naval Reserve for more than two years, has returned to his former position with Dean Witter & Co. as manager of the bond department in the New York office, 14 Wall St.

Chester Terrell With L. W. Hoefinghoff Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, O.—Chester T. Terrell has become associated with L. W. Hoefinghoff & Co., Inc., Union Central Building. Mr. Terrell was formerly manager of the trading department for Field, Richards & Co. and prior thereto served in a similar capacity with Edward Brockhaus & Co.

Some Elements Of Post-War American Life

(Continued from page 955)

cheaper to feed them in the army than in civilian life—evidently the Government plans on feeding them somewhere—or for some other cause. But whatever the case, their military service will keep them out of the labor market and our civil life and our civilian activities while revolutionists rivet down their communistic plan to the enslavement of all of us. In addition to this last, their retention in the military service will help the revolutionists to indoctrinate them with communism as they serve in the armed forces. Suppose that to this be added a peace-time compulsory universal military service for after the war, which will add to the first group all the young men born by the nation thereafter. Do I need to point out where all this can lead? And yet I am sure some are now planning these very eventualities.

But I must close. I have wished to bring together and to call to your attention a number of matters, the close relationship of which it is easy to miss, and to indicate to you that, so assembled, they make a pattern which cannot be accounted for except on the theory that some group of minds is working out a diabolical plan for the destruction of our liberties and freedom, our divinely inspired Constitution and the Government our fathers set up thereunder, and the wiping out of our constitutional guarantees and the free lives, the security, the happiness, and the blessings we have enjoyed thereunder.

I have always believed, and believe now, in the aggregate wisdom of the people, and that if you can bring the people to understand the problem they will solve it in terms of human freedom and progress. It has been with the thought that possibly I might add something, however little, to such a solution that I have come to you today.

God grant that to all of us shall come the will and the strength to preserve America for our children and our children's children, even as our fathers preserved it for us.

Turner, Govt. Mgr. of New York Hanseatic

New York Hanseatic Corporation, 120 Broadway, New York City, announces that Arthur C. Turner has become associated with them as manager of their U. S. Government bond department. Mr. Turner was formerly with the trading department of Carl M. Loeb, Rhoades & Co. and prior thereto was manager of the bond department of E. F. Hutton & Co.

Home Repairs Financed With FHA Funds

Nearly 390,000 American families financed urgently needed home repairs and maintenance last year with funds advanced by private financial institutions and insured by the Federal Housing Administration, Commissioner Abner H. Ferguson announced on Feb. 24. Loans reported during 1944 by these institutions for FHA insurance under Title I of the National Housing Act, it is announced, numbered 389,592 and amounted to $125,150,082, compared with 308,161 such loans for $96,373,831 reported during 1943.

This increase, Mr. Ferguson said, can largely be explained by necessities which arise from a continuation of the war emergency during which these loans may be made for three purposes only—repairs necessary for health or safety, to provide additional quarters for war workers, and particularly for such installations as insulation, weather stripping, storm doors and windows to help in the conservation of fuel.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 952)

what about the long term outlook? First, let me say that I don't care to give long term opinions. They seldom stand up long enough to be dignified by the term "long pull." But if events of the past are any yardsticks for the future, my guess is that even if regulations are passed to increase taxes the basic market trend will be left untouched.

* * *

Of course prices will go lower. The Street is always sensitive to rumors and changes of any kind. But unlike in other activities, traders jump first and reason after. So on opinion alone stocks were sold. You can expect this selling to continue for a couple of days. Worst hit will be the stocks which had the sharpest advances. This kind of action is, however, typical of a market discounting the news. So if the news eventually becomes an accomplished fact the chances are that the worst will have been seen.

* * *

Of course it will cost more to be in the market than before. But I hardly believe the regulation, if one occurs, will be retroactive. So those who hold on will probably be okay. That it will tend to reduce speculation is a foregone conclusion. Yet if money is as loose as they say it is, the conclusion may not be so foregone at that.

A few weeks ago you had a list of stocks. It is assumed you still have them. My advice is to hold but keep the stops in mind. Subsequently I recommended another group for buying. Up to the time the market started to move up only one of these, American Radiator, hardly a world beater, was available. But if the current nervousness continues and prices back away much more, you may get the rest before the next column appears.

* * *

In case you don't remember the stocks and prices, here they are again: American Crystal Sugar bought at 18½, now about the same price. Stop at 18. American Steel Foundries bought at 28, now about 32, stop 29½. Baldwin Locomotive bought at 26, now about 29, stop 28. Crucible Steel at 38, now about 44, stop 41. U. S. Steel at 59, now about 61, stop 59.

* * *

Second list is as follows: Consolidated Edison at 24, stop 26. Public Service of N. J. at 18, stop at 18.

Here is the list of stocks you were unable to get but may be able to in the very near future: Allis Chalmers 40½-41½; stop 39. American Bank Note 23-24; stop 22. National Lead 25-26; stop 24. Latter became available Tuesday, Feb. 27. Socony-Vacuum 15-15½; stop 14½.

* * *

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.]

Canadian Securities

(Continued from page 951)

a 2% yield basis and National Octobers and Seventies, and Montreal Harbors moved accordingly.

Likewise, although less rapidly, the longer-term high grades also moved into line, and another important block of long-term Ontarios changed hands again at a new high. Albertas still held firm and it is confidently expected that on the occasion of the provincial Budget Speech, next week, a formal debt reorganization plan will be laid before the Alberta Legislature.

An interesting feature accompanying the general rise of the market level is the easing of the supply situation — demand at higher prices has stimulated offerings with a resultant acceleration of activity.

Internals, both bonds, and equities, continued in steady demand, and with free funds bid at 9⅛% discount, recourse had to be made to the official source of supply.

With regard to the possible future trend, there is every reason for the continuance of the process of the Canadian market here moving into line with the level for comparable domestic securities. This movement has already taken place to a large degree in the case of the shorter-term, high-grade bonds, following the level set by the new Quebec issue. It can be anticipated therefore that increasing activity along a similar course will be experienced by the longer-term securities, and there is every likelihood of a broadening of the market for lower-grade bonds.

Objections to Bretton Woods Pacts

(Continued fro mpage 931)

anti-administration Republican member from Wisconsin, speaking in the House of Representatives last Tuesday; Mr. Keefe told the House:

"The Treasury Department, struggling with problems of a magnitude undreamed of a few years back, is in the over-all picture, staffed and manned by men and women of courage, rare intelligence, and distinction. I have nothing but praise for the manner in which the functions of this great department of government have been carried on. In my judgment, it is simply amazing that the Department has been able to attract and keep men of such outstanding character and ability. The tremendous problems of finance have been met with courage and fidelity. The people of the country are entitled to know that from the Secretary of the Treasury down through the long list administrative assistants and heads of bureaus and agencies, the work of this great department of government has been met in a manner that should challenge the admiration of the people of the country, regardless of political affiliation."

It was under this leadership that the representatives of forty-four of the United Nations met last July at Bretton Woods, New Hampshire, to formulate proposals for an International Monetary Fund and an International Bank for Reconstruction and Development.

We met in an atmosphere of tolerance and co-operation.

The professed objectives, as I understood them, were: (1) the expansion of our trade with other countries by making available credits and exchange; it was expected that this would result in (2) full employment and would be a dominating factor in (3) preserving peace by offering assurance against economic maladjustments which sometimes cause wars.

Many were skeptical of the proposed means of accomplishing these objectives. No one denied the advisability of attempting to devise plans to stabilize the relationship of world currencies and to give each country a fair and proportionate share of the world's business. Many thought, and still think, that in balancing world trade in the manner proposed and agreed upon, we should be certain that in the accomplishment we did not destroy our own commercial and financial position in world affairs to the prejudice of American industry, agriculture and labor. Full employment does not depend entirely upon full approval without amendment of the Bretton Woods Articles of Agreement; but will it be an aid or will it be a deterrent to the gainful employment of from 55 to 65 million of our people? That is the question which the American people and the Congress must satisfactorily answer after full consideration has been given to the claims of both the proponents and opponents before it will be wise to take definite action.

The conference was careful not to bind any country; it agreed only to submit the Articles of Agreement to the various countries for such action as they see fit to take. No government will be bound by the Articles until it has formally approved them, and then only when they have been approved and signed on behalf of governments having sixty-five per centum of the total of the quotas.

Enabling legislation has been introduced in the Senate and House of Representatives. It is expected that hearings will start within the next two weeks.

The subject is of tremendous and far-reaching importance. It is important, not only as a possible key to our economic destiny, but I cannot emphasize too strongly that it may well become a potential and perhaps controlling influence to our social and political position in the world of nations. Congress realizes its responsibility and will have a thorough understanding of the basic and affiliated issues before it finally takes action.

It is only because I want to provoke thought and debate, as an aid to a full understanding of the many questions which must be considered and satisfactorily answered before the Congress can intelligently act, that I call attention to some of the alleged deficiencies and to some of the objections made to both the Fund and the Bank.

Time and space will not permit an enumeration of all of them, but from what has been published and from many conferences, I conclude that the following are considered fundamental and are those most likely to be considered by Congress. I submit them without comment in the hope that public discussion of them will crystallize intelligent popular opinion, and thus fortify Congress in any action it may finally take.

Arguments Against the Proposed International Bank

It is alleged that:

1. The Bretton Woods lending program is only a part of a much larger program of expanded exports through loans, and will inevitably result in defaults abroad and disillusionment at home, because this country will not permit the large scale imports necessary for the repayment of all the loans and investments.

2. The program for vast exports, predicated in part on Bretton Woods credits, will ultimately produce a third world war, for the reason that it will cause a disequilibrium in world trade.

3. Although the stated objective of the Bretton Woods program is the balanced growth of world trade, by financing the industrialization of other countries, we may rather find that, in the end, we shall have balanced trade at low level, instead of at our high level, to the detriment of our laboring men, our farmers and industrialists.

4. The Bank will be under political pressure to make unwise loans.

5. Our past lending experience should dampen our ardor for such a scheme.

6. The Bank will kill off private lending, to the detriment of foreign borrowers.

7. The Bank would be under debtor-country control.

8. Private bankers can take care of all lending needs.

9. If American dollars are to be loaned, they should be loaned without the intermediation of other nationals.

10. The Bank and the Fund should be separated, and not regarded as one program for simultaneous enactment.

11. The guaranty of debtor countries is of questionable value to the United States.

12. Concessions to the other countries like the Latin Americas, who insisted at Bretton Woods that the Bank be devoted equally to reconstructoion and development, mean in effect that members desiring to develop have an automatic right to loans.

13. Our subscription is unlikely to be the full measure of our contribution, since the Bank may later increase its capital.

14. Repeal or suspension of the Johnson Act, as is provided in the Wagner-Tobey-Spence Bill, means tearing up billions in old IOU's, and the pouring out of new billions of private American capital.

Arguments Against Proposed International Fund

1. It is contended that it is inadvisable to set up two distinct agencies; that there is no necessity for the Fund; that the functions of the Fund can be better administered by creating a department in the International Bank for making exchange stabilization loans, and that the functions of the Bank in this respect may be supplemented by increasing the capital and powers of the Export-Import Bank of Washington. It was partly in deference to this theory that in considering the so-called George Bill in the House last week amendments were suggested which in effect would create the Export-Import Bank of Washington as an independent agency of the government, divorcing it from all domination by the Secretary of Commerce and making it possible for the Congress to control its policies.

2. From the U.S.A.'s standpoint, the stabilization fund created out of the devaluation "profits" of 1934 is more than ample for our needs, since $1,800,000,000 of the original $2,000,000,000 has never had to be touched.

3. If we are going to attempt to stabilize the economies of other countries, it should not be done in the guise of currency stabilization.

4. The Fund in most cases would start out by recognizing as the "value" of individual foreign monetary units the artificial quotations which have been in force throughout the war, whereas many foreign currencies if released from control, would have a true buying power of only a fraction of the present artificial quotations. Therefore, the Fund would conceal the true condition.

5. The Fund will be used for capital purposes, as well as for the intended short-te[illegible]rposes.

6. Our subsc[illegible] to the Bretton Woods p[illegible] (Fund and Bank) would [illegible] as much money as the value of all the goods we exported in three entire pre-war years: 1936, 1937 and 1938. We should therefore look this program over carefully before committing ourselves.

7. The hope that the Bretton Woods Fund will assure or even materially contribute to world peace is vain in the light of the realities among which the world lives.

8. The Bretton Woods program is really just a variation of the W.P.A., but on a world-wide scale. It is international pump-priming.

9. The Fund will destroy the control by Congress over the dollar, and the constitutional prerogative to regulate the value of our money will be imperiled.

10. The Fund is premature; the world is not yet ready for it. Domestic currencies should be stabilized before we attempt to stabilize foreign exchange.

11. The Fund is too large for stabilization purposes, and consequently would encourage member nations to delay the necessary steps, generally disagreeable, to effect a balance in their international payments.

12. The Fund gives the member countries virtually an automatic right to borrow and leaves little or no discretion to the Fund to refuse to make a loan.

13. The Fund would be controlled by the debtor countries.

14. The Fund will not, as asserted by some advocates, eliminate exchange control.

15. The Fund does not tackle the important question of blocked balances.

16. The Fund will actually encourage exchange control. To control capital movements, the members must control short-term transactions as well.

17. Virtually the only internationally-desired money in the Fund apart from about $1,000,000,000 of gold, would be the money contributed by the United States.

18. The Fund will interfere with the sovereignty of its members and with their powers to control their own economic lives.

19. The Fund is too complex to be understood or honestly explained so that the average person can understand it.

20. The Fund has a marked inflationary bias. Under it, all changes will be in the direction of devaluation.

21. Our past lending experience should dampen our ardor for such a scheme.

22. The Fund erroneously presumes that there is a general scarcity of international monetary resources.

23. The Fund would be dissipated without any material accomplishments.

24. The benefits of the Fund in the monetary field could readily be offset by trade controls.

25. The wide divergence of interpretation of the meaning and operation of the Fund, both here and in Britain, bodes only ill for the Fund's future.

26. The Fund's safeguards are inadequate.

27. The Fund is likely to break down because currencies and trade outside the Fund will far exceed those within the Fund area.

28. The Fund is objectionable because it is a cartel.

29. The Fund, by Section 5 of Article IV, is rendered powerless to achieve its proclaimed purpose of ending economic warfare.

30. There is no real compulsion on members to continue membership, once their quotas have been exhausted.

31. The U. S. A. would have the legal right to withdraw from the Fund, but once a member, it would not have the moral right to do so. Withdrawal later would be much more difficult than abstention now.

32. Since the Fund may borrow here, there is no telling what its total cost will be to us.

33. The Fund is unsuited to the problems of the transition period; it is primarily a long-run agency.

34. Government and other organized propaganda has focused attention on the Bretton Woods program, to the exclusion of other solutions of the problem. The President instructed the American delegation at Bretton Woods to consider no alternative plan.

35. The Fund will only obscure the underlying problems and render more difficult their ultimate solution.

36. Under the Bretton Woods program (Fund and Bank) gifts will be confused with loans.

37. The Fund promises too much; in particular, there is a gap between the Fund's supply of dollars and the rights under the Fund to dollars.

38. The quotas have no realistic relation to credit needs and credit-worthiness of members.

39. The Fund does not really stabilize.

40. The Fund does not provide for two-way adjustment.

41. The best solution of the world currency problem is restoration of the gold standard.

42. The best world monetary system is international bimetalism.

43. The Fund is only a device for lending dollars cheaply and will soon be wasted or lost.

44. The Fund gives to its members indiscriminately, without regard to credit worthiness, the automatic right to borrow foreign exchange.

45. Both because of the terms of the agreement, and the nature of our "Good Neighbor" policy, the Fund will be managed by debtor countries, and the U. S. A. in reality will exercise only a minority voice.

46. The Fund is too ambitious; stabilization of "key currencies" is more practical.

47. Before stabilization is attempted, trade barriers must be removed. To set up the Fund now is to put the cart before the horse.

48. International currency stability cannot endure unless based upon prior economic and political stability within the various individual nations.

49. The Fund may force us to lower our tariffs.

50. The Fund's "safeguards" are not effective safeguards, because they may be waived.

51. In the Bretton Woods program, we should be pouring our money down a rat-hole.

52. The Fund implies Government control of foreign trade.

53. The Fund is an unnatural monstrosity, because it attempts to reconcile the irreconcilable; its appearance of agreement is really a diplomatic fiction.

54. The Fund cannot work as we are told it would, because economic considerations were set aside for military and political reasons at Bretton Woods.

The proponents of the Fund and the Bank, especially the Treasury, have given assurance that many of these criticisms are not justified, and answers have been offered to many others; to many persons, however, the answers are not considered sufficient. Apparently much study must still be given to many of them by the people and the Congress.

You, as a club, and as representatives of units of our economy, vitally interested in the purposes, plans and operation of the Fund and Bank, can be of tremendous assistance.

The economic, social and political future of America was at stake at Bretton Woods. The final decision will be dictated by the people of America.

It has been a pleasure to be here today, and I know that you will feel at liberty to give the Congress the benefit of any decisions you make in respect to these proposals.

Over Two Hundred at Cleve. S. E. Dinner

CLEVELAND, O.—The forty-fifth annual meeting of the Cleveland Stock Exchange was attended by more than two hundred at the dinner in the main ballroom of the Hotel Statler. This was the first meeting of exchange members, industrialists, bankers and brokers, and proved so successful that it is indicated the dinner may become an annual event.

Charles A. Otis was principal guest speaker of the evening and reviewed his more than half-century of business and financial life in Cleveland, recalling the organization of the Cleveland Exchange in 1899. Mr. Otis had his audience in gales of laughter at his quips.

Guy Prosser, Merill Lynch, Pierce, Fenner & Beane, the newly elected president of the Exchange, was toastmaster of the evening. He declared that the Exchange this year had set a goal of more listees, more volume and more business.

Election of officers of the Exchange was reported in the "Financial Chronicle" of February 22nd.

Guests at the dinner were:

Asael Adams, Dollar Savings & Trust.
V. N. Alexander, National Tile Co.
G. W. Andrews, Union Bk. of Commerce.
W. H. Annat, Spieth, Taggart, Spring & Annat.
F. M. Asbeck, Wm. J. Mericka & Co.
F. M. Baker, J. S. Bache & Co.
F. L. Ball, Park Drop Forge Co.
W. I. Beam, Chamber of Commerce.
T. A. Billenstein, Cleveland Trust Co.
C. C. Blair, Metropolitan Paving Brick Co.
R. B. Blyth, National City Bank.
R. E. Borton, Wm. J. Mericka & Co.
R. W. Bosworth, Ball, Burge & Kraus.
P. M. Bourne, Cleveland Trust Co.
G. C. Brainard, General Fireproofing Co.
C. W. Brown, Saunders, Stiver & Co.
Hon. T. A. Burke, Jr., Mayor of City of Cleveland.
J. J. Carroll.
A. P. Cerveny, Fostoria Pressed Steel Co.
H. G. Chappell, Ruple Collinwood Coal Co.
Al Clark, Paine, Webber, Jackson & Curtis.
S. D. Clark, National Assn. of Security Dealers Inc.
C. C. Clayton, Wellman Engineering Co.
C. L. Cleaver, Interlake Iron.
S. B. Congdon, National City Bank of Cleveland.
J. T. Conners, Merrill Lynch, Pierce Fenner & Beane.
Ernest Cornell, Division of Securities.
Herbert Covington, Harriman Ripley & Co.
M. J. M. Cox, Curtiss House & Co.

J. N. Darrow, Merrill Lynch, Pierce Fenner & Beane.
C. F. Davis, First Cleveland Corp.
Phil Dawson, Medusa Portland Cement Co.
Arthur DeGarmo, Merrill Lynch, Pierce Fenner & Beane.
Arthur Dewey, Joseph & Feiss Co.
R. L. Dickey, Kelley Island Lime & Transport.
R. Diehl, McDonald & Co.
J. H. Dipple, Halle Bros. Co.
C. H. Doerge, Wm. J. Mericka & Co.
R. F. Donahey, Robt. F. Donahey & Co.
J. F. Drake, Walthall and Drake.
F. F. Duncan, Cleveland News.
S. M. Eilers, Hornblower & Weeks.
F. H. Emery, Finley & Co.
C. W. Evans, Weinberger Drug Stores, Inc.
Peter Fahey.
J. T. Feighan, Standard Brewing Co.
Paul Feiss, Joseph & Feiss Co.
J. S. Fleek, Hayden Miller & Co.
I. F. Freiberger, Cleveland Trust Co.
Harry Gawne, Merrill Turben & Co.
D. H. Gearheart, Warren Refining & Chemical Co.
F. C. Gee, First Cleveland Corp.
E. B. Geggus, Curtiss House & Co.
L. L. Gelbach, Central National Bank.
B. H. Gier, Merrill Lynch, Pierce Fenner & Beane.
A. V. Grace, Arthur V. Grace & Co.
A. P. Gram, Eaton Mfg. Co.
George Gund, Cleveland Trust Co.
S. H. Halle, Halle Bros. Co.
W. W. Hancock, Republic Steel Corp.
Joseph Hartzmark, Goodbody & Co.
H. S. Harrison, Cleveland Cliffs Iron Co.
M. C. Harvey, M. C. Harvey & Co.
H. E. Hogue, Wasmer Bolt & Screw Corp.
James Holan, American Coach & Body Co.
H. C. Hopkins, H. C. Hopkins & Co.
R. H. Horsburgh, The Glidden Co.
D. M. Hosford, Salomon Bros. & Hutzler.
H. W. Hosford, H. W. Hosford Co.
Allan C. House, Curtiss House & Co.
Nat Howard, Cleveland News.
Fred Hudson, Ball, Burge & Kraus.
H. C. Jackson, Interlake S. S.
Robert Jones, Saunders, Stiver & Co.
H. B. Joseph, Joseph & Co., Inc.
J. J. Kane, First Assistant U. S. Attorney.
H. B. Keeler, Keeler & Co.
E. H. Keller, McDonald & Co.
E. A. King, Maynard H. Murch & Co.
W. H. Koelling, Curtiss House & Co.
O. E. Koeser, Blyth & Co.
E. C. Koster, Vlchek Tool Co.
Harry Kraus, Ball, Burge & Kraus.
J. A. Kruse, Otis & Co.
V. S. Latimer, Warren Refining & Chemical Co.
Frank Lewman, Richman Bros.
C. B. Lincoln, Otis & Co.
A. A. List, National Refining Co.
C. L. Liston, Prescott & Co.
J. P. Long, Cleveland Cliffs Iron Corp.
W. G. Mather, Cleveland Cliffs Iron Corp.
A. M. Maxwell, Standard Oil Co. of Ohio.
C. H. McCrea, National Malleable & Steel Castings Co.
Hon. Wm. McDermott, Municipal Court.
J. R. McGaw, Cleveland News.
J. C. McHannan, Central National Bank.
B. J. McPolin, McDonald & Co.
G. A. Medinger, Fostoria Pressed Steel.
J. J. Mellon, Clark Controller Co.
J. P. Murphy, Higbee Co.
L. W. Murfey, Curtiss House & Co.
H. R. Neff, Geo. S. Rider Co.
Eliot Ness, Diebold, Inc., Canton, Ohio.
Stuart Norrs, U. S. Marines
H. D. North, Ferry Cap & Set Screw Co.
C. J. Odenweller, Jr., Securities & Exchange Commission.
R. J. Olderman, Field Richards & Co.
Charles A. Otis.
Eugene Parker, Burgess, Fulton & Fulmer.
W. J. Perry, Cleveland Stock Exchange.
F. M. Pollock, Buckeye Ribbon & Carbon Co.
C. H. Pomeroy, National Malleable & Steel Castings Co.
E. W. Powers, Butler, Wick & Co.
Franklin Powers.
C. W. Prosser, U. S. Air Forces.
W. H. Prosser.
J. L. Quigley, Quigley & Co., Inc.
G. W. Reese, Reese Chemical Co.
Hiram Rivitz, Industrial Rayon Corp.
Buy Rockwell, Cleveland Plain Dealer.
A. S. Rodgers, White Sewing Machine Co.
J. E. Rogers, Addressograph-Multigraph Corp.
E. J. Rung, C. J. Devine & Co.
O. W. Schroeder, Neal-Phypers Co.
F. J. Schulte, Jr., Ledogar Horner Co.
Edward Schultz, J. S. Bache & Co.
S. M. Schultz, Capital Bank.
W. P. Seiberling, Seiberling Rubber Co.
Louis Seltzer, Cleveland Press.
A. J. Sharr, A. J. Sharr & Co.
H. J. Sheedy, McDonald & Co.
Seward Sheldon, Cleveland Press.
R. O. Shepard, Hawley Shepard & Co.
John Sherwin, Interlake S. S.
Edward Siegler, J. S. Bache & Co.
L. G. Smith, Otis & Co.
R. H. Smith, Lamson & Sessions Co.
S. H. Smith, Paine, Webber, Jackson & Curtis.
W. H. Smith, Merrill Lynch, Pierce, Fenner & Beane, N. Y.
Joseph Spivack, Weinbergegr Drug Stores, Inc.
W. H. Staples, Nestle Le Mur.
H. L. Stettler, Jr., Akron Brass Mfg. Co.
J. K. Thompson, Union Bank of Commerce.
R. M. Ullman, Ullman & Co., Inc.
W. G. Vorpe, Cleveland Plain Dealer.
A. J. Wardle, McKay Machine Co.
A. J. Weathehead, The Weatherhead Co.
Russell Weisman, Cleveland Plain Dealer.
H. E. White, Cleveland Trust Co.
R. G. Widdows, Electric Controller & Mfg. Co.
C. W. Wild, Harbauer Co.
G. R. Williams, Livingston, Williams & Co.
Hamilton Wilson, Field, Richards & Co.
H. B. Winsor, Second Federal Savings & Loan.
Harlan Yenne, Cleveland Trust Co.
D. D. Zevin, Commercial Bookbinding.
H. O. Ziegler, Union Bank of Commerce.
J. A. Zimmer, Packer Corp.
W. H. Zink, W. H. Zink & Co.

Calendar Of New Security Flotations

OFFERINGS

PROVIDENCE OF QUEBEC has filed a registration statement for $15,000,000 2% debentures due March 1, 1950.

Proceeds—The proceeds, together with other funds of the Province, are to be applied to the redemption of $15,000,000 4½% debentures due March 2, 1950, callable on and after March 2, 1945.

Underwriters — Underwriters are First Boston Corp., Smith, Barney & Co. and Harriman, Ripley & Co., Inc., $2,500,000 each; A. E. Ames & Co., Inc., Dominion Securities Corp. and Wood, Gundy & Co., Inc., $2,050,000 each, and MeLeod, Young, Weir, Inc., $1,350,000.

Registration Statement No. 2-5595. Form S-1. (2-20-45).

Offered Feb. 28 by above banking houses at 100 and interest.

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.

MONDAY, MARCH 5

WARREN PETROLEUM CORP. on Feb. 14 filed a registration statement for $3,000,000 10-year sinking fund debentures, due March 1, 1955 (interest rate to be filed by amendment) and 150,000 shares of common stock (par $5).

Details—See issue of Feb. 22.

Offering—Of the $3,000,000 debentures $1,000,000 are to be sold to four stockholders at the public offering price and the remaining $2,000,000 are to be sold to the underwriters for public offering.

The stock now outstanding is being sold by stockholders.

Underwriters — Merrill Lynch, Pierce, Fenner & Beane head the underwriting group, with the names of others to be supplied by amendment.

LACLEDE GAS LIGHT CO. on Feb. 14 filed a registration statement for $19,000,000 first mortgage bonds due Feb. 1, 1965, and $3,000,000 serial debentures due serially March 1, 1948 to March 1, 1955. Interest rates will be filed by amendment.

Details—See issue of Feb. 22.

Business—Public utility.

Offering—The price to the public of the bonds and debentures will be filed by amendment.

Underwriters—Bonds and debentures will be offered for sale at competitive bidding and interest rates will be named by the successful bidder. The names of the underwriters will be filed by amendment.

TUESDAY, MARCH 6

SOLAR MANUFACTURING CO. on Feb. 15 filed a registration statement for 50,000 shares of common stock. The shares are issued and outstanding and do not represent new financing.

Details—See issue of Feb. 22.

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

Underwriters—The underwriting group is headed by Van Alstyne, Noel & Co. Others will be filed by amendment.

WEDNESDAY, MARCH 7

BLUEFIELD SUPPLY CO on Feb. 16 filed a registration statement for 4,990 shares of common stock, par $100.

Details—See issue of Feb. 22.

Offering—The offering price $100 per share. New common is being offered to present stockholders on a pro rata basis of their holdings as of March 15, 1945.

Underwriters—None named.

SATURDAY, MARCH 10

AUTOMOBILE DEALERS INSURORS, INC. on Feb. 19 filed a registration statement for 4,985 shares of preferred stock and 7,470 shares of Class A common stock.

Details—See issue of Feb. 22.

Offering—Preferred and Class A common stock will be offered only to factory authorized automobile dealers and automobile finance men in blocks of one share of preferred and two shares of Class A common for $101 per unit.

Underwriters—None named.

EMERSON ELECTRIC MANUFACTURING CO. has filed a registration statement for 42,360 shares of common stock. The shares are issued and outstanding and do not represent new financing by the company.

Underwriting—Van Alstyne, Noel & Co. heads the underwriting group.

Registration Statement No. 2-5591. Form S-1. (2-19-45).

Registration withdrawn—It has been announced that the shares have been placed privately and the registration statement has been withdrawn.

ARO EQUIPMENT CORP. has filed a registration statement for 30,000 shares of cumulative preferred stock (par $50) and 55,000 shares of common (par $2.50). Of the common registered, 25,000 are being sold by the company and 30,000 by J. C. Markey, President and Director.

Address—Enterprise and Trevitt Streets, Bryan, Ohio.

Business—Since entrance of country into the war, the activities of the company have been concentrated largely in the manufacture and sale of aircraft accessories. On April 5, 1944, the stockholders approved an amendment authorizing the company to engage in the oil business.

Offering—The offering price of the preferred and common stocks will be supplied by amendment.

Proceeds—Company will use its share of the proceeds for the acquisition and carrying of inventories, purchase of machinery and other equipment, research and development.

Underwriting—Central Republic Co., Inc., and Kebbon, McCormick & Co.

Registration Statement No. 2-5592. Form S-1. (2-19-45).

INTERSTATE BAKERIES CORP. has filed a registration statement for $2,500,000 first mortgage 4¼% bonds due March 1, 1962.

Address—406 W. 34th Street, Kansas City, Mo.

Business — Manufacture and sale of bakery products.

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

Proceeds—Net proceeds from the sale, with other funds of the company, will be used to redeem on or about April 12, 1945, at 105 and interest the $2,500,000 presently outstanding first mortgage 5% bonds due June 1, 1958.

Underwriting—H. M. Byllesby & Co., Inc., A. C. Allyn & Co., Inc., Central Republic Co., Inc., Farwell, Chapman & Co. and Stern Brothers & Co.

Registration Statement No. 2-5593. Form S-1. (2-19-45).

LACLEDE GAS LIGHT CO. has filed a registration statement for 2,165,296 shares of common stock ($4 par). Shares registered are owned by the Ogden Corp.

Address—1017 Olive Street, St. Louis, Mo.

Business—Public utility.

Offering—The offering price will be filed by amendment.

Proceeds—The proceeds will go to the Ogden Corp. which is the owner of the shares registered. The new common stock is being offered by Ogden Corp. pursuant to the terms of a plan of reorganization of Ogden and its subsidiaries which was approved by the Commission on May 27, 1944. The shares are being sold by Ogden as a part of its program to dispose of its public utility investments in accordance with the Public Utility Holding Company Act of 1935. The stock will be sold pursuant to the Commission's competitive bidding rule.

Underwriting—To be filed by amendment.

Registration Statement No. 2-5594. Form S-1. (2-19-45)

TUESDAY, MARCH 13

FLINTKOTE CO. has filed a registration statement for 62,800 shares of common stock (no par).

Address—30 Rockefeller Plaza, New York City.

Business—Directly or through subsidiaries engaged in the manufacture and sale of various asphalt and asbestos-cement roofing and siding products, etc.

Offering—The stock is to be offered in exchange for all the outstanding stock of Tile-Tex Co. Flintkote states it is advised that shares issued to stockholders of Tile-Tex pursuant to the exchange agreement may be sold by the holders on the New York Stock Exchange at prevailing market prices. In the event the shares are sold otherwise the company will file a post-effective amendment. The agreement provides that the exchange of stock shall be effected as of the close of business March 24, 1945.

Purpose—To acquire Tile-Tex Co. stock.

Underwriters—None named.

Registration Statement No. 2-5596. Form S-1. (2-22-45).

AMERICAN CASUALTY CO. OF READING, PA., has filed a registration statement for 100,000 shares of capital stock (par $5).

Address—607 Washington Street, Reading, Pa.

Business—Casual-surety company.

Offering—The new shares are being offered to present stockholders on the basis of one-third of a share of new stock for each share held. The subscription price will be filed by amendment. The unsubscribed shares will be purchased by underwriters for offering to the public at a price to be filed by amendment.

Proceeds—Of the proceeds, $500,000, at the rate of $5 per share, will be allocated to the capital stock account and the balance will be allocated to surplus, by action of the board of directors. The primary purpose of the financing, registration statement said, is to enable the company to increase by $1,000,000 during the year 1945, its investment in its wholly-owned subsidiary, American Aviation & General Insurance Co.

Underwriters—Huff, Geyer & Hecht is the principal underwriter, with names of others to be named by amendment.

Registration Statement No. 2-5597. Form S-1. (2-22-45).

WEDNESDAY, MARCH 14

MARSHALL FIELD & CO. has filed a registration statement for 150,000 shares of cumulative preferred stock ($100 par). Dividend rate will be filed by amendment.

Address—222 North Bank Drive, Chicago.

Business — Operation of department stores, textile and floor covering mills and the Merchandise Mart in Chicago.

Offering—Company is giving to the holders of its 6% cumulative preferred shares and 6% cumulative preferred shares, Second Series, the right to exchange such shares prior to 3 p.m. March 19 for the new preferred on a share for share basis plus certain cash payments by the company, and subject to certain dividend adjustments. Shares not issued in exchange will be sold to underwriters for offering to the public. The offering price to the public will be supplied by amendment. The amount of the cash payment will be filed by amendment.

Proceeds—Entire net proceeds from the sale to underwriters of unexchanged shares, together with such additional funds as may be required, will be applied to the redemption of the preferred shares of both classes not exchanged by the holders for the new preferred stock.

Underwriters—Principal underwriters are Glore, Forgan & Co., Lee Higginson Corp. and Shields & Co. Others will be named by amendment.

Registration Statement No. 2-5598. Form A-2. (2-23-45).

BURTON-DIXIE CORP. has filed a registration statement for 60,000 shares of common stock ($12.50 par). The shares are issued and outstanding and are being sold by Oliver M. Burton director and chairman.

Address — 2024 South Racine Avenue, Chicago, Ill.

Business — Normal operations consist principally of the production of fabricated items for furniture, bedding and automobile manufacturers.

Offering—The offering price to the public is $16.50 per share.

Proceeds—The proceeds will go to the selling stockholder.

Underwriters—Paul H. Davis & Co. heads the list of underwriters, with the names of others to be filed by amendment.

Registration Statement No. 2-5599. Form S-1. (2-23-45).

AMERICAN AUTOMOBILE INSURANCE CO. filed a registration statement for 75,000 shares of common stock (par $4). The shares are issued and outstanding and being sold for the account of two stockholders, 50,000 by Katherine N. McLennan and Woodbury S. Ober, executors of the will of Donard R. McLennan, and 25,000 shares by Katherine N. McLennan.

Address—1400 Pierce Building, St. Louis, Mo.

Business—Underwriting of various classes of casualty risks and fire insurance risks.

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

Underwriting—G. H. Walker & Co., Kidder, Peabody & Co., and Huff, Geyer & Hecht.

Registration Statement No. 2-5600. Form A-2. (2-23-45).

CONTINENTAL CAN CO., INC., has filed a registration statement for 150,000 shares of cumulative preferred stock (no par). The dividend rate will be filed by amendment.

Address—100 East 42nd Street, New York City.

Business — Manufactures a diversified line of cans and other metal containers.

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

Proceeds—The proceeds will be added to the general funds of the company and may be used to finance in part a program of capital improvements and additions when circumstances permit.

Underwriters—The underwrting group is headed by Goldman, Sachs & Co. and Lehman Brothers. Others will be filed by amendment.

Registration Statement No. 2-5601. Form S-1. (2-23-45).

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.

ACME ALUMINUM ALLOYS, INC. on Jan. 29 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).

Details—See issue of Feb. 1, 1945.

Offering Price—Offering price of preferred stock is given at $20.75 per share and of common at $8 per share.

Underwriters—Reynolds & Co., and Gillen & Co.

A. P. W. PRODUCTS CO., INC. on Jan 27 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).

Details—See issue of Feb. 1, 1945.

Offering—Holders of outstanding $2,000,000 20-year 6% first mortgage sinking fund bonds due 1948 are given 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 of the maturity date to April 1 1965 and the reduction 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) 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 common stock.

Underwriters — 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.

ARKANSAS-MISSOURI POWER CORP. on Dec. 4 filed a registration statement for $2,000,000 first mortgage bonds, series A, 3⅛%, due Dec. 1, 1974.

Details—See issue of Dec. 7, 1944.

Offering—The bonds will be offered for sale at competitive bidding.

BENDIX HELICOPTER, INC. on Feb. 2 filed a registration statement for 1,400,000 shares of capital stock, par value 50 cents.

Details—See issue of Feb. 8, 1945.

Offering—Of shares registered 1,000,000 are to be offered presently proportionately to holders of outstanding stock on basis of four additional shares for each five shares held at $1.60 per share; 200,000 shares are reserved to be issued when, as and if certain outstanding options 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.

Underwriters—Kobbe, Gearhart & Co., Inc., and Bond & Goodwin, Inc., are named principal underwriters.

BENSON AND HEDGES on Feb. 8 filed a registration statement for 30,000 shares of common stock (no par).

Details—See issue of Feb. 15, 1945.

Offering—Company is offering the 30,000 shares of common stock to holders of outstanding $2 cumulative convertible preferred stock and holders of common stock for subscription at rate of one share of common for each two shares of stock, preferred or common, held Feb. 27, 1945, at $25 per share. Tobacco and Allied Stocks, Inc., majority owned of outstanding voting stock has expressed its intention of exercising its subscription rights and also has agreed to subscribe for all unsubscribed shares at $25 per share.

Underwriters — Agreement with parent made it unnecessary for company to enter into any underwriting agreement.

CENTRAL OHIO LIGHT & POWER CO. on Dec. 28 filed a registration statement for 11,972 shares of preferred stock, cumulative ($100 par). The dividend rate will be filed by amendment.

Details—See issue of Jan. 4, 1945.

Offering—Company proposes to invite proposals for services to be rendered 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.

DIANA STORES CORP. on Feb. 5 filed a registration statement for 40,000 common stock purchase warrants and 40,000 shares of common stock par value $1 per share, issuable pursuant to these warrants.

Details—See issue of Feb. 15, 1945.

Offering—40,000 shares of common stock are issued and outstanding and are not offered for account of company. Company is offering 40,000 shares of common issuable upon the exercise of the stock purchase warrants and the payment of $7 per share.

Underwriters—Not named.

FLORIDA POWER CORP. on July 21, 1944 filed a registration statement for 40,000 shares cumulative preferred stock (par $100). The dividend rate will be supplied by amendment.

Details—See issue of July 27, 1944.

Offering—Stock is to be offered for sale by the company pursuant to Commission's competitive bidding Rule U-50.

Underwriters — Names of underwriters will be filed by post-effective amendment. The successful bidder will name the dividend rate on the stock.

GENII CORP. on Dec. 23, 1944 filed a registration statement for 1,863 shares of common stock.

Details—See issue of Jan. 4, 1945.

Underwriters—Company plans to sell the securities registered direct to the public without the assistance of underwriters or dealers.

Offering Price—Offering price is $100 per share.

HERFF JONES CO. on Jan. 27 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.

Details—See issue of Feb. 8, 1945.

Offering—The offering price is $10 per share.

Underwriters—Cities Securities Co., Indianapolis, is the principal underwriter.

NATIONAL PRESSURE COOKER CO. on Dec. 19 filed a registration statement for 150,000 shares of common stock (par $2).

Details—See issue of Dec. 28, 1944.

Offering—Stock will be offered to common stockholders of record on Jan. 25, 1945, in the ratio of one and one-half shares for each share of stock held at $15 per share. Subscription rights expire Feb. 25.

NORTHERN PENNSYLVANIA POWER CO. on Jan. 26 filed a registration statement for $4,000,000 first mortgage bonds due 1975.

Details—See issue of Feb. 1, 1945.

Competitive Bidding—The bonds are to be sold under the Commission's competitive bidding rule, with the interest rate to be named by the successful bidder.

Underwriters—To be named by amendment.

Seeks Bids—Company is inviting bids for the purchase of the bonds, the coupon rate to be specified in the bids. Bids will be received by company at Room 2401, 61 Broadway, New York 6, N. Y. up to 12 o'clock noon, EWT on March 6.

OHIO WATER SERVICE CO. on Dec. 7 filed a registration statement for 80,880 shares of common stock, par $10. The shares are now outstanding and are being sold by Federal Water & Gas Corp.

Details—See issue of Dec. 14, 1944.

Underwriters—Otis & Co. are principal underwriters.

OLD STAR DISTILLING CORP. on Aug. 14, 1944 filed a registration statement for 5,000 shares of $100 preferred stock, non-cumulative and non-participating. Price to public will be $110 per share.

Details—See issue of Aug. 24, 1944.

Underwriters—No underwriter named.

SAVANNAH-ST. AUGUSTINE GAS CO. on Feb. 3 filed a registration statement (No. 2-5582) for 6,250 shares of 5% cumulative preferred stock, par $100, and 30,000 shares of common stock, par $10.

Details—See issue of Feb. 8, 1945.

Offering—Offering price of preferred is $100 per share and that of common $15 per share.

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.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The upward movement of the government bond market continued last week, with the longer-term taxable issues leading the way, by registering gains of more than a half a point. . . . The sharp advance shown in the restricted issues, such as the 2¼% due 1956/59 and the long 2½'s indicates that the savings banks and insurance companies were important factors in the market last week. . . . The investable funds of these institutions are piling up, and despite the high levels of the market, this money has to be put to work. . . . It is reported that the market for the longer term 2½'s is quite thin, with dealers positions pretty well liquidated, so that a not too sizable amount of buying serves to put the market for these obligations up rather substantially. . . .

WHAT'S THE ANSWER?

The market is playing one of the greatest guessing games in its history, trying to figure out the issues that may be offered in the Seventh War Loan. The range of these guesses are as follows:

1½% due 1950 or 1951
1¾% due 1953/55
2¼% due 1960/62
2⅜% due 1968/73
2½% due 1975/80

Each one is entitled to take his pick although there seems to be many in the "financial district" who believe that there will be an offering of a five-year to six-year 1½% obligation instead of an intermediate term issue. . . . They point out that this will reduce the cost of financing to the government and would be in line with the present market. . . . If such an offering is made, it is believed that it will be combined with a long term 2¼% or 2½% bond. . . .

The feeling that a short term 1½% security will be in the next War Loan "basket," undoubtedly was responsible for the run-up last week in the 2% due 12/15/49/51, the 2% due 3/15/50/52, the 2% due 9/15/50/52, the 2% due 9/15/51/53 and the 2% due 12/15/51/53. . . . The opinion now is that with a short term issue, the 2's due 1952/54 will go above 102, although at present prices they do not appear to have too much left in them. . . .

INCREASED RESTRICTIONS INDICATED

There is considerable discussion as to the possibility that greater restrictions may be placed upon the Seventh War Loan offerings. . . . Some hold the opinion that the commercial banks will not be allowed to subscribe to the medium term and long term bonds. . . . Others feel that the savings banks, insurance companies and to a limited degree, the commercial banks, with savings deposits may be permitted to purchase only limited amounts of the longer term issues. . . .

It was pointed out that if such a procedure were adopted, trading might not be as profitable as previously for present holdings necessarily would be retained, at least to a greater degree. . . . This method probably would necessitate an offering of shorter term issues to commercial banks, generally and this, in turn, would create War Loan deposits, lessening the urge to create such deposits by bidding for subscriptions. . . . Regardless of what changes may be made, if any, further large offerings of government securities will be made. . . .

Because of the high market level for Government issues, many people believe that the pattern of financing has changed, with new rates to be expected in the future. . . . Up to the present time, the Treasury has not indicated that they have been dissatisfied with the present pattern of interest rates. . . .

However, last year when the British sold intermediate term 1¾% obligations instead of the long 2½'s because the long term debt was increasing too rapidly, and the end of deficit financing was not in sight, many in this country believed that a change in our pattern of financing was inevitable. . . .

BRITAIN AND THE UNITED STATES

There are many points of difference between Great Britain and the United States, and one of the most important of these is that England is a small, poor nation with a very heavy debt. . . . As a result England has had to make use of a large short term debt to make the interest burden bearable. . . . With a complete monopoly of the money markets, the British have no doubt about their ability to finance maturities and accordingly they offered the shorter term 1¾% bonds in place of the longer 2½'s to cut the debt service. . . . Up to the time of the British action in lowering the interest cost, the pattern of interest rates was set in the United States. . . . Not long after the British brought out the short term 1¾% issue, our 2% bonds started to advance faster than ever before. . . . Many doubtful people in our country were at last convinced that interest rates in the United States would not go up, after all these years of still hoping for 4% governments. . . . Suddenly they realized that the eight to ten-year 2% bonds were not so long, and these bonds over night become very desirable issues because of the fear that no more of them would be issued. . . .

The British move convinced these people that they must buy the longer term issues and as a result the 2% and 2½% bonds have been pushed into new all-time high levels. . . .

IMPORTANT DIFFERENCE

Now many people in this country feel that we will follow the British method of financing and make much greater use of the short term securities. There will be, however, this very important difference between what took place in England and what may happen in the United States.

(a) In England the government took the first step to cut the debt burden.
(b) In the United States the financial institutions took the initiative in cutting the cost of the debt service with the government likely to fall in line with this policy.

War Bonds Tax Exempt Says Treasury Dept.

War bonds are not subject to state income taxes, Daniel W. Bell, Under-Secretary of the Treasury, said on Feb. 24, according to United Press advices published in the Chicago "Journal of Commerce" of that date in which it was further stated:

He (Mr. Bell) telegraphed Chester Davis, President of the Federal Reserve Bank in St. Louis, instructing him to correct the impression that a proposed Missouri constitution would tax income from war bonds.

A pamphlet issued by an association against the proposed Missouri constitution, Mr. Bell said, reported that war bond income would be subject to three taxes.

"The pamphlet conveys an entirely erroneous impression and might seriously affect the sale of war bonds in your state," Mr. Bell said.

The pamphlet said a Federal income tax, a state income tax and an intangible property tax all could be levied on income from war bonds.

But Mr. Bell telegraphed Mr. Davis that all war bonds issued since March 1, 1941, "are exempt from all taxation now or hereafter imposed on the principal or interest."

Daly & Kelty Formed

Daly & Kelty, members of the Put and Call Brokers and Dealers Association, Inc., has been formed with offices at 60 Broad St., New York City.

N. J. Howland V.-P. of D. T. Johnston Co.

Announcement is made of the election of N. J. Howland as a vice-president of Douglas T. Johnston & Co., Inc., 247 Park Avenue, New York City, investment counsellors. Mr. Howland was formerly an officer of W. R. Bull Management Co., Inc., and its predecessors.

Hatcher & Company Formed in Dallas, Tex.

DALLAS, TEX.—Hatcher and Company, Inc., has been formed with offices in the Kirby Building, to engage in an investment business. Maurice M. Hatcher is president of the firm. Mr. Hatcher in the past was with Beckett, Gilbert & Co., W. K. Ewing & Co., and Bain, Emerson & Co.

Mercantile Bank Opens Investment Department

HAMMOND, IND.—The Mercantile Bank of Hammond announces the opening of an investment department in charge of John E. Taylor.

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