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# The Commercial and FINANCIAL CHRONICLE

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## Caffrey Named SEC Member; Byrne May Be N. Y. Area Head

### New Commissioner Succeeds Robert J. O'Brien

On April 6, President Roosevelt nominated James C. Caffrey of New York to be a member of the Securities and Exchange Commission to succeed Robert J. O'Brien, who resigned last December. Mr. Caffrey has been on the staff of the SEC since 1936, when he joined the organization as an attorney was for a time the regional director of the Boston office. He has been administrator of the New York regional office of the SEC since 1938. Peter T. Byrne, who is now assistant to Ganson Purcell, Chairman of the SEC, is expected to be appointed head of the N. Y. regional office.

James J. Caffrey

Mr. Caffrey, who was born in Boston, is now 47 years old. He is a graduate of Harvard University and the Suffolk Law School in Boston. During World War I he served as a lieutenant in the Marine Corps.

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## American Dollar In Foreign Trade

By ROBERT H. PATCHIN*
Vice-President, W. R. Grace & Co.

**Holding That the American Dollar Today Is a Universal Medium of International Exchange, Mr. Patchin Points Out That There Are "Sterling Areas" and "Franc Areas" That Are Contrary to the Principles of Multilateral, Non-Discriminating Trade as Accepted in the Atlantic Charter and Declaration of the United Nations. Says if All Countries With Which Britain Has Bilateral Trade Agreement Should Pursue a Discriminatory Policy, They Would Cover 40 per cent of Earth's Surface and Lie Directly Across Multilateral Trade Channels. Sees Heavy Post-War Purchases of American Goods Arising From Large Dollar Balances Held Abroad. Urges Restoration of Domestic Economy.**

When first invited to participate in this program, I was asked to speak on "What to Expect in the Dollar Area." I declined on the ground that there is no "dollar area." It is misleading and dangerous to let the idea get about that the use of the United States dollar is, or can be, restricted by our Government to employment in any particular area.

Robert H. Patchin

The American dollar today is a universal medium of international exchange. It is the only great one in the world today upon the legitimate commercial use of which the issuing government imposes no restrictions.

We know there is a "sterling area" consisting of the British

*An address by Mr. Patchin prepared for delivery before the Export Managers Club, New York City, April 3, 1945.

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## British Opinions on Bretton Woods

By FRANCIS W. HIRST
Formerly Editor of the London "Economist"

*By Special Cable to The Commercial and Financial Chronicle*

**Leading British Economist and Writer States That Despite Great Variety and Confusion of English Opinion on Bretton Woods Pact, and the Marked Objections to It Raised in Parliament and the Press, An "Obsolescent" Parliament Will Approve It if Churchill's Cabinet Asks It. Says They Await Congress Action, as, Without U. S. Help, the Project Will Collapse. Contrasts Former Sturdy British Attitude Toward the Gold Standard, the Independence of the Bank of England, and the Soundness of London Exchange With the Present Philosophy of Severe Government Controls and Managed Money. Hopes That in Spite of "Our Economic Cloudland" the United States and the British Will Confine Themselves to Practical Aims.**

There is no doubt whatever that Mr. Churchill's Cabinet can easily induce Parliament to ratify the draft plan signed on July 22 of last year at Bretton Woods by representatives of 44 governments. If and when they present a resolution for the purpose there may be a long debate and much letting off of steam by critics as there was in the animated debates of last summer and autumn, when the Monetary Conference ended. The objections then raised both in Parliament and the press were discordant and inconsistent, varying widely in quality and weight. Since then Dumbarton Oaks and Yalta and the daily excitements of the war have withdrawn from publicity and

Francis W. Hirst

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## The Economics of Annual Wage

By DR. EMERSON P. SCHMIDT*
Director of Economic Research
Chamber of Commerce of the United States

**Contending That the Guaranteed Annual Wage Idea Stems From the Keynes-Hansen TNEC Doctrine of Maintaining Prosperity by Consumer Spending, Dr. Schmidt Holds That It Assumes Employment and New Investment as Causes Rather Than as Symptoms of Consumer Spending. Though Rejecting the Annual Wage as a Stabilizer of National Economy, He Points Out the Efforts to Regularize Employment That Are Now Being Made. Says Most Compelling Reason Against the Forced Annual Wage Are the Varying Shifts and Changes in Demands for Goods, Arising From Changes in Consumers' Habits. Warns That "Freezing the Economy" Would Destroy Spirit of Risk Taking.**

Dr. E. P. Schmidt

"The causes of most unemployment are beyond the control of individual employers or industries," states the Social Security Board (1944 Annual Report), thereby continuing its methodical and persistent criticism of experience rating in unemployment compensation laws. In the recent attack in the steel case on the Little Steel Wage

*Excerpts from an address by Dr. Schmidt before the Personnel Conference of the American Management Association, New York City, April 11, 1945.

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# The Middle East Oil Enigma

By MICHAEL PESCATELLO

**Writer, Though Pointing Out That Developments in the Vast Middle East Oil Fields Have Economic and Political Implications Whose Importance Cannot Be Overemphasized, Maintains That It Will Be More Profitable and Safer for United States Capital to Be Devoted to Exploitation of Nearby Western Hemisphere Reserves. Fears the Entrance of the United States Government in Foreign Oil Developments Will Discourage Private Enterprise Which Has Built Up the American Oil Industry at Home and Abroad. Urges a Definite Oil Program Sponsored and Guided by the Government in the Light of National Policy and Future Needs and Carried Forward by Private Interests.**

Toward the end of 1944 another act was added to the great Middle East oil drama with the announcement that a Soviet Mission was in Iran negotiating for an oil concession. The ostensible purpose was to obtain rights to search for, and exploit, oil in northern Iran. Whatever the motive, the mystery of the drama deepens. Russia has held rights for some time to search for oil in northern Iran but has not been disposed to exercise them actively. Premier Mohamed Said rejected Russia's request for oil rights in the north of Iran and also turned down, at the same time, three American companies—Socony-Vacuum Oil, Standard of New Jersey and Sinclair—that had sought concessions in southwestern Iran. Shortly after Russia's bid for oil rights in northern Iran failed, the Soviets clamored for Premier Said's removal. He resigned early this year.

Michael Pescatello

Middle East oil involves Iran, Iraq, Qatar, Kuwait and Saudi Arabia. There are estimated to be 27 billion barrels of proven and indicated oil reserves in these areas. By contrast, the present known and recoverable reserves in the United States are estimated at 20 billion barrels. Three factors are of real significance with regard to Middle East oil. They are: (1) these resources comprise approximately one-half of the world's total; (2) British ownership predominates, except in Saudi Arabia, followed by American. The interest, as between the two nationals, is in a ratio of about 60-40. (3) Middle East oil is strategi-

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## Alexander Allen Pres. Of F. H. Armstrong Co.

CHICAGO, Ill.—Alexander Allen was elected president of F. H. Armstrong & Co., Inc., 120 South La Salle Street, on April 2. Mr. Allen was previously associated with Leason & Co., Brailsford & Co., Dempsey, Detmer & Co., and Otis & Co. He has a wide acquaint in Texas and the Southwest through his interest in gas properties in that section.

F. H. Armstrong & Co. handles general market issues of stocks and bonds.

# New Monetary Standard

By E. A. GOLDENWEISER*

Director, Division of Research and Statistics, Federal Reserve System

**Contending That the Old Gold Standard Was Maintained and Promoted by Large Creditor Nations in Whose Interest It Operated, Dr. Goldenweiser Holds That It Has Proven Unsuitable and Inadequate for Unbalanced Conditions of International Payments. He Asserts There Is No Sanctity in Fixed Exchange Rates and That Through the International Monetary Fund a New Monetary Standard Will Be Established and the World Will Be Freed From the Slavery of Fixed Exchange Rates. Refutes Criticism That the Fund Is "Primarily a Lending Institution," and States It Is a Common Pool of Resources. Predicts a Very Slow Post-War Recovery and Continued Discouragement, With Danger of Chaos if Fund Is Rejected. Criticizes Bankers for Opposing Plan.**

Establishment and maintenance of a monetary standard are governmental functions. It is the Government that determines the price that it will pay in currency for gold or silver, or for both, and it is the Government that decides what procedure to follow in maintaining the value of the currency, and particularly whether to make the monetary metal freely available to all bidders for foreign use or for that matter for domestic use. If the Government decides not to have a metallic standard, it still must decide on the value of its currency in relation to other currencies and whether to have it fluctuate in response to monetary conditions or maintain its value by various measures.

E. A. Goldenweiser

*An address by Dr. Goldenweiser before the Academy of Political Science, Hotel Astor, New York City, April 4, 1945.

While monetary standard policy is determined by the Government, it is the volume and direction of trade and investment that in the end determine what measures the Government must take to maintain its monetary policy. If a country's nationals purchase a great many commodities abroad and do not export an equivalent amount, the country as a whole is faced with a deficit in its balance of payments and it is the Government that must find means of meeting the deficit. While private operations in the international field have to be within the framework of policy established by the Government, a country's balance of payments is determined in the last analysis by actions of numerous individuals and their activities in trade and finance. It is an intimate interrelationship in which the Government sets the rules and private enterprise carries on the business.

### Character of the Gold Standard

A familiar example of this procedure is the gold standard. When

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# Dangers of Government By Bureaucracy

**By JOHN W. BRICKER***
**Former Governor of Ohio**

**Republican Statesman Asserts That Under Guise of War Power a Philosophy of Government Alien to Our Traditions Has Been Schackled Upon the People and Threatens to Continue Unless Action Is Taken to Curtail It. He Points to Bungling and Inefficiency of Government Bureaus and Says the Complexities of Our Economy Are too Great for Centralized Control. Attacks the Tax System as an "Equalitarian Concept" and Calls for Cordination of Federal and State Taxes as Well as Balanced Budget. Opposes Bretton Woods as a Stabilization Superstructure on an Unstable Foundation.**

Over a century and a half of life and service by this organization is eloquent testimony of the durability of our institutions. When one becomes discouraged as to the future of America he will gain renewed courage by reading a history of our nation over again. Many times in the national life of the Republic the way out seemed difficult, but in retrospect the various problems of a political nature which have been solved have strengthened the institutions of representative government. And even though the dark clouds of war, the uncertainties of tomorrow bear down upon us, I have a great confidence in the future of America, if only the leadership of the forces which believe in this system of government reasserts itself and the American people are awakened to the seriousness of the threat to our institutions and become determined to preserve the priceless

John W. Bricker

*Address by Mr. Bricker at the 177th Anniversary meeting of the Chamber of Commerce of the State of New York, New York City, April 5, 1945.

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# Why Not Bring Bid-Ask Disclosure Rule Before House Committee?

**Congressional Hearings on Financial Problems of Small Business Offers Opportunity to Show Disastrous Effects of Proposed Rule on Small Business Financing.**

Yesterday, April 11, a sub-committee of the House Select Committee on Small Business opened a series of field hearings in New York City, at Room 110, Federal Court House Building, on the financial problems of small business. Congressman Eugene J. Keogh of New York presided as Chairman of the sub-committee. Other members of the sub-committee are Congressman J. W. Robinson of Utah, Congressman Walter C. Ploeser of Missouri, and Congressman Evan Howell of New York. Also present was Dan W. Eastwood, Chief Investigator for the Small Business Committee, and Wm. J. Deegan Jr., another investigator. It is understood that the hearings in New York City will continue through Friday, April 13. It is to be regretted, incidentally, that because the prospective hearings were not adequately publicized, many of those interested in testifying were unable to make the necessary preparations for that purpose.

Congressman Keogh, in an opening statement, called attention to the previous hearings before the full committee in Washington, on March 20 and 21, in which the financial problems of small business was outlined "by two excellent and qualified witnesses." These witnesses, Mr. Keogh said, laid emphasis on the following facts: (1) That small firms are now experiencing difficulty in building up and laying aside financial reserves with which to meet their post-war and reconversion jobs of financing; (2) that small firms, even when

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# Protecting Individual Enterprise

**By BEARDSLEY RUML***
**Chairman of the Federal Reserve Bank of New York**
**Treasurer of R. H. Macy & Co., Inc.**

**Emphasizing the Necessity of the Profit Motive in Private Enterprise, Mr. Ruml Asserts That Profits Serve Both to Direct the Activities of Business and to Provide Ingenuity and Efficiency. He Opposes Limitation on Competitive Profits Made "Within the Law," and Holds That Undernourishment of Business Comes From Insufficient Profits. Says Profitable Business Requires Large Purchasing Power and Advocates That Residual Profits Should Go to Individuals Whose Initiative and Judgment Create Such Profits.**

Beardsley Ruml

The subject assigned to me by your program Committee for discussion this evening is "The Protection of Individual Enterprise." I take it for granted that the protection of individual enterprise is not an end in itself, and that our interest in its protection stems from a profound conviction that private enterprise is a bulwark of human freedom. Our purpose is the enlargement of the area of human freedom, and we believe that private enterprise is one and an important means to that end. Accordingly, we must be inter-

*An address by Mr. Ruml before the Academy of Political Science, New York City, April 5, 1945.

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# The Increasing Load

The burden mounts as the Securities and Exchange Commission again adds to its many onerous requirements.

This time the addition takes the form of several amendments to form 3M.

In its release dated April 9, 1945, the Commission says that these amendments have been discussed informally with a committee of the National Association of Securities Dealers, Inc., and that the committee has concurred in them.

The Commission requires that certain "items" be answered, and that these answers be supplied by filing a supplemental statement on form 6M not later than July 9, 1945.

In addition to asking in this form that certain data be supplied with respect to profit sharing arrangements, every registered broker or dealer in over-the-counter securities is also required to supply certain information concerning any salesmen or employees whose business background falls into a certain category, including all persons who are members of securities exchanges or associations or have changed their name, those who have business histories with a conviction or an injunction, or a refusal or revocation of registration, or any violation of the Securities Act. This resume is not all inclusive. Other data is also called for.

There is one statement in the release which is fraught with danger. The Commission says, "the broker or dealer should have reasonable ground to believe, after making a reasonable investigation, that such answers are correct."

It is not enough that the Commission saddles upon the securities industry another set of onerous regulations which we deem utterly unreasonable, but in addition, it fixes upon the broker and dealer, at his peril, the obligation to determine what constitutes

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# The Importance Of Small Business

By HENRY J. SIMONSON, JR.*

President, National Securities & Research Corporation

**Holding That Small Business Is "a Bulwark of Our System of Free Enterprise" Mr. Simonson Points Out That Its Importance Is Measured Not So Much by Its Extent, but by the Opportunities It Offers for Private Initiative. Says, as Influence of War, Number of Small Business Concerns Have Declined by One-Sixth. Expects Post-War Resurgence of Small Business Because of New Developments Suitable to Small Scale Operations, But Sees Need for Raising Limits of Tax Exemptions Allowed Small Concerns. Efforts to Extend Larger Credit Facilities Will Also Be Helpful.**

Small business is an important segment of the American economy, a bulwark of our system of free enterprise. It includes nine out of ten business establishments in the nation. It employs approximately 45% of the wage earners in the manufacturing, wholesaling, retailing and service industries and their labor accounts for over one-third of the total dollar value of all goods produced and services rendered in the country.

H. J. Simonson, Jr.

The importance of small business is not measured only by these factors. Small businesses, as the customers and suppliers of larger concerns, make an essential contribution to the national commerce. The health of the national economy is bound up inseparably with the functioning of small business. Even more important, the existence of hundreds of thousands of small concerns affords opportunities for the exercise of private initiative without which our traditional system of free enterprise could not long continue.

### The Extent of Small Business

As defined by the Department of Commerce, small business consists of manufacturers with 100 employees or less; wholesalers with $200,000 annual net sales or less; and retail stores, service es-

*Reprinted from "Investment Timing" April 5, 1945, published by the Economics & Investment Department of the National Securities & Research Corp., 120 Broadway, New York, N. Y.

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## Coleman Renominated To Head NYSE Board

The Nominating Committee for 1945 has renominated John A. Coleman, of Adler, Coleman &

John A. Coleman

Co., for chairman of the Board of Governors of the New York Stock Exchange, it is announced. Elections will be held on Monday, May 14.

Other nominees for positions to be filed are:

For eight members of the Board of Governors: Harold C. Mayer, Bear, Stearns & Co.; Raymond Sprague, Raymond Sprague & Co.; Robert L. Stott, Wagner, Stott & Co.; Percy M. Stewart, Kuhn, Loeb & Co.; F. Edward Bosson, Putnam & Co., Hartford; Wm. Wymond Cabell, Branch, Cabell & Co., Richmond, and John W. Watling, Watling, Lerchen & Co., Detroit, for three-year terms, and Howard Butcher, Jr., Butcher & Sherrerd, Philadelphia, for the term of one year.

For two members of the Gratuity Fund for three-year terms: John Rutherfurd, at Foster, Brown & Co., and John K. Starkweather, Starkweather & Co.

Five members of the Nominating Committee: Three members of the Exchange for three-year terms: Sydney P. Bradshaw, Clark, Dodge & Co.; Joseph G. Osborn, Hayden, Stone & Co.; Robert Wilson, Fransioli & Wilson.

Two allied members of the Exchange for one year: William J. Hammerslough, Lehman Bros., and William J. Price, 3rd, Alex. Brown & Sons, Baltimore.

# Krug Outlines Post V-E Day Plans

## War Production Chief Lays Down Twelve Procedures. Warns Military Needs Will Continue Heavy Until Japan Is Defeated.

J. A. Krug, Chairman of the War Production Board, backing up the report that James F. Byrnes, former Director of War Mobilization and Reconversion recently submitted to the President and Congress, held a conference in Washington on April 3 in which he outlined the contemplated lines of action to be followed by his organization after "Victory in Europe" Day.

J. A. Krug

Mr. Krug said that the objectives announced by Mr. Byrnes represent the established policy of WPB to refalx and to revoke material and production controls as rapidly after V-E Day as may be consistent with safeguarding the continuing all-out war effort against Japan. He emphasized, however, that such a proposed program must be tentative and that revisions, reflecting the continuously changing war situation, will prove necessary from time to time.

"The primary goal of the War Production Board," Mr. Krug said, "must be the prompt filling of all military needs and the maintenance of a sound war supporting economy for a speedy conclusion of the Japanese war. As Justice Byrnes pointed out, even when the war in Europe ends, production of munitions, though reduced, will still absorb a large proportion of our country's manpower and materials and represent a tremendous strain on our productive capacity. As long as the Japanese war continues, we will not enjoy anything like a free economy. There will be continued shortages of textiles, lumber and other forest products, leather, containers, tires and rubber products, and some metals, such as tin and lead.

"The WPB controls affect almost everyone and their relaxation and revocation must be handled in such a way as to avoid, to the greatest possible extent, the dislocation and confusion which might otherwise characterize the changeover from our present unprecedented war production to the

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# Conflicts of Federal and State Taxation

By ROLLIN BROWNE*

Commissioner of Taxation and Finance, State of New York

**Pointing to the Supremacy of the National Government in Taxation as a Danger to the Political Independence of the States, Commissioner Browne Urges That There Be a Post-War Readjustment and Coordination of Federal and State Levies. Advocates State Abandonment of the Income Tax and Relinquishment of Gasoline, Automobile and Amusement Taxes by the Federal Government. Favors Federal Taxation of State and Municipal Bonds, but Objects to Imposition and Collection of Taxes by Federal Government for Redistribution Among the States.**

The New York Legislature recently rejected, for the second time, a resolution calling for a constitutional limitation on Federal income and inheritance taxes. But the fact that 17 States have adopted such resolutions is proof of the growing concern over the expansion of Federal taxation.

Rollin Browne

The National Government has long had supreme power in almost every field of taxation. The danger is that this power is now being used to such an extent as to threaten the financial, and therefore the political, independence of the States and their local communities.

Our Federal system, which divides power and responsibility between the States and the National Government, and protects fundamental private rights against both, is the most perfect form of government ever devised for the preservation of local self-government and individual liberty.

No government can survive unless it has the sovereign and independent power to raise adequate revenues to support its functions. Therefore, if we want to preserve local control and responsibility over local affairs, we must protect the taxing powers of the States against undue encroachment by Washington.

This is not the time to institute vast and sweeping reforms in any tax system. While we are at war, the National Government must tax, and tax, and keep on taxing, no matter whom or how much it hurts. Our fighting men cannot wait for the tools of war while we debate theories of taxation.

But when victory has been won and peace restored, no problem will be of greater importance to

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*An address by Mr. Browne before the Non-Partisan Forum of the National Republican Club, New York City, March 31, 1945.

# Dealer-Broker Investment Recommendations and Literature

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

**Debt Structure and Bond Maturity Calendar of the State of Tennessee** — Eight-page brochure **Equitable Securities Corporation,** 322 Union Street, Nashville 3, Tenn.

**Fire and Casualty Insurance Stocks** — Comparative data on principal issues—**Mackubin, Legg & Co.,** 22 Light Street, Baltimore 3, Md.

Also available are analytical studies of **American Insurance Co., American Reinsurance Co., Continental Casualty Co., Federal Insurance Co., Firemen's Insurance Co., North River Insurance Co., Pacific Indemnity Co.,** and **United States Guarantee Co.**

**Grist** — Comments on "special situations" — **Dresser & Escher,** 111 Broadway, New York 6, N. Y.

**Monthly Stock and Bond Summaries**—May be had at a cost of $72 each per year, or a total of $144 a year for the complete service which includes two cloth bound volumes and ten paper bound issues—a special free trial offer is available—**National Quotation Bureau,** 46 Front Street, New York, N. Y.

**Nation's Market Place, The**—Illustrated booklet describing the services of the New York Stock Exchange—**The New York Stock Exchange,** New York, N. Y.

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

**Real Estate Bond Market Index**—Trend in price averages; based on a study of 200 of the leading eastern real estate issues—**Amott, Baker & Co., Inc.,** 150 Broadway, New York 7, N. Y.

**Road to Serfdom**—A condensation from the book by Friedrich A. Hayek, reprinted from the April Reader's Digest—**B. S. Lichstein & Co.,** 99 Wall Street, New York 5, N. Y.

**Utilities** — 1945 — Ninety-page graphic study, profusely charted and illustrated — **Merrill Lynch, Pierce, Fenner & Beane,** 70 Pine Street, New York 5, N. Y.

**Yield of 50 Leading Stocks**—Tabulation of leading industrials and discussion of significance of yield and p/e ratio data—**Paine, Webber, Jackson & Curtis,** 25 Broad Street, New York 4, N. Y.

**Aetna Life Insurance Co.**—Discussion of investment possibilities and price enhancement — **David Morris & Co.,** 52 Wall Street, New York 5, N. Y.

**Alabama Great Southern RR.**—Descriptive circular — **Adams & Peck,** 63 Wall Street, New York 5, New York.

**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.

**Arden Farms Co.** — Discussion of favorable post-war outlook and favorable aspects of $3 preferred stock for income and common stock for speculative appeal—**Maxwell, Marshall & Co.,** 647 South Spring Street, Los Angeles 14, Calif.

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## Dillon, Read & Co. Now a Corporation

Dillon, Read & Co. is now doing business as a corporation, Dillon, Read & Co., Inc., a change which becomes effective on March 31.

Officers of the firm, which is located at 28 Nassau Street, are: Charles S. McCain, President; Dean Mathey, Executive Vice-President; Ralph H. Bollard, Henry H. Egly, Frederic H. Brandi, Wilbur C. Du Bois, Karl H. Behr and Charles E. Kock, Vice-Presidents; Edwin H. Bigelow, Secretary; A. J. Gilles, Treasurer, and R. M. Shedden, Assistant Secretary and Assistant Treasurer.

## John Hayes Pres. of McMahon & Hoban Inc.

CHICAGO, Ill.—John J. Hayes has been made President and General Manager of McMahon & Hoban, Inc., 105 South La Salle Street, succeeding the late Henry A. Hoban. The firm deals in Catholic securities for Catholic institutions.

## Walter F. Norris Is With Cruttenden & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Walter F. Norris has become associated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Norris was formerly Vice-President of the Commerce Union Bank of Nashville, Tenn., and prior thereto was an officer of C. E. Childs & Co., with which he was associated for many years.

## Law With Harris, Hall

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Stuart C. Law has become affiliated with Harris, Hall & Co., Inc., 111 West Monroe Street. Mr. Law has recently been in the U. S. Naval Reserve.

## Andrews With Sincere Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Clyde H. Andrews has become associated with Sincere & Company, 231 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Andrews, who has been in the securities business on La Salle Street for many years, recently has been in business in Cleveland.

## Laurence LeBaron Joins Buckley Brothers Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Laurence LeBaron has become associated with Buckley Brothers, 530 West Sixth Street, members of the New York, Philadelphia and Los Angeles Stock Exchanges. Mr. LeBaron has recently been with Cruttenden & Co., Crowell, Weedon & Co. and Norman B. Courteney & Co.

## Ralph Davis Nominated To Head Cgo. Exchange

CHICAGO, ILL. — Ralph W. Davis, partner of Paul H. Davis & Co., was nominated to succeed Harry M. Payne as Chairman of the Board of Governors of the Chicago Stock Exchange, it was announced by John J. Bryant, Jr., Chairman of the 1945 Nominating Committee which filed its report of nominees of all offices to be filled at the annual election to be held June 4, 1945. Mr. Davis has been a member of the Exchange since 1922.

The following were nominated to serve three years as members of the Board of Governors:

Robert W. Baird, The Wisconsin Co., Milwaukee, Wis.; William A. Fuller, William A. Fuller & Co.; Robert A. Gardner, Mitchell, Hutchins & Co.; John J. Griffin; Homer P. Hargrave, Merrill, Lynch, Pierce, Fenner & Beane; D. Dean McCormick, Kebbon, McCormick & Co.; Harry M. Payne, Webster, Marsh & Co.; Reuben Thorson, Paine, Webber, Jackson & Curtis.

Emmet G. Barker was nominated for Chairman of the 1946 Nominating Committee. Other nominations for this committee are:

William T. Bacon, Bacon, Whipple & Co.; Ralph Chapman, Farwell, Chapman & Co.; John C. Stewart, and Alfred E. Turner.

The Nominating Committee which presented today's report consists of:

John J. Bryant, Jr., Chairman, Jas. H. Oliphant & Co.; Sidney L. Castle, Carter H. Harrison & Co.; M. Ralph Cleary, Cleary & Co.; Carl J. Easterberg, Riter & Co., and George E. Hachtmann.

# Chicago Brevities

In a month of continuing annual reports and annual stockholders meetings, American industry generally disclosed itself as prepared or well advanced in its planning for the reconversion and postwar periods. In the Chicago area, refundings, expansion of capital structures, and new financing to strengthen working capital positions were increasingly evident as firms girded to implement plans carefully laid for gradual resumption of full scale peacetime production.

The Link Belt Company announced it is calling for redemption 30,187 shares of its outstanding 6½% preferred on July 1 and simultaneously called a special meeting of stockholders for April 17 to vote on an increase in the common stock capitalization of the company from 740,350 to 840,350 shares.

**The increase would not only place the company in a position to retire the outstanding preferred but also add approximately $1,000,000 to working capital, the proxy statement disclosed, which together with other funds would be used to finance the acquisition of additional plant facilities after the war.**

The company is now virtually ready for reconversion, a company official stated.

Authority of the Securities and Exchange Commission is being sought by Nu-Enamel Corporation of Chicago for issuance and sale of 50,000 shares of 60-cent cumulative convertible preferred stock, which will add approximately $500,000 to working capital of the company. Proceeds from the sale will be used for general corporate purposes, including the possible purchase of additional oil and gas leases and the drilling and equipping of additional wells.

**The company diversified its operations last year to include the drilling and development of oil and gas properties and as of March 15, owned various interests in eleven producing oil wells and two gas wells.**

To meet possible future requirements of the business, Deere & Co., manufacturer of farm machinery, has arranged for the sale of $19,500,000 of 2¾% 20-year debentures and is negotiating for the private sale of an additional $10,500,000 of serial notes maturing through 1952.

**E. H. Scott Radio Laboratories, in its first public financing operation, offered 225,000 shares of common stock at $3.125 a share last week. Of the total, 148,150 shares represented new financing with proceeds to be added to working capital. The balance of shares were sold for the account of present stockholders. The company is engaged almost exclusively in war work at present.**

Stockholders of McQuay-Norris Manufacturing Co. approved an increase in the authorized common stock of the company from 450,000 to 600,000 shares and in addition, 30,000 shares of $100 par preferred stock. Of the preferred shares, 20,000 are expected to be offered within the next few weeks.

**The newly elected board of National Tea Co. lost no time in moving to redeem the 200,000 outstanding shares of 5½% cumulative $10 par preferred, following the annual stockholders meeting last month. The preferred has been called for redemption May 1.**

At the same time negotiations were opened for new financing, which is believed will run between $5,000,000 to $10,000,000 at most. If completed in time, a portion of the funds will be applied toward redemption of the preferred with the balance added to working capital to meet the requirements of the "far reaching" postwar modernization program and eventual expansion of the area of operations planned by the company. The new financing will be through private placement, company officials indicated.

Should the company fail to complete present financing negotiations, the $2,00,000 required to redeem the outstanding preferred will be taken out of company funds.

A special meeting of stockholders of Tennessee Gas & Transmission Co., a subsidiary of Chicago Corporation, may be called shortly to approve a plan of refinancing and recapitalization, which among other things, would permit Tennessee to pay off its outstanding debt to the Reconstruction Finance Corporation. Discussions with reference to a plan are understood to be well advanced.

**The Chicago Corporation was one among several firms to postpone its annual stockholders meeting due to accounting problems which made it impossible for the company to have its financial statements for the latest fiscal year completed in time for the scheduled meeting date. Earnings for 1944 of approximately $2,100,000 are expected to be reported against $1,724,844 the year before. Net before taxes from the company's gas and oil division is said to be around $1,100,000 compared with $666,409 in 1943.**

Utah Radio Products, for similar reasons, postponed its annual meeting. Net income for 1944 of this company, it was indicated, will be considerably ahead of 1943.

What is believed to be the first public financing ever undertaken on behalf of the frozen foods industry is the 10,000 shares of Class A $10 par stock of the newly organized Freezer Foods, Inc., which will be offered within the next week or two. While the contemplated financing is small it is believed significant in view of the anticipated expansion of the frozen foods industry after the war.

William M. Welsh, of Welsh, Davis and Company, is President of Freezer Foods, which was organized to take over certain assets of Deepfreeze Distributors, Inc. Deepfreeze will confine its activities in the future to distributing the home freezer units of Motor Products Corporation of North Chicago. Freezer Foods will continue the sale of frozen foods formerly handled by Deepfreeze, and in addition will sell home freezing cabinets when they again become available for distribution.

**Among assets taken over by the new company is the first frozen foods store in the Chicago area and one of the first in the country, located in Hubbard Woods. Freezer Foods contemplates opening stores in Evanston, Oak Park and the Beverly Hills section and has already leased quarters for a store in LaGrange.**

## Firm Name Is Now Shillinglaw, Bolger

CHICAGO, ILL.—Shillinglaw, Crowder & Co., Inc., 120 South La Salle Street, announces the change in name to Shillinglaw, Bolger & Co., Inc. in a statement released by David L. Shillinglaw, President. Herbert N. Crowder retired from the firm some time ago because of ill health and is now residing in Florida.

Mr. Shillinglaw is well known not only because of his activity on La Salle Street, but also because of his many civic interests.

Mr. Bolger, whose name has been added to the firm has been active on La Salle Street for many years and is a member of the Chicago Board of Trade.

# Real Estate Securities

The method of operating the sinking fund of Broadway Trinity Place Corporation seems to be of distinct benefit to those bondholders who do not tender their bonds.

In reorganization, completed July, 1944, each first mortgage bond that was issued had attached to it stock representing an equal share in 100% of the ownership of the property.

Since that time $62,000 par value of bonds have been retired by sinking fund operation, and in addition, the stock accompanying the bonds was also retired.

That means that the remaining bondholders' share in the ownership of the property will increase as each sinking fund operates.

Outstanding bond issue amounts to $4,533,500 and is secured by a first mortgage on the 38-story office building at 39 Broadway. The building is one of the most modern in the financial section of New York, having been completed in 1928. It is well located, just one block south of Wall Street, fronting 89 feet on Broadway, extending back 190 feet to Trinity Place. It has a ground area of about 17,250 square feet and a rentable area of about 330,000 square feet.

At the current price of 57 a market value of only $2,583,810 is arrived at for the property. In 1929 the former owners paid approximately $9,500,000 for the property, of which the cash investment was about $4,300,000. Property is assessed at $4,950,000. January interest payment was made at rate of 3% and latest published earnings on the bonds was 4.35%.

* * *

Latest statement of the Sherneth Corporation (Sherry Netherland Hotel) indicated a "windfall" for the bondholders. Time expired for the old bondholders to exchange their securities for these new securities. As a result the Corporation cancelled $130,000 of the bonds and 1,830 shares of ownership stock that was reserved for the old bondholders.

* * *

United States Supreme Court ruling April 9 may adversely affect this year's earnings of some loft and office buildings. Sometime ago employees of these buildings received a ruling that because of the nature of the tenancy of the building, the building employees came under the Wage and Hour Act. This entitled many employees to an adjustment of back wages. Some landlords gave the employees the back wages to which they were entitled and had them sign a general release. However, the Act provided a penalty for violation of the Act of an amount equal to the wages due, in addition to the wages plus legal fee. The ruling referred to means that regardless of whether they signed releases or not, the employees will now be able to collect from many buildings these so-called damages, plus legal fees, even though the buildings had heretofore paid them the disputed wages. Some buildings have set up a reserve in anticipation of this decision; while others will have to dig into current earnings to make these payments.

# Post-War Interest Rates?

## Babson Sees No Headache for War Bondholders

BABSON PARK, MASS.—Interest rates are like the weather. As few people can work up much hysteria over isobars, gradients and cycles; so only a few watch the statistics determining money rates. To those outside the ranks of professionals, the forecasting technique is a yawn. All you want from the weather man is notice when to get ready for a heat wave or a blizzard or a hurricane! Most readers want to know only whether securities are to go up or down. Yet interest rates, by definition, reflect the price of credit. **Dull and theoretical as they sound, credit conditions may shape your whole tomorrow.**

Roger W. Babson

**War Bond Investments**

I expect that the broad trend of interest rates, in the postwar period, will be upward. Whatever this may mean to some unfortunate railroad bondholders, the owners of ten-year war bonds need not lose a moment's sleep. The buyers of savings bonds, "Series E, F & G" enjoy unique protection. Their capital is safeguarded by the resources of an all-powerful nation, and a special covenant. Such war bonds do not suffer the vagaries of the market place. The government in effect has pledged that the prices of these bonds will remain practically pegged regardless of roving interest rates.

True, some landmine of inflation might shatter the dollar itself. To raise that specter, however, is like worrying about which room is safest if your house should take a direct hit from a blockbuster. Suffice to say that whatever befalls—except a social or economic revolution—your ten-year war bonds are as secure as any obligation on earth and far safer than most. In purchasing these bonds you, moreover, contribute to national welfare. Let us hope that the number of holders of these bonds will approximate 138 million, or the population of the U. S. With this general statement regarding these Savings Bonds (and I am not commenting one way or the other as to the long-term "Governments"), let me return to my discussion of future interest rates.

(Continued on page 1629)

# Wisconsin Brevities

Froedtert Grain & Malting Co., Inc., reports for the six months ended Jan. 31, 1945, a net income of $460,623 after all charges and taxes, or $1.08 per share on 277,412 common shares outstanding. **This compares with $263,253 for the six months ended Jan. 31, 1944, or 53 cents per share on 256,072 common shares outstanding after allowing for dividends on preferred stock, since retired.**

Cash in bank on March 20, 1945, amounted to $1,259,115, with notes payable of $900,000.

Kimberly-Clark Corp., Neenah, Wis., for the 12 months ended Dec. 31, 1944, reports net sales of $61,330,541 as against $57,488,294 in 1943. Net profit after all charges and Federal and Wisconsin taxes was $2,422,327, compared with $2,399,636 in 1943. The 1944 earnings is equivalent to $3.09 per share on 599,760 shares of common stock after allowing for preferred dividends and compares with $3.69 per share in 1943 on 488,173 common shares outstanding.

National Pressure Cooker Co. of Eau Claire, Wis., has successfully concluded the placing of 150,000 shares of common stock at $15 per share. **The stock was subscribed for by stockholders without any underwriting. Entire proceeds will be used for working capital.**



Fairbanks, Morse & Co., which has its main plant in Beloit, Wis., reports 1944 net profit of $2,845,000, equal to $4.75 a share, compared with $2,787,000, or $465 a share in 1943.

**Wisconsin Power & Light Co. had a net income after charges and taxes for the year 1944 of $1,332,630 as against $1,526,704 in 1943. Federal income and excess profits taxes increased to $2,349,300 from $1,963,400 and other taxes amounted to $1,765,540 as against $1,780,303 in 1943.**

# NSTA Notes

**BOREN BILL HEARINGS**

Thomas Graham, of the Bankers Bond Co., Inc., Louisville, Ky., has made the following report to members of the National Security Traders Association on the recent hearings in Washington on the Boren Bill:

The writer attended the hearings on the Boren Bill in Washington Feb. 20 and 21 representing the National Security Traders Association, in company with Russell Dotts representing the municipal division and Win Pizzini representing the corporate division of our organization. The hearings were well conducted and as far as the Industry is concerned I don't know how anyone could ask for a more courteous or receptive hearing. The entire Committee sat and the Industry side of the case was heard first and I can say that the members of the Committee were seemingly as anxious to get the facts about our Industry as were the representatives of the securities business to present these facts.

Thomas Graham

Russell M. Dotts

B. Winthrop Pizzini

The reaction was excellent and two very influential members of the Committee said that the hearings and presentation were the best that had ever been made by the Securities Industry on any

(Continued on page 1625)

# American Dollar In Foreign Trade

(Continued from first page)

Commonwealth (except Canada and Newfoundland), the British Empire and mandates and protectorates, wherein foreign exchange is rigidly controlled and which it is the apparent British policy to continue after the war. We also know that Britain has made bilateral currency agreements with nearly twenty foreign countries whereby the pound sterling which citizens of those countries receive for exports to Britain can, as a rule, be expended only in the "sterling area" instead of being freely convertible into any other currency. It is unnecessary to explain to this assemblage that this is "blocked sterling" and that it is what makes and maintains the "sterling area."

We also know that there exists a "franc area" where the convertibility of the franc is somewhat similarly restricted.

As it appears that Mr. Franklin Johnston is to follow me on this program with a discussion of American trade in the "sterling area," I shall not describe it further than to say that it is entirely contrary to the principles of multilateral, non-discriminatory trade which Britain, more than any other nation, built up for a century. This multilateral, non-discriminatory trade policy is the foundation of the foreign economic policy of the United States Government. It is the soul of the Reciprocal Trade Agreements policy. It is accepted implicitly in the Atlantic Charter and subsequent declarations of the United Nations. The desertion of multilateral trade principles is excused in Britain on the ground of stern necessity, namely, Britain's loss of competing power, reduction of productive overseas investment and long term indebtedness, all adding up to a conviction that she must increase her export trade by 50% and it is implied that unless the United States and other nations will reduce their tariffs sufficiently to make this practicable, it will have to be done by managed trade in which the discriminatory use of exchange controls will be employed. If all of the countries under the British Flag and those with which bilateral exchange agreements have been made should pursue this policy, it would constitute an economic league or block extending to about 40% of the earth's surface and lie directly across the multilateral channels in which trade, prior to the advent of peacetime exchange controls between World War I and II, was conducted on a reasonably non-discriminatory basis.

It would be unfortunate for the postwar world were Britain not to regain her former commercial well-being. Americans generally favor aiding, tangibly and substantially, her recovery as they have aided her in the war. However, it implies no lack of sympathy to question that the practice of discriminatory exchange controls and their intensive operation in building up and enlarging the "sterling area" would be in her long-range interest, will be of doubtful value in the immediate future and will work against the reestablishment of the multilateral trade relations without which it will be difficult for the world to attain a larger total volume of trade.

Exchange control is by no means peculiar to Britain. Most countries of the world practice it as a result of wartime necessity in forms ranging from a mere recording of exchange transactions to restrictions which direct the flow of commerce in whatever manner suits the national interest of the controlling country.

There is no reasonable objection to denial of foreign exchange to check the importation of luxuries, or prevent the flight of capital but the discriminatory use of exchange controls is an entirely different matter, so contrary to the principles for which this war is being fought as to merit far more detailed consideration by business men than it is receiving. The average man will say: "Well, the proposed Monetary Fund will take care of all that," and it is true that there is a declaration in the Articles of the Fund that discriminatory exchange control should not be practiced. It is also true that there is in Article XIV what appears to be authority for the continuation of wartime exchange restrictions and their adoption to changing conditions during the transitional period of three to five years. Furthermore, it is evident that a large and influential element in Britain desires to maintain the "sterling area" by means of exchange control as a continuing instrument of British trade policy seeking a return to multilateral trade principles and practices only at some indefinite date in the future. This raises the question of whether, if such exchange controls are continued from three to five years, they may not become so imbedded as to defy termination and possible operating as an even leaven to drag the entire world into similar practices as a defensive tactic.

In contrast to many of the foreign exchange controls existing abroad, the United States Government imposes no restrictions on the legitimate use or convertibility of the American dollar. American citizens and foreigners who have dollar credits in the United States can convert them at will into any other currency in the world provided their intended use does not conflict with any war policy. This means that the dollar is the most useful and least restricted important currency in the world. Moreover, foreign central or reserve banks can convert their dollar holdings into gold. In fact a large part of the American war expenditures abroad have been devoted by foreign countries to the purchase of ear-marked gold here. The present situation is very different from that at the end of the first world war when gold and short term dollar balances held by foreign countries aggregated only about five million dollars or less than one quarter of the amount they now hold. At the present time foreign countries hold more than twenty billion dollars of gold and American dollar balances and if the war continues another year, they will probably increase by another two billions. Latin American countries alone are estimated to hold 3½ billion dollars of gold and dollar balances. France has two billion dollars of gold, Belgium 700 millions, Holland 500 millions.

The Federal Reserve Bank in its annual report just issued said:

"In general the world-wide demand for gold seems to constitute a denial of the expectations expressed only a few years ago that gold would cease to be used for monetary reserves in many countries."

I have alluded to the up-building of the gold holdings of foreign countries because it has largely been derived from the war expenditures of the United States Government and thus has reduced the gold holdings which the United States built up before the war by taking foreign gold instead of merchandise in exchange for our exports. You will observe that although certain economists have derided gold, everyone appears anxious to get it and they also are anxious to get United States dollars because they have a fixed value of 15 grains of gold. The President no longer has power further to devalue the dollar. That can be done only by Act of Congress.

If public sentiment is united on any one subject, it is probably that no further tinkering with the value of the dollar is desirable and many of our soundest and most experienced authorities in finance and trade favor the restoration of the establishment of the convertibility of the dollar into gold at the earliest practical moment. That means restoration of the situation in which you or I can take United States currency into a bank and buy gold with it at the price of $35 an ounce.

That twenty billions of gold and dollar exchange held abroad represents purchasing power for American goods. If the dollar is high in terms of other currency, it will purchase more goods. On the other hand, it will make our goods more expensive for those dependent on depreciated currencies.

Nobody can have his cake and eat it, too, although hope of accomplishing this neat trick has spurred some economists and some government to strange feats of managed economy.

Coming out of this war the world needs an expanded productivity and exchange of goods. If world trade should revert to its pre-war dimensions, there would simply not be enough prosperity to go around; that full employment which all governments are promising their people would not materialize. Confidence is absolutely essential to progress and growth. The United States offers to the world in the American dollar a permanent and basic value in terms of gold and credit. Although it is strong, it is not invulnerable. Sound domestic fiscal policy, economy in government and a logical plan for the handling of the enlarged national debt are indispensable to maintenance of its integrity and prestige. Foreign business men more sensitive to the fluctuations of monetary exchange observe these factors of monetary stability more closely than we. This makes necessary that our domestic economy be put and kept in good order.

Now with this big foreign purchasing power waiting, the United States has an obligation to see that a reasonable amount of goods is made available for post-war exportation. It is true the domestic shortages must be satisfied but if we are to live up to the role that has been imposed on us in international commerce, we must not fall into the familar error of putting the domestic market first. The situation should be worked out "pari passu" with a definite allocation of a fixed minimum of each category of merchandise to the export field to prevent runaway prices and aid orderly reconversion of foreign commerce.

## New Coal Wage Agreement

The soft coal operators and the United Mine Workers of America on April 10 agreed upon a new wage contract a few hours after the Government took over operation of 235 mines, affected by a wave of wildcat work interruptions which had partially closed plants turning out war-vital steel. The new agreement, which is subject to the approval of the National War Labor Board, will supplant the one which expired on March 31, and had been extended for a period of thirty days at the Government's insistence.

## Lt. Corrigan Killed

Lt. Emmett Corrigan, Jr., paratrooper of the Seventeenth Airborne Division, was killed in action on March 24th in Germany, according to word received from the War Department by his parents, Mr. and Mrs. Emmett Corrigan.

His father is chairman of the board of Albert Frank-Guenther Law, Inc., advertising agency, 131 Cedar Street, New York City.



## SEC Defers Suspension of Kidder, Peabody & Co.

The Securities and Exchange Commission on April 6, upon the application of Kidder, Peabody & Co., deferred the date for the begining of the 10-day suspension of the firm from the National Association of Security Dealers from April 17 to May 20. The order applies also to the suspension of Harry C. Clifford from membership in the New York Stock Exchange for a like period of 10 days. According to the statement issued by the S. E. C. the postponement was made because Kidder, Peabody & Co. "had entered into commitments in good faith, prior to the issue of the former order" and there was therefore ground for deferring the suspension to a later date.

# Bank and Insurance Stocks

## This Week — Insurance Stocks

By E. A. VAN DEUSEN

The investor in fire insurance stocks has been taught to believe that they offer a reasonably good hedge against inflation. So they do, generally speaking, but wise selection is requisite, for some stocks are better hedges than others.

The two principal reasons why the stocks of fire insurance companies constitute good "hedges" are, briefly, premium volume expands, and hence premium income in times of rising prices; concurrently, funds available for investment increase, and hence investment income improves. The latter point is particularly significant, because the dividend rate of most fire insurance companies is predicated on investment income, though not entirely.

In view of this it is important to know to what extent the investments of a fire insurance company are in equities and to what extent in bonds and other fixed-income securities. The proportioning of the portfolio as between bonds (especially low interest bearing) and equities affects the investment income of the company, and also, in rising markets, the relative improvement in liquidating values.

It is pertinent, therefore, to offer the following tabulations which show the percentage distribution of assets, as of Dec. 31, 1944, for twenty-five leading fire insurance companies and for seven leading casualty-surety companies.

DISTRIBUTION OF ASSETS: FIRE INSURANCE COMPANIES
December 31, 1944

| | Cash Agts. Bal. etc. | Bonds: U. S. Govt. | Bonds: Total Bonds | Real Est. & Mtgs. | Pfd. Stocks | Common Stocks: *Bank & Ins. | Common Stocks: Total Common |
|---|---|---|---|---|---|---|---|
| Aetna | 14.3% | 29.4% | 41.3% | 2.6% | 4.9% | 31.9% | 36.9% |
| Agricultural | 20.2 | 18.4 | 28.3 | 7.6 | 10[illegible] | 13.3 | 33.8 |
| Boston | 11.7 | 26.3 | 30.8 | 2.6 | 7.2 | 34.3 | 47.7 |
| Camden | 15.7 | 17.6 | 43.1 | 5.9 | 21.8 | 4.0 | 13.5 |
| Continental | 8.7 | 13.9 | 28.7 | 0.2 | 9.1 | 29.1 | 53.3 |
| Fidelity-Phenix | 7.2 | 10.2 | 20.4 | 0.1 | 8.2 | 36.0 | 64.1 |
| Fire Association | 14.9 | 26.6 | 30.0 | 4.5 | 14.9 | 19.7 | 35.7 |
| Fireman's Fund | 16.7 | 31.6 | 38.0 | 2.4 | 6.8 | 22.2 | 36.1 |
| Franklin | 6.8 | 37.4 | 52.6 | 0.6 | 15.0 | 5.8 | 25.0 |
| Glens Falls | 14.5 | 34.5 | 43.8 | 3.6 | 9.0 | 17.1 | 29.1 |
| Great American | 15.3 | 9.6 | 20.4 | -- | 13.9 | 25.3 | 50.4 |
| Hanover | 15.2 | 28.9 | 38.9 | -- | 9.8 | 13.5 | 36.1 |
| Hartford | 15.1 | 25.5 | 34.2 | 2.4 | 11.8 | 31.6 | 36.5 |
| Home | 21.5 | 23.6 | 31.0 | 2.9 | 8.1 | 14.7 | 36.5 |
| Ins. of North America | 10.8 | 12.3 | 16.4 | 3.3 | 19.8 | 26.0 | 49.7 |
| National Fire | 10.2 | 36.0 | 40.5 | 5.5 | 11.3 | 25.6 | 32.5 |
| National Union | 20.6 | 39.6 | 55.9 | 5.5 | 4.9 | 9.8 | 13.1 |
| New Hampshire | 11.9 | 30.5 | 50.7 | 0.9 | 5.0 | 23.8 | 31.5 |
| North River | 20.5 | 39.3 | 43.6 | 0.3 | 7.8 | 3.4 | 27.8 |
| Phoenix | 10.7 | 21.1 | 24.1 | 0.9 | 8.3 | 46.7 | 56.0 |
| Prov. Washington | 17.2 | 29.9 | 32.0 | 0.5 | 10.4 | 15.9 | 39.9 |
| St. Paul F. & M. | 12.7 | 12.0 | 52.4 | 2.2 | 6.1 | 23.7 | 26.6 |
| Security | 13.0 | 30.6 | 39.4 | 6.1 | 6.6 | 25.6 | 34.9 |
| Springfield F. & M. | 16.5 | 27.6 | 34.9 | 2.4 | 7.2 | 27.7 | 39.0 |
| U. S. Fire | 28.0 | 36.4 | 41.8 | 0.2 | 6.1 | 4.7 | 23.9 |
| Average of 25 | 14.9% | 26.0% | 36.3% | 2.5% | 9.8% | 21.3% | 36.5% |

*Insurance stock holdings include stocks of subsidiary companies, except in the case of Camden, Franklin, North River and U. S. Fire which own no subsidiaries.

DISTRIBUTION OF ASSETS: CASUALTY & SURETY COMPANIES
December 31, 1944

| | Cash Agts. Bal. etc. | Bonds: U. S. Govt. | Bonds: Total Bonds | Real Est. & Mtgs. | Pfd. Stocks | Common Stocks: Bank & Ins. | Common Stocks: Total Common |
|---|---|---|---|---|---|---|---|
| Aetna Casualty & S. | 14.3% | 54.7% | 65.1% | 1.7% | 6.4% | 3.5% | 12.5% |
| American Surety | 17.1 | 37.6 | 40.5 | 18.3 | 2.3 | 7.6 | 21.8 |
| Cont. Casualty | 20.6 | 40.9 | 52.4 | 4.8 | 5.2 | 6.8 | 17.0 |
| Fidelity & Deposit | 15.6 | 58.1 | 60.6 | 7.7 | 4.4 | 9.3 | 11.7 |
| Mass. Bond & Ins. | 19.4 | 41.2 | 47.1 | 8.5 | 10.2 | 4.4 | 14.8 |
| Standard Accident | 19.7 | 60.1 | 63.3 | 5.0 | 0.1 | 8.4 | 11.9 |
| U. S. Fidelity & Gty. | 16.6 | 55.5 | 58.8 | 3.1 | 6.7 | 5.2 | 14.8 |
| Average of 7 | 17.6% | 49.7% | 55.4% | 7.1% | 5.0% | 6.5% | 14.9% |

It will be noted that the casualty companies are generally heavier bond holders than the fire companies, their average percentage for total bonds to total assets being 55.4%, compared with 36.3% for the fire group. Governments constituted 49.7% and 26.0%, respectively.

In the fire group, the heaviest bond holder, as measured by percentage to total assets, is National Union with 55.4%, and the lowest is Insurance of North America with 16.4%. Highest percent holder of Governments is also National Union, and the lowest is Great American with 9.6%.

The situation of Home is interesting, for this company, before the war, was not a heavy bond holder, but has since adopted the policy of investing most of its new premium income in Government securities. As a result it has suffered a downward trend in investment income, despite an increasing volume of investment funds, and contrary to the experience of many other companies. The following figures show Home's experience compared, for example, with that of Fidelity-Phenix.

HOME INSURANCE COMPANY

| Year— | % of Invested Assets: U. S. G. Bonds | Total Bonds | Total Common Stocks | Net Investment Income Per Share |
|---|---|---|---|---|
| 1940 | 5.6% | 18.2% | 61.5% | $1.64 |
| 1941 | 8.6 | 24.6 | 53.0 | 1.75 |
| 1942 | 14.2 | 30.0 | 49.9 | 1.62 |
| 1943 | 27.2 | 40.0 | 43.2 | 1.45 |
| 1944 | 30.5 | 39.5 | 46.5 | 1.44 |

FIDELITY-PHENIX FIRE INS. CO.

| Year— | % of Invested Assets: U. S. G. Bonds | Total Bonds | Total Common Stocks | Net Investment Income Per Share |
|---|---|---|---|---|
| 1940 | 5.6% | 18.2% | 61.9% | $2.41 |
| 1941 | 5.9 | 19.0 | 67.4 | 2.62 |
| 1942 | 6.6 | 20.3 | 67.1 | 2.62 |
| 1943 | 9.4 | 21.8 | 67.6 | 2.63 |
| 1944 | 11.0 | 22.0 | 69.2 | 2.70 |

It will be observed that Governments constituted 5.6% of invested assets in 1940 for each company, but that by the end of 1944 Home's percentage was approximately five and a half times as great while that of Fidelity-Phenix was only approximately twice as great. Meanwhile, Home's common stock percentage dropped from 61.5% to 46.5%, while that of Fidelity-Phenix increased from 61.9% to 69.2%.

It is significant that Home's net investment income over the period dropped from $1.64 in 1940 to $1.44 in 1944, a decline of 12.2%. On the other hand, the net investment income of Fidelity-Phenix increased from $2.41 in 1940 to $2.70 in 1944, a gain of 12.0%. Also of significance is the fact that the liquidating value of Home increased from $26.61 in 1940 to $32.61 in 1944, a gain of 22.4%, compared with a gain of 51.3% for Fidelity-Phenix, whose liquidating value moved from $41.10 to $62.18.

Incidentally, it should be noted that Home's dividend has been reduced from $1.60, which exceeded net investment income, to $1.20 while that of Fidelity-Phenix has been maintained at $2.20, which is within net investment income.

All figures given are on the parent company basis, and net investment income is before Federal income taxes.





## Cramer President of Cinti Clearing House

At the annual meeting April 3 of the Cincinnati Clearing House Association, Sterling B. Cramer, First Vice President of the Fifth Third Union Trust Co., was elected president, according to announcement in the Cincinnati "Enquirer," which added:

Lawrence C. Bucher, President of the Lincoln National Bank, was named Vice President; Dennison Duble was reelected Secretary.

The committee on management is composed of William A. Reckman, President of the Western Bank & Trust Co.; Thomas M. Conroy, Executive Vice President of the Central Trust Co.; John G. Gutting, President of the Second National Bank; William R. Galloway, Vice President of the First National Bank of Cincinnati, and Robert J. Ott, Vice President of the Atlas National Bank.

## Central Vermont Public Service Bonds Offered by Halsey Stuart

Halsey, Stuart & Co., Inc., and associates on April 11 offered $6,697,000 of Central Vermont Public Service Corp. first mortgage 2¾% bonds, series D, due Feb. 1, 1975, at 101½% and accrued interest. Net proceeds from the sale will be applied, together with funds from the treasury, to the redemption at 105%, of the entire $6,967,000 first mortgage 3½s, series B, now outstanding. The issue was awarded April 9 on a bid of 100.7713. Other members of the offering group are: Bear, Stearns & Co., Otis & Co., Burr & Co., Inc.; Graham, Parsons & Co., and Thomas & Co.

Upon completion of the proposed financing, outstanding capitalization of the company will consist of: the series D bonds, $498,000 of first mortgage 3¼s, 37,856 shares of 4.15% dividend preferred stock and 363,000 shares of common stock.

Operating revenues for 1944 amounted to $4,361,174 and the balance before fixed charges and Federal income taxes was $1,369,565. Corresponding figures for the 1943 calendar year were $4,115,631 and $1,385,661.

A sinking or improvement fund for the series D bonds will provide for payment, in cash or series D bonds, on or before June 1 in each year from 1946 through 1974, a sum equal to 1% of the maximum amount of series D bonds theretofore outstanding, less certain allowable credits for purchased property.

The bonds are redeemable at their principal amount and accrued interest, plus premiums that range downward from 5⅝%.

## May Department Stores Preferred Stock Placed

Goldman, Sachs & Co. and Lehman Brothers headed an underwriting group that offered April 10 150,000 shares of the May Department Stores Co. $3.75 cumulative preferred stock (no par), at $103.50 per share, plus accrued dividends from March 1, 1945. The issue has been oversubscribed.

The financing represents new capital for the company, which contemplates spending considerable sums to develop retail store operations in certain suburban areas, and to modernize and improve various existing properties. Several parcels of real estate for this program have recently been purchased at a cost of approximately $1,000,000.

For each year ending July 1, commencing with 1948, the company shall retire through a sinking fund 1% of the total number of preferred shares of the initial series issued prior to that year. The shares are redeemable by the company at $107.50 prior to July 1, 1947, with successive reductions of $1 per share on that date and on each second July 1 thereafter to $103.50, plus accrued dividends.

Stockholders recently authorized 250,000 shares of new preferred of which this is the initial issue and also authorized a 2-for-1 split of the common stock, with a consequent reduction in its par value to $5 per share.

The company, which operates seven leading department stores in St. Louis, Cleveland, Los Angeles, Akron, Baltimore and Denver, for the year ended July 31, 1944, had net sales of $167,919,000 and a profit before provision for inventories and war contingencies of $6,453,000. For the year ended July 31, 1943, the corresponding figures were $151,783,000 and $5,080,000.





## Leon Fraser Dead

Leon Fraser, noted banker, 55 years old, ended his life on April 8 with a bullet through his head after he had written notes telling of a "melancholia that steadily gets worse," it was revealed by an Associated Press dispatch from Glen Falls, N. Y., on April 8.


Leon Fraser

Mr. Fraser was still alive when found by a caretaker on the lawn of his estate at North Granville, N. Y., but died in an ambulance en route to the hospital. His death was officially listed as "suicide" by local authorities.

According to a note left to his adopted son, James, a boy of 15, now a student at the Eaglebrook School, Deerfield, Mass., the banker had been unhappy and melancholy since the death of his wife two years ago. Assuring the boy of "a competence which will make him secure and supply him with the economic basis to permit him to be happy," the note ended paraphrasing the Bible, "God bless you, my beloved son, with whom I am well pleased."

At the time of his death, Mr. Fraser was president of the First National Bank of New York, one of America's few billion-dollar banks, and formerly president of the World Bank for International Settlements at Basle, Switzerland. He attended Columbia University where he received his B.A., the first of four degrees, in 1910. He became a member of the New York bar in 1914, and after a diversified career, finally came to play a varied and increasingly important role in international finance. His death is looked upon as a great loss to the United States.

## Opens in New Castle, Ind.

(Special to THE FINANCIAL CHRONICLE)

NEW CASTLE, Ind. — The American Security Company of New Castle is engaging in an investment business from offices at 116 South Main Street.

# Public Utility Securities

## An Interesting Utility Review

An 88-page brochure on utilities has just been published by Merrill Lynch, Pierce, Fenner & Beane—lavishly illustrated in color, with numerous charts and tables. After sketching the historical background and the outlook for continued expansion of the electric and gas industries, the report discusses the darker side of the picture with reference to Federal regulation and competition, municipal competition, and high taxes.

Summarizing, the report states: "This long-term rising trend of sales and revenues has, together with the technological progress, enabled the electric industry to maintain the bulk of its earning power despite rate cuts (sometimes voluntary), the constant advance in fuel and labor costs, a broad upward revision in provision for depreciation and ever higher taxes. Conservatism, both in financing and in its accounting practices, has been increasingly evident in recent years. In part voluntarily and in part at the instigation of regulatory authorities, many companies have eliminated write-ups and other inflationary items from their balance sheets, and while much remains to be done along this line, the pattern has been rather firmly established. At the same time, they have had to increase reserves for depreciation and amortization. Depreciation reserves during the 1937-1943 period from 10.8% of gross plant to 17.2% and in the same period funded debt was cut from 55.6% of the depreciated plant to 53.6%."

The summary of favorable and unfavorable factors relating to electric manufactured and natural gas companies (page 24) is particularly interesting. The major part of the study is devoted to one-page summaries of 22 important operating companies and 19 holding companies. Since the latter are of greatest interest due to the wide range of conjecture regarding the liquidating value of their securities, we summarize some Merrill Lynch conclusions as follows, without attempting to explain the basis of the estimates:

**American Power & Light**—Under the proposed recap plan, the $6 preferred stock might have a potential value of $72, the $5 preferred $60 and the common $4.28. These compare with current market prices around 70, 64 and 4½.

**American Water Works & Electric**—The company is expected to continue plowing back earnings to strengthen the equity for the common stock and pave the way for eventual simplification. System write-ups amount to only about $21,000,000. Consolidated earnings are stated at $1.14 including a special tax adjustment of 60¢.

**Associated Gas and Electric**—A table is presented showing treatment of various classes of securities under the plan, but not definite conclusions are reached regarding liquidating values.

**Columbia Gas** — Two opposing integration plans—that of the company and the alternate plan proposed by United Corp.—are described.

**Commonwealth & Southern**—Under the proposed plan, earnings applicable to the present preferred stock would be about $10.15 a share, and the common 8¢ a share.

**Engineers Public Service**—Liquidating value of the common stock is estimated at "well upwards of $20," though there may be considerable delay before liquidation is consummated.

**Middle West Corp.**—A substantial part of the system will be liquidated, and at the end of 1945 the parent company is expected to have on hand cash amounting to about $5.60 a share, suggesting a capital distribution.

**National Power & Light**—Liquidating value is estimated at $14-15—a somewhat higher figure than has appeared in other quarters.

**New England Public Service**—Estimated "potential" values are $187 for the $7 prior lien stock, $118 on the $7 plain stock and $4.22 on the common (those figures compare with recent market prices around $124, $67 and $2.50 on the common). The firm has made an intensive study of this situation.

**Niagara Hudson Power**—The recap plan for "Benny" (Buffalo, Niagara & Eastern, the important sub-holding company) will probably be worked out before that of the parent company.

**North American Company**—A year ago liquidating value was officially estimated at $22.42 a share, but since that time utility values have increased.

**Public Service Corp. of New Jersey** — Potential merger with Public Service Electric & Gas, and the possibility that the common stock might benefit by retirement of preferred stocks at $100 a share, are discussed.

**Standard Gas & Electric**—Pro forma earnings on the new common stock (under the plan now before the courts) are estimated at $1.12 a share; the $7 prior preference stock would receive 10½ shares, the $6 issue 9, and the $4 preferred ⅓ of a share (the common is wiped out).

**The United Corp.** — The company's second proposed step in its program to conform to the Utility Act—exchange of 2 shares of Delaware P. & L. plus $5 cash for each share of preference stock —is discussed; remaining integration steps may prove slow.



# Krug Outlines Post V-E Day Plans

(Continued from page 1601)

manufacture of more civilian goods.

"I want to stress again that the war job will not be over on V-E Day. Procurement for the major military effort against Japan will be enormous. The first duty of WPB is to see to it that these demands are met on schedule and to make certain that only those resources which are not needed for the war with Japan and for essential war-supporting production and activities are released for reconversion to civilian production. The program must be extremely flexible and the relaxation of controls will be gradual, after taking into account the changing needs of the military."

Chairman Krug made it clear that WPB's reconversion plans do not contemplate any long-range programming of this country's industrial structure. He said the wartime controls were developed with the advice and counsel of management and labor in the various industries affected, and this same advice and counsel is being sought in considering the timing of their relaxation and withdrawal.

"We are also working," Mr. Krug explained, "with other appropriate government agencies, including the armed services, the OPA, the FEA, SWPC, WMC and WLB, to coordinate our detailed V-E Day plans closely with theirs."

"According to our present information," he stated, "military cutbacks will be more gradual than those projected last summer. The extent and timing of WPB's reconversion program depends, of course, upon the margin of resources actually released from direct war use after V-E Day. In developing our plan, we are attempting to provide for all eventualities with a program sufficiently flexible to meet the situation that we finally experience. Even with minimum cuts, there should be sufficient material and resources to prepare many facilities for rapid reconversion. Justice Byrnes referred to this as giving positive assistance to the acquisition of facilities, equipment and of long-cycle components and materials necessary to fill material, component and equipment pipelines."

The WPB reconversion program will be implemented by the following procedures, which will be perfected and put into effect at various times after V-E Day, their timing depending up the actual programs of military cutbacks:

1. Cutbacks will be handled, wherever practicable, in such a way as to distribute equitably the production load throughout the nation.

2. Positive assistance through controlled material allotments and preference ratings for new or additional production of a very limited number of civilian products now in such short supply as to endanger the war-supporting economy.

3. Measures to facilitate rapid reconversion through positive assistance for tools, equipment, construction, and long lead-time materials and components needed to begin large-scale production promptly when further cutbacks occur.

4. Suspension of most of the so-called "rating floors" which now prohibit the acceptance or delivery of materials, components and equipment on unrated orders. There may be some exceptions in the case of scarce commodities and components.

5. "Open-ending" CMP (the Controlled Materials Plan), by permitting the delivery and acceptance of controlled materials (steel, copper, or aluminum) without allotments, subject to preference at mills and warehouses for all orders covered by allotments.

6. Relaxation or suspension as quickly as practicable of a substantial number of WPB's "L" and "M" Orders that now prohibit or restrict production and distribution. WPB will continue to limit the production of some goods requiring materials still in scarce supply.

7. Revocation of most of the conservation orders specifying the kind of materials to be used in making certain products.

8. Some relaxation in the construction order L-41 to permit the most urgently needed civilian construction.

9. Take steps to insure that, where production is authorized on a restrictive basis, small business and new producers are given full opportunity to participate.

10. Introduction of a simplified priority system to replace CMP and other priorities at the earliest possible date.

11. Procedure for authorizing construction or production in certain local areas, as exceptions to nationwide limitation orders, to permit utilization of labor and resources that cannot practicably be used for war production or civilian manufacture not under limitation orders.

12. WPB will continue specialized controls over all materials continuing in tight supply such as tin, crude rubber, textiles, lumber, and certain chemicals, to assure meeting all essential war and civilian needs.

# Simplicity Pattern Co. Preferred Stock Offered

Public offering of 60,542 shares of 5½% cumulative convertible preferred stock (par $10) of Simplicity Pattern Co., Inc., was made April 9 by First Colony Corp., New York, and Straus & Blosser, Chicago. The stock is priced to the public at $10 per share.

The stock is being sold for the account of certain stockholders and represents no new financing on the part of the company. The preferred stock will be convertible into shares of common stock from time to time.

Outstanding capitalization of the company consists of 100,000 shares of 5½% cumulative convertible preferred stock ($10 par) and 500,000 shares of common stock ($1 par).

# Ohio Edison Bonds Offered at 101

Morgan Stanley & Co. and associates on April 11 offered to the public a new issue of $26,089,000 of first mortgage 2¾% bonds, due in 1975, of the Ohio Edison Co. at 101 and accrued interest.

The issue was awarded to the Morgan Stanley syndicate at a competitive sale on April 9 on a bid of 101.279.

Proceeds from the sale of the bonds will be used by Ohio Edison Co. to redeem its outstanding 3¾% bonds, due in 1972 at 107½.

Other members of the offering group include Blyth & Co., Inc., The First Boston Corp., Goldman, Sachs & Co., Harriman Ripley & Co., Inc., Kuhn, Loeb & Co., Lehman Brothers and the Mellon Securities Corp.



# Tomorrow's Markets Walter Whyte Says—

**Minor down trend signs increase: May be replaced by dullness. Downside support couple of points away. Hold long stocks. Major move still points up.**

By WALTER WHYTE

The chances are that before long—maybe before you read this—the news from Europe will be so electrifying that whatever the market does will take second place. That is as it should be, for many reasons. The purpose of this column, however, is not to moralize. It is to look at conditions as they are, or it thinks they are, analyze them coldly and dispassionately.

* * *

Last week this column said that the market would rally to about 157 in the Dow averages and then turn down again. Downside support was expected in the 154-155 area. Well, we saw the recovery and we saw the subsequent hesitation. On the rally some stocks were strong. But as the market approached the 157 region it was noticeable that volume had a tendency to dry up.

* * *

So far there hasn't been any reaction to speak of. Prices are merely holding about a point under their recovery highs. Yet the evidences that a downward movement is at hand are mounting.

* * *

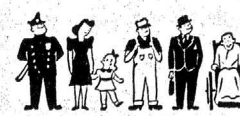
If that is the case you may wonder why I don't recommend the disposal of stocks. The answer is that this is no bear market, nor are we heading into one. During bear markets few if any stocks move against the trend, except sporadically. The natural tendency is to decline. So each succeeding bottom is lower than the previous one. The opposite is true of bull markets. For while individual stocks may refuse to share in any general advance their normal tendency, if not to go

(Continued on page 1628)

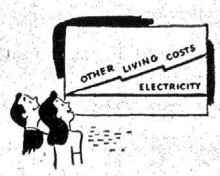
# FACTS ABOUT YOUR GAS AND ELECTRIC COMPANY—1944 REPORT


**OUR TOTAL INCOME** was about $288 million, slightly higher than in 1943. Less electricity was required: mainly because the aluminum plant in Queens closed. More gas was sold. More steam was sold. (These clean, dependable, care-free ways of heating are popular.)

**WHAT DID INVESTORS EARN?** Security holders (whose money made this enterprise possible) received an amount equivalent to less than 4% on the plant investment of over $1,250,000,000.



**WHO OWNS THIS COMPANY?** 148,102 people and institutions—to be exact. Your church, your insurance company, your bank, educational institutions have some of their money invested in our securities.



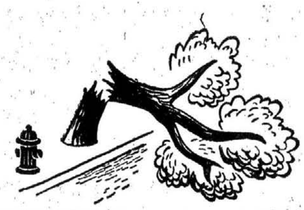

**ONE BUDGET ITEM HASN'T GONE UP.** Electricity! Substantial rate reductions from 1930 through 1944 are saving our electric customers over 32 million dollars annually, gas customers over 3 million dollars . . . in the face of taxes which rose from $29 million to above $64 million. (As businessmen we're sort of proud of that record!)


**NEW YORK IS THE LARGEST** manufacturing city in the country? TRUE! New York is unique, too, in that activity is divided among many thousands of small and large plants. Hence there should be little slowdown here when war ends. (Unlike other areas where great war spurts took place.)

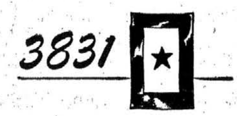

**TOOLS OF WAR FORGED HERE.** From jet-propelled planes to bayonets — from battleships to jungle rations—New York plants pour out weapons of war. Wartime requirements are one reason our maintenance expenses ran some 8½ million dollars higher than the year before. (Equipment had to be run abnormally long. Materials cost more. Higher wages and substantial overtime swelled the figures.)



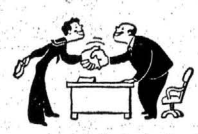
**NO COMPLAINT:** just a fact. We pay taxes to the city on many thousands of manholes. Altogether our taxes last year ran to 64.5 million dollars. Stated another way, over 22¢ of every dollar of your bill for service went out for taxes.



**REMEMBER THE HURRICANE?** Hit here at 95 miles an hour. Knocked down street lamps, electric poles, wires. Cost us nearly $650,000 in labor and materials to restore service. Some storm!




**BATTING ON UNCLE SAM'S TEAM.** 3,831 employees are in the armed services. In addition, two thousand of our people are on leave to war industries in desperate need of their special skills. (Consolidated Edison men, for example, have built air and naval bases from the frozen Arctic to the sweltering shores of the Persian Gulf.)



**WE'LL WELCOME THEM BACK** heartily—and practically! We're entitled to offer returning servicemen jobs as good as they left. We plan to do better for them. So we've established a staff to fit veterans into jobs with special consideration of their new skills, experience and knowledge.

**RETIRED.** Last year we paid some $1,100,000 in annuities to employees retired for age, and $2,200,000 to employees retired for disability.

**RAISED.** Employees completing periods of satisfactory service received automatic pay increases under our Wage Progression Plan. These and merit increases approved by the War Labor Board ran to $1,500,000 annually.

**LOOKING FOR POSTWAR BUSINESS?** To help local industry obtain postwar work when the time comes, we've made a survey of manufacturing facilities in New York City and Westchester. It contains detailed information on products to be made, manufacturing resources, plant data. (Trade organizations and official bodies have this material.)

*We think these items will interest you. But we do not forget that our main job—like yours—is helping to win the war.*

**CONSOLIDATED EDISON**

SYSTEM COMPANIES

NEW YORK & QUEENS ELECTRIC LIGHT & POWER COMPANY · BROOKLYN EDISON COMPANY, INC. · WESTCHESTER LIGHTING COMPANY
THE YONKERS ELECTRIC LIGHT & POWER COMPANY · NEW YORK STEAM CORPORATION

SERVICE

## Hallicrafters Common Stock on Market

An underwriting group headed by Doyle, O'Connor & Co., Inc., of Chicago, on April 9 offered 225,000 shares of The Hallicrafters Co. common stock (par $1), at $8 a share. Other members of the offering group include C. L. Schmidt & Co., Inc., Dempsey & Co., A. G. Edwards & Sons, Sills, Minton & Co., Inc., Courts & Co., Cruttenden & Co., Kalman & Co., Inc., and Mason Brothers.

Of the shares being offered, 150,000 are listed as currently outstanding and 75,000 represent new financing. Since May 31, 1942, Hallicrafters, a pioneer in the short-wave radio field, producing precision equipment primarily for use by amateur radio operators, has devoted its entire facilities to the manufacture of communications supplies for the armed forces. The company, which operates six Chicago plants, plans to concentrate its peacetime activities in the field of short-wave receiving and transmitting apparatus specially designed for amateur radio operators, short-wave listeners and commercial use.

## Pan American Pete Bonds Placed Privately

It was announced April 10 that an issue of $15,000,000 Pan American Petroleum & Transport Co. 2¾% sinking fund debentures due April 1, 1965, have been placed privately through the First Boston Corp. The debentures were placed with certain institutions purchasing them for investment.





# Railroad Securities

### Chicago and Eastern Illinois Railroad Co. General Mtge. Inc. 5s, 1997

The outstanding development in the railroad market in the past week was the refunding of the Chicago & North Western First 4s into new First 3s at par. These bonds immediately went to a premium of two points.

As the pressure of investment funds, together with the restoration of railroad credit, brings about lower and lower yields available for the investor, opportunities to obtain yields of 6% and 7%, formerly the rule in the railroad bond market several years ago, and now the exception, are becoming fewer and fewer. Chicago & Eastern Illinois Income bonds, selling currently at 66, at which level they provide a yield of 7.57% appear attractive.

While Chicago & Eastern Illinois has never attained the financial rank of one of our better class roads in the past, today, with new management and with prospects of considerably increased business from the development of the southern Illinois coal fields, the outlook for this road is much altered.

The Chicago & Eastern Illinois went into bankruptcy on April 18, 1933 and was one of the earliest of the carriers to be reorganized under Section 77, emerging from reorganization in 1941. In that reorganization fixed debt was reduced from $45.6 million to $15.8 million and fixed and contingent debt to $30 million. Since that time, that is up to the end of 1944, fixed and contingent debt has been reduced to $24,701,000.

Fixed charges were reduced in the original reorganizations $2.28 million to $666,000 and, including contingent interest to $1,383,000. By the end of 1944 these charges were reduced to $1,124,000. In this comparison we do not include Additions and Betterments Fund or sinking funds of $150,000 on both the First Mortgage and Income Mortgage bonds. Since there will be allowed the amount charged to the newly established Depreciation of Ways and Structures account (January 1, 1943), a credit against the Additions and Betterments Fund will offset most, if not all, of these charges as originally set up by the Commission.

Capitalization of the road at the present time consists of Equipment Trust Certificates, outstanding in the amount of approximately $1 million, First Mortgage 4s, all owned by the R. F. C., outstanding in the amount of $10.2 million, and Income Mortgage 5s outstanding in the amount of $13.9 million. There have been rumors to the effect that the First Mortgage 4s would be refunded and recently a survey of the road's properties was made by several representatives of the larger institutions, with a view to having this issue placed privately. In the event that negotiations are successful and the bonds are refunded, either through a public offering or through private placement, restrictions now placed by the R. F. C. against open market purchases of the junior Income bonds may well be removed.

The Income bonds are well protected by earnings coverage and the bond ranks very high among reorganization Income bonds as measured by net ton miles per dollar of debt outstanding. It would be to the advantage of the company to be able to utilize its financial resources, limited though they be, towards retiring the Income bonds.

Finances are rather strained, net current assets as of the end of 1944 totaling but $5,470,000. However, this carrier does not have any major capital expenditures in view during the post-war period, the sole large capital expenditure being a $2 million bridge which it plans to reconstruct when steel is available. Some funds will be needed, however, should the management exploit southern Illinois coal fields, as reported to stockholders by the new management.

One element of weakness in the Chicago & Eastern Illinois picture is the relatively large amount of equipment as well as joint facility rental debits. In 1944, for instance, equipment rental debits amounted to $2,256,000 and joint facility rental debits to $674,000, or $2,930,000 combined. The importance of these items as compared with fixed charges of $432,000 and contingent charges of $692,000 is evident. In all probability the present price of the Income bonds can be partly explained by fear of investors that this leverage may exert an undue effect upon net earnings post-war when gross revenues of necessity contract.

However, we understand that the management views its post-war prospects somewhat optimistically and believes that gross revenues should average $20 million as against current revenues of $34 million. The management is anticipating net available for charges in an average normal post-war year to be somewhat over $2 million after Federal Income Taxes (current $3.2 million) which would cover fixed and contingent interest almost twice.

The bonds are not of the highest grade investment caliber, but in view of probable refunding of the First Mortgage bonds, thus removing restrictions against the company purchasing its own Income bonds; in view of the excellent post-war prospects, and in view of adequate net ton miles per dollar of debt protecting these bonds, we believe that the average investor seeking higher than normal yields, yet withal in a position to take a greater than average risk, will find these Income bonds of interest.







## Auction Sale of Securities Cuts Dealers' Stake In New Issues, Says "World-Telegram"

"Dealer firms throughout the country are voicing their dissatisfaction with the manner in which competitive bidding for new corporate securities is reacting on their business," says an article in the New York "World-Telegram" of April 7.

"These firms," continues the article, "which have direct contact with individual investors throughout the country, are declared to be keenly disturbed by the course of events surrounding a number of the new issues brought out in recent months.

"As a matter of cold fact, some of them are fearful that unless something is done to assure them of a fair participation in new issues they face a dark future.

"Under the old order of negotiated deals it was customary for a banking syndicate to set aside a certain percentage for distributors. Many times, since competitive bidding has become the vogue, or the law, these firms have found themselves literally "frozen out."

"Bankers contend that the situation is not of their making. In fact, they would prefer to have new securities widely dispersed among individual investors. But circumstances of competitive bidding are such that the margin of profit frequently does not permit the financing of distributor groups.

"Distributing firms located around the country feel that under the present setup they are sure of securities only when a "selling job" is involved. In other words, they feel that they share in the 'tough' ones but are counted out when the faster movers come along.

"They are said to admit that it is evidently a matter of pricing and profits and accordingly do not blame their troubles on the underwriters.

"Two recent instances are cited in which dealers were sidetracked: One, this week's sale of $54,000,000 of Chicago & North Western Railway bonds. A prime security, this bond was placed by underwriters very largely with institutional investors and no allocation was made for dealers. The bonds have since commanded a premium of two points over the offering price.

"The second instance was that of Pacific Gas & Electric Co.'s $80,000,000 refinancing. The profit margin to bankers on this deal was too small, it is asserted, to permit provision for dealer distribution. Yet it is evident that dealers could have done a job here, under proper auspices. The bonds are currently quoted about a point under the offering price on the bid side.

"Dealers ponder why it isn't possible for banking groups, in shaping their bids, to give consideration to setting aside a portion of the issue involved for their customers and work out their bids to allow a proper spread."

# The Chesapeake & Ohio Railway Company

### OPERATIONS DURING 1944

In 1944, as in 1943, the operations of the C & O were linked closely with the prosecution of the war.

All demands of the government for transportation were met—where, when and under the conditions requested, including the movement of large numbers of troops, prisoners of war, great quantities of military matériel, ammunition and supplies, and hospitalized veterans returning from the fronts.

The greatest volume contribution of the C & O to the conduct of the war was its principal peacetime function — the moving of coal from mine to destination.

In 1944, every mine on the C & O lines was able to ship its product the day it was brought above ground. No mineworker lost a single day's work for lack of a C & O car to take his output.

### REVENUE AND PROFIT

Most of the railroads, in 1944, had a year of greater traffic volume, larger operating revenues—and lower profits. C & O operating revenues were up 3.85 per cent over 1943. At the same time, operating expenses increased 18.97 per cent, chiefly because of added costs of handling the increased volume of traffic, higher cost of labor and materials, and increased amortization charges. As a result, net income after taxes was off 12.81 per cent (as compared with a general average decline in net income after taxes for all Class I roads of 24 per cent).

Major factors affecting 1944 earnings and the earnings outlook for 1945 are outside the C & O's control. Others flow directly from the war, and the dense traffic volume resulting from it.

Labor costs alone last year were almost $10 million more than in 1943. Price increases in materials, fuel and supplies were substantial. Retirements, depreciation and amortization charges on new equipment, and road improvements made to enable C & O to meet the war demands put upon it, increased $4,005,402 — and will increase further in 1945.

Yet there is no compensating rise in the price of the transportation sold. The ICC suspended freight-rate increases, which it had previously authorized and, over the protest of the carriers, ordered the continuance of this rate suspension until January 1, 1946.

Taxes will take almost two-thirds of every dollar of net income earned before taxes in 1944. The excess-profits tax will take 95 cents out of every net-income dollar in excess-profits-tax brackets (subject to a 10-per-cent postwar credit).

### RESEARCH AND DEVELOPMENT

C & O's management believes that one of its obligations is to take aggressive steps to meet the intensified postwar competition by contributing to the development of improved and more efficient technology, designs and methods. It has expanded the scope of its technological research and development program, and will put into operation the world's first coal-burning, steam-turbine-powered, electrically driven locomotives. Chesapeake & Ohio believes these locomotives constitute a distinct improvement, both in technology and economy of maintenance, over all existing types of steam and Diesel road locomotives. Exceptionally well suited to hauling fast troop trains, these locomotives of revolutionary design will ultimately power a new C & O streamlined passenger train, to be built when materials become available.

Because of their tremendous war accomplishments, the railroads deserve well of the American people and of their legislative representatives—to the end that they may contribute as mightily to the realization of a strong postwar economy as they are doing to the successful prosecution of the war.

The above are summary excerpts from our current Annual Report. Any stockholder failing to receive a copy of the Report will be furnished one on request to the Secretary, Terminal Tower, Cleveland, Ohio.

## SOURCES AND DISPOSITION OF INCOME

| *Our income came from the following sources:* | *1944* | *1943* | *Increase or Decrease* |
|---|---|---|---|
| Revenues from hauling coal and coke freight | $118,095,390 | $114,460,373 | $ 3,635,017—I |
| Revenues from hauling other freight | 66,781,322 | 64,667,766 | 2,113,556—I |
| Revenues from carrying passengers | 23,506,847 | 21,669,414 | 1,837,433—I |
| Other transportation revenues | 8,152,689 | 7,714,982 | 437,707—I |
| Rent from equipment used by others, less amounts paid to others | 6,117,586 | 6,059,731 | 57,855—I |
| Dividends from stocks owned | 989,141 | 849,084 | 140,057—I |
| Other income from non-railroad operations | 978,224 | 1,046,360 | 68,136—D |
| Total | $224,621,199 | $216,467,710 | $ 8,153,489—I |
| *We disposed of our income as follows:* | | | |
| Wages | $ 80,618,715 | $ 70,754,903 | $ 9,863,812—I |
| Materials, supplies, and fuel | 27,668,892 | 22,318,293 | 5,350,599—I |
| Railway tax accruals, other than federal income and excess profits tax | 12,316,760 | 11,634,007 | 682,753—I |
| Payments to contractors, associations, other companies, and individuals for services and expenses | 5,830,716 | 3,647,584 | 2,183,132—I |
| Rentals and expenses paid for facilities used jointly with others, less amounts received from others | 4,552,104 | 4,071,803 | 480,301—I |
| Interest on Funded Debt | 7,053,857 | 7,296,452 | 242,595—D |
| Other interest | 4,910 | 51,639 | 46,729—D |
| Depreciation, amortization, and retirements | 20,396,060 | 16,390,658 | 4,005,402—I |
| Total | $158,442,014 | $136,165,339 | $22,276,675—I |
| Net Income before federal income and excess profits taxes | $ 66,179,185 | $ 80,302,371 | $14,123,186—D |
| Federal income and excess-profits taxes | 38,838,190 | 48,943,691 | 10,105,501—D |
| Net Income | $ 27,340,995 | $ 31,358,680 | $ 4,017,685—D |
| *Disposition of the Net Income was as follows:* | | | |
| Appropriations for Sinking and other Reserve Funds | $ 501,715 | $ 506,548 | $ 4,833—D |
| Dividends paid on Preference Stock, Series A | .......... | 457,581 | 457,581—D |
| Dividends paid on Common Stock | 26,800,739 | 26,800,739 | .......... |
| Balance remaining for other corporate purposes | 38,541 | 3,593,812 | 3,555,271—D |

## *1944 in Brief*

| | *1944* | *1943* | *1942* |
|---|---|---|---|
| Operating Revenues (MILLIONS OF DOLLARS) | 217 | 209 | 182 |
| Operating Expenses (MILLIONS OF DOLLARS) | 137 | 115 | 95 |
| Operating Ratio | 63.2% | 55.2% | 52.5% |
| Net Operating Revenues (MILLIONS OF DOLLARS) | 80 | 93 | 86 |
| Taxes (MILLIONS OF DOLLARS) | 51 | 61 | 50 |
| Net Income (MILLIONS OF DOLLARS) | 27 | 31 | 33 |
| Dividends (MILLIONS OF DOLLARS) | 27 | 27 | 27 |
| Revenue Ton Miles (MILLIONS) | 28,743 | 27,548 | 25,556 |
| Revenue Per Ton Mile (CENTS) | 0.64 | 0.65 | 0.64 |
| Wages (MILLIONS OF DOLLARS) | 81 | 71 | 60 |
| Earnings Per Common Share (DOLLARS) | 3.57 | 4.04 | 4.25 |
| Taxes Per Common Share (DOLLARS) | 6.69 | 7.92 | 6.53 |
| Dividends Per Common Share (DOLLARS) | 3.50 | 3.50 | 3.50 |
| Times Fixed Charges Earned | 4.84 | 5.24 | 5.11 |

*The above are summary excerpts from our current Annual Report. Any stockholder failing to receive a copy of the Report will be furnished one on request to the Secretary, Terminal Tower, Cleveland, O.*

## General Tire & Rubber Stock Issues Offered

A group headed by Kidder, Peabody & Co., Goldman, Sachs & Co. and Ball, Burge & Kraus on April 6 offered 75,000 shares of 4¼% preferred stock at $105.50 a share of the General Tire & Rubber Co. Of the new preferred, 65,000 shares are being offered by the company in exchange for a like amount of 4½% preferred. The exchange privilege expires April 13.

In addition, 65,857 shares of common stock are being offered to common stockholders at $21.50 a share, in ratio of one new share for each eight owned. The underwriters have agreed to purchase 10,000 shares of new preferred stock, as well as any unexchanged shares, and also any of the common stock not subscribed for by stockholders. Net proceeds of the financing, estimated at $9,242,997, will be used to redeem any unexchanged shares of old preferred stock, and to retire in part bank loans.

Associated with the foregoing in the offering of the preferred stock are Lehman Brothers, The First Boston Corp., The First Cleveland Corp., Eastman, Dillon & Co., Glore, Forgan & Co., Harris, Hall & Co., Inc., Hornblower & Weeks, W. E. Hutton & Co., Shields & Co., Union Securities Corp., Hayden, Miller & Co., McDonald & Co., Paine, Webber, Jackson & Curtis, A. C. Allyn & Co., Inc., R. S. Dickson & Co., Inc., Mitchum, Tully & Co., G. H. Walker & Co., Coffin & Burr, Inc., Hallgarten & Co., The Milwaukee Co., Putnam & Co., Reinholdt & Gardner, Bacon, Whipple & Co., Baker, Weeks & Harden, Clement A. Evans & Co., Inc., and Piper, Jaffray & Hopwood.

Participating in the offering of the common stock as well as the preferred are Kidder, Peabody & Co., Goldman, Sachs & Co. and Ball, Burge & Kraus.



# Canadian Securities

By BRUCE WILLIAMS

Now that the first C. C. F. government in Canada, in Saskatchewan, has had time to come face to face with the hard economic facts of life and to shoulder the responsibilities of office, it is opportune briefly to review some of its recent trials and tribulations.

Its recent incursion into the capital market to raise the modest sum of $1,000,000 for the purpose of financing new provincially-operated industries was sufficient demonstration that although the socialistic supporters of this C.C.F. government greatly favor the sharing of the wealth of others it is entirely a different question when they, themselves, are called upon to contribute. Also Premier Douglas has doubtlessly discovered in his current negotiations with financial interests in this country regarding the possible extension of the $2,250,000 Saskatchewan 4½% bonds maturing July 2, that orthodoxy and responsibility in financial matters are of paramount importance.

**However, Premier Douglas, personally, has created a favorable impression with his contacts in this country and his recent address to the Empire Club in Toronto gave further evidence of his conservative attitude towards financial and economic problems.**

He emphasized the part of private enterprise in the development of Saskatchewan's resources; the determination of the Saskatchewan Government to fulfill its obligations; and, following the lead of Premier Garson of Manitoba, pointed out the great need of a Dominion Provincial conference for the reallocation of powers and sources of revenue. In such a conference Premier Douglas stated that his province would merge its provincial interests in favor of the national interest.

Thus it grows apparent that in a young undeveloped country such as Canada, in spite of the many recent forebodings to the contrary, a socialistic system is not the logical outcome. It will not lead to the proper exploitation of the Dominion's vast natural resources or the attraction of outside capital, and events should also prove that it is not the natural will of its people, who are becoming increasingly aware of the great potentialities of their country, which a bureaucratic and state controlled regime will only stifle.

**The neighboring province of Alberta continues also to encounter difficulties born of flirtation with unorthodox financial theories. Opposition to Premier Manning's proposed offer to the bondholders now seems sufficiently strong to preclude its adoption. Many rumors are current with regard to possible alternative schemes and it would not be surprising if the Alberta Government eventually leaves the door open to permit it to shift its position.**

Turning to the market for the past week, although the high-grades were fully maintained, there were slight recessions in other sections of the list resulting from inactivity rather than pressure of offerings. Alberta recovered a little of the ground lost following the setback to hopes of an immediate debt settlement. It would appear that this decline was a little illogical, and should provide an opportunity for those investors whose analysis of the situation points toward a settlement eventually more favorable than the present proposal of the Alberta Government. Saskatchewans improved slightly from their recent low levels, but Montreals were quoted lower on lack of interest.

The market for internal bonds also showed little animation but gold shares gave a further display of pyrotechnics following important new discoveries in the older mining districts of Quebec, and optimism as to early exploitation of new properties after the end of the war in Europe. In any event, it appears that the gold mining industry in the post-war period will rapidly regain its former preeminent position in the Canadian economy.

**With regard to the possible future course of the market, the anticipated dullness has now set in and while dealer activities are concentrated on the Eighth Victory Loan this state of affairs is likely to continue.**

## Postpone Hearing on Rule to Prohibit Floor Trading

A public conference on a proposed rule to prohibit floor trading on the New York Stock Exchange and New York Curb Exchange has been postponed to May 8th by the Securities and Exchange Commission. The postponement was at the request of the New York Stock Exchange.



## Anderson Clayton Stock Offered to Public

An underwriting syndicate of 49 members headed by Morgan Stanley & Co. on April 6 offered to the public 250,000 shares of common stock of $21.80 par value of Anderson, Clayton & Co. of Houston, Tex., one of the nation's largest cotton merchants. The stock was priced at $44 a share. None of the proceeds from the sale will go to the company, but it will be the first offering of stock to the public.

The 250,000 shares placed on the market represented part of 333,181 shares owned by the M. D. Anderson Foundation, a charitable trust created by M. D. Anderson, deceased, and a former partner in the company. All the sproceed from the present sale will be received by the foundation.

## Sartorius Engel to Change Firm Name

Effective May 1, following the retirement of David F. Engel from limited partnership as of April 30, the firm name of Sartorius, Engel & Co., 39 Broadway, New York City, members of the New York Stock Exchange, will be changed to Sartorius & Co.

Louis Bialos will be admitted to partnership in Sartorius, Engel & Co. on May 1.



# 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)
BEVERLY HILLS, CALIF. — **Francis I. Scane** has joined the staff of **Boston Commonwealth Corp.**, 9631 Wilshire Boulevard.

(Special to THE FINANCIAL CHRONICLE)
CHARLOTTE, N. C.—**Richard F. Ferguson** is with **Louis G. Rogers & Co.**, Johnston Building.

(Special to THE FINANCIAL CHRONICLE)
ELIZABETH CITY, N. C. — **Graham W. Bell** has become connected with **S. Wade Marr**, Carolina Building.

(Special to THE FINANCIAL CHRONICLE)
KANSAS CITY, MO.—**Carl C. DeLong** has become affiliated with **B. C. Christopher & Co.**, Board of Trade Building.

(Special to THE FINANCIAL CHRONICLE)
KANSAS CITY, MO.—**Frances B. McKee** has become associated with **Slayton & Co., Inc.**, 111 North Fourth Street, St. Louis, Mo. Miss McKee was previously with Barrett Herrick & Co.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Ruth W. Thompson** is now with **Adams-Fastnow Co.**, 215 West Seventh Street. Miss Thompson was formerly with Fewel & Co.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Ellis O. Thorwaldson** has become associated with **Blyth & Co., Inc.**, 215 West Sixth Street. Mr. Thorwaldson was previously with Bankamerica Co. and Hannaford & Talbot.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—**Arnold D. Brundage** has been added to the staff of **G. Brashears & Co.**, 510 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF. — **Robert E. Tyler**, formerly with Morton Seidel & Co., is now affiliatetd with **Maxwell, Marshall & Co.**, 647 South Spring Street.

(Special to THE FINANCIAL CHRONICLE)
MINNEAPOLIS, MINN. — **Eugene W. Diven** is now associated with **Jamieson & Co.**, First National Soo Line Building. Mr. Diven was formerly with the Milwaukee Co. and Mannheimer-Caldwell, Inc.

(Special to THE FINANCIAL CHRONICLE)
OAKLAND, CALIF. — **Charles R. Carnes** has been added to the staff of **Stephenson, Leydecker & Co.**, 1404 Franklin Street.

(Special to THE FINANCIAL CHRONICLE)
RALEIGH, N. C. — **John H. Campbell Jr.** and **Gerald F. Laughlin** are with **Kirchofer & Arnold, Inc.**, Insurance Building.

(Special to THE FINANCIAL CHRONICLE)
ST. LOUIS, MO.—**Josephine E. Fuld** is with **John R. Kauffmann & Co.**, 506 Olive Street.

(Special to THE FINANCIAL CHRONICLE)
SAN FRANCISCO, CALIF. — **Charles R. Rose** is with **Hannaford & Talbot**, 519 California Street.

(Special to THE FINANCIAL CHRONICLE)
SAN FRANCISCO, CALIF. — **Waldo J. Marra** has become connected with **Walston, Hoffman & Goodwin**, 265 Montgomery Street.

(Special to THE FINANCIAL CHRONICLE)
WINSTON-SALEM, N. C.—**Mrs. Eleanor White Chamberlain** has joined the staff of **Merrill Lynch, Pierce, Fenner & Beane**, Reynolds Building.

## Trends Toward Greater Service in Inv. Research

In the March, 1945, issue of "The Exchange," published by the New York Stock Exchange, there is a most interesting article on current trends in investment research by Eugene P. Barry of Shields & Co. Mr. Barry discusses the growth of investment during the past 25 years, and the trend toward wider service fields, greater efficiency, and lowered costs, which reacts to the benefit of investors and of securities firms both.

terest by your Company. This issue, designated as Series "G," maturing in equal semi-annual instalments from September 1, 1944 to March 1, 1954, inclusive, is payable in United States currency and bears interest at 2½% per annum. Under this arrangement, equipment which cost at the time of construction $36,542,369 in Canadian funds is leased to your Company at a rental equal to the instalments of principal of and interest on the Equipment Trust Certificates.

The $27,400,000 5% Collateral Trust Gold Bonds, maturing December 1, 1954, were called for redemption on June 1. The funds to meet this issue were deposited with the Trustee. In addition, the following securities were purchased and cancelled: 4% Convertible Collateral Trust Bonds, due 1949, to the amount of $760,000 and 3½% Convertible Collateral Trust Bonds, due 1951, to the amount of $1,600,000.

On November 1, 3½% Collateral Trust Bonds maturing November 1, 1974, were issued in the principal amount of $7,125,000, secured by pledge of $7,837,500 principal amount of Consolidated Debenture Stock. The proceeds were used to purchase $7,500,000 5½% First Refunding Mortgage Bonds, Series "B," of the Minneapolis, St. Paul & Sault Ste. Marie Railway Company, maturing in 1978 and guaranteed as to interest by your Company. The latter bonds were turned in for cancellation, in accordance with the terms of the plan of reorganization, and your Company received $2,529,150 Wisconsin Central Railway Company First and Refunding Mortgage 5% Bonds, Series "B," maturing April 1, 1959, and Voting Trust Certificates representing 10,200 "A" shares and 4,950 "B" shares of the Common Stock of Minneapolis, St. Paul & Sault Ste. Marie Railroad Company. The difference of $3,285,375, between the principal amount of bonds issued and the principal amount or stated value of securities received, has been charged to Unamortized Discount on Bonds and will be extinguished over a period of twenty years by the saving effected in interest payments.

On February 1, 3% Serial Secured Notes to the amount of $1,348,520 matured and were paid. On December 1, the balance of these notes maturing February 1, 1945, to February 1, 1948, inclusive, amounting to $5,394,080 was prepaid.

On October 22, the First Mortgage Bonds of the Edmonton, Dunvegan and British Columbia Railway Company, aggregating $2,420,000, matured and were paid by the Northern Alberta Railways Company. To place this jointly controlled subsidiary company in funds to meet this maturity, the subsidiary issued and sold at par to the two parent companies $2,420,000 of its bonds, your Company's proportion of such issue being $1,210,000.

The financial transactions referred to above resulted in the net retirement of $10,034,744 of bonds, notes and other obligations, the discharge of a contingent liability of $1,210,000 and a reduction of $40,490,500 in the amount of Consolidated Debenture Stock pledged as collateral.

On October 1, the First Debenture Stock of the Dominion Atlantic Railway Company, amounting to £500,000, matured. Your Company placed this subsidiary in funds to meet the indebtedness and will be recouped by an issue of bonds of Dominion Atlantic Railway Company to the amount of $2,235,000.

### Pensions

Charges to working expenses for your Company's proportion of pension allowances, its contribution to the Pension Trust Fund and levies in respect of employees who come under the United States Railroad Retirement Act amounted to $5,405,823. In view of the increases in basic rates of pay made during the year and the continuing high level of employment your Directors authorized an increase from $1,000,000 to $1,500,000 in the special contribution made annually to the Pension Trust Fund to assist in meeting the anticipated peak period of cost.

During the year 964 employees were retired on pension. At the end of the year there remained on the pension payroll 611 more than at the end of 1943.

Distribution by ages was as follows:

| | |
|---|---|
| Under 60 years of age | 330 |
| From 60 to 64 years of age, inclusive | 756 |
| From 65 to 70 years of age, inclusive | 2,794 |
| Over 70 years of age | 1,945 |
| | 5,825 |

### Wage Negotiations

In the Annual Report for 1943 reference was made to the application to the National War Labour Board on behalf of all classes of railway employees affiliated with international labour organizations for increases in basic rates of pay sufficient to establish substantial parity with rates paid like classes of employees on United States railways.

The application of the employees was based almost entirely on developments in the railway wage structure in the United States, and the reply of the Canadian railways was directed mainly to the rebuttal of that argument.

The National War Labour Board decided this issue in favour of the Railways, finding that "The whole policy of control of wages and prices in this Country is entirely distinct and unrelated to the economy of the United States. This Board is satisfied that comparison of wage rates paid in the two countries is neither permitted nor required in the administration of P.C. 5963."

Nevertheless, the Board undertook on its own initiative a study of wage increases granted to other classes of labour in Canada since the war began and issued "Findings and Directions" increasing the rates of Canadian railway employees by six cents per hour for hourly rated employees, with equivalent increases for daily, weekly and monthly rated employees.

This wage increase combined with the incorporation of cost-of-living bonus in basic rates has raised average wage rates to a level approximately 25% higher than those in effect prior to June 1, 1941.

Applications have also been made to the Board on behalf of various classifications of railway employees for annual vacations with pay. The Board has directed the Railways to inaugurate such annual vacations in every case, except one, the decision in which is now pending.

The recent developments in regard to increased wage rates for railway employees have followed much the same pattern as during the last war, with one very important difference. In the present instance the 1941 freight and passenger rates have remained unaltered, in compliance with regulations of the Wartime Prices and Trade Board, while in the previous war period the Railways were afforded immediate relief from increased costs.

### Canadian Pacific Air Lines, Limited

The curtailment of activities in Northwestern Canada, due to the completion of the main construction projects, is reflected in the reduction in certain types of traffic carried during the past year by your Air Lines. The movement of released personnel provided a satisfactory volume of passenger business but the reduction in temporary population brought about decreases in mail and express traffic.

There were 104,166 passengers carried in 1944, compared with 72,602 in 1943, an increase of 43%; freight transported was 8,027,442 pounds, compared with 9,528,913 pounds, a decrease of 16%; 1,436,153 pounds of mail, compared with 2,207,333 pounds, a decrease of 35%. During the year 5,984,602 revenue miles were flown, a decrease of 149,149 miles.

Unprofitable earnings prevailed on certain routes owing to low and uneconomic rates stabilized under the regulations of the Wartime Prices and Trade Board. Wage and material prices increased during the year and the results of operations showed a loss, after depreciation, of $767,109. Provision for this was made by a charge to Other Income.

The participation of your Air Lines in the British Commonwealth Air Training Plan was reduced during 1944 by the closing down of two Training Schools in accordance with the policy announced by the Minister for Air. Two of the Overhaul Plants operated for the Department of Munitions and Supply were also closed and termination notices were received for the three remaining plants.

A further issue of 400,000 shares of the capital stock of Canadian Pacific Air Lines, Limited was taken in payment for $2,000,000 of advances made by your Company in 1943. Additional net advances amounting to $647,083 were made during the current year mainly for aircraft and engines, radio, etc. This brings your investment in this Company to $7,400,000.

At the last annual meeting reference was made to the policy announced by the Government of Canada with respect to post-war aviation. Since that time, legislation has been enacted giving effect to that policy. The act prohibits the issue of a licence for a commercial air service owned, leased, controlled or operated by a carrier engaged in another form of transport unless the Governor-in-Council is of the opinion that it is in the public interest that such a licence be issued.

Under this legislation, an Air Transport Board has been appointed to advise the Minister in all matters connected with the development of civil aviation and commercial air services. The act provides that all existing licences shall be reviewed by the Board, which may cancel or suspend any such licence as it sees fit. Provision is also made that such licences as are not cancelled or suspended by the Board shall cease to be valid one year after the termination of the war in Europe.

The Board is at present engaged in formulating regulations and will, no doubt, at an early date commence the work of reviewing existing licences. Officers of your Air Lines will be prepared to deal with the question of review when it is taken up.

### Minneapolis, St. Paul & Sault Ste. Marie Railroad Company

Under the authority of the plan of reorganization approved by the Interstate Commerce Commission and the Court, the reorganization managers created a new company, the Minneapolis, St. Paul & Sault Ste. Marie Railroad Company to take over the property of the Minneapolis, St. Paul & Sault Ste. Marie Railway Company as from September 1, 1944.

In accordance with the plan, your Company received in bonds and stock of the new company, at the values ascribed to them by the Interstate Commerce Commission in the distribution of the new capitalization, a total of $18,975,296; in stocks of affiliates of the old company, $1,750,000; in bonds of the Wisconsin Central Railway Company $5,732,291; and in cash $1,564,494. Investments in the old company of $18,409,642 and advances of $24,618,041 were surrendered or written off resulting in a net reduction in book valuation of $15,005,602. This was charged against the Investment Reserve built up in prior years to provide for this contingency.

The deposit agreements provided for in the plan have been executed. Under these agreements, the holders of Second Mortgage and Series "B" First Refunding Mortgage Bonds, bearing the guarantee of your Company as to interest, may deposit them and the securities allotted to such holders are also deposited. The agreements provide that any return on the securities so deposited shall be applied toward the payment of the guaranteed interest, and that your Company is to pay to the deposit trustees for the benefit of the depositors whatever additional amounts may be needed for the payment of such interest.

The stock of the new company is deposited, under a voting trust agreement effective until December 31, 1950, with five voting trustees, three of whom were designated by your Company.

The traffic agreement referred to in the Annual Report for 1941, providing for the continuation of the traffic relationships between the Soo Line and your Company which existed on November 1, 1940, has been executed. This agreement may be terminated at any time on or after December 31, 1950, upon one year's prior notice by either party.

The plan of reorganization gives your Company an option to acquire 33% of the stock of the new company allotted to others, upon its agreement to extend the traffic agreement for an additional eight years from December 31, 1950, and upon payment of $2.00 per share for the optioned stock. This option has not yet been exercised. While the exercise of this option would give your Company control of the new company after termination of the voting trust agreement, this control is limited in several respects by the articles of incorporation and the by-laws of the new company.

The Annual Reports for 1939 and subsequent years contain references to several actions brought in behalf of holders of the First Consolidated Mortgage Bonds, claiming that the obligation of your Company under its guarantee of interest extended beyond the maturity of the bonds. The most important of these actions, which was brought in behalf of numerous institutional holders of such bonds, was dismissed with prejudice on September 1, 1944, pursuant to previous agreement between the institutional holders and your Company, in connection with the consummation of the plan of reorganization.

Net earnings of the Soo Line in 1944 amounted to $5,710,169, an increase of $569,076, or 11.1%. After adding other income of $176,374 and providing for interest and other charges aggregating $4,848,235, net income for the year amounted to $1,038,308. The interest and other charges for the first eight months of the year amounted to $4,417,041 as compared with $431,194 for the four months commencing September 1, on which date the properties and assets were taken over by the new company pursuant to the plan of reorganization.

### The Duluth, South Shore and Atlantic Railway Company

No appeal was taken from the judgment delivered in favour of your Company in the action instituted by Hugh W. McCulloch and other bond holders, referred to in the last Annual Report. As a result of negotiations between your Company and the representatives of the holders of a substantial portion of the First Mortgage Bonds, the principal provisions of a plan of reorganization which will receive the support of both parties have been submitted to the South Shore to be incorporated in a plan to be filed by that Company.

A petition of Louis Lober for subordination of the claims of your Company to the claims of the owners of the First Mortgage Bonds has been denied by the District Court of the United States for the District of Minnesota, Fourth Division. Notice of appeal from this decision has been served.

Net earnings of the South Shore were $642,880 compared with $1,000,744 in 1943. Costs of operation increased and gross earnings declined. The volume of ore traffic was substantially less than in the previous year.

### Rates and Services

The limitations on passenger train service and the regulations for loading of freight cars which were previously put in effect by the Transport Controller, in the interest of ensuring essential service and the maximum utilization of equipment, remained operative without change during 1944.

Automatic block signals were installed for 113 miles of single track main line on the Saskatchewan and Alberta Districts. This added materially to the speed and safety of operations on a portion of your Company's road over which the movement of grain is very great.

A branch line in Southern British Columbia, extending from Haynes to Osoyoos, was completed and opened to traffic in the latter part of the year. The new extension of approximately 10 miles provides this rapidly developing fruit-growing area with rail connections with the rest of Canada.

New rolling stock placed in service during the year included 27 Pacific type and 25 Mikado type locomotives; 10 Diesel switching locomotives; 1,000 box, 500 70-ton gondola and 200 70-ton hopper cars; 140 refrigerator cars; and 50 cabooses. With a view to developing desirable specifications for the prospective post-war replacement of motive power, two of the Pacific type locomotives were constructed in your Angus Shops.

Consistent with your Company's plans for the further improvement of its passenger services as rapidly as the return to peacetime conditions will permit, experiments were carried out during the year in re-arranging and modernizing the interiors of sleeping and dining cars, using more colourful interior decorations, improved lighting, and other conveniences designed to increase the comfort of train travel.

Your Company has actively proceeded with modernization of communications plant, apace with new developments. During the year transmission facilities were adapted to permit an expansion in the use made of them by the Canadian Broadcasting Corporation for its increasing network requirements; also to provide additional circuits for the public telephone systems in their services between Eastern and Western Canada and between Montreal, Saint John and Halifax, and for the Department of Transport in air traffic control operations.

### Wartime Activities

Your Company was again honoured in having its Chateau Frontenac chosen as the scene of the Second Quebec Conference. The return of the President of the United States and the Prime Minister of Great Britain, with their staffs, to this locale for their deliberations pays eloquent tribute to the service and appointments of your renowned hotel.

Your Angus Shops in Montreal were engaged in the manufacture of engines and condensers for heavy-armament landing craft, range-finding and fire-control equipment for naval guns, and many intricate detectional devices employed in anti-submarine warfare. At your Ogden Shops in Calgary the large locomotive erecting shop was again assigned entirely to the production of naval guns and mountings. The total value of munitions produced in your Company's shops now exceeds $135,000,000. High tribute to the quality of workmanship has been paid by both military and naval authorities.

Railway facilities were extended to match the needs of new plants and undertakings. During 1944 there were 129 industrial sidings constructed, or in process of construction, involving 20.9 track miles.

A number of the officers of your Company remained throughout the year on loan to the Canadian and British governments for special services. The Vice-President of your Company was chosen during the year by the Dominion Government as the Canadian representative on the Transportation Equipment Committee of the Combined Production and Resources Board. The Committee consists of three members, representing Britain, the United States and Canada.

Your ocean steamships continued to be operated under the Ministry of War Transport of the United Kingdom. Your passenger vessels have been engaged in carrying service personnel to the various battle fronts. Numerous ships have been allocated by the Ministry of War Transport for operation by your Company, some continuously, and others on a voyage by voyage basis. Such ships have been staffed, in part, by your regular employees who were displaced from their positions owing to loss of the vessels in which they had been serving. A number of seagoing employees have lost their lives in the performance of their perilous duties, and others, including some of your senior shore officials, have suffered untold hardship as prisoners of war.

Officers and employees continue to demonstrate a fine public spirit in their generous response to patriotic appeals and campaigns. In the seven Canadian Victory Loans, your Company and its employees have subscribed a total of $144,139,000. Of this amount $102,907,000 has been taken by your Company and by its Pension Fund and the Pension Fund of the Canadian Pacific Express Company. At the end of the year more than 27,000 officers and employees were purchasing War Savings Certificates under the payroll deduction plan.

### Post-War Re-establishment

The officers of your Company are actively planning to ensure the successful re-assimilation into service of the large number of employees on leave of absence with the armed forces. The seniority and pension rights of such employees are fully protected. When new employees are engaged, every possible consideration will be extended to those applicants who have been honourably discharged from the armed services.

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Problems of re-establishment and employment which will confront your Company in the period of transition from war to peace will be in charge of a Vice-President assigned to special duties.

### Capital Appropriations

In anticipation of your confirmation, your Directors authorized capital appropriations for the year 1944 amounting to $1,872,121 in addition to those approved at the last annual meeting.

Your approval will also be requested for capital appropriations of $28,448,107 for the present year. The principal items are as follows:

| | |
|---|---|
| Additions and betterments to stations, freight sheds, coaling and watering facilities and engine houses | $5,014,250 |
| Replacement and enlargement of structures in permanent form | 586,112 |
| Tie plates, rail anchors and miscellaneous roadway betterments | 1,296,953 |
| Replacement of rail in main line and branch line tracks with heavier section | 1,148,123 |
| Installation of automatic signals | 883,743 |
| Additional terminal and side track accommodation | 484,072 |
| Additions and betterments to shop machinery | 1,378,076 |
| New rolling stock | 16,206,520 |
| Additions and betterments to rolling stock | 411,968 |
| Additions and betterments to communication facilities | 587,674 |
| Inland Steamships—B. C. Lake and River Service | 240,000 |

The appropriation for new rolling stock, strictly limited to a programme for which material could be made available to your Company, makes provision for 30 Pacific type steam locomotives and 13 Diesel switching locomotives; 1,275 freight train cars, including 750 box cars, 200 refrigerator cars and 200 gondola cars; 50 passenger train cars and 5 work units.

### Agreements

Reference has already been made in this report to the receipt by your Company of $4,500,000 as consideration for the cancellation of an agreement providing for the use by the Great Northern Railway Company of the Kettle Valley Railway Company's line between Otter Summit (Brookmere) and Hope. There will be submitted for your consideration and approval an agreement made by your Directors whereby Vancouver, Victoria and Eastern Railway and Navigation Company and Great Northern Railway Company have undertaken to sell to your Company a line of railway in British Columbia between Princeton and Otter Summit (Brookmere) for $1,500,000. Your Company has enjoyed running rights over the line to be acquired, since its construction, paying therefor approximately $60,000 per annum under an agreement authorized at the annual meeting in 1914, which, upon completion of the purchase, will be terminated.

### Stock Holdings

The holdings of the Capital Stock of your Company at December 31 were as follows:

| | Ordinary | | Preference | | |
|---|---|---|---|---|---|
| | No. of Holdings | Percentage of Stock | No. of Holdings | Percentage of Stock | Total Percentage of Stock |
| Canada | 25,535 | 18.20 | 147 | .58 | 12.98 |
| United Kingdom and other British | 14,695 | 53.93 | 26,847 | 96.41 | 66.52 |
| United States | 12,578 | 21.68 | 77 | .35 | 15.36 |
| Other Countries | 3,416 | 6.19 | 569 | 2.66 | 5.14 |
| | 56,224 | | 27,640 | | |

### Directorate

It is with deep regret that your Directors record the death on November 26, 1944, of Honourable Henry Cockshutt who had been a member of the Board since June, 1925.

Mr. Howard P. Robinson, Saint John, N.B., was appointed a Director to succeed Honourable Henry Cockshutt.

The undermentioned Directors will retire from office at the approaching annual meeting. They are eligible for re-election:

Mr. Aime Geoffrion, K.C.
Mr. G. Blair Gordon
Mr. W. M. Neal, C.B.E.
Mr. George W. Spinney, C.M.G.

### Officers and Employees

Each successive year of hostilities has intensified the problems of management and the tasks of labour in all branches of your Company's service. Indebtedness to all ranks of employees is acknowledged for the maintenance of efficient and effective transportation, despite the difficulties of wartime conditions.

Your Directors are proud to report that, at the end of the year, 19,479 men and women from all branches of

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your Company had joined the armed forces or engaged in special war services under direction of the British Admiralty. Solemn tribute is paid to the 527 employees who have given their lives in the common cause; earnest hopes are expressed for the safe and early return of those still engaged in hazardous duties.

For the Directors,
D. C. COLEMAN,
*President.*

Montreal, March 12, 1945.

### Canadian Pacific Railway Company

**General Balance Sheet, December 31, 1944**

| | | |
|---|---|---|
| **Assets—** | | |
| Property Investment: | | |
| Railway, Rolling Stock and Inland Steamships | $828,911,761 | |
| Improvements on Leased Property | 97,753,968 | |
| Stocks and Bonds—Leased Railway Companies | 130,073,481 | |
| Ocean and Coastal Steamships | 37,767,236 | |
| Hotel, Communication and Miscellaneous Properties | 96,512,653 | |
| | | $1,191,019,099 |
| Other Investments: | | |
| Stocks and Bonds—Controlled Companies | $70,910,449 | |
| Miscellaneous Investments | 43,603,850 | |
| Advances to Controlled and Other Companies | 8,701,194 | |
| Mortgages Collectible and Advances to Settlers | 1,811,753 | |
| Deferred Payments on Lands and Townsites | 20,874,776 | |
| Unsold Lands and Other Properties | 17,962,278 | |
| Unexpended Equipment Trust Deposit | 4,889,563 | |
| Maintenance Fund | 19,950,000 | |
| Insurance Fund | 10,419,339 | |
| Steamship Replacement Fund | 49,087,030 | |
| | | 248,210,232 |
| Current Assets: | | |
| Material and Supplies | $37,601,778 | |
| Agents' and Conductors' Balances | 14,584,541 | |
| Miscellaneous Accounts Receivable | 19,396,391 | |
| Dominion of Canada Securities | 17,346,404 | |
| Cash | 47,161,832 | |
| | | 136,090,946 |
| Unadjusted Debits: | | |
| Insurance Prepaid | $223,244 | |
| Unamortized Discount on Bonds | 5,073,426 | |
| Other Unadjusted Debits | 2,460,952 | |
| | | 7,757,622 |
| | | $1,583,077,899 |
| **Liabilities—** | | |
| Capital Stock: | | |
| Ordinary Stock | $335,000,000 | |
| Preference Stock—4% Non-cumulative | 137,256,921 | |
| | | $472,256,921 |
| Perpetual 4% Consolidated Debenture Stock | $357,335,729 | |
| Less: Pledged as collateral to bonds and equipment obligations | 61,897,500 | |
| | | 295,438,229 |
| Funded Debt | | 105,883,000 |
| Current Liabilities: | | |
| Pay Rolls | $5,079,602 | |
| Audited Vouchers | 12,549,238 | |
| Net Traffic Balances | 3,096,323 | |
| Miscellaneous Accounts Payable | 7,897,433 | |
| Accrued Fixed Charges | 1,242,070 | |
| Unmatured Dividend Declared | 2,521,391 | |
| Other Current Liabilities | 15,220,014 | |
| | | 47,606,071 |
| Deferred Liabilities: | | |
| Dominion Goverment Unemployment Relief | $1,447,223 | |
| Miscellaneous | 4,332,833 | |
| | | 5,780,056 |
| Reserves and Unadjusted Credits: | | |
| Maintenance Reserves | $19,950,000 | |
| Depreciation Reserves | 263,115,501 | |
| Investment Reserves | 3,502,983 | |
| Insurance Reserve | 10,419,339 | |
| Contingent Reserves | 5,189,633 | |
| Unadjusted Credits | 6,057,830 | |
| | | 308,235,286 |
| Premium on Capital and Debenture Stock | | 34,458,562 |
| Land Surplus | | 61,704,766 |
| Profit and Loss Balance | | 251,715,008 |
| | | $1,583,077,899 |

ERIC A. LESLIE,
*Vice-President and Comptroller.*

To the Shareholders,
Canadian Pacific Railway Company:

We have examined the Books and Records of the Canadian Pacific Railway Company for the year ending December 31, 1944, and having compared the Balance Sheet and related schedules therewith, we certify that in our opinion they are properly drawn up so as to show the true financial position of the Company at that date, and that the Income and Profit & Loss Accounts correctly set forth the result of the year's operations.

The records of the securities owned by the Company at December 31, 1944, have been verified by an examination of those securities in the custody of its Treasurer and by certificates received from such depositaries as are holding securities for safe custody for the Company.

PRICE, WATERHOUSE & CO.
Chartered Accountants.

Montreal, March 9, 1945.

# The Middle East Oil Enigma

(Continued from page 1598)

cally located in relation to the European and Far Eastern markets.

British ownership is spearheaded by huge Anglo-Iranian Oil Co., Ltd., 55% of whose ordinary shares are owned by the British Government. That company accounts for all of the production in Iran, currently amounting to about 325,000 barrels a day, which is by far the major part of all of the 450,000 barrels of oil currently being produced in all of the Middle East. Anglo-Iranian Oil Co. also owns a 24% interest in Iraq Petroleum Co., which is now producing 90,000 barrels a day in Iraq. This ownership in Iraq is shared with Royal Dutch Shell (24%); Near East Development Co., (Standard Oil Co., N. J., and Socony-Vacuum) (24%); a "French Group" (24%); and a certain Mr. C. S. Gulbenkian (4%). The latter individual, it is understood, had a hand in arranging the concessions in Iraq.

The American Companies, other than the two having an interest in the Iraq Petroleum Company, have control in Saudi Arabia. These are Standard Oil of California and Texas Company. At present, production in Saudi Arabia amounts to 35,000 barrels daily. In Kuwait, the Kuwait Oil Co., Ltd., controls some 9 billion barrels of proven and indicated reserves, none of which is in production. The Gulf Oil Corporation shares a 50 per cent in this Comapny with Anglo-Iranian Oil Co., Ltd.

Summarizing these various relationships, it is seen that Anglo-Iranian Oil Co. controls or has an interest in about 92 per cent of the present production in the Middle East. The Kuwait oil fields in which it has a 50 per cent interest are now shut-in. Two American oil companies, Standard of N. J. and Socony, whose interest in the Eastern hemisphere is primarily that of marketing, have a share in the production in Iraq. Production from the Saudi Arabian concessions, controlled exclusively by two American companies, amounts to 35,000 barrels a day or about 8 per cent of total oil output in the Middle East.

In the Spring of 1944, representatives of the United States Government proposed that a pipe line, costing in the neighborhood of $150,000,000, be built with public funds. The projected line extended 1,200 miles from the vicinity of Bahrein Island across Saudi Arabia to Haifa on the Mediterranean, or, across Trans-Jordan into Egypt. The Government's stake was to be paid back by the American companies (cost plus interest and profit) over a period of twenty-five years in which the line was to be amortized. In addition, one billion barrels of the oil would be reserved for the Government at a 25 per cent discount from the prevailing price (on the U. S. Gulf Coast or the Persian Gulf, whichever was lower). The oil was to be brought to this country for storage. When this project was first brought to light, it aroused a considerable amount of fears inasmuch as it was obvious that the Government was treading on dangerous waters. It is now generally believed to be a "dead duck", but we might better consider its present status more as a gun that presumably is not loaded.

Following the disclosure of this pipe line plan, an Anglo-American petroleum agreement was subsequently drawn up. It is considered to be the first of a series of international agreements, and is supposed to provide only for consultation between the United States and Great Britain on petroleum problems concerning both countries. The agreement, in principle, provides that the United States, through the Petroleum Reserve Corporation, will exercise complete domination in the moving of oil from Saudi Arabia and Kuwait to the shores of the Mediterranean, to western Europe and also to the American hemisphere. The agreement is now before the Senate for ratification.

These oil developments have economic and political implications whose importance cannot be overemphasized. What is behind these moves? The search for the answer to such a question is a difficult one, and at present must necessarily be inconclusive, but at least five possibilities suggest themselves and may be examined in the light of known facts. These are:

(1) to provide insurance for the future.
(2) to obtain cheap oil.
(3) to conserve United States reserves.
(4) to regulate the flow of world oil.
(5) to protect U. S. Companies in the Middle East.

What insurance to the United States does Middle East oil provide for the future? If we mean by this a large increase in reserves added to those presently known in the United States, the reason rests on unsound grounds. In the first place, the oil is already known to exist and a substantial portion of these resources are already controlled by American Companies. Secondly, from the standpoint of location, the Middle East oil has a far less strategic value in times of national emergencies than oil within or close to our own borders. As recently as 1942, we saw the supply of oil carried from the United States Gulf coast to the Eastern seaboard almost completely choked off by enemy submarines. Normally, some 1,500,000 barrels of oil daily, or more than 95% of requirements on the East Coast, were transported by tankers. The distance involved is about 1,800 miles. By contrast, the distance by water from Abadan, at the head of the Persian Gulf, to New York is 8,450 miles. Even with a pipe line across to the Mediterranean Coast from the Persian Gulf area, the distance to the East Coast of the United States would still be nearly three times as great as the tanker haul from the Gulf Coast of the United States or from the Caribbean area to the Eastern seaboard. Assuming that such a long supply line could be protected adequately, it would still be dangerous in times of national emergency to depend on it. If any doubts previously existed in this matter, World War II has effectively dispelled them. It is little realized that, up to recent months, practically all the oil requirements, for prosecuting the war against the axis nations, had to be supplied from the Western hemisphere. The major oil resources outside of the American continent were either seized by the enemy or isolated. Thus, the Far Eastern fields fell into Japanese hands, Roumanian production was appropriated by the Germans, while the Middle East oil was blocked off and came dangerously close to being lost to the Nazis. Even the Russians, with their large oil resources, have been unable to supply all their requirements.

The second possible explanation is that the Government is anxious to exploit a prolific source of cheap oil. If this is true, then there is a very serious conflict with what the American boasts as free private enterprise. There is conflict with one of the country's major industries built up over a period of years and providing more and better petroleum products at lower and lower costs. If any substantial part of the country's oil requirements is brought in from outside sources, there is little question that the incentive for continuing the search for oil in the United States by private industry will be lessened. The search for oil has always been stimulated by the constantly expanding market for it in this country. By arbitrarily reducing the market of domestic oil in favor of outside oil to a significant extent would, in all likelihood, lessen exploration activity, for without a market, oil has no value to its owner.

The next point to be considered is that of conserving reserves in the United States. This can be done by either limiting consumption or by bringing into the country, from other areas such as the Middle East, a part of requirements. There is probably no thought or desire to restrict consumption with a return to peace. Hence, any scheme for conservation of reserves would appear to be centered on a much larger volume of imports while at the same time banning exports of oil products. This problem cannot be restricted only to the United States. It is one in which the whole Western hemisphere has to be included. Oil in this hemisphere is certainly of much greater strategic value than oil elsewhere. It is therefore evident that any policy tending to restrict production in our own hemisphere necessarily hampers further development of our oil resources. Here it is pertinent to note that there is a considerable difference between known reserves of oil and resources. It would be naive, indeed, to assume that the resources of oil in the Western hemisphere, which includes our own United States, have been exploited to their fullest extent. The record of the past proves otherwise. Moreover, such a thought implies that present methods of exploration and development cannot be improved upon. This is contrary to the facts, for the oil industry furnishes one of the best examples of technological progress in the past 20 years. Public officials, in their efforts to exercise a growing degree of control over the oil industry, fail to recognize the importance of competition to its development. Oil is a fugitive substance that must be found, and there is nothing like competition to do the job. Our great East Texas fields, which even now, after more than ten years of prolific production hold more than one-half of total proven oil reserves in this country, were discovered on a wild gamble by an independent after the "experts" lost interest in the area. Argentina is still dependent on outside sources for part of its petroleum needs, and its resources have been developed on a scale much less than that of Venezuela. This contrast is made significant by the fact that 80% of Argentina's oil development is under State control, while the Government of Venezuela has followed a policy of encouraging competitors to develop its oil resources. Soviet Russia offers an equally good example. It is generally considered to have actual and potential oil resources of considerable size. Yet, when compared to areas where private enterprise has been foremost, the development of a Soviet oil industry has been slow and not very impressive.

The fourth factor that may have a bearing on the Middle East development concerns itself with the matter of protecting American companies in that area. And, on this one may ask: What kind of protection, and what companies? From what must these companies be protected? Are they being challenged by others? There does not appear to be any evidence to support this view. It is, however, apparent that oil production in Saudi Arabia, where Standard Oil of California and Texas Company hold control, is now about 35,000 barrels a day. This is small relative to total potential production and small in relation to total production in the Middle East. The reason for this is probably closely bound up with markets for oil in the European continent. It can be safely presumed that if the private companies had seen a market for their oil, the development of the fields and organizations of transportation facilities, whether tankers or a pipe line, would long since have been undertaken at an accelerated pace. No worthwhile economically sound oil project has been neglected for lack of means to develop it.

The sudden interest of the Government and the ambitious pipe line project have been a mystery of the first magnitude. One explanation may be in the person of Ibn Saud, the autocrat of this fabulous oil domain, who rules Saudi Arabia. It may be that he needed more revenue. He probably does not expect to live forever and, therefore, may be bent on prodding the companies to develop his oil riches at a faster rate. If this assumption has any basis in fact, and it looks like it has, the United States Government, then, is undertaking a protective role by acclerating the process of development of a foreign enterprise. This not only would be a unique excursion for our Government in international affairs, but also a curious change in its role of protector. It was only a few years ago that the properties of American oil companies in several South American countries were expropriated with a consequent loss not only to them, but also to the countries involved. Mexico observed, with a national holiday in March of last year, the sixth anniversary of the ousting of foreign oil companies from that country. Development of the industry during these years has bogged down, and its resuscitation is now underway with an effort intensified by war demands and a $10 million loan by the U. S. Government.

In the prewar years, daily oil requirements on the Eastern hemisphere were approximately 1,700,000 barrels. Out of this total some 400,000 barrels represent a deficit which was supplied principally from the Western hemisphere, that is the United States and South America. It would appear that the United States contemplates the shifting of a source of supply to the Middle East, thereby expanding the rate of development and production in that area, and the assumption of a marketing role in a region already well developed. A financial com-

# The Economics of Annual Wage

(Continued from first page)

Formula, the labor union involved made as one of its primary demands an annual wage, asserting with vigor and confidence that the annual wage, even in the steel industry, is practical and workable.

A number of employers, by voluntarily adopting annual wage plans, have placed their stamp of approval upon the idea, at least for their own plants, although some of them have crusaded for the idea generally. Most employers who have examined the proposals have been skeptical.

Who is right: the Social Security Board and the majority of employers or the labor union and the minority of employers? When extreme but conflicting claims are advanced, the truth often lies somewhere between.

In order to understand the current drive for the annual wage, one must understand the new setting. It differs from the pre-depression and even from the prewar frame of reference. Formerly, discussions of the annual wage ran primarily in terms of the individual company approach; today, the approach runs in terms of the over-all economy. It derives from the despair of the Keynes-Hansen-TNEC indoctrination efforts through which we were urged to believe that the tendency toward secular stagnation and excessive savings call for artificial devices to maintain consumer spending. Deficit spending through governmental channels was the remedy; to this is now added the emphasis on maintaining wage payments.[1]

If employers generally adopted annual wage plans and thereby maintained consumer spending, the tendency, we are told, toward stagnation and oversaving would be offset.

Is this new orientation correct and does it justify a new look at the annual wage idea? Unquestionably, if we maintained consumer spending and investment upon a high, even keel, we would have sustained prosperity. The real crux of the issue, however, is whether any alleged deficiency of outlay, consumer spending or new investment is a cause of underemployment or merely a symptom.

The notion that unemployment is due to deficiency of income and general spending finds little or no support among economists. Even Karl Marx, the founder of "scientific" socialism, remarked that depressions come when wage income is at a peak. He might have added that when consumer or wage income is at an all-time low, at the bottom of a depression, then we begin recovery. This does not give much support to the new philosophy that annual guaranteed wages would insulate us against depression and unemployment in a voluntary society.

1 Thus Philip Murray, President of the CIO, states that the guaranteed annual wage "would also create a steadier demand for the goods and services of farmers, professional people and business men.

### Regularization of Employment

Even though one is inclined to reject the annual wage idea, in terms of its capacity to stabilize the whole economy, this does not mean that efforts to regularize employment and pay wages by the year have no merit. In fact, the contrary is the case. This much may be said Any stability attained by the individual firm tends to support the stability of, or the stabilization efforts of other firms and, thereby, the entire economy is made more stable. But the process whereby this is attained is quite different from that envisaged by those who would compel employers generally to adopt annual wage plans as a device for stabilizing spending.

The human resources of our nation are its most valued resource. Whether a man is on or off the payroll, his overhead costs of living continue: rent or mortgage payments and taxes, grocery and public utility bills, as well as numerous miscellaneous living expenses. Unemployment insurance is a partial step, for workers who are victims of relatively short-time unemployment, toward the annual wage: some income every week. Much is to be said for gradually extending the duration of such payments from the present 16 or 18 weeks in most of the States.[2] Strengthening the effectiveness of experience rating in these laws is advisable because the evidence is clear that employers before the war were beginning to improve the regularity of their operations[3] as a result of the potential tax savings. To some extent, unemployment is preventable by management, and we should provide it with every incentive which is practical.

Although unemployment always means wage losses to the worker, its causes are innumerable. The introduction of labor-saving machinery, wage rigidities, improper scheduling of materials, lack of coordination within the plant, the ebb and flow of the seasons, the casual nature of some work (such as ship loading), the ups and downs of the business cycle, international and political disturbances, and others, may be associated with job losses.

A complete enumeration of all the factors which bear on job regularity would suggest immediately that management can do much to reduce wage losses.[4] Thus the Geo. A. Hormel & Co. employees are guaranteed against wage losses arising from the first six causes mentioned above. If the guarantee is extended from year to year, they are also protected against the others mentioned.

Mass unemployment is commonly associated with the enormous contraction in the durable consumers and producers goods industries—housing and other heavy consumer goods, general construction and machinery. The proximate reason for the relatively great contraction in demand in these particular fields during a depression is because of the "durability." It is the durability of these goods which makes replacement postponable because the existing house, stove, plant or machine can be made to suffice for the time being. (Thus the consumption of gasoline was maintained from 1929 to 1932, but the production of motor vehicles declined by 75%, as did general construction.)

2 See: "American Economic Security," Vol. I, No. 7, November-December, 1944, for improvements in the State laws since 1935-37, Chamber of Cammerce of the U. S. A.

3 "To Make Jobs More Steady and to Make More Steady Jobs," Webb Publishing Company, St. Paul, Minnesota.

4 "Steadier Jobs" by Eric A. Johnston, Chamber of Commerce of the U. S. A., 1944.

### Changing Consumers' Habits

One of the most compelling reasons against forcing annual wage plans upon management, either by group action or by government order, are these varying shifts in demand. A dynamic and free society is one of constant change and adaptation. Compulsion would tend to freeze the economy and would soon destroy the spirit of risk-taking and venture and probably would have to end up with dictation to the consumer.

While the individual company may be able to do something to make its business less vulnerable to depressions, it is the other causes of unemployment which are more nearly within the control of management. Once top management makes regular operations a prime objective, it is frequently surprising to note the degree to which layoffs are avoidable. To some extent, the same frame of mind and the same devices which have proven effective in reducing seasonal and other short-run unemployment may be effective in mitigating the swings of the business cycle. Thus, a building supply manufacturer has diversified his line to include a substantial portion of non-durable consumer goods, the demand for which is fairly depression-proof. Adapting price policy to depression conditions has proven helpful in other cases. Again, the concentration on less costly and simpler items may help to sustain demand.

In short, since every business is unique, a vigorous effort on the part of management in each case to discover ways and means of adaptation to changed demand conditions frequently can do something to mitigate fluctuations in production. In general, every successful effort of every company will make success somewhat easier for others because of the interdependence of the economy. Banking and credit policies which avoid the use of bank credit (as distinguished from money savings) for plant expansion and cyclical sales financing might go a long way to reenforce the efforts of the individual employers; it would be highly unfortunate if the role of annual wages as economic stabilizers were overemphasized. The mere adoption of an annual wage alone is no assurance of sustained wage-paying capacity of a company.

### Congressional Action

Twice in the 1930's Congress adopted laws, specific clauses of which were designed to encourage the growth of annual wage plans. Yet these provisions are almost unknown and only a few companies have responded to them. The Social Security Act of 1935, in addition to making possible experience rating of the type now found in most State unemployment compensation laws, allows reduced contribution rates (tax offset provision) to employers who guarantee in advance at least 30 hours of work, for which remuneration is paid at not less than stated rates, for each of 40 weeks (or if more, one weekly hour may be deducted for each added week guaranteed in the year) to all persons employed and available for work.

Again, in 1938, the Fair Labor Standards Act, Sec. 7 (b) (1) and (2), provided for specific exemptions from the requirement to pay time-and-a-half for hours over 40 per week if the workers were employed on some annual basis. Unfortunately, in this clause Congress stepped out of its traditional role of governing for all the people and instead hedged the "conditions" about to a point where few employers have seen fit to avail themselves of the overtime exemption because the intent seemed to be union promotion.

Many things are to be said in favor of the annual wage. But no company should accept such a commitment without careful study. Basically, an annual wage which provides a regular pay check every week makes the standard wage the minimum wage, and this standard wage must be paid for a whole year. If, at the end of the year, a smaller commitment, or one less favorable to the worker, is advanced because the commitment threatens the solvency of the enterprise, this will be resented and, instead of improving industrial relations and adding to the security of the worker, it may have demoralizing effects. If a beginning is to be made, it should not be on too ambitious a scale. Its coverage and scope, if partial, must appeal to the reasonable man as being fair. It should not be so extensive that it destroys the spirit of enterprise and expansion of management.[5] It should be entered into voluntarily by the management and not merely to get out of a tight squeeze in the process of collective bargaining. The plan should be fully explained to the workers at all stages. Better still, the worker should be consulted all along; otherwise, suspicion and resentment may develop.

If the workers secure some definite advantages under the plan, they frequently are willing to furnish a quid pro quo in the way of reducing restrictive practices and rules. The employees should have their understanding deepened of the fact that the management's sustained wage-paying capacity depends upon the customers and the solvency of the enterprise and not upon the size of the boss' pocketbook or bank account.

5 Advantages and difficulties are discussed in "What Wage Guarantees Involve" by Volta Torrey, "Nation's Business," January, 1945.

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mitment would be large and measurable, but the international political complications that are present, and may arise in the future, are even larger and much less certain.

Whatever the motives, it is apparent that the United States Government would be instrumental in influencing the flow of oil in the world markets, including those in our own country. It is, therefore, a matter of considerable interest to oil companies, in the Western hemisphere. It would seem that what is required is a definite oil program sponsored and guided by the Government in the light of national policy and future needs. Further, there appears to be no reason why such a policy could not be observed and carried forward by private interests with State Department aid and approval rather than the Government assuming international responsibilities that are fraught with danger.

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## Georgeson Dead

Lloyd W. Georgeson, of 238 East 61st Street, New York, senior partner of the firm of Georgeson & Co., died suddenly at the Harkness Pavilion of the New York Medical Center. He was 51 years of age. Prior to the last war, Mr. Georgeson was with the firm of Lee, Higginson & Co. During World War I he served as a Lieutenant in the United States Army. Following the war he became associated with Blyth, Witter & Co., and later became a partner of Pask & Walbridge, then in Robertson & Georgeson, and later in Cohu Brothers & Georgeson. He founded his own firm in 1939, of which he was senior partner at his death.

## David Whitman Is With B. G. Cantor Company

David Whitman, formerly with White, Weld & Co. and Goldman, Sachs & Co., has become associated with B. G. Cantor Co., 79 Wall Street, New York City, in their trading department.

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# Mutual Funds

## Prosperity Ahead

"Barney" Baruch, speculator extraordinary, presidential adviser in both World Wars, and a recognized authority on business and finance, made the headlines last week with an expression of confidence in the immediate future of the United States. He predicted that this country would enjoy a wave of prosperity after the war **"which will carry over for five to seven years no matter what is done or not done."**

This kind of talk coming from a man of Baruch's position and proven judgment was certainly good news to investors and was picked up immediately by a number of investment company sponsors. **Lord, Abbett** highlighted the statement in its current **Abstracts. Distributors Group** made it the subject of a current **Investment News.**

After the recent drop in the market and the case of jitters evidenced by many people in the financial business, we can perhaps do not better than to call attention to the statement again.

*New York Letter*

The first issue of a revised and enlarged **New York Letter** was published by **Hugh W. Long & Co.** on March 26, 1945. The new letter will appear monthly and will contain a brief commentary on matters of general investment interest, as well as the current portfolio, price and dividend history for each series of **New York Stocks, Inc.**

"What will the market do when the war in Europe ends?" is the leading topic of the current issue. Says the bulletin, "The war years have added enormously to the amount of money people have. This means there is more—much more—money available to acquire securities."



Under a section devoted to industry comment, the prediction of the conservative Interstate Commerce Commission in regard to post-war rail traffic volume is discussed. The letter also reports on the general outlook for the steel industry from a speech made by the president of a leading steel company in a private meeting.

*Up, Up, Up!*

**Keystone Corp.** continues to chalk up new highs in its amazing growth record. The semi-annual report on **Keystone Custodian Fund K-1** for the period ended Feb. 28, 1945, reveals that total assets of the 10 Keystone Funds on March 15 were more than $120 million, as compared with approximately $105 million at the beginning of the year.

Net assets of the K-1 Fund on Feb. 28 amounted to $16,794,625, as compared with $11,706,920 six months earlier. This sharp advance in asset value reflects an increase of more than 25% in the number of shares outstanding and a rise of more than 13% in the net asset value per share.

*Fabulous Future*

In a new four-page folder, **National Securities & Research Corp.** gives readers a glimpse of what the future holds in the way of new developments contributing to the greater comfort and satisfaction of living. Some of the items verge on the incredible and would doubtless be classed as fantasy had we not already received a considerable amount of "conditioning" through the guarded releases of new discoveries in recent years.

The purpose of the folder is to draw attention to **National Industrial Stocks Series** which gives the investor representation in 61 companies in the following 12 leading growth industries:

Air Conditioning
Electric Products
Synthetic Rubber
Synthetic Fibres
Plastics
Electronics
New Drugs
New Alloys
Aerodynamics
Insulation
Plywood
Photography

*Fundamental Statistics*

**Hugh W. Long & Co.** has issued a revised copy of its little brochure on **Fundamental Investors** giving up-to-date facts on this Fund. Approximately 5,000 investors now own the more than one-half million shares of Fundamental Investors stock outstanding, representing net assets of approximately $12,500,000.

**Mutual Fund Literature**

**National Securities & Research Corp.**—Revised current information folder for April on **National Funds;** revised portfolio folder on **National Stock Series;** portfolio memorandum showing changes in National Funds during March. . . . **Keystone Corp.**—Revised current data folder for April on all **Keystone Funds.** . . . **Distributors Group**—Current issues of **Steel News** and **Railroad Equipment News;** revised prospectus on **Group Securities, Inc.,** dated April 2, 1945; special month-end price comparison on Group Securities, Inc. . . . **Hare's, Ltd.**—"An Investment in Post-War America with Timing," a new folder on **Stock and Bond Group Shares of Institutional Securities, Ltd. . . . Selected Investments Co.**—Current issue of Selections, "Re: Reconversion." . . . **Hamilton Depositors Corporation**—Current memorandum on **The Hamilton Plan.**

**Dividends**

**National Securities & Research Corp.**—The following special fiscal year-end dividends payable April 26, 1945, to shareholders of record April 23:

| | Amount per Share |
|---|---|
| NATIONAL SECURITIES SERIES | |
| Bond Series | $ .10 |
| Low-Priced Bond Series | .12 |
| Preferred Stock Series | .16 |
| Income Series | .10 |
| Stock Series | .13 |
| Industrial Stocks Series | .15 |
| Low-Priced Com. Stock Series | .15 |
| FIRST MUTUAL TRUST FUND | .20 |

## Needham Co. Admits Smith

(Special to THE FINANCIAL CHRONICLE)

PALO ALTO, Calif.—Lloyd H. Smith has been admitted to partnership in Needham and Company, 531 Ramona Street. For several years he has been cashier of the firm. Lucius G. Norris has retired from partnership in the firm.

Mr. Needham recently acquired a seat on the San Francisco Stock Exchange.

## Lauckner Announces New Volume for Internal Auditors

Alan Lauckner, Vice-President of the Central Hanover Bank and Trust Company of New York, and President of The Institute of Internal Auditors, announces the publication of a new and interesting book on the subject of internal auditing by the Institute, bearing the title "Internal Auditing Now and After the War."

Alan Lauckner

The contents of the book illustrate the progress that is being made in the understanding and application of the principles of modern internal auditing and embrace papers and discussions of the Third Annual Conference of the Institute which was held at New York in October of last year. Among the general subjects covered are: The Modern Internal Auditing Department in Operation; International Aviation; War Contract Termination; War Contract Problems; Theory and Basic Principles of Internal Controls; External and Internal Auditors Now and After the War, and Wartime and Postwar Responsibilities and Opportunities of The Internal Auditor.

## Foreign Investments In Latin America

Foreign investments in Latin America will be discussed at the 39th Round Table Conference of the Latin American Economic Institute to be held at the Hotel Roosevelt, New York City, at 8 P. M. today. The discussion will be introduced by John D. Gill of the Atlantic Refining Company. Professor A. Curtis Wilgus of George Washington University will participate in the discussion, and Major Benjamin H. Namm will preside.

Admission is free for members of the cooperating institutions; 50 cents per person for non-members.

# NICKEL PLATE ROAD

## *The New York, Chicago and St. Louis Railroad Company*

During 1944, the heaviest demands in history were made on the nation's railroads for both freight and passenger traffic. In contributing its share to the hauling of this load, the passenger, mail and express services of the Nickel Plate rose to all-time highs.

**FINANCIAL EXPERIENCE**—Operating revenues of the Nickel Plate for 1944 were slightly above the previous peak in 1943—$100,458,548 against $100,093,565. Operating expenses, however, were 11.05 per cent higher—due largely to higher wages, increased prices of materials and supplies and additional maintenance work undertaken.

Taxes amounted to $23,173,015—12.77 per cent less than in 1943. Accrued taxes for the past three years, however, have amounted to $72,600,000 — a sum approximately 25 per cent of the operating revenues for that period.

Net income for 1944 was $7,225,924—compared with $9,188,026 in 1943—a decrease of 21.35 per cent.

**1944 DEBT REDUCTION AND REFINANCING**—During the year, two important financial transactions resulted in the elimination of the Company's 1947 and 1950 maturities and the reestablishment of its credit. The first of these was the sale of a $10 million five-year collateral note under competitive bidding at an interest rate of 1.745 per cent per annum. The proceeds, together with treasury cash, were applied to the retirement of $15,188,000 of Nickel Plate First Mortgage 3½ per cent bonds. This transaction improved the lien position of the Refunding Mortgage and enabled the Company to sell at competitive bidding $42,000,000 of Thirty-Year Refunding Mortgage 3¾ per cent Bonds at 100.529. Approximately one-half of the new Bonds will be retired in advance of the maturity date through the operation of a sinking fund. The proceeds of these bonds, together with treasury cash, were applied to the retirement of the $10,000,000 collateral note, $26,058,900 Refunding Mortgage 5½ per cent Bonds, Series A, due April 1, 1974, and $6,500,000 Toledo, St. Louis and Western Railroad Company First Mortgage 4 per cent bonds due April 1, 1950. Because these transactions were not completed until after the end of 1944, they are not reflected in the financial statements for the year 1944.

The Company's mortgage debt now consists of a single Refunding Mortgage which is a first lien on all of the Company's 1,659 miles of road owned and other property. There are now outstanding under this mortgage the new bonds and $59,875,000 of 4½ per cent Bonds due in 1978. Total debt, including equipment obligations, has been reduced to $118,553,917, a net reduction since 1936 of $41,789,984, or 26 per cent.

Compared with 1936 fixed charges of $7,502,000, annual fixed charges at the completion of the refunding operations above described will be approximately $4,660,000. The 4½ per cent Bonds of 1978 are callable at 102 and it is expected that plans for refunding them at a lower interest rate may be developed in the near future.

A total of approximately $8,600,000 in cash from the Company's treasury has been used or deposited for payment of the bonds and note and interest thereon to the redemption dates.

**LOOKING TO THE FUTURE**—The Company has expended from treasury funds more than $6,000,000 on road improvements since the beginning of 1941. At the close of the year 1944 the Company's property was in good serviceable condition.

The improvement program included the rebuilding and strengthening of bridges and the enlargement of engine repair facilities to make possible the operation over all of the Company's heavy traffic lines of the heavy freight locomotives acquired in recent years. The program has also included the installation of centralized traffic control at certain strategic points on the line, the construction and lengthening of passing sidings and yard tracks at various locations, and the construction of a complete west-bound classification yard at Frankfort, Indiana.

In addition to the road improvements, the Company has expended $20,713,732 since the beginning of 1941 for the following new equipment: 55 freight locomotives, 10 Diesel switching engines, 3,543 freight cars and other miscellaneous equipment, all of which had been received and placed in operation at the end of 1944. Against certain of these units $12,681,010 of equipment obligations were outstanding as of December 31, 1944; the difference of approximately $8,032,722 was supplied from the Company's treasury. In addition, the Company had on order at that time for 1945 delivery, 500 freight cars, 5 baggage cars, and two 250-ton wrecking derricks, which are estimated to cost approximately $2,030,000.

These additions and improvements have been an important factor in making possible the transportation of a record volume of traffic over the Nickel Plate during the war.

Along with its vigorous prosecution of measures designed to help win the war, the Company has been preparing to deal effectively with the many problems that will confront the road after the war. Among the objectives are freight and passenger services surpassing in excellence those prevailing before the war. Substantial cash expenditures for both maintenance and improvements will be required during the next few years to bring the railroad up to the desired standard.

## SOURCES AND DISPOSITION OF INCOME

| *Our income came from the following sources:* | 1944 | 1943 | INCREASE DECREASE |
|---|---|---|---|
| Revenues from hauling merchandise freight | $ 86,450,580.99 | $ 87,022,207.39 | $ 571,626.40 D |
| Revenues from hauling coal and coke freight | 7,470,402.66 | 7,952,891.97 | 482,489.31 D |
| Revenues from carrying passengers | 4,661,217.52 | 3,391,892.00 | 1,269,325.52 I |
| Other transportation revenues | 1,876,347.28 | 1,726,573.90 | 149,773.38 I |
| Dividends from stocks owned | 900,739.60 | 1,193,924.60 | 293,185.00 D |
| Other income from non-railroad operations | 507,940.08 | 516,625.06 | 8,684.98 D |
| Total | $101,867,228.13 | $101,804,114.92 | $ 63,113.21 I |
| *We disposed of our income as follows:* | | | |
| Wages | $ 36,401,487.16 | $ 33,742,561.80 | $2,658,925.36 I |
| Materials, supplies and fuel | 14,363,951.59 | 12,656,797.03 | 1,707,154.56 I |
| Railway tax accruals other than Federal income and excess profits taxes | 4,434,015.20 | 4,064,020.19 | 369,995.01 I |
| Payments to contractors, associations, other companies and individuals for services and expenses | 3,515,263.71 | 3,072,117.67 | 443,146.04 I |
| Rent for equipment of others used by us, less amounts received from others | 4,768,678.74 | 5,100,310.34 | 331,631.60 D |
| Rentals and expenses paid for facilities used jointly with others, less amounts received from others | 1,237,451.18 | 977,814.45 | 259,636.73 I |
| Interest on Funded Debt | 5,280,371.73 | 5,587,098.32 | 306,726.59 D |
| Other Interest | 18,599.86 | 5,682.31 | 12,917.55 I |
| Depreciation, amortization and retirements | 5,882,485.01 | 4,909,687.29 | 972,797.72 I |
| Total | $ 75,902,304.18 | $ 70,116,089.40 | $5,786,214.78 I |
| Net income before Federal income and excess profits taxes | 25,964,923.95 | 31,688,025.52 | 5,723,101.57 D |
| Federal income and excess profits taxes | 18,739,000.00 | 22,500,000.00 | 3,761,000.00 D |
| Net Income | $ 7,225,923.95 | $ 9,188,025.52 | $1,962,101.57 D |
| *Disposition of the Net Income was as follows:* | | | |
| Appropriations for Sinking and Other Reserve Funds | $ | $ 98,852.50 | $ 98,852.50 D |
| Balance remaining for other corporate purposes | $ 7,225,923.95 | $ 9,089,173.02 | $1,863,249.07 D |

*The above are summary excerpts from our current Annual Report. Any stockholder failing to receive a copy of the Report will be furnished one on request to the Secretary, Terminal Tower, Cleveland, O.*

# The Securities Salesman's Corner

By JOHN DUTTON

Most salesmen, we believe, will admit that no matter how much experience they have had selling securities they still run into a formidable mental hazard when their prospect asks them the question, "Is it listed?" Of all the stock objections offered by security buyers, as to why they shouldn't buy an over-the-counter security, lack of listing seems to crop up more often than any other. The old myth has been so well established in the minds of the general public that stock exchange listing in itself provides a superior quality for a security over those investments not listed on an exchange, that many security salesmen even secretly and silently accept this ficticious assumption.

It seems sensible then, if a salesman desires to handle this objection to over-the-counter securities in an efficient manner, and thereby place himself in **command of the situation** whenever the need should arise, HE SHOULD FIRST OF ALL CLEAR OUT ANY MENTAL HAZARDS OF HIS OWN ON THE SUBJECT.

When most investors ask, "Is it listed?" they mean, DOES IT HAVE A MARKET. They are thinking about marketability. Answer with a question, such as, "What difference does that make?" The resulting reply will give you a clew as to whether your prospect is interested in marketability, or in seeing his security quoted in the papers. If it's marketability he wants, you have several different approaches to the objection. There are thousands of over-the-counter stocks quoted daily from coast to coast by several thousand investment firms and brokers. Every security your firm offers to its customers can be in a category with those that enjoy a ready market. "Just pick up the telephone and call me Mr. X and you can convert this security into cash quickly, without trouble, bother, or red tape at any time." Etc., etc., it is then possible for you to truthfully say.

If the answer is "I like to see them in the paper," this covers the subject: "That I can understand Mr. X. Possibly it is a pleasant pastime with some people to pick up the paper and see their securities in print. Especially when they advance in price is this true. But it's not so pleasant if they are going down, is it Mr. X? That's just the point Mr. X, it's true, this security is not listed in the papers, but it has an active market in New York, Chicago, and Boston and with over-the-counter dealers and brokers from coast to coast. You see when we recommend an investment to you, it is selected for its **attractive price, good income, and favorable future outlook,** and we don't limit ourselves just to securities that are listed in the papers. Sometimes we uncover an attractive listed situation and sometimes **it's** unlisted. In order to offer the most attractive securities to you at the right time, we look at what is behind a security and we don't limit our investigation just to the stocks that are listed on the New York Stock Exchange—we go into the entire field of listed and unlisted issues and therefore have the benefit of a much wider selection of investments to offer to you."

The rest you can develop from here on as you desire. It is advisable to bring out the fact that if it's "markets" you customer wants all he has to do is to pick up the phone anytime at all and ask you and you'll gladly supply him with the information. Besides, you are constantly on the job watching this particular investment, as well as all the others he has bought from you at all times, with one idea in mind, HELPING HIM TO MAKE MORE PROFITABLE INVESTMENTS. AFTER ALL THAT'S WHAT HE DESIRES, ISN'T IT? This approach to the problem of, "Is It Listed?" should be helpful in overcoming this troublesome objection.

## McCully Aide to Pres. Of Amer. Home Foods

Howard H. McCully has been appointed assistant to H. W. Roden, President, American Home Foods, Inc., it was announced recently. He moves from the post of Sales Comptroller to the office vacated by the promotion of Lewis G. Dutton to Vice-President and General Manager of P. Duff & Sons, Inc., an A. H. F. affiliate.

Mr. McCully joined the Clapp Baby Foods Division of A. H. F. in 1942 as district manager in Louisville, Ky. After being graduated from the School of Business and Public Administration of Washington University, St. Louis, Mo., in 1932, he joined the Kroger Grocery and Baking Company and later went with the Durkee Company in Chicago.

Mr. McCully will have his headquarters in American Home Foods' main office, 22 East 40th Street, New York City.

## Niemond Heads Branch For W. H. Bell & Co.

HARRISBURG, Pa.—The Philadelphia investment firm of W. H. Bell & Co., Inc., announces the opening of an office in Harrisburg, Pa., at 23 South Third Street, under the management of John S. Niemond, member of the Philadelphia Stock Exchange.

The firm also maintains offices in Washington, Easton, Allentown and Boston.

Mr. Niemond was formerly with Newburger & Hano, and prior thereto conducted his own investment business in Harrisburg and Philadelphia.

## J. C. Muirhead to Open

J. C. Muirhead will shortly open offices at 67 Wall Street, New York City, to engage in the securities business under the firm name of J. C. Muirhead, Inc. Mr. Muirhead was formerly in business in New York City.

# British Opinions on Bretton Woods

(Continued from first page)

buried again in an obscurity the intricate technicalities of the proposed pact which only bankers, cambists and monetary experts can enlighten or explain.

That the British Government has delayed taking action is almost certainly due to a feeling that it must await the decision of Congress, and this surely is quite reasonable, for everyone in England recognizes that without American approval the whole project would collapse like a house of cards. After reading the debates in both Houses of Parliament and the comments of city editors, and financial newspapers like "The Economist", along with the expressions of opinion by independent writers in pamphlets or letters to our newspapers, I am confirmed in the view that nothing worthy to be called public opinion on the pros and cons of Bretton Woods is likely to affect our obsolescent Parliament and more or less caretaker Government on the eve of a general election in which candidates will certainly not appeal for votes on a topic so mysterious. Nevertheless, in talks with bankers and City men, I have come across interesting cross-currents of opinion which have left upon my mind a strong impression both of the complexities of the problem and of the unseen influences that have swayed a coalition government composed of Protectionists and Free Traders, Socialists and individualists, advocates of hard money and advocates of soft money.

On one question only can one detect general agreement, and this is that British trade and employment cannot recover after the war unless we have an expansion of exports sufficient to pay for the indispensable imports of food, raw materials, machinery, etc., and to make up for the loss of our investments in foreign countries and in the Empire. It is natural enough and reasonable enough that British manufacturers, shipowners and merchants should be selfishly interested in the revival of their trade with foreign and colonial customers, and it is to be hoped that the enlightened self-interest which guided our policy from the repeal of the corn laws in 1846 down to the outbreak of the first great war in 1914 will not fail our Government and Parliament when peace returns.

Perhaps the most hopeful sign at the moment is the strength of the feeling that it is only through free enterprise and the most friendly cooperation with the United States and other liberty-loving nations that the process of recovery can be set on foot. City men have never been political in mid-Victorian days. Walter Bagehot, a banker as well as a writer, exerted through "The Economist" and by personal authority a powerful influence on the Bank of England and the Treasury. At the same time, Goschen made his mark on the theory of the exchanges, and Gladstone's marvellous work at the Treasury stamped upon future Chancellors of the Exchequer the duty of balancing the budget and reducing the national debt, insisting at the same time on public economy and a system of taxation which would bear lightly on industry and distribute fairly the burdens of taxation direct and indirect during the period before the first great war.

When I was editing "The Economist" our great City bankers and financiers regarded the Bank of England, the Gold Standard, and the Gold Bill on London as institutions hardly less important than the British Constitution. When Senator Aldrich came over and asked me to help him towards a reform of the American banking system he was immensely struck by his study of the City and the Bank of England. The City was indeed then the center of international trade and finance. The Gold Bill on London served as a sort of international check and the gold Soverign was eagerly taken in the most remote parts of Europe, as I used to find whenever and wherever I traveled between Russia and Spain and even in Turkey and the Balkans.

The older bankers who rose from the ranks by superior ability in those days of peace and prosperity would, of course, welcome the return of these old days with enthusiasm. Most of them will tell you privately that there is no currency and no basis of credit to compare with the old Gold Standard which was a true international currency, foolproof, knaveproof, and automatic. It could not be tampered with by a Government, however incompetent or dishonest, but under present conditions bankers are only too thankful if the bureaucracy graciously allows them a little freedom in the management of their own concerns.

It is not prudent to criticise freely a wartime government or to risk offending the powerful civil servants who guide and instruct ministers, and besides, the banks are controlled by boards of directors, some of whom are purely ornamental, while others have theories without practical experience and opinions without scientific knowledge.

Moreover as I have already remarked it is not customary even in peace time for the general managers of joint stock banks or the leading partners in financial firms and merchant houses to publish their opinions on controversial issues of politics.

However profoundly they affect their own interests they have always conveyed their views privately to the Bank of England and the Treasury.

The Chancellor or the Exchequer knows all about them and Sir John Anderson both in Parliament and the City has chosen his words very carefully on the gold standard and on Bretton Woods.

The budget is now very near and he is not likely to say much more before he opens it with his financial statement on April 24.

But in his important discourse on the subject at the Lord Mayor's luncheon to bankers in the Mansion House on Oct. 4 of last year he said plainly that if the United States should decide that the draft of Bretton Woods is acceptable "we must not reject it lightly" and that if we have to choose between standing out or taking a leading part in making it work, "I have no doubt where our true interest lies." It lies, he added, in recognizing that during the difficult period of transition, it is our interest to make that period as short as possible by unity and cooperation with our chief allies and with other willing governments.

A few weeks before he spoke a number of critics had objected that the provisions for the monetary fund are almost equivalent to a restoration of the gold standard, while advocates of a restoration of the gold standard, like Mr. Clifford Johnston, were equally adverse to the scheme because Lord Keynes had told the House of Lords that it was the exact opposite of the gold standard, and that it confirmed our dethronement of gold in 1931.

At Bretton Woods, however, Lord Keynes had shifted his position to one which gave gold the status of a constitutional monarch in world economy and Sir John Anderson tried to conciliate the two contradictory points of view by showing that the Bretton Woods document follows a middle course and that only loose criticism could say that by accepting the plan we shall have returned to the gold standard.

In the sense of putting our policy under the dictation of others, we must expect difficulties, he argued, after the huge economic disturbance of this war in arriving at equilibrium in the balance of exchanges.

Our aim should be a reasonable stability without rigidity and we should accept a method for the orderly adjustment of exchanges when the occasion arises.

The tremendous difficulty of a deadweight war debt, three times greater than after the first great war and of very heavy overseas obligations would have to be met in a realistic way by producing the goods that other countries will want and by recognizing the principles of international trade which do not permit discrimination in tariffs or a resort to bilateral agreements and mere barter.

What he said about returning to private enterprise was seconded by the new Governor of the Bank of England, Lord Catto, who reminded the City that as the greatest importing country in the world and therefore the world's best customer we must not, after the war, delay or curb the individual initiative, resourcefulness and spirit of adventure by which our immense overseas trade with imports and exports paying for one another had been built up in prewar days.

It is significant that the weightiest criticisms of the Bretton Woods proposals have been directed not against the bank, which is generally acceptable, but against the fund, partly by those who want what is called an elastic currency and partly by those who realize that the mechanism of an international money might become valueless unless each of the governments concerned balances its own budget and stabilizes its own currency, and unless the commercial nations abjure economic nationalism and remove to a large extent the tariff barriers, quotas, and restrictions which impede the fruitful exchange of goods and services. For if there is no trade, what is the use of money? The crude fallacy that every nation should foster exports and reject imports would hardly have passed muster in the middle ages, yet it is a weed that still flourishes on many soils.

When the controversy about the fund began in August, Dr. Paul Einzig wrote an article for the "Daily Express" saying that the proposal was even worse than Mr. Churchill's return to gold when he was Chancellor of the Exchequer in 1925, but Dr. Einzig had no experience with the gold standard in this country. He is comparatively a newcomer and has failed to appreciate the fact that if there was a mistake in going back to a gold standard, it was perhaps because we went back to it at too high a parity, and in any case the great Wall Street collapse of 1929 and the economic blizzard that followed destroyed credit and currencies all over the world. There was nothing abnormal or astonishing in the fact that in 1931 we were again forced to abandon specie payments and to resort to an inconvertible paper currency, which, however, was skilfully managed in the sterling area in connection with the gold dollar. A series of articles in "The Economist" conveyed more temperate criticisms which seemed to suggest that the editor, Mr. Crowther, was nervous about the effect of British adherence to the Fund on the policy of full employment.

Upon this and the practicability of Sir William Beveridge's plan or the Government's version of it, I cannot enlarge or explain why an increasing number of critics regard it as the paradise of fools, seeing that it is based upon unbalanced budgets with unlimited borrowing in time of peace, and upon the old suggestion that prices can be gently raised by an elastic currency in order to stimulate home production. But, however that may be, I feel pretty sure that "The Economist" and nearly all the City editors will support the Government if as seems certain it unites with the United States in an approval of the whole scheme as being the best available under the circumstances and offering, if not a certainty, the only practicable alternative to international economic anarchy. This view has been endorsed in a series of excellent articles by Mr. Oscar Hobson, the well known city editor of "The News Chronicle", who unites a theoretic knowledge of money and the exchanges with a practical experience of banking. He does not disguise his concern about the necessity for a removal of obstructions to international trade. He knows very well that it cannot be conducted long on principles of philanthropy or by one government lending money to another government in order that the other government may buy its goods.

In writing this article, I have endeavored to be entirely objective. Even when the war in Europe is over we shall be living in a world of economic cloudland and visionary projects. It is to be hoped that the Governments of the United States, Great Britain, the selfgoverning Dominions, and of those countries that have escaped the ravages of war, will plant their feet on firm ground and restrict their aims to what is practicable. Before closing this article I have had the advantage of a conversation with Mr. Arthur Guinness who has an almost unique knowledge of Anglo-American trade and of City opinions on the Bretton Woods proposals. With what I have written both as to what is desirable and what is practicable, I have his broad concurrence and he is anxious that readers of the "Commercial and Financial Chronicle" should be presented with a fair view of City opinion and of what is likely to be acceptable to competent authorities in this country.

## New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of the late Herbert L. Mills to Henry L. Harris will be considered by the Exchange on April 19. Mr. Harris will act as an individual floor broker it is understood.

Transfer of the Exchange membership of the late Charles H. Thieriot to Charles H. Thieriot, Jr., will be considered on April 19. Mr. Thieriot will be an individual member.

William C. Beach was approved on April 5 as alternate on the floor of the Exchange for Bayard Dominick II of Dominick & Dominick. Mr. Beach's privilege to act as alternate for the late Sheldon E. Prentice, a partner in Dominick & Dominick, was withdrawn on March 30.

Allan Bond retired from partnership in Bond, McEnany & Co. on March 31.

Interest of the late Albert Francke in Carlisle & Jacquelin ceased as of March 31.

Interest of the late Irving Kent Fulton in Merrill & Co., Hartford, of which he was a special partner, ceased as of April 1.

## Friedman & Co. to Admit Gottlieb to Partnership

Harold M. Gottlieb will become a partner in Friedman & Company, 30 Broad Street, members of the New York Stock Exchange, as of April 19. Mr. Gottlieb has been with the firm for some time as manager of the trading department.

# Norfolk and Western Railway Company

## SUMMARY OF FORTY-NINTH ANNUAL REPORT FOR 1944

In 1944, the Company again handled the largest volume of traffic in its history. This was the result of continued demands of the war effort.

Railway Operating Revenues increased $9,434,000, or 6.28 per cent., over 1943. Railway Operating Expenses increased $5,317,000, or 6.30 per cent. Balance of Income, after deducting Sinking and Reserve Funds and Appropriations, decreased $12,000. Balance of Income corresponds with "Net Income" for previous years. After deducting dividends on Adjustment Preferred Stock, the balance remaining, $21,304,000, was equivalent to $15.15 per share of Common Stock held by the public.

### Condensed Income Statement

| | | 1944 | | Comparison with 1943 | Per Cent. |
|---|---|---|---|---|---|
| Railway Operating Revenues | | $159,599,035.03 | + | $9,434,113.78 | 6.28 |
| Railway Operating Expenses | | 89,712,833.89 | + | 5,317,192.75 | 6.30 |
| Net Revenue from Railway Operations | | $69,886,201.14 | + | $4,116,921.03 | 6.26 |
| Railway Tax Accruals: | | | | | |
| Federal (See Note 1) $49,127,480.40 Less: Post-War Credit 3,120,000.00 | $46,007,480.40 | | | | |
| State, County and Local | 5,667,551.25 | | | | |
| | | 51,675,031.65 | + | 2,476,813.19 | 5.03 |
| Railway Operating Income | | $18,211,169.49 | + | $1,640,107.84 | 9.90 |
| Rent Income—Equipment and Joint Facilities—Net | | 7,732,364.61 | — | 605,448.69 | 7.26 |
| Net Railway Operating Income | | $25,943,534.10 | + | $1,034,659.15 | 4.15 |
| Non-Operating Income (See Note 2) | | 7,036,328.52 | + | 5,624,405.82 | 398.35 |
| Gross Income | | $32,979,862.62 | + | $6,659,064.97 | 25.30 |
| Deductions from Gross Income: | | | | | |
| Interest on Funded Debt | | $2,113,633.28 | — | $138.83 | |
| Other Deductions | | 118,707.50 | — | 1,280,749.53 | 91.52 |
| | | $2,232,340.78 | — | $1,280,888.36 | 36.46 |
| Net Income | | $30,747,521.84 | + | $7,939,953.33 | 34.81 |
| Sinking and Reserve Funds—Appropriations | | 632,037.62 | + | 21,718.66 | 3.56 |
| Miscellaneous Appropriations (See Note 3) | | 7,930,482.30 | + | 7,930,482.30 | |
| Balance of Income (Prior to 1944, "Net Income") | | $22,185,001.92 | — | $12,247.63 | |
| Dividends on Adjustment Preferred Stock—$4.00 per share | | 881,324.00 | — | 11,029.00 | 1.24 |
| Balance Transferred to Earned Surplus | | $21,303,677.92 | — | $1,218.63 | |

**Note 1**—Excess profits tax was accrued at net 85.5 per cent. rate in 1944 and at full 90 per cent. rate in 1943.

**Note 2**—Includes $4,810,000 excess profits tax post-war credits for 1942 and 1943.

**Note 3**—Excess profits tax post-war credits for 1942, 1943 and 1944.

### Condensed Earned Surplus Statement

| | | |
|---|---|---|
| Credit Balance, January 1, 1944 | | $187,246,488.70 |
| Credits: | | |
| Balance of Income for Year | $21,303,677.92 | |
| Miscellaneous Credits | 480,405.65 | |
| Total Credits | | 21,784,083.57 |
| | | $209,030,572.27 |
| Charges: | | |
| Appropriation of Surplus for Dividends on Common Stock—$10.00 per share | $14,064,830.00 | |
| Miscellaneous Charges | 1,738,425.28 | |
| Total Charges | | 15,803,255.28 |
| Credit Balance, December 31, 1944 | | $193,227,316.99 |

### Dividends

Dividends of $1.00 per share quarterly, a total of $4.00 per share, or $881,000 were declared upon the outstanding Adjustment Preferred Stock. Dividends of $2.50 per share quarterly, a total of $10.00 per share, or $14,065,000, were declared upon the outstanding Common Stock.

### Taxes

Railway Tax Accruals, after Excess Profits Tax credit of $3,120,000, were $51,675,000, an increase of $2,477,000, or 5.03 per cent. Taxes amounted to $2,314 for each employee, to $37 for each share of Common Stock, to 32 cents per dollar of Operating Revenues, to 233 per cent. of Balance of Income after taxes and to 9 per cent. of Railway Property Investment. Federal Taxes $46,007,000, representing 89.03 per cent. of all tax accruals for the year, increased $2,314,000, or 5.30 per cent. Included in this amount were accruals for Normal tax and Surtax, $13,500,000, Excess Profits tax, at the net 85.5 per cent. rate, $28,080,000, Railroad Retirement and Unemployment Insurance taxes, $3,528,000, and Capital Stock tax, $876,000.

### Post-War Credits—Federal Excess Profits Tax

The Revenue Act of 1942 fixed the corporation excess profits tax at 90 per cent., which applied to the years 1942 and 1943, with post-war refund of 10 per cent. of such tax. In 1944 this tax was increased to 95 per cent., with retention of the post-war refund of 10 per cent. of such tax.

Payment of tax at the full rate applicable to each year was required, and the Company's Income Statements for 1942 and 1943 reflected the full tax liability. But in 1944 the Company was required by the Interstate Commerce Commission to accrue excess profits tax at the net rate of 85.5 per cent., thereby establishing a post-war credit of $3,120,000 for the year, and to increase Income Account by $4,810,000, the sum of post-war credits for the years 1942 and 1943.

The Company has received United States Government Bonds in amount of the 1942 post-war credit of $2,170,000, and eventually will receive bonds representing the credits for subsequent years. These bonds will bear no interest and cannot be negotiated, assigned or pledged until cessation of hostilities, and the credits are not immediately available to the Company for dividends or for other purposes.

### Reserve Fund for Taxes and Contingencies

The Reserve Fund for Taxes and Contingencies, principally for payment of future tax obligations, aggregated $51,490,000 at the end of 1944. This fund is invested in United States Government securities. Total taxes accrued for the year were $51,675,000, of which Federal Income and Excess Profits taxes accounted for $41,580,000 payable in 1945.

Heavy traffic because of the war has continued, with railroad facilities experiencing greater wear and tear. Through lack of critical materials and manpower, maintenance and replacements could not be made to usual standards. Substantial sums must be provided to meet these deferred expenses after the war. The Company's reserve fund will be available for such purposes and for other contingencies, as well as for accrued taxes.

Appropriation of funds to be held as a reserve for deferred maintenance has been authorized by the Interstate Commerce Commission, but, unfortunately, the Commissioner of Internal Revenue has declared that such reserve funds are unexpended profits, and as such are subject to taxation. As a result, railroads have been unable to build up these vitally necessary reservoirs to finance future requirements. The obvious need for assistance in this matter has been recognized, and a bill has been introduced in the United States Senate to provide the necessary relief. Its adoption would be of material assistance to the railroads in making provision for future rehabilitation of their facilities, and also would contribute to solution of unemployment in the post-war period.

### Financial

The Capital Stock of the Company held by the public was $162,643,900, and represented 76.01 per cent. of outstanding stock and bond capitalization. On December 31, 1944, the Company's stockholders numbered 14,098.

The total Funded Debt held by the public was $51,335,332, and represented 23.99 per cent. of outstanding capitalization. With inclusion in income of $4,810,000 excess profits tax post-war credits for 1942 and 1943, fixed charges were earned 15.48 times and, excluding such credits, 13.21 times in 1944. Over the last ten years fixed charges were earned an average of 13.39 times.

At the end of the year appropriations to the voluntary sinking fund for retirement of Funded Debt and income from investments totaled $2,409,000, and investments in securities had a market value of $2,503,000.

### Employees

Employees on the Company's rolls during the year averaged 22,327. Railway Property Investment of $565,025,000 averaged $25,307 per employee. The Company's total payroll for 1944 was $56,066,000, an average of $2,511 per employee. In addition to wages and salaries, the Company paid $4,111,000 for Railroad Retirement and Unemployment Insurance taxes and employee Relief and Pension Funds, which averaged $184 per employee.

The Board expresses to the officers and employees its appreciation of the fidelity, diligence and efficiency with which they have served the Company and the Nation during the year. Recognition is also given to the 4,359 employees who have entered the Armed Forces. Special tribute is paid to those who have made the supreme sacrifice for their Country.

W. J. JENKS,
President.

### THREE WAR YEARS AND 1939

**The following is a summary of the more important financial, traffic and operating results for 1944 compared with prior war years and 1939.**

| | 1944 | 1943 | 1942 | 1939 | | 1944 vs. 1939 |
|---|---|---|---|---|---|---|
| FINANCIAL— | (Millions of Dollars) | | | | | (Per cent.) |
| Operating Revenues | 160 | 150 | 140 | 93 | + | 72 |
| Operating Expenses | 90 | 84 | 76 | 51 | + | 76 |
| Net Operating Revenues | 70 | 66 | 64 | 42 | + | 67 |
| Taxes | 52 | 49 | 46 | 13 | + | 300 |
| Interest on Funded Debt | 2 | 2 | 2 | 2 | | |
| Balance of Income (Prior to 1944, "Net Income") | 22 | 22 | 22 | 30 | — | 27 |
| Dividends Per Share—Adjustment Preferred Stock (Dollars) | 4 | 4 | 4 | 4 | | |
| Common Stock (Dollars) | 10 | 10 | 10 | 15 | — | 33 |
| Fixed Charges—Times Earned | 15.48 | 11.74 | 11.60 | 15.28 | | |
| Railway Property Investment (Millions of Dollars) | 565 | 556 | 554 | 513 | + | 10 |
| Percentage of Taxes to Railway Property Investment | 9.20 | 8.81 | 8.30 | 2.53 | | |
| Earned on Railway Property Investment (Per cent.) | 4.59 | 4.48 | 4.30 | 6.17 | | |
| TRAFFIC AND OPERATION— | | | | | | |
| Coal Tonnage (Million Tons) | 53 | 54 | 54 | 39 | + | 36 |
| Total Revenue Freight (Million Tons) | 72 | 71 | 71 | 48 | + | 50 |
| Revenue Tons Carried One Mile (Millions) | 19,907 | 19,721 | 18,886 | 13,401 | + | 49 |
| Revenue per Ton per Mile (Fraction of one cent) | 0.69 | 0.66 | 0.67 | 0.66 | + | 5 |
| Revenue Passengers (Thousands) | 5,169 | 4,998 | 3,202 | 1,048 | + | 393 |
| Average Distance Carried (Miles) | 169 | 160 | 148 | 79 | + | 114 |
| Revenue per Passenger per Mile (Cents) | 1.97 | 1.98 | 2.09 | 2.29 | — | 14 |
| Number of Locomotives owned | 576 | 581 | 587 | 578 | | |
| Number of Freight Cars owned (Thousands) | 62 | 61 | 61 | 54 | + | 15 |
| Number of Passenger Cars owned | 397 | 397 | 397 | 322 | + | 23 |

# New Monetary Standard

(Continued from page 1598)

it is in full operation the Government not only maintains a fixed value for gold in terms of currency and agrees to buy and sell it at that price and not to interfere with its international movements, but also undertakes to take measures that make this policy feasible. The gold standard is not automatic, as is often stated, because the Government, after having decided on a fixed price and the freedom of movement of gold, must through the central bank or otherwise attempt to regulate the movements of funds across the border in such a way as to prevent one-way movements that would make the continuance of the policy impracticable.

There are three conditions that are essential to the maintenance of the gold standard: (1) the balance of payments on current and capital account must be fairly close; (2) in order to bring this about the people must have confidence in the solvency of their own country and the soundness of its currency; and (3) there must be competent management.

The gold standard worked in the latter part of the 19th and the early part of the 20th century when these three conditions were present, when the world economy was generally expanding, and changes in the character and direction of trade were gradual. In that period there was a fairly even balance of payments on the basis of trade in commodities and services and international movements of capital. The people took it for granted that Government policy would continue to be to buy and sell gold freely and not to interfere with its international movements. The standard was managed principally by England, then the unquestioned leader in international finance. It was managed very competently and with far-sighted understanding of the ways of world trade and of the homing instinct of money. When gold flowed out of the country, bank rate was increased and funds were attracted once more to England. On the other hand, if there was too much gold coming the rates were reduced and mobile funds began to flow out of England and to draw gold out. It is apparent, therefore, that the functioning of the gold standard was dependent on the effectiveness of relative levels of interest rates in moving capital in and out of a country. Such a condition was based on confidence by the people that their principal was safe and their consequent desire to earn as much as possible in current income from the principal. When concern was largely transferred from earnings to safety of the principal, and funds began to move from high interest countries to low interest countries, a fundamental condition for the effective functioning of the gold standard disappeared and the standard itself was bound to break down, as it did in the 30's. If water begins to flow up a hill a dam no longer can serve its purpose.

Under the gold standard each country retains complete freedom both as to the price and procedure to be followed in relation to gold. It is true that a convention grew up under which changes in the price and procedure about gold were undertaken reluctantly and only under emergency conditions. Serious trouble was caused to England by returning to gold at too high a price in 1925, and France suffered severely from clinging to its parity and to the free movement of gold in the early 30's. But no country was under obligation to consult another country if its chose to go off the gold standard or to change the price of gold in terms of its currency. So long as conditions permitted the gold standard functioned multilaterally, to be sure, but this was entirely voluntary on the part of different countries and gave way under stress of adversity.

The aura of sanctity which surrounded gold standard practices had its origin and its main support in the creditor groups in creditor countries. The gold standard was a creditors' standard. It assured repayment on any foreign sale or foreign investment in a value that would be no less than that received when the contract was undertaken. For that reason the creditor group was prepared to subject the country to deflation with falling prices and growing unemployment rather than sanction a change in the established foreign rate of its currency.

### The Breaking Up of the Gold Standard

All of this machinery ceased to be practicable after the first World War because the balances of payment were badly disrupted. When one country after another was forced off gold a return to the standard became practically impossible because elements in the population that were not in the creditor group learned by experience that they were the victims of a rigid exchange rate. These elements of the population, including producers and workers, became much more conscious of their interest in the exchange rate and also of their own political importance. One reason that the gold standard in its pristine form is no longer possible is that we no longer have large creditor nations dominated by creditor groups. The great creditor nation at the present time is the United States, but by and large the United States does not know that it is a creditor and just what that implies, it does not have the same degree of dependence on foreign trade as England had, and it never has been dominated by creditor groups. Whenever economic conditions in this country are unsatisfactory there are powerful groups that try to change the valueof money. Whether it is as silver advocates, or as greenback advocates, or as advocates of large-scale Federal Reserve operations, the debtor groups always become vocal and influential whenever this country is suffering from a depression. The American people are not willing to be crucified on a cross of gold. For this reason, among others, the United States can hardly be expected to replace England as a staunch supporter of the gold standard. We lack the background of all-important international transactions to make sacrifices rather than to change the exchange value of our currency. We are only fair weather friends of the standard and are apt to abandon it in adversity.

One characteristic of the gold standard is that it does not operate equally as between small countries and large countries. In practice a small country which is more affected by conditions abroad than it can influence them in return is much freer to change the value of its currency or to interfere with the free movement of gold than is a large country. Belgium for example, was able to reduce its exchange rate and thereby stop a deflationary cycle without starting a series of world developments that would work to the disadvantage of all. Its action did not have repercussions throughout the world because its share of world trade was not sufficiently large. A great country which may appear to be in command of the situation is much less free to take corrective measures under the gold standard because its actions let loose a legion of destructive forces and retaliatory measures, which in the end lead to frustration. When England went off gold in 1931, as she could not help doing, her action was a major factor in the series of developments which brought the world into a highly disorganized condition by the time of the outbreak of the present war. Free exchanges and free movements of gold no longer existed. Tariff barriers had been intensified and numerous restrictive regulations about exchange and trade had been put into effect, to say nothing of bilateral agreements, multiple currencies and other practices that interfered with the flow of trade across borders.

### Need for a New Standard

With the main conditions that are necessary for the maintenance of the gold standard no longer in existence it becomes clear that some other mechanism must be devised for the postwar period. This mechanism must combine maximum exchange stability consistent with national and world welfare with sufficient flexibility to protect the economies from the kind of deflations that occurred periodically under the gold standard. In December, 1928, the present speaker said: "It should not be a case of cutting the financial garment of the world according to the available reserve material, but of making such use of available reserves as will provide adequate financial support to the world's trade."* At that time the occasion was apprehension in many important quarters over a supposedly inadequate gold supply. The problem now is more complex and more difficult, but the task before the monetary authority is still to find a mechanism by which world trade will be able, with the existing volume and distribution of reserves to expand notwithstanding the disruption wrought by the war.

It is to fulfilling this task that the International Monetary Fund is addressed. It establishes a machinery for fixing and maintaining exchange rates. It provides for undertakings by member countries to refrain from practices that are disruptive of world trade. It provides a pool of funds to help countries under strain to maintain their rates without deflation. It is intended to meet temporary deficits, so that countries may have time without adopting restrictive measures to undertake readjustments in their economies. The Fund does not propose and would not have the power to solve fundamental economic problems of member countries. These have to be solved through domestic policies and, in the international field, their solution can be assisted by such agencies as relief organizations, the International Bank, and commercial policy.

### Multilateral Standard

The proposed Monetary Fund should be viewed not as primarily a lending institution but precisely as a new monetary standard. In fact it is the first truly multilateral standard. Under it countries undertake to refrain from disruptive currency practices. They agree among themselves about the rates with which to start. They also agree not to make changes in these rates except to a strictly limited degree without multilateral consent, and they put at the disposal of members a mutual aid fund to which all contribute. It comes nearer to representing a truly international standard than any standard that has previously been in existence. Perhaps "multilateral standard" or more simply "mutual standard" might be adopted as the name for the new monetary standard.

A point over which controversy rages on both sides of the Atlantic and across the ocean is the extent to which the proposed International Monetary Fund would reintroduce the rigidities of the gold standard. Does it free a country entirely from the necessity of considering the effect of domestic policies on the exchange rate? Or does it make it obligatory once more for countries to undertake painful domestic adjustments whenever they become necessary to protect the rate of exchange? The answer is that the proposal does neither. It marks a clear break from the extreme sanctity of the exchange rate, to the preservation of which all other considerations must be subordinated, but it does not make it possible for a country to pursue a reckless policy in the assurance that the exchange rate will be adjusted to any level of costs. A proper interpretation of the plan is that it expects member countries to make every reasonable effort so to conduct their domestic economic and fiscal affairs as to enable them to compete in world markets with exchanges at levels agreed to by the Fund, but that, on the other hand, it provides machinery for orderly changes in exchange rates, if established rates make it impossible to pursue essential national policies without upsetting the equilibrium of the exchanges. These phrases are necessarily vague, but they indicate the lines along which future policy would develop if the Fund were in successful operation. The precise meaning of these terms will emerge after the Fund will have been in operation for some time. With good will and good faith on the part of the participants the problem, admittedly a hard one, would not be insoluble. It should be recognized that a country's ability to compete in world markets and maintain economic standards at home depends in the final analysis on such matters as efficiency, productivity, and natural resources. Dependence on easy devaluations by high-cost countries in their competition with low-cost countries results only in a series of competitive devaluations. It is such practices that the Monetary Fund is set up to prevent; in the long run they profit no one.

While a belief that all can be made well for a country over the long run by manipulating the exchange rate is an echo of the faith in money magic, a belief in the sanctity of a rigid exchange rate to be maintained at any cost is also a dangerous fetish. What is intended is a system by which every country will do the best it can, consistent with the long-range best interests of its people, to maintain exchange stability; adjustments in rates will be made when they are in harmony with these long-range interests. What the Monetary Fund proposes to do is to free the world from slavery to fixed exchange rates and to make it possible by gradual development to establish conditions under which the terms of world trade will reflect accurately the relative ability of different countries to satisfy the wants of purchasers at home and abroad at reasonable costs. It is only to such a state of affairs that one can look hopefully for the rehabilitation of world trade and for a rising level of economic welfare. It is to the achievement of this objective that the Bretton Woods Agreement is dedicated.

### Criticisms

Establishment of the International Monetary Fund, like any

*Journal of the American Statistical Association, March, 1929, Supplement, page 195.

proposed innovation, has been subjected to a great deal of criticism. The Fund proposal has been exposed to criticism much longer than most proposals. It went through a long period of gestation with periodic publication of results which gave an opportunity to anyone interested in the subject to send in criticisms and suggestions. Innumerable conferences were held—some with groups of foreign countries, some with individual foreign countries, and some with various interested persons in this country. It is hard, therefore, to see any foundation for the criticism that the Fund was sprung ready-made on a startled world. It was the product of an evolution which took place largely in the public eye. Changes made in the proposal are the result of open-minded exploration of the subject in the light of all of the criticisms and suggestions that were received.

Some of the criticisms made of the Fund may have technical or logical merit, for it is not perfect, but they are magnified completely out of focus. In many cases the Fund is being criticized because conditions that would arise in any event are erroneously attributed to the Fund rather than being recognized as difficulties that the world will have to encounter with or without the Fund. For example, there is talk about the scarcity of dollars and the intimation is that the Fund would contribute to this scarcity. It is clear that if dollars become scarce this will be due to the fact that the United States has sold more goods than she has bought (and failed to cover the balance by lending) —a condition that is likely to occur in the early period after the war because of the fact that American goods will be needed everywhere and other countries will not be in a position to export much until they have made progress in reconstruction. The probability of a short supply of dollars is one of the conditions that may confront the world after the war, and to accuse the Fund of causing this scarcity is not only putting the cart before the horse, but is blaming the lamb down-stream for muddying the water for the wolf up-stream.

The Fund will add 2¾ billions to the supply of dollars available to other countries and will have many ways in which to encourage balanced trade and consequently to diminish the foreign demand for dollars. Under good management it will in no way contribute to this demand. The criticism, therefore, that the Fund would create a situation where dollars would be scarce and discrimination against American exporters would be authorized represents a complete misrepresentation of conditions and of the functioning of the Fund. Other criticisms of the Fund on the technical level are of the same general nature. They are either labored detailed points or expressions of apprehension rooted in conditions that exist and that will present great difficulties to the world with or without the Fund.

### Creditors' Viewpoint

There is one criticism and one fundamental point that requires discussion before this audience. It is the point which runs through all of the dissenting opinions that have been made public. It has to do with the fact that under the Fund arrangement, countries will be assigned quotas that have been determined in accordance with various factors of resources and requirements, and the ability of the different countries to draw on the Fund will be given them as a matter of right, provided they need the foreign exchange for purposes consistent with the objectives of the Fund and provided they in general abide by the undertakings involved in participation in the Fund. The critics do not like this arrangement because it places on the Fund the burden of proof for stopping a country from drawing on it rather than placing the burden of proof on a country to show good cause why it should be permitted to draw on the Fund. The critics fear that the Fund will encourage extravagant behavior by participants and that it may ultimately do more harm than good. To them the proper procedure is for a country which needs exchange, even temporarily, to be offered an opportunity to present its case to a group which will be in a position to pass upon its credit standing and its good intentions and to grant it such drawing power and on such conditions as in the group's judgment will be good for the country as well as for the creditors. It is on this basis that various groups have proposed that the Fund as such be disapproved and that an incidental department be established in the proposed International Bank for the purpose of making stabilization loans when, if, as, and in a manner that the Bank's directors may approve.

An extreme position on this point has been taken by some critics. It has been said that the finance ministers of different countries confronted with the task of promoting prosperity at home and under the influence of powerful pressure groups might pursue unsound expansionist policies in the assurance that their international payments can be balanced by drawing on the Fund. Their countries would, therefore, go deeper into debt than they would otherwise be able to do. The consequence of this, it is stated, would be an ultimate collapse worse than would be the case if the Fund were not established. This argument completely ignores the many powers that the Fund has to prevent such abuse of its resources.

This opposition by the bankers to the Bretton Woods proposals should be viewed in the light of their background and experience. By training and viewpoint they look at matters of this sort as creditors and to them the rules for debtor-creditor relations are the principal—almost the sole—standards for measuring financial arrangements. Also they are trained to be conservative and to look to the past for guidance, no matter how little there may be in the past that would make one wish for its repetition. A creditor's ideal for the Fund would be a small fund, because that would work towards conservatism, and a fund to which a prospective borrower would come, hat in hand, presenting all his needs, explaining his behavior, submitting to whatever conditions may be imposed upon him, and agreeing to abide by rules to be made for him by the creditor. From a creditor point of view this is the only sound arrangement. However, it entirely misses the point of the new proposal. What is proposed is not primarily a lending institution, but a new monetary standard supported by a common pool of resources. It is hoped that this will provide as much stability as is consistent with the maintenance of prosperity and at the same time offer as much flexibility as may be necessary for the same purpose. The intention is to restore confidence to various countries in their ability to make broad plans for the future, with the assurance that they can increase their international monetary reserves by recourse to the Fund whenever they have legitimate need to do so. They would not merely be told, as the bankers would tell them, that if they are up against it they may be bailed out of their difficulties by a more or less sympathetic group on more or less tolerable conditions. What they are to be told is that they are part of an international agreement by which all countries will be given an equal opportunity to obtain assistance from a common Fund to mutual advantage. This and this alone will give them the assurance that they need to face the great difficulties which are bound to develop in the postwar world.

It is partly for this reason that the Fund must be relatively large; it must suffice to convince a great many countries that there will be enough to see them through. Its funds must be available for use on conditions known in advance, because only in that way can countries be free to proceed to make their plans for reconstruction of world trade. If the Fund is not geared to accomplish this purpose it might as well not be started, because a country with good credit standing can always find a lender, provided it is willing to meet the charges and conditions imposed upon it. It should be kept in mind that what we are looking for is not a creditor's paradise, but a functioning world economy.

The alternatives with which we are confronted are not necessarily adoption of the Monetary Fund on the one hand and chaos on the other. What is much more probable is that, in the absence of the Fund or under an arrangement such as is proposed by the bankers, what would develop would be highly restricted conditions of world trade. Each country would adopt such rules and regulations as would protect it against inroads from the others. No country could accept restrictions on its freedom to make unilateral or bilateral arrangements or to use various controls and multiple currencies, unless it was given assurance that there would be a group of its peers to stand by it if economic conditions should be temporarily so adverse as to make it impossible for it to cope with them alone. What would happen under the banker's proposal would be at best a very slow and halting recovery with continued discouragement and there would be grave danger of an ultimate breakdown and choas.

There is a direct line of descent from the attitude of the bankers toward the Federal Reserve Act when it was being proposed to their attitude towards the International Monetary Fund. Now as then, they express sympathy for the objective, but think the methods too complicated and the management too inexperienced and too political. It may be admitted that public agencies make errors of judgment, but these errors are less likely to be biased in favor of any one viewpoint than are errors made by a special group. They may at times delay progress but they do not prevent it. Special groups, however, are prone to make what the statistician knows as biased errors—errors that always point in the same direction. Such errors are cumulative and not only delay but prevent progress and often lead to retrogression. There is, it must be added, no unanimity in the opposition of bankers to the Monetary Fund. Many individual bankers and banking groups have come to its support.

The bankers apparently would like to do for the Monetary Fund what they would have liked to do for the Federal Reserve System. They would like to swathe it in a layer of mild and considerable objections and then bury it under the sod. This attitude is an occupational disease and it can be counted upon to appear whenever anything is proposed that does not conform to the narrow horizon of the creditors' outlook. If the world is to move forward toward institutions that would help to develop world resources to the benefit of all countries and all groups of people it must disregard the advice offered with all sincerity and with deep apprehension by professional creditors and to go ahead with proposals that will lead to the establishment of a new multilateral monetary standard. It is only in that direction that there is hope for progress towards world-wide prosperity and for the survival of free enterprise in a peaceful world.

## Export-Import Head Quits

The resignation of Warren Lee Pierson, as president of the Export-Import Bank was accepted on April 3 by President Roosevelt.

Associated Press advices from Washington, D. C., announced: Mr. Pierson, who has been head of the bank since 1936 submitted his resignation March 28, saying he desired to enter private business. Formerly a lawyer in Los Angeles, he came to Washington in 1933 as counsel for the Reconstruction Finance Corporation.

In accepting the resignation with "much reluctance," the Chief Executive said the bank had "played a vital part in the conduct of our good neighbor policy with the South American countries."

## Baruch Predicts 5 Yr. Boom After War

Bernard M. Baruch, President Roosevelt's personal advisor, now in London predicted at least a five-year boom period following the war "with more work than there will be hands with which to do it." In his report to the Army newspaper, "Stars and Stripes," London advices of the Associated Press announced: "The 75-year-old financier, who has held several conferences with Prime Minister Churchill, was reluctant to talk about the exact nature of his mission to London. But he spoke freely in expressing confidence in the immediate future, and added:

"What happens after those five or seven prosperous years depends on the peace the big boys are perparing for us now.

"We've got to deindustrialize Germany and Japan—at least for a generation—so they won't go to war again. Also we've got to see that those subsidized slave-labor countries do not again flood the world with their cheap products, lowering the standards of living of the United Nations."

## Share-the-Loan Plan For Small Business

A program designed to provide small business with all the postwar financial help it will require has been announced by the Reconstruction Finance Corporation, according to Associated Press dispatch from Washington, April 7.

As outlined by the RFC, the plan is as follows:

1. The agency will participate in bank loans to industry whenever a bank requests it. RFC will, in effect, guarantee up to 75% of the loan, and will actually put up 75% if the bank calls for it. Total amount of the loan must be no more than $250,000.

2. If a business can't get a bank loan it may apply to RFC and, if considered deserving, will be granted a loan direct.

Purpose of the program, says RFC, is "to encourage maximum employment."

# Dangers of Government By Bureaucracy

(Continued from page 1599)

things of life for which men fight and die. In the solution of those problems our life tomorrow—economic, political and social—this organization has its greatest opportunity for service.

Today no lawyer can fulfill the responsibilities of his profession unless he has a comprehension of business and business problems. And no business can today keep out of trouble unless it has an understanding of the law and its complications.

From the day, six years ago, which I left the law practice until I returned at the beginning of this year, business has become more and more under the dictation and domination of the Government—not a government of the law enacted by Congress and the State Legislatures but a government of rules and regulations, edicts and decrees issued from boards, bureaus, commissions and directors who are removed from the control of the voting public. Under them the sovereign American citizen holds no curb and seemingly exercises no check. So intsead of practicing from precedent and established law, the lawyer today practices by loose-leaf and guesses what amendments or changes may come tomorrow when advising his clients.

### Will Bureaucracy Continue?

It has become apparent day by day that these restrictions on business and the daily life of the people result not from wartime necessity alone, but that there is a determination upon the part of the leaders of this new philosophy of government that the power shall remain in the bureaucrats after the war—to dominate business and the individual citizen in his making of a livelihood. If that were not so, there would be a great deal more courage and eagerness in looking ahead to the peacetime service of business to society. Freed from this unnecessary and super-government power there would be a tremendous impetus given to reconstruction and to the solution of the problems of tomorrow. If only the individual citizen could today be assured that his success will again depend upon his own energy and resourcefulness, a new light and a new hope would break across the land. That assurance is not ours now. A philosophy of government alien to our traditional way of life has subtly and insidiously been shackled upon our people. They have not suspected it because they have believed this is our Government. It will take an intelligence and hardiness to cast off the shackles of a government that has separated itself from its people when peace comes. Unless we do it we will become the permanent victims of the mistakes of our Government. The American people have been giving of their time and energy, of their substance and of their lives, to preserve free government. We will undergo any hardship, any privation to bring one more boy home alive or uninjured. But much that is being done is not conducive to the war effort and in fact is handicapping it.

Our Government, under the guise of war power, has become a paternalistic one, with a determination to fasten its clutches upon the people in the days following victory. Paternalism is only a step toward socialism, fascism or totalitarianizm, and we are fighting to destroy that around the world. We don't want it here at home. I believe more in America and the Constitutional system of government as the foundation upon which we must build for greater good tomorrow than ever before in my life. Even if I had not down in my heart deeply believed it before, I would be forced to now because of the sacrifices that are being made to keep America free. I am one of those who wishes to accept the philosophy of government neither of our enemies nor our allies.

It is incredible to me in the face of the tremendous production that we have accomplished—in the face of victory on every battle front by our armed forces—in face of the tremendous power that is America—that politically we have not measured up. Why, with victory almost within our grasp, should we tolerate for one moment the giving up of the very principles of freedom that have made us great.

We have here achieved an industrial development and prosperity beyond that of any people of the world. We have educational facilities beyond comparison. We have been steeped in the traditions of Christian religion—we have practiced the process of representative government—we have lacked nothing here that was conducive to continued orderly evolution of a self-governing society. In the light of all of this it is hard for me to understand that we have permitted so much of power to be taken from the people themselves and placed in the State — seemingly beyond their reach. The experimenters have the theory that of necessity the complexities of our industrial economy require centralized direction to make it function effectively.

### Safety Lies in Free Enterprise

That is a most fallacious argument. The truth is that because of the complexities of our industrial economy, our real safety and interest lies in a system of free and competitive enterprise. We can count unlimited mistakes in decisions made by government and its representatives since it assumed responsibility for economic and social welfare.

The utter incompetence of OPA in dealing with foodstuffs and the resulting shortage is one. The American farmer has worked ceaselessly that our armed forces might be fed, but he has a right to contract as has every consumer when the government has been so manipulated that it has brought about a wholly unnecesary shortage.

The American people will stand bungling and inefficency coming from this new-born power in the hands of inexpert government officials if only we can win the war at an early date, but we want none of it when the peace returns again.

Another glaring example of a shortage induced by government inefficiency is in the field of automobile tires, because of the lack of carbon black. It has been indispensable in the manufacture of tires. Everyone in the field knows it and yet until a crisis came government failed to anticipate the need.

This is our government. Our people are at war and they have the right to expect a war time government to overlook nothing that needs to be done, not only for the conduct of the war, but to keep our vital industrial life responsive to all needs, domestic as well as war.

I do not point a finger of guilt to an individual but emphasize that if such government inefficiency is necessary in war, that in peace it can destroy self-government. The complexities of our economy are entirely too great for centralized control or direction. Even if there were sufficient ability to run all of our industry and commerce and our agriculture out of Washington it would still be wrong. Autocracy under the name of arrogant bureaucracy is just as reprehensible as under any other name. It has no place in a free country.

There are others who argue that we have already given so much, surrendered so much of the initiative and responsibility for our own well being to the government that it is too late to retrieve our powers of self-government. With that philosophy I shall never agree. Our country, richly blessed in human and natural resources does have the vigor to recover its balance and a sound sense of political values. Congress is making a valiant effort to reestablish its place in our scheme of government. It needs the encouragement of every patriot. It must act as a check upon the executive branch of the government. I have confidence that the returning soldiers will support the Congress in revitalizing our scheme of government. They will have the opportunity to contrast the ways of life in other parts of the world with the better way of living in America. I have talked to enough of them to belive that they will never accept the teachings of the New Dealers who are in power—teachings that our political philosophy and practices prior to 1933 were all wrong. They will continue to fight abuses but never the system. They have fought for it.

### Political Health Must be Restored

Essential to our return to political health in America is an improvement in our moral tone. One of the distressing symptoms of the impairment in our political health, is the continued ability of a labor racketeer like Petrillo to levy tribute upon the recording industry for the privilege of carrying on its business. It is an outrage to political decency. Having let our moral guards down in this instance, we are beginning to see the inevitable spreading of the evil. The miners are now asking that a similar tribute be levied upon the coal mining industry which gives them their employment. This is a striking illustration of what happens when there is a lapse of decency under government sanction.

Gnawing at our personal freedoms are many governmental policies and practices. The most threatening perhaps is our system of taxation. Laying aside our present war needs for revenue, our tax system is inspired in large part by the equalitarian concept. One of the fundamental tenents of subversive philosophies is to place a sharp limitation upon the aspirations of able citizens to achieve economic success. Nothing will discourage human efforts and lower the level of our general standard of living more effectively than to abridge the opportunity of the individual by taxation. Nothing could be more destructive to a free society than the patent efforts of the New Ideallogists to place arbitrary limits upon success of the individual in his private endeavors. The inventive genius and industrial might of our country, which has shone with such splendor in war, grew out of the knowledge that a strong and virile nation springs from the self-reliance, energy and initiative of its individual citizens. Our fighting forces many of whom were drawn from industry, have distinguished themselves in these qualities. Such qualities are developed by allowing citizens the freedom to pursue their own careers and to enjoy the fruits of their endeavors. It was on these concepts that our nation was founded. It was on these concepts that it was built. It is on these concepts that it can and will advance to heights uncomprehended by the defeatist-philosophy that permeates our leaders today.

Omitting certain pressure groups engaged in grinding their own political axes, I do not think the equalitarian theory in taxation is supported by the American people. While they doubtless subscribe to progressive taxation of income, they do not favor more than a fair and just rate imposed upon an individual, irrespective of his bracket.

### Need a Balanced Budget

Of course, in any appraisal of this country's peace time prospects, we are at once confronted with the weight of the public debt that will hang over us as a result of the war and pre-war New Deal spending. That debt will be an extremely serious burden and a drag upon our prosperity. But it does not appear that the debt will be unmanageable provided proper housekeeping can be brought about in the Federal establishment and we avoid extravagant programs of spending. A balanced budget within the earliest practicable time after the war is indispensable to the solution of all our economic problems.

There is nothing incompatible between a reduction in tax rates and the raising of ample revenue for reasonable governmental requirements. Taxes come from production. If we have the intelligence to put first things first, we will devise a system of taxation that will encourage production. In such a system there would be no place, in my opinion, for an excess profits tax nor for double taxation of corporate profits as at present. A material reduction in income taxes will also be required.

### Tax Co-ordination

But tax reduction itself will not be enough. Of equal importance is the need for a thorough coordination of federal, state and local taxation. As all of you know, the federal government and the states possess concurrent taxing powers. There was practically no conflict between the exercise of these powers from 1787 down to the first World War. There was no material overlapping of tax fields. The federal government got along largely on customs and excises. The taxation of property, business, personal income, inheritance and the like, was left to state and local governments.

Since the first World War the situation has changed. Now there is a conflict of taxing power, and there is a tremendous overlapping of tax fields. Here are some interesting facts contained in a recent report of the National Association of Tax Administrators. In the fiscal year ending June 30, 1941, before the present war, 12 billion, 380 million dollars in tax revenue were raised by the federal and state governments. Of that amount all but 2 billion dollars came from sources on which both the federal and state governments levied taxes. Over 88% of federal revenue came from sources taxed by the states—and 75% of state revenue was derived from sources subject to federal taxation.

The individual citizen will have no permanent or effective relief from the crushing burden of taxation until this problem is faced and solved. A major responsibility for helping to solve it lies with the federal government. The Treasury Department has not recognized that responsibility in recent years. It has not at any time sought to confer with responsible state authorities in the formulation of tax policies and programs. It has indicated no interest in cooperating with the states in the problem of tax simplification and coordination. This is one of the great domestic needs. Frankly, we must face it, and undertake its solution without delay. Otherwise under the paramount taxing powers of the Federal Government—local and state governments and home rule in America will wither and succumb.

**Bretton Woods Opposed**

We must look to the Congress as our safeguard against spending programs. It is perfectly evident that the administration is still looking to John Maynard Keynes, the putative father of the spending philosophy, for its economic cues. That is shown in the Bretton Woods program of stabilization. There may be something to be said for that program from the point of view of some of our Allies. But from the point of view of this country its unsoundness is, I think, rather obvious. That Bretton Woods program represents an attempt to erect, largely at this country's expense, a super-structure of stabilization upon a foundation of unstabilized economies. This is to say nothing of the probable social and political instability which will obtain in many countries long after the war. There is very little, if anything, in the program to encourage the participating countries to stabilize their own economies. Rather, this Bretton Woods proposal, extends an implied invitation to the countries to defer coming to grips with their own economic problems. Let us not delude ourselves that the first cost is the only cost. There is no way of seeing the end of such an experiment. There can be no effective stabilization until we know what we have to stabilize. Unsound loans from the United States will not promote international securities and accord. They will only breed ill will and discontent.

**Preserve Representative Government**

It goes almost without saying that our greatest need in this country is the reestablishment of a sound political foundation in government. It is a prerequisite to the solution of our economic and social problems. We must make up our minds with finality that we will preserve our representative system of government both in form and in spirit. Few of our citizens would oppose such a purpose in principle. But it has been manifest in the last 12 years that many of them were not aware of the damage that various species of political termites were doing to our structure.

Industry and business both singly and collectively, should undertake by their policies and practices to reduce the necessity or excuse for further governmental invasion of our economic and social life. In the past industrial leaders were so preoccupied with problems of business that they failed to keep themselves alert to what was taking place in the political environment. Industrial leaders should bear in mind that a legislative body, almost overnight, can wipe out the results of years of cost-reducing efforts. And legislative bodies can, as they have, impose controls that will further reduce our latitude in managing your own business. I think you will agree that the authority you have is not commensurate with your responsibility.

**Industrial Relationships**

Business in general is now quite alert to the importance of constant effort in the improvement of human relations within their industries. This is important to you, of course, from a strictly economic point of view. It is also of vast importance from the political point of view. Economically, there is an identity of interest between labor and management. There is no reason why there should be any political antipathy between the two. I venture to suggest that the effort most likely to succeed in bringing about cohesion between management and labor lies in the training of supervisory forces in the art of sound human relationships. It seems to me that much of the mischief that disturbs industrial relations has its origin there. Anything that can be done to bring about a recognition of the importance of human values in our industrial life will have a most salutary effect upon our political life.

Important steps have already been taken in this direction by labor and management. Just last week the president of the A. F. of L. the chairman of the C. I. O. and the President of the U. S. Chamber of Commerce joined in announcing a "peace charter" for labor management to prevent industrial strife after the war. The charter declares support "private property and free choice of action, under a system of private competitive capitalism." It recognizes the "inherent right and responsibility of management to direct the operations of an enterprise." It likewise supports the right of labor to organize and engage in collective bargaining. It declares that "increased prosperity for all involves the highest degree of production and employment at wages assuring a steadily advancing standard of living."

The important thing about this charter is the fact that it was agreed upon without governmental participation. This fact indicates both management and labor now recognize that enlightened cooperation and self-government between the two is far preferable to national planning or governmental management which reduces both to mere puppets of the state. This charter, in my judgment, is a forward step toward industrial progress.

I do not think that the present war-time labor disturbances and unrest, serious as they are from the point of view of the war effort, should occasion too much pessimism for the future. There are some special factors contributing to this unrest which will not exist after conversion to a peace-time economy. One is the great dislocation and uprooting of workers and breaking of home ties that inevitable attend the war effort. Another is the rapid expansion of industrial forces in our war plants requiring over-rapid development of supervisory personnel ill-equipped for leadership. Still another, less direct, but in my opinion real, cause for unrest grows out of feeling of frustration because employees cannot use effectively their exceptionally high purchasing power. War-time scarcities stand in the way of realizing their dreams for new automobiles, new radios and new homes.

I have ventured in this field because of my interest in the impact of industry's performance upon our political structure. I devoutly wish America to preserve for my boy opportunities equal to those I have had and enjoyed.

# NSTA Notes

(Continued from page 1604)

of its many problems. The National Security Traders Municipal Committee confined itself largely to personal contacts, the results of which were clearly shown at the hearings. The two years' intensive effort of many organizations and individuals was evident in the Boren Bill hearings. All members of the Industry had subscribed to the program and the Municipal Industry knew what they were talking about.

Hon. Emmet O'Neal of Kentucky very graciously introduced me and all the other members representing our Industry to the Committee and stated that after his long experience in the investment business he had studied this Bill and felt it was in the best interests of the country and the Industry and bespoke their kind and considerate attention, which certainly was afforded us. I am very hopeful that the Bill will be reported favorably to the Interstate and Foreign Commerce Committee.

My term of office as Chairman of our Municipal Committee expires on this date. I hope all members of our organization and members of this Committee will accord Chairman Izzy Kingsbury the same splendid cooperation and assistance I have received, without which nothing could have been accomplished. There is still a lot of work ahead before we finally complete our present endeavors in connection with the Boren Bill. I have agreed to remain a member of this Committee to continue the Washington end of the program.

I respectfully call attention of President Parsons and the members of our organization to the vital need of a National Legislative Committee to represent our organization in all phases affecting each segment of our industry. It is my belief because of our being an organization of individuals we have a rare opportunity to help out now with the problems affecting our business. We also should have a Small Industry Committee to work out a constructive program in this regard for presentation to the Congress. A solution of this problem is of utmost concern at present to our representatives in Congress.

Congress is vitally interested in seeing our business function properly after the war and is especially interested in the small fellow. Some of us feel that the Securities Acts have resulted as follows: the big investor has been favored, the big investment dealer has been given bigger advantages and we have seen big business helped as over and against the small fellow. This certainly was not the intent of Congress to have the laws and regulations work out to the detriment of the small dealer, the small investor and the small business. Our business, using our influence properly, could be a great political factor for the good of our country and the best interests of our Industry. If we do not use it we are not doing our full duty.

In closing, I appreciate the honor of being Chairman of the Municipal Committee as I have attempted to do a job which would be a credit to the organization. I am very proud of being a member of the National Security Traders Association.

**The objective of our organization should be—**

(A) Be an important influence in American economic and political life to the end that everyone in this country will be better off, and

(B) Be an important influence in that same life to the end that our industry will prosper and contribute its share to the prosperity of the country. Then our own problems will work themselves out automatically.

Sincerely yourss,

THOMAS GRAHAM.

## Calendar of Coming Events

**Apr. 20, 1945**—New York, Security Traders Association of—Annual Dinner at the Waldorf-Astoria Hotel.

## At Donald MacKinnon Co.

Dell H. Stevens was recently appointed manager of the bank investment department of Donald

Dell H. Stevens

MacKinnon & Co., 1775 Broadway, New York. He was formerly with J. A. Ritchie Co., Inc., and for twelve years prior thereto was with Moody's Investors Service as Bank Counsellor.

## 8 Public Members on WLB

Without changing its voting power of 4 public, 4 labor, 4 industry the President on April 5 increased the number of public members of the War Labor Board to eight. However, no more than 4 of the members are permitted to vote on any one matter.

The Associated Press announced from Washington:

Mr. Roosevelt made the change by giving four alternate public members the status of full public members. They are Edwin E. Witte, Dexter M. Keezer, Nathan P. Feinsinger and Lewis M. Gill.

## New Teletype

McLaughlin, Baird & Reuss, One Wall Street, New York City, members of the New York Stock Exchange, announce that their teletype has been changed to NY 1-2155.

# Protecting Individual Enterprise

(Continued from page 1599)

ested in the circumstances whereby private enterprise can be preserved and its area extended.

I

### The Functioning of Profits

Individual enterprise, as we know it, is inextricably bound up with profits, and the future of individual enterprise is intelligible only if we examine in some detail the outlook for profits in our society.

For some reason, it has become indelicate to refer to profits in public, except perhaps to deplore the fact that they seem to be necessary for the propagation of business enterprise, or to imply that the activity of profit-making is slightly piratical, to say the least.

We have also come to think of profit almost exclusively as an inducement that causes savings to flow into investment, and as a determining factor as to what productive enterprises will be established and to what extent. The time has come for a new and different, though not an inconsistent, point of view towards profits and profit-makers, since, by all odds, the most important energizer of private enterprise is profit, the experience of profit, and the prospect of profit.

Profit is not the only motive which brings enterprise into action. Business activity is released and directed by all the forces that cause men to act: loyalty, vanity, restlessness, and love of achievement. These personal drives become of great significance in understanding the reasons for any particular business decision. But so far as private enterprise is concerned, they are essentially secondary, since, although they are the motives to the individual, they may or may not be relevant to the business of business. The underlying and unifying force, releasing all others and giving meaning to all else, is profit. It is not merely the spark plug, it is the spark within the plug.

Profit is more than a mere energizer of private enterprise, it is a directive energizer. It sets the test of success in the application of effort. It is both stimulus and response. It is not what business is for, it is not the justification of business activity; but it is so important in getting business properly done that it is sometimes mistakenly taken to be the end and purpose of business. We can properly deny to profits the exalted position of being the end and purpose of business, and at the same time recognize the crucial importance of profits in releasing and guiding the powers residing in private enterprise.

Profit is the excess of selling price over costs of every kind. If a thing cannot be sold, there can be no profit. Nor will there be a profit unless the selling price is greater than the total cost of getting the article into the purchaser's hands.

This familiar relationship between selling prices and costs, which results in profit, causes profit to serve two exceedingly important purposes. In the first place, profits are a test of whether the thing that is made is wanted, and whether enough people want it at the price at which it is offered more than they want something else at some other price. And when I talk about the making of things, I am talking about both goods and services; and I think we must all agree that a great expansion of services is indispensable for high employment after the war. If the people do not want these things, there will be insufficient sales and insufficient profits—or none at all.

The necessity of making things which must sell directs the energies of private enterprise into the channels of making things which people want more than they want something else. It stops business from trying to do things that get no public response and that meet no public need. And since most things compete with other things as objects of human desire, and since they compete both in desirability and in price, the managers of business are forced to seek a right price for the things they have to sell.

In the second place, profits serve as a check on costs, and hence as a means of reducing wastes of all kinds. The costs must be brought below the price at which the thing will sell in adequate quantities, and the lower the cost the greater the profit and the greater the possibility of wider use.

The beneficial pressure of profit on cost reduction comes from giving an impulse to efficiency and ingenuity; it provides an incentive for the discovery of new processes and new machines for the elimination of waste motion and unneeded services. This kind of cost reduction results in the use of less human effort and less material in the producing and selling of a given article. Economy in the use of our resources of men and materials, while at the same time maintaining the same or a higher standard of living, serves a valuable social purpose, and the pressure for profits is the principal influence to this end.

Profits, therefore, serve a double purpose: first, they direct the activities of business into channels which meet a public response; second, they provide a pressure for ingenuity and efficiency. Profits are needed for these two purposes, whether the profits, after they are made, are privately owned or not. The ownership of profits is a separate question from that of the usefulness of profits as a directive energizer of enterprise. An enterprise of the business type, producing goods and services for use, whether it be publicly, privately, or cooperatively owned, requires the profit motive and profit statement to make it work and work soundly.

How high can profits properly be? If the goods are sold squarely and priced competitively, if the costs of producing them are governed by intelligence and by the use of fair and legal methods, if there is no direct or indirect public subsidy that makes prices higher or costs lower than the managers of the business themselves could make them, then the higher the profits the better the interests of all are served. A special case exists in the exploitation of privately owned natural resources, where the need of conservation for the benefit of future generations should be a reasonable limiting factor on present profits. But, even in this special case, given a public policy and law as regards conservation, the higher the profits the better.

Public opinion today is skeptical of accepting the highest obtainable profit as a desirable social standard. This skepticism is the result of practices which have undermined the prestige of business.

These practices are: improper representation and misbranding in selling; controlled and non-competitive pricing; exploitation of labor; adulteration of quality; the receipt of subsidies in the form of franchises, tariffs, tax exemptions, and grants of the public domain; and, finally, undue monopoly privileges in the use of patents, trademarks and copyrights.

When profits are made (1) within the law, (2) under competitive enterprise, (3) without public subsidy, or (4) without public protection of exclusivity, the higher the profits the greater the honor to the profit-maker. Under these circumstances, there should be no limitation on the amount of profits which a business can make, because the greater the profits the greater the service.

Profit, as a directive energizer of business, deserve more respect than it is sometimes accorded. It would be difficult indeed to find a substitute that would serve the public welfare so well.

### Profits for Business as a Whole

A healthy business depends on profits, and private enterprise depends on health in business.

We have seen the way that profits act as a directive energizer for business enterprise, getting the things produced that the people want, and imposing pressure for efficiency in the use of human effort and materials. Now, as we consider profits for business as a whole, we come to a new set of problems, problems which relate to the adequacy of purchasing demand as a whole. These problems center in the nature of purchasing power and of its movement in the national community, since it is only through the flow of purchasing power that the nourishment of business, by business profits, can be accomplished.

A business can be rich and still be sick—profitless. So also, business as a whole can be rich and still be unhealthy. The balance sheet of business may show enormous assets and modest liabilities, and still business may not be doing the work that it is the business of business to do. The work of private enterprise is recorded in the business transactions that preceded and that will follow the balance sheet cross-section picture.

If there are no transactions, there will be no profits. If there are insufficient transactions, there will be insufficient profits. Large numbers of transactions do not, of course, guarantee profits, but they are a necessary first condition in providing a situation in which profits can be made.

The undernourishment of business comes from insufficient profits and prospects of profits. When this condition applies only to a particular business, we can regretfully charge the disorder to the requirements of survival in a competitive universe. But when business generally is undernourished for lack of profits, we must look to the environment generally. In such a situation the presumption is that the environment is not favorable to business survival.

A sick business serves the cause of freedom badly. In a sick business, stockholders, employees, vendors, and customers, all are in the hands of a management whose objective is survival and whose motivation is fear. In such a business, there is no "long pull," and short-run policies dictate the decisions of the manager. The sick business has no freedom and it can give no freedom. It can be victimized in every business transaction, and it protects itself as best it can. Just as for the individual person adequate nourishment is a favorable foundation for a sound mind, so also a thriving business is a necessary prerequisite to sound business statesmanship.

The disorder of depression, which causes sickness in business, must be cured if private business is to survive. An adequate flow of purchasing demand must be maintained as a necessary condition for profits and for business health; and business health is necessary if we expect private business enterprise to be effective as an instrument for human freedom.

### Changes Affecting the Profit Motive

Although profits serve in many ways to make the business system function wholesomely, in recent years there has been a change in the structure of business which has seriously affected the usefulness of profit as a directive energizer.

Private enterprise today is increasingly passing into the hands of the higher paid employees, workers for wages who have the administrative responsibility for their enterprises. Unless they are substantial shareholders, their interest in profit is, beyond a certain point, largely academic. To be sure, they want their company to survive, and they want to be well regarded by their colleagues and by their competitors. But effortful enterprise beyond this minimum required for security and prestige is meaningless. This is bad for enterprise, and a danger to the enterprise system. Let us see how this situation comes about and what, if anything, can be done to correct it.

Profit is what remains after the expenses of a business are deducted from its sales. These expenses include the cost of materials, wages and bonuses, taxes, rents, and interest on bonds. From this profit, dividends may be distributed as a return to the stockholders on their invested capital, and a part of the profit may or may not be shared with a large or small proportion of the employees. In most cases the amount of the shared profit is small as compared with wage and salary disbursements.

There then remains a **residual profit** that attaches to the common stock for the benefit of the common stockholders. Since, today, an increasingly large proportion of the stockholders of enterprise make no contribution to its success, other than permitting their money to remain invested in it, this **residual profit** is increasingly less helpful in strengthening private enterprise. It is, of course, true that the owners of the common stock of a company have money at risk and, therefore, are entitled to a contingent return, depending on the success of the company. They also are entitled to have adequate reserves set up for depreciation, depletion, obsolescence, and other conditions that may reduce the value of assets of all kinds. The contingent return on the common stock can be limited and the appropriate reserves can be defined, and both should be given a position prior to **residual profit** as we have conceived it.

The **residual profit** should go exclusively to the one or two individuals whose initiative and judgment is decisive for the success of a business; and, under ordinary conditions, this **residual profit** should be large in comparision with their regular compensation. In this way, profit could be restored to one of its most important functions in providing an aggressive, efficient, and serviceable system of private individual enterprise.

### Conclusion

The dangers to individual enterprise arise in large measure from neglect and abuse of the profit system. The protection of individual enterprise will be substantially accomplished if the profit system is rehabilitated.

This means that purchasing power in the hands of the people be in proportion to our capacity to produce; that labor and management cooperate in getting wages up and costs down; that taxes be assessed on incomes and not on profits; that the residual profits of enterprise go to the enterprisers; that selling prices be established by competition; that misbranding and adulteration be out-

# The Importance of Small Business

(Continued from page 1600)

tablishments, etc., with $50,000 or less annual net sales or receipts.

The Bureau of Foreign and Domestic Commerce estimated in the pre-war year 1941 that there were more than 2,750,000 small business establishments in this country, more than 90% of the total business concerns, and that they employed more than 8,350,000 workers.

Less than 1% of these enterprises have more than 100 employees each, and only about 7% have more than 10 employees. Agriculture, mining, forestry, fishing, transportation, communications, utilities and the professions are excluded.

These small business concerns could be subdivided into 169,000 manufacturers, 72,000 wholesalers, 1,614,000 retailers, 638,000 service organizations, 200,000 construction companies, 40,000 theatres, and 25,000 hotels.

**Small Business vs. Large Business**

Table 1 gives a comparison of small business with large business in these sub-divisions, citing the number of establishments, personnel and value of output, with the respective percentages of small business to the total of the country.

Table 2 gives a similar comparison in the field of manufacturing, with a break-down by groups of wage-earners—up to 100 employees for small business, and upwards of 100 employees for large business.

More than 90% of all establishments manufacturing apparel and finished products, and more than 60% of those making textile-mill products, are small concerns. More than 85% of those manufacturing food and kindred products employ fewer than 20 workers each.

In the wholesale field, small business with annual sales of $200,000 or less comprises 77% of establishments and 21% of sales; 62% have less than $100,000 annual sales, accounting for nearly 11% of the total sales.

In the retail field, small business with annual sales of $50,000 or less comprises 91% of establishments and 42% of sales; 54% have less than $10,000 annual sales, accounting for 9% of the total sales.

In service establishments, over 98% are small business, with 65% of sales; over 91% have less than $10,000 annual sales, accounting for 39% of the total sales.

**The Influence of War**

From 1941 to 1943 as a result of influences associated with the war, the total number of business firms declined by about one-sixth, a set-back which may be regarded as temporary if reasonable prosperity prevails after the war. Year-end totals since 1941 follow:

| | |
|---|---|
| 1941 | 3,341,000 |
| 1942 | 3,071,300 |
| 1943 | 2,833,900 |

About 98% of the changes—discontinuances and new enterprises—occur among small business concerns. The marked net decline during the war period has been due to obvious causes. Many proprietors of small businesses were inducted into the armed services. Others, having difficulty in obtaining merchandise and materials and keeping labor, closed up and sought employment in war industry. Fewer small retail businesses have been started than normal because of the difficulty of securing a dependable supply of goods to sell.

Conversion of industry to a war basis has meant a great increase in the relative importance of manufacturing, particularly in the heavy industries requiring large-scale operations, with a relative gain in the output of large firms during the war. With the return of peace placing less emphasis on heavy industries and more on consumer goods, the former relative position of small and large business should be restored.

**The Vitality of Small Business**

Small business is an institution of great vitality, an indicated by the continued growth during the years preceding the war in numbers of enterprises and by the fact that the relative position of small firms to large firms was gaining slightly.

With the removal of the obvious wartime obstacles to the opening of new firms, the return of potential business men from the armed forces and war jobs, and the restoration of the civilian economy, it is highly probable that a post-war resurgence of small business will occur, especially under the stimulus of Congressional aid.

**The Influence of New Developments**

The composition of the business population shows a tendency to change in response to new developments in products, markets and methods of production. Undoubtedly great changes in the relative importance of various lines of business are occurring now and will continue to occur after the war, and new products and new consumer habits will create new opportunities for both small and large business.

The war may have accelerated trends favoring larger firms in some industries, but it also has probably been accompanied by the development of new opportunities for small business. In the past, small business has held its position not so much by maintaining its status within each kind of business as by constantly developing opportunities in new fields, and while this process may have been interrupted by the war there are no grounds for thinking that it has ended. It is largely because of the continued and rapid development of new lines of business suited to small-scale operations that small business has been able to maintain its position in the American economy. Moreover, it should be remembered that many a business that was small in its inception has grown to become an industrial leader and sometimes a whole new industry.

**The Need for Incentive Taxation**

A necessary factor in the encouragement of small business, especially along new lines and in order to provide as many jobs as possible in the post-war period, will be the easing of the tax burden.

Millions of men can be employed by expansion of small business after the war if the incentive to make profits is not stifled by excessive taxes. This is particularly true in the case of small corporations.

Last year's tax law raising the exemption from corporate excess profits taxes from $5,000 to $10,000 was helpful to some extent to small business. Mr. Byrnes, as Director of Mobilization and Reconversion, in his report to Congress early this year recommended increasing the exemption from $10,000 to $25,000. There appears considerable support for this in Congress, and some advocates are suggesting an exemption of $50,000. An exemption of this latter amount is needed now, effective in 1945.

The House Committee on Small Business is reported to be considering a post-war program. Aside from increasing the exemption as above-mentioned and reducing or eliminating the excess profits tax itself, proposals include incentive taxation which would give new businesses tax advantages until they are firmly established; special tax credits for equity investment in small business; taxation of small, closely-held corporations as though they were partnerships; elimination of the double tax now imposed on corporate profits; special credit for increased employment; accelerated depreciation on new plant and equipment, and elimination of the salary stabilization program.

Another constructive development in the interest of small business was the recent announcement by the American Bankers Association that regional bank credit pools to aid small business have been set up in 27 districts throughout the country and now amount to $500 millions and may exceed $700 millions after completion of the program. "American banking," the announcement said, "will see that small business lives and is given the opportunity to grow and prosper."

A futher proposal would raise the limit of new capital issues without SEC registration from $100,000 to $300,000.

**Conclusion**

The importance of small business and its essential nature in free enterprise make wise and necessary its encouragement in every way to attain the goal of full employment and national economic health in the post-war period. The extension of bank credit and the movement looking toward the easing of burdensome taxation are initial constructive steps to be supported by Congress as an important program that should be reassuring to both small business and business generally. No future prosperity or full employment under free enterprise can exist without prosperous small business.

TABLE 2—MANUFACTURING
Distribution of Establishments, Value of Products and Number of Wage Earners by Size of Establishment

| Number of wage earners employed per establishment | Establishments Number | Establishments Percentage | Wage Earners Number | Wage Earners Percentage | Value of Products Value (Add 000) | Value of Products Percentage |
|---|---|---|---|---|---|---|
| No wage earners | 8,315 | 4,5% | ------ | ---- | $543,585 | 1.0% |
| 1 to 5 wage earners | 75,930 | 41.3 | 203,052 | 2.6% | 2,045,512 | 3.6 |
| 6 to 20 wage earners | 49,015 | 26.6 | 542,679 | 6.9 | 4,098,372 | 7.2 |
| 21 to 50 wage earners | 23,646 | 12.8 | 764,814 | 9.7 | 5,179,459 | 9.1 |
| 51 to 100 wage earners | 11,908 | 6.5 | 848,423 | 10.7 | 5,499,769 | 9.7 |
| Total small business | 168,314 | 91.7% | 2,358,968 | 29.9% | $17,366,697 | 30.6% |
| 101 to 250 wage earners | 9,458 | 5.1% | 1,472,651 | 18.7% | 9,479,231 | 16.7% |
| 250 to 500 wage earners | 3,653 | 2.0 | 1,268,983 | 16.1 | 8,148,487 | 14.3 |
| 501 to 1,000 wage earners | 1,495 | .8 | 1,024,297 | 13.0 | 7,395,604 | 13.0 |
| 1,001 to 2,500 wage earners | 634 | .3 | 937,136 | 11.9 | 7,924,430 | 13.9 |
| 2,501 and more wage earners | 176 | .1 | 824,532 | 10.4 | 6,528,576 | 11.5 |
| | 15,416 | 8.3% | 5,527,599 | 70.1% | $39,476,328 | 69.4% |
| Total | 184,230 | 100.0% | 7,886,567 | 100.0% | $56,843,025 | 100.0% |

Department of Commerce: latest available figures.

TABLE 1—SMALL VERSUS LARGE BUSINESS

| Industry or trade— | Total Business Establishments | Total Business Personnel | Total Business Value of output (000) | Small Business and Percentage of Total Establishments | | Small Business Personnel | | Small Business Value of Output (000) | |
|---|---|---|---|---|---|---|---|---|---|
| Manufacturing | 184,230 | 7,886,567 | $56,843,025 | 168,814 | (91.7%) | 2,358,968 | (29.9%) | $17,366,697 | (30.6%) |
| Wholesaling | 92,794 | 912,548 | 19,418,547 | 71,681 | (77.2%) | 355,731 | (39.0%) | 4,100,404 | (21.1%) |
| Retailing | 1,770,355 | 6,210,788 | 42,041,790 | 1,614,310 | (91.2%) | 3,487,984 | (56.2%) | 17,836,171 | (42.4%) |
| Service establishments | 646,028 | 1,754,538 | 3,420,417 | 637,585 | (98.7%) | 1,294,724 | (73.8%) | 2,241,709 | (65.5%) |
| Hotels | 27,987 | 362,047 | 863,155 | 25,224 | (90.1%) | 111,183 | (30.7%) | 229,163 | (26.5%) |
| Places of amusement | 44,917 | 257,200 | 998,079 | 40,351 | (89.8%) | 145,641 | (56.6%) | 332,837 | (33.3%) |
| Construction | 215,056 | 1,300,448 | 4,519,638 | 200,307 | (93.1%) | 610,740 | (47.0%) | 1,546,891 | (34.2%) |
| Total | 2,981,367 | 18,684,136 | $128,104,651 | 2,758,272 | (92.5%) | 8,364,971 | (44.8%) | $43,653,872 | (34.1%) |

Department of Commerce: latest available figures.

## Washington Dodge to Be Roberts Partner

Washington Dodge will become a partner in Roberts & Co., 61 Broadway, New York City, members of the New York Stock Exchange, as of May 1. Mr. Dodge has been associated with the firm. Prior thereto he was a partner in Arthur Wiesenberger & Co. and in the past was financial editor of Time Magazine.

Washington Dodge

## Taussig, Day Elects Barkau and Frahm

ST. LOUIS, MO. — Elmer F. Barkau has been elected a Vice-President, and Herbert H. Frahm has been elected Treasurer of Taussig, Day & Company, Inc., 506 Olive Street, it is announced.

Mr. Barkau was formerly Treasurer and Mr. Frahm was Assistant Secretary of the organization, both having been connected with Taussig, Day & Company, Inc., for many years.

lawed; and, finally, that we all recognize that public regulation in the public interest is necessary if public subsidy or grant of monopoly has been received.

So I conclude by repeating, the protection of individual enterprise requires the rehabilitation of the profit system. And this rehabilitation should be an agreeable task for enterprisers and productive of great good for the people as a whole.

## DIVIDEND NOTICES

PERE MARQUETTE

**Pere Marquette Railway Company**

A dividend of $1.25 per share on PRIOR PREFERENCE STOCK will be paid May 1, 1945, to stockholders of record at the close of business April 5, 1945, in payment of the accumulated dividend on said stock at the rate of 5% per annum from November 1, 1937, to January 31, 1938, inclusive. Transfer books will not close.

*H. F. Lohmeyer, Secretary*

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CANCO **AMERICAN CAN COMPANY**

COMMON STOCK

On April 4, 1945 a quarterly dividend of seventy-five cents per share was declared on the Common Stock of this Company, payable May 15, 1945, to Stockholders of record at the close of business April 19, 1945. Transfer books will remain open. Checks will be mailed.

R. A. BURGER, *Secretary.*

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**McGraw Electric Company**

*Dividend Notice*

The Directors of McGraw Electric Company have declared a quarterly dividend of 25c per share, payable May 1, 1945, to holders of common stock, of $1 par value per share, of record April 16th.

Judson Large,
*Secretary-Treasurer.*

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**JOHN MORRELL & CO.**

Morrell PRIDE meats

**DIVIDEND NO. 63**

**A dividend of Fifty Cents ($0.50) per share on the capital stock of John Morrell & Co., will be paid April 30, 1945, to stockholders of record April 16, 1945, as shown on the books of the Company.**

**Ottumwa, Iowa. Geo. A. Morrell, Treas.**

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NORFOLK AND WESTERN RAILWAY COMPANY

Roanoke, Virginia, April 3, 1945.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders of Norfolk and Western Railway Company will be held, pursuant to the By-laws, at the principal office of the Company in Roanoke, Virginia, on Thursday, May 10, 1945, at 10 o'clock A. M., to elect three Directors for a term of three years.

Stockholders of record at the close of business April 20, 1945, will be entitled to vote at such meeting.

L. W. COX, *Secretary.*

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**Spencer Kellogg & Sons, Inc.**

**A Quarterly Dividend of $0.45 per share has been declared on the stock, payable June 9, 1945, to Stockholders of record as of the close of business May 19, 1945.**

JAMES L. WICKSTEAD, Treasurer

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# Broker-Dealer Recommendations

(Continued from page 1602)

**Benguet Consolidated Mining Co.**—Analysis—**F. Bleibtreu & Co., Inc.**, 79 Wall Street, New York 5, N. Y.

**Boston Terminal 3½s of 1947**—Analytical report describing reorganization status and proposed plan—**Greene & Co.**, 37 Wall Street, New York 5, N. Y.

**Central Hanover Bank & Trust**—Bulletin—**Laird, Bissell & Meeds**, 120 Broadway, New York 5, N. Y.

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

**Chicago, Milwaukee, St. Paul & Pacific Railroad**—Complete arbitrage proposition—**Sutro Bros. & Co.**, 120 Broadway, New York 5, N. Y.

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

**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.

Also available are memoranda on **Liquidometer Corp., Great American Industries, Hartman Tobacco** and **New Bedford Rayon.**

**Crowell Collier Pub.**—Special research study—**Goodbody & Co.**, 115 Broadway, New York 6, N. Y.

**A. De Pinna Company**—Descriptive circular—**Herrick, Waddell & Co., Inc.**, 55 Liberty Street, New York 5, N. Y.

**Detroit Harvester Co.**—Review of the situation—**Reynolds & Co.**, 120 Broadway, New York 5, N. Y.

**Electronic Co.** Common—Report discussing this stock as an attractive low-priced dividend payer—**Hughes & Treat**, 40 Wall Street, New York 5, N. Y.

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

**General Industries Co.** — Detailed discussion of position and outlook — **Mercier, McDowell & Dolphyn**, Buhl Building, Detroit 26, Mich.

Also available is a report on **National Stamping Co.**

**Albert Frank-Guenther Law, Inc.**, preferred stock—Circular—**George R. Cooley & Co., Inc.**, 52 William Street, New York 5, N. Y.

**Gruen Watch** common—Memorandum—**Buckley Brothers**, 1529 Walnut Street, Philadelphia 2, Pa.

Also available are circulars on **Western Light & Telephone** and **United Printers & Publishers.**

**M. A. Hanna Co.** and **Hooker Electro Chemical** — Engineering field reports available—**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.

Also available are statistical reports on **York Corrugating** and **Reed Drug.**

**Macfadden Pub. Inc.**—Descriptive circular—**C. E. de Willers & Co.**, 120 Broadway, New York 5, N. Y.

**Macfadden Publications, Inc.**—Memorandum—**Bristol & Willett**, 115 Broadway, New York 6, N. Y.

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

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

**Matthiessen & Hegeler Zinc Co.**—Four-page brochure—**Comstock & Co.**, 231 South La Salle Street, Chicago 4, Ill.

**Mid Continent Airlines, Inc.**—Memorandum — **Kitchen & Co.**, 135 South La Salle Street, Chicago 3, Ill.

**Mohawk Liqueur** common and **Central and Southwest Utilities** common — Detailed circulars — **Adams & Co.**, 231 South La Salle Street, Chicago 4, Ill.

**Mohawk Rubber Co.** — Discussion of attractive prospects for return and appreciation—**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; Scovill Mfg.; Bird & Sons; Riley Stoker; Alabama Mills, Inc.; American Hardware; Douglas Shoe; Hartford-Empire; Maine Central Pfd.; Purolator; Moxie; Southeastern Corp.; United Piece Dye Works; S. F. Bowser; Detroit Harvester; Boston & Maine; Buda Co.; Deep Rock Oil; Federal Machine & Welding; Gleaner Harvester; Liberty Aircraft Products; Lamson - Sessions; Berkshire Fine Spinning, Bowser, Inc.; New Jersey Worsted; Taca Airway,** and **P. R. Mallory.**

**Morris & Essex** 1st 3½s of 2000—Discussion of current situation in the current issue of **Railroad Securities Quotations**—**B. W. Pizzini & Co.**, 25 Broad Street, New York 4, N. Y.

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

**New England Gas & Electric Association** — Detailed study of the company under proposed plan or reorganization — **H. Hentz & Co.**, 60 Beaver Street, New York 4, N. Y.

Also available is a memorandum on **Chicago Railways Co.** and an alphabetical list of recent research reports issued by H. Hentz & Co.

**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.

**Pfaudler Co.** — Recent analysis discussing outlook for the company which manufactures glass lined and stainless steel tanks and equipment — **Caswell & Co.**, 120 South La Salle Street, Chicago 3, Ill.

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

**Public National Bank & Trust Company**—Analysis and current notes—**C. E. Unterberg & Co.**, 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.

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

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

Also available are circulars on **Bowser, Inc.,** and **Foundation Co.**

**Wilmington Chemical Corporation**—Descriptive circular—**Hill Thompson & Co., Inc.**, 120 Broadway, New York 5, N. Y.

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

## Tomorrow's Markets Walter Whyte Says—

(Continued from page 1608)

up with the rest, is to stand still.

* * *

During both phases of market cycles there are secondary movements out of which traders can make money. If SEC and other restrictions permitted it would be good market technique to go short in a bear trend; cover and go long for the minor reversals, and then go short again. Same thing is true of bull markets. Go long, sell and go short, then go long again; always keeping in mind that the basic position should be long. As this method is impracticable under present conditions, the only other way is to try to buy stocks on declines, sell part on sharp rallies, and either buy the same ones back on reactions, or replace them with other ones.

* * *

This column has in the past given you various stocks. Most of them were subsequently sold at profits. In some cases profits could have been greater if the stock were held longer. Yet, in following technical market action, the trader seldom gets the top eighth, though, by accident, he might get the stock on a low point. You may recall that I seldom recommend buying at the market. I always try to give price ranges. If the stock doesn't get within this range, I just forget it. Chasing them is fruitless and sometimes a dangerous practice.

* * *

But once a stock becomes available I see no reason to get out unless the market picture points to a drastic reversal or unforeseen conditions materialize. Provisions for guarding against individual backsliding are also made. With every buying recommendation there is a stop. The stop is meant to insure against untoward events. Thus, so long as stocks stay above their stop levels I see no reason for selling.

* * *

The stocks you have now are:

Hudson Motors, 18, stop 16. Current price about 22.

Jones & Laughlin, 29, stop 27. Current price about 30.

Phelps Dodge, 27, stop 25. Current price about 27.

U. S. Rubber 56, stop 53. Current price about 56.

U. S. Steel at 59, stop 59. Current price about 63.

I also recommended Hercules Motors last week between 27 and 28, stop 24. Up to this writing it was unavailable. Keep your order in until further advice appears here. Meanwhile all the above long positions should be maintained.

* * *

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.*]

## Sec. Acceptance Stock On Market at $25¾

A group headed by Cruttenden & Co., Chicago, and the First Trust Co. of Lincoln, Neb., on April 11 offered 50,000 shares ($25 par) 5% cumulative preferred stock of Securities Acceptance Corp. at $25.75 per share. The distributing group includes: Boettcher & Co., Sullivan & Co. of Denver, Lawrence Brinker & Co., Burns, Potter & Co., Inc., and The National Co. of Omaha.

The company will apply the net proceeds to the retirement of 30,000 shares of 6% preferred stock at $26.25, for the reduction of obligations maturing within one year and other corporate purposes.

The company has reserved the right, and intends to offer 30,000 shares of the 50,000 shares of the underwritten stock to preferred stockholders of record on or after the registration date, the right to subscribe for and purchase at $25.75 a share, one share of the underwritten stock for each share of 6% preferred stock by them respectively held, to be exercised within not more than 15 days from the effective registration date.

# Conflicts of Federal and State Taxation

(Continued from page 1601)

our people than a complete overhauling of our national and State tax policies. That will give us a golden opportunity to break the stranglehold of Federal domination which threatens to destroy our American way of life; and also to relieve our economy of the crushing burden of conflicting, overlapping, multiple taxation.

Let me tell you, briefly, a few of the things that have thrown our tax system out of balance:

The national government has imposed more and more taxes of a purely local nature, which are in every way suitable for local administration, and which ought to be left to state and local governments. It has piled a gasoline tax and an automobile use tax on top of similiar state levies. Further examples are taxes on admissions and amusements and on transfers of stock, and a number of other excise taxes.

The national government has almost completely monopolized the field of inhertance taxation. For a while, the Federal tax was arranged so that the states could get 80% of this revenue, but for some years now the states' share has been reduced to about 11%.

The national government has deprived state and local governments of large revenues by acquiring real property and creating corporations to carry on various business enterprises, which are exempt from taxation.

On the other hand, the states are not free from blame, either. Many states impove personal income taxes. As a result, after paying his Federal income tax, a man may have to pay a state income tax to the state where he lives, and even another one to the state where his income is earned.

The states also impose multiple taxes on some kinds of property, especially stocks and bonds, trust funds and decedents' estates.

Confusion and duplication may also be found in state corporation and other business taxes. Tax barriers to trade have been raised; some kinds of interstate commerce have been overburdened while others have escaped their fair share of taxation. The states have made great progress toward the elimination of these inequities, by the adoption of uniform laws and other interstate arrangements, but much remains to be done.

A real solution of these problems can be found only in what the experts call coordination. We must have a consistent over-all Federal-State tax system, into which all our taxes will fit, without overlapping and without gaps.

Our Federal system of government cannot be preserved unless this coordinated system of taxation is built upon a proper division or separation of the various fields of taxation, assigning some to each level of government.

Therefore, the chief aims of such a program of coordination must be:

(1) To distribute the total burden of taxation more fairly among the different groups or classes of taxpapers, and to put an end to conflicting and overlapping multiple taxation.

(2) To make available to each level of government — national and state — adequate separate sources of revenue, free from encroachment, interference and dictation by the other.

In the division of fields of taxation, due regard must be given to efficiency and economy of administration. At the same time, every state must have access to forms and methods of taxation which are suitable to its own economy, but no state should be permitted to erect trade barriers or discriminate against or unduly burden interstate commerce.

Let me give you a few illustrations:

The individual income tax is the chief source of revenue of the national government, and such a tax can best be administred on a nationwide basis. In imposing income taxes, the states are seriously hampered by the geographic limits of their jurisdiction. Moreover, an income tax is complicated and hard to compute. Therefore, state income taxes, which are imposed at low rates, are not an efficient method of raising small amounts of revenue from large numbers of people. Also, there are bound to be overlapping state income taxes, the states would have difficulty in eliminating them entirely by interstate cooperation. Finally, the states are able to impose income taxes only by the grace of the national government—only because the Federal law permits the deduction of state taxes in computing the Federal tax. Otherwise, state income taxes could not be piled on top of the high Federal tax. But the deduction of state taxes could be repealed by Congress at any time, and therefore the states do not have a really independent power to impose individual income taxes.

For all these reasons, I believe that in a long-range program of coordination, the states ought to repeal their individual income taxes, and leave that field entirely to the national government.

If that were done, and if Mr. Ruml's suggestion of repealing the Federal corporate income tax were adopted, we should have a fully coordinated Federal-State system of income taxation.

On the other hand, the national government ought to abandon the gasoline tax and the automobile use tax, leaving all motor vehicle taxes to the states. And it ought to let the states have the entire revenue, or certainly a much larger share of the revenue, from the inheritance tax, which is a very small, unimportant source of Federal revenue.

If the national government would also leave to the states all purely local taxes, such as the admission and entertainment taxes, that, together with the other concessions I have suggested, would enable practically every income tax state to make up the loss it would suffer from the repeal of its income tax.

In order to help the states put an end to overlapping multiple taxation, Congress ought to enact legislation confirming and making certain the power of the states to impose any fair, nondiscriminatory taxes on interstate commerce. Interstate business which finds its markets in any state should share with local business in that state the cost of state and local government.

The states and their local communities should be perimtted to tax Federal agencies and property not used for purely governmental purposes, to the same extent as private business and private property are taxed.

On the other hand, the constitutional exemption of state and municipal bond interest from Federal income taxation should be abolished. But this should be done by a constitutional amendment which would preserve the exempt status of outstanding issues and protect the borrowing power of state and local governments from Federal control.

Federal-State tax coordination will not be attained without a struggle. It will require full agreement between all of the 48 states, as well as the help and cooperation of the national government. But the benefits to be derived make it well worthwhile to undertake the job.

Wherever we face a difficult problem, there are some who offer a quick and easy solution. Such people urge that the way to coordinate taxes is to have the national government impose and collect all taxes and then turn part of the revenues over to the states and local communities. I cannot think of any quicker or easier way to destroy our American form of government and establish in this country a central government of unlimited power. Above all, let's not do that! Let's not kill the patient, to cure the fever.

# Babson on Post-War Interest Rates

(Continued from page 1604)

**Higher Rates Ahead**

Calvin Coolidge had a Vermonther's gift for plain-talk. Everybody who (in Coolidge language) "hires money" is concerned with the price-tag on credit. Firming rates will add their quota to the cost of doing business. Thence the impact will spread to cost of living, to funds available for wages, to investment lists. Holders of non-convertible issues may feel the change directly. All groups, however, including housewives and school pupils, will share to some degree in the economic currents stirred by changing interest rates.

Some analysts contend that the government, via the Federal Reserve System, can hold down postwar interest rates. **In theory**, potential credit can be expanded through lowering member bank reserve requirements and the legal reserve minimum. These very tactics, however, might incite a flight of funds out of high-grade bonds into other assets. Moreover, after the war, governmental appeals to patriotism will lose some of their wartime pulling power. Sooner or later the job of supplying long-term funds for capital purposes will, I think, be removed from the Federal Reserve System.

**Pendulums Still Swing**

The government can for awhile balance, upon its chin, a juggler's pole of credit—as long as no gusts arise to upset the delicate poise. Such disturbing forces now can be discerned on the horizon. Reconversion, for example, may develop into great business activity, with corresponding calls for credit. Simultaneously, as statisticians foresee it, our country's stocks of monetary gold will decline. So whether you probe credit-demand or credit-supply, you are led to the forecast of higher interest rates.

# Why Not Bring Bid-Ask Disclosure Rule Before House Committee?

(Continued from page 1599)

competently managed and capable of meeting normal competition, are finding it increasingly difficult to attract long-term investment capital for the purpose of financing long-term working capital needs and for handling the normal capital investments of expanding firms which need additional plant facilities or equipment; (3) that there is a possibility that some of the present rules and regulations of the Federal agencies and some of the existing laws on our national statute books now operate to bring serious inconvenience and possible real financial detriment to small business.

Ninety-six percent of all business firms in the nation today, according to Congressman Keogh, come under the usual definition of "small business," and he stated that "this committee is genuinely interested in learning at first hand from small business men themselves what constitute their problems and the obstacles which they feel that they must hurdle in the next few months or years. It wishes to secure this information to study, appraise, and then use as the basis for a comprehensive report to the entire House of Representatives to the end that legislation may be passed to correct injustices if that is what is needed."

The hearings in New York will be restricted to a discussion of the financial problems of small business. This offers an excellent opportunity for dealers and representatives of local Associations to present their testimony regarding the adverse effects which some SEC regulations are having in the financing of small and medium-sized businesses.

There is, for example, the matter of the "bid and asked" or "full disclosure rule"! We have, from time to time, published the views and comments of economists, financial writers, securities dealers and other specialists concerning the pernicions effects that this and similar drastic regulations would have on the present difficult problems of financing small business and in finding and maintaining markets for their securities.

All of the many schemes of artificial stimulation through legislative enactments, or through semi-philanthropic subterfuges, cannot remedy the situation as well as could be done by allowing a free marketing mechanism, developed in accordance with economic principles and the common laws of trade, to assert itself. You do not cure a disease brought about by opiates, or relieving drugs, by merely administering additional doses of the same drug.

Yet, with all the "hallybaloo" and the "slobberings" that now surround so sick a patient as "small business" (particularly in the matter of obtaining capital with the same ease and with the same machinery as "big business"), the prime parties at interest who can really help it both by argument and by action, still remain in the background and keep silent. An enlightened self-interest on their part to further their own welfare could be well and conveniently used to promote competitive private enterprise and the public good.

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The public always expects current conditions to persist. If the day's communique is adverse, they look for a long war and vice versa. Every rise or fall of commodity and security prices generates faith in continued advance or decline. Thus, many who may dissent from my forecast of a strengthening rate of interest will discover, I believe, that their judgment is being unduly swayed by present conditions. Remember that the habit of pendulums is to swing. The one stable thing is—change!

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# Calendar Of New Security Flotations

## NEW FILINGS

**List of issues whose registration statements were filed less than twenty days ago, grouped according to dates on which registration statements will in normal course become effective, unless accelerated at the discretion of the SEC.**

### MONDAY, APRIL 9

**MAY DEPARTMENT STORES CO.** on March 21 filed a registration statement for 150,000 shares of $3.75 cumulative preferred stock (no par).

**Details**—See issue of March 29.

**Underwriters**—Goldman, Sachs & Co., and Lehman Brothers and associates.

**Offered** April 10 at $103.50 per share and dividend.

### SATURDAY, APRIL 14

**KENDALL CO.** on March 26 filed a registration statement for 40,000 shares of $4.50 cumulative preferred stock, Series A (no par).

**Details**—See issue of March 29.

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

**Underwriters** — First Boston Corp. is named principal underwriter, with names of others to be filed by amendment.

**MONTANA-DAKOTA UTILITIES CO.** on March 26 filed a registration statement for $7,500,000 first mortgage bonds 3% due April 1, 1965, and $2,500,000 first mortgage 2% serial bonds due 1946-53.

**Details**—See issue of April 5.

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

**Underwriters**—Arrangements to be filed by amendment.

**DEWEY AND ALMY CHEMICAL CO.** on March 26 filed a registration statement for 25,000 shares of $4.25 cumulative preferred stock.

**Details**—See issue of April 5.

**Offering**—Offering price to public $102.50 per share.

**Underwriters**—Paine, Webber, Jackson & Curtis 10,000 shares, and Estabrook & Co., First Boston Corp., Hornblower & Weeks, Lee Higginson Corp., and F. S. Moseley & Co., 3,000 shares each.

**BELL & HOWELL CO.** on March 26 filed a registration statement for 30,000 shares of cumulative preferred stock 4¼% series ($100 par) and 150,000 shares of common (par $10). Common shares are outstanding and are being sold by six stockholders.

**Details**—See issue of April 5.

**Offering**—The offering prices of the preferred and common stock to the public will be filed by amendment.

**Underwriters**—Harriman Ripley & Co., Inc., head the underwriting group, with names of others to be filed by amendment.

### SUNDAY, APRIL 15

**WILCOX-GAY CORP.** on March 27 filed a registration statement for 198,800 shares of common stock (par $1). Of the total 18,800 shares are issued and outstanding and are being sold by Chester M. Wilcox, president and treasurer.

**Details**—See issue of April 5.

**Offering**—The offering price will be filed by amendment.

**Underwriters**—Kobbe, Gearhart & Co., Inc., and Carr, Chapin & Co.

**McQUAY-NORRIS MANUFACTURING CO.** on March 27 filed a registration statement for 20,000 shares of 4¼% cumulative preferred stock ($100 par).

**Details**—See issue of April 5.

**Offering**—Shares are being offered for subscription to holders of common stock at rate of one share of preferred for each 17 shares of common held of record April 10. Subscription rights will expire April 23. Subscription price will be filed by amendment. Unsubscribed shares will be purchased by underwriters and sold to the public.

**Underwriters**—Shields & Co., is named principal underwriter, with names of others to be filed by amendment.

**CALIFORNIA WATER & TELEPHONE CO.** on March 27 filed a registration statement for 107,000 shares of $1.20 cumulative preferred (par $25) and 9,672 shares common ($25 par).

**Details**—See issue of April 5.

**Offering**—New preferred will be offered for exchange to holders of 100,000 shares of 6% cumulative ($25 par) preferred on share for share basis. Unexchanged shares and the 7,000 additional shares of preferred and 9,672 shares of common will be offered through underwriters at prices to be filed by amendment.

**Underwriters** — Blyth & Co., Inc., is named principal underwriter.

### MONDAY, APRIL 16

**YORK CORP.** on March 28 filed a registration statement for $4,400,000 first mortgage sinking fund bonds, due April 1, 1960. Interest rate will be filed by amendment.

**Details**—See issue of April 5.

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

**Underwriters**—Principal underwriters are Union Securities Corp. and Stone & Webster and Blodget, Inc., others to be filed by amendment.

### TUESDAY, APRIL 17

**SIGNODE STEEL STRAPPING CO.** on March 29 filed a registration statement for 54,000 shares 5% cumulative preferred stock, and 40,000 shares common stock, $1 par.

**Details**—See issue of April 5.

**Offering**—Company is offering to holders of 33,264 shares of preference stock the right to exchange such stock for 24,948 shares of 5% cumulative preferred stock on basis of one share of 5% cumulative preferred for 1⅓ shares of preference stock and accrued dividends to July 15, 1945. Underwriters have agreed to purchase the 40,000 shares of common stock and such of the 54,000 shares of 5% cumulative preferred as are not exchanged for outstanding preference stock and offer them to the public at prices to be filed by amendment.

**Underwriters**—Kebbon, McCormick & Co., is named principal underwriter, with names of others to be filed by amendment.

**ELECTROMASTER, INC.** on March 29 filed a registration statement for 107,923 shares of common stock, par $1. All of the stock is issued and outstanding and is owned by Nash-Kelvinator Corp. (being 55.17% of total outstanding stock).

**Details**—See issue of April 5.

**Offering**—Offering price to the public is $8 per share.

**Underwriters**—S. R. Livingstone & Co., and Mercier, McDowell & Dolphyn, both of Detroit.

**UNION TRUSTEED FUNDS, INC.**, has filed a registration statement for 235,533 shares of capital stock in five funds.

**Address**—63 Wall Street, New York City.

**Business**—Investment company.

**Offering**—At market.

**Proceeds**—For investment.

**Underwriters**—Lord, Abbett & Co., Inc., is named principal underwriter.

**Registration Statement No. 2-5662.** Form A-1. (3-29-45).

**LEAR, INC.**, on March 29 filed a registration statement for 450,000 common shares 50 cents par value. Of the total 50,000 shares are being sold by the trust created by William P. Lear for his children.

**Details**—See issue of April 5.

**Offering**—Stock will be sold to the public at $5 per share.

**Underwriters**—Kobbe, Gearhart & Co.

### WEDNESDAY, APRIL 18

**HARSHAW CHEMICAL CO.** on March 30 filed a registration statement for 43,000 shares of common stock (no par).

**Details**—See issue of April 5.

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

**Underwriters**—Field, Richards & Co., and McDonald & Co., both of Cleveland, are named principal underwriters, with names of others to be filed by amendment.

**WHITE COUNTY WATER CO.** on March 30 filed a registration statement for $276,000 first mortgage 4% refunding bonds.

**Details**—See issue of April 5.

**Offering**—Price to the public 100.

**Underwriters** — Pyramid Life Insurance Co., Little Rock, Ark.

**WELLS-GARDNER & CO.** on March 30 filed a registration statement for 160,000 shares of common stock, par $1. The shares are issued and outstanding and are being sold for the account of seven stockholders.

**Details**—See issue of April 5.

**Offering**—Price to the public is $8.25 per share.

**Underwriters**—Paul H. Davis & Co. and Shillinglaw, Bolger & Co., Inc., both of Chicago, are named principal underwriters.

**NU-ENAMEL CORP.** on March 30 filed a registration statement for 50,000 shares 60-cent cumulative dividend convertible preferred stock, par $5.

**Details**—See issue of April 5.

**Offering**—Company is initially offering new preferred to holders of its common stock for subscription at $10 per share on basis of one share of preferred for each 6½ shares of common. Unsubscribed shares will be offered to public by underwriter at $10 per share.

**Underwriters**—Floyd D. Cerf Co. of Chicago, is named principal underwriter.

**GRAYSON SHOPS, INC. (of California)** on March 30 filed a registration statement for 175,000 shares of common stock (par $1), including 75,000 shares to be purchased upon the exercise of warrants.

**Details**—See issue of April 5.

**Business**—Operates a chain of 26 retail shops for the sale at retail of women's ready-to-wear apparel, etc.

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

**Underwriters**—Emanuel & Co., New York, is principal underwriter, with names of others to be filed by amendment.

**MUTER CO.** on March 30 filed a registration statement for 133,000 shares of common stock, par $1. Of total 108,000 shares are being offered to the public, of which 18,000 shares are by company and 90,000 shares by a stockholder. The statement also covers 25,000 shares upon exercise of stock purchase warrants entitling holder to purchase common stock within two years of offering date at $7.50 per share.

**Details**—See issue of April 5.

**Offering**—Public offering price of the 108,000 shares is $5 per share.

**Underwriters**—Hicks & Price, Chicago, is named principal underwriter.

**GEORGIA POWER & LIGHT CO.** on March 30 filed a registration statement for $2,500,000 first mortgage bonds series due 1975.

**Details**—See issue of April 5.

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

**Underwriters**—The bonds are to be sold under the Commission's competitive bidding rule and names of underwriters will be filed by amendment.

**WALTHAM WATCH CO.** on March 30 filed a registration statement for $3,881,040 convertible 5% income debentures subordinated) due May 1, 1975 and 244,000 shares common stock, class B (no par).

**Details**—See issue of April 5.

**Offering**—The securities are being offered to stockholders pursuant to a plan of recapitalization subject to plan being approved by stockholders. Holders of presently outstanding 32,342 shares of 6% preferred, par $100, would receive for their shares, with all accumulated dividends, $120 of debentures. Plan also provides that each share of class A stock will receive 10 shares of class B and that each share of present class B will be split two for one. Capitalization after consummation of the plan would consist of $3,881,040 of debentures, convertible into class B stock at $25 per share, and 327,737½ shares of class B common stock, which would be the sole equity stock.

**Underwriters**—Union Securities Corp. and A. C. Allyn & Co., Inc., are named principal underwriters, with others to be named by amendment.

**EXPRESO AEREO INTER-AMERICANO, S. A.**, on March 30 filed a registration statement for 300,000 shares of common stock.

**Details**—See issue of April 5.

**Offering**—Price to public is $3 per share.

**Underwriters**—Van Alstyne, Noel & Co. is named principal underwriter.

**LOS ANGELES TRANSIT LINES** on March 30 filed a registration statement for 429,200 shares of common stock (par $10). All of the shares are outstanding and are being optioned to underwriters by American City Lines, Inc.

**Details**—See issue of April 5.

**Offering**—Offering price to public will be filed by amendment.

**Underwriters**—Blyth & Co., Inc.; Bateman, Eichler & Co.; Alex. Brown & Sons; Hill, Richards & Co.; W. C. Langley & Co.; Lazard Freres & Co.; Laurence M. Marks & Co.; Mason Bros.; Pacific Co. of California; Reynolds & Co.; Shuman, Agnew & Co.; William R. Staats Co.; Stein Bros. & Boyce; Wertheim & Co., and Dean Witter & Co.

**LASALLE YELLOWKNIFE GOLD MINES, LTD.**, on March 30 filed a registration statement for 314,512 shares, par value $1.

**Details**—See issue of April 5.

**Offering** — Of total registered 200,000 shares consist of a new series of shares and will be sold at $1 per share. There is also included in the registration 114,512 shares which were sold to United States residents prior to registration, and concerning which an offer of recision is to be made.

**Underwriters** — Company proposes to market its own securities.

### THURSDAY, APRIL 19

**LAKE SUPERIOR DISTRICT POWER CO.** on March 31 filed a registration statement for 133,500 shares of common stock, par $20. The stock is issued and outstanding and is owned by North West Utilities Co. which will offer the stock for sale at competitive bidding.

**Details**—See issue of April 5.

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

**Underwriters**—Names will be filed by amendment.

**GENERAL WATERWORKS CORP.** on March 31 filed a registration statement for 10,000 shares of 5% preferred stock, cumulative (par $100).

**Details**—See issue of April 5.

**Offering**—Price to the public is $100 per share.

**Underwriters** — Butcher & Sherrerd, Phila., Robert Hawkins & Co., Boston, and Southern Securities Corp., Little Rock, Ark.

**MILLER-WOHL CO., INC.**, on March 31 filed a registration statement for 30,000 shares 5% cumulative convertible preferred stock (par $50) and 50,000 shares of common (par $1). Of the stock registered 15,000 shares of preferred and 50,000 shares of common are issued and outstanding and are being sold by four stockholders.

**Details**—See issue of April 5.

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

**Underwriters**—The principal underwriter is Allen & Co.

**AIRCRAFT RADIO CORP.** on March 31 filed a registration statement for 100,000 shares of common stock, par $1. All of the shares are issued and outstanding and are being sold for the account of certain stockholders.

**Details**—See issue of April 5.

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

**Underwriters**—F. Eberstadt & Co. is principal underwriter.

**H. K. PORTER CO., INC.**, on March 31 filed a registration statement for 50,000 shares of cumulative preferred stock, 5% series, $50 par, with non-detachable common stock purchase warrants attached, and 45,000 shares of common ($5 par). The 45,000 shares of common are issued and outstanding and are being sold by T. M. Evans, President.

**Details**—See issue of April 5.

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

**Underwriters**—Blair & Co., Inc., is named principal underwriter, with names of others to be filed by amendment.

### MONDAY, APRIL 23

**RALSTON PURINA CO.** has filed a registration statement for 100,000 shares of preferred stock, series A (par $100). Dividend rate will be filed by amendment.

**Address**—835 South Eighth Street, St. Louis, Mo.

**Business**—Processing of animal feeds, manufacture and sale of breakfast cereals, etc.

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

**Proceeds**—Geater part of net proceeds will be used to eliminate or reduce short term notes payable to banks and others incurred in the carrying of inventories and accounts receivable, and for the purchase of U. S. Government securities. No allocation of balance to any particular purpose has been made.

**Underwriting**—Kidder, Peabody & Co. and Goldman, Sachs & Co. are named principal underwriters.

**Registration Statement No. 2-5682.** Form A-2. (4-4-45).

### TUESDAY, APRIL 24

**ASHLAND OIL & REFINING CO.** has filed a registration statement for 40,000 shares of 4¼% cumulative convertible preferred stock (par $100).

**Address**—Ashland, Ky.

**Business**—Production of crude petroleum and manufacture and sale of refined petroleum products, etc.

**Offering**—Company offers holders of its common stock rights to subscribe for the new preferred at price to be filed by amendment at the rate of one share of preferred for each 24.1 shares of common held. The company also offers, subject to the subscription rights granted to the holders of the common, to holders of presently outstanding 5% cumulative preferred the opportunity to exchange their shares for the new preferred on a share for share basis plus a cash payment. Unsubscribed and unexchanged shares will be sold to underwriters to be offered to the public.

**Proceeds**—The net proceeds will be used to the extent necessary for the redemption on June 15, 1945, of the 5% preferred stock not exchanged and any balance will be added to working capital.

**Underwriting**—A. G. Becker & Co., Inc., Chicago, is named principal underwriter.

**Registration Statement No. 2-5683.** Form S-1. (4-5-45).

### WEDNESDAY, APRIL 25

**CONSOLIDATED RETAIL STORES, INC.** has filed a registration statement for 30,000 shares of $2.75 cumulative preferred stock (no par).

**Address** — 712 Chemical Building, 721 Olive Street, St. Louis.

**Business**—Operation of women's specialty stores, etc.

**Offering**—The company is giving to the holders of its outstanding 8% cumulative preferred stock, par $100, the right to exchange such stock for $2.75 cumulative preferred on the basis of 2.30 shares of $2.75 cumulative preferred, plus certain cash payment by the company, for each share of 8% preferred. Unsubscribed shares will be purchased by underwriters and offered to the public at $50 per share.

**Purpose**—So much as may be required of the proceeds will be applied to the redemption at $115 per share, plus accrued dividends, of the 8% cumulative preferred stock as shall be unexchanged, and the balance added to working capital.

**Underwriting**—Central Republic Co., Inc.; Peltason, Tenenbaum Co.; Scherck, Richter & Co.; Stix & Co.; G. H. Walker & Co.; I. M. Simon & Co., and Stein Bros. & Boyce.

**Registration Statement No. 2-5684.** Form A-2. (4-6-45).

**TIDE WATER ASSOCIATED OIL CO.** has filed a registration statement for 300,000 shares of cumulative preferred stock. The dividend rate will be filed by amendment.

**Address**—17 Battery Place, New York and 79 New Montgomery Street, San Francisco.

**Business**—Operating company engaged in practically all branches of the oil business.

**Offering**—The company offers to the holders of its 500,000 shares of $4.50 cumulative convertible preferred stock the right to exchange such shares for the new preferred stock on a share for share basis, subject to allocation on a pro rata basis if necessary. Such shares as are not exchanged will be sold to underwriters for offering to the public.

**Purpose**—For exchange of shares. Present shares not exchanged will be redeemed at $105 per share and accrued dividends, the company utilizing treasury funds together with proceeds from any sale of preferred stock.

**Underwriting**—Kuhn, Loeb & Co., and Lehman Brothers are principal underwriters with names of others to be filed by amendment.

**Registration Statement No. 2-5685.** Form S-1. (4-6-45).

**KOBACKER STORES, INC.**, has filed a registration statement for 55,781 cumulative preferred shares and 175,000 common shares. Of the stock registered 175,000 common and 15,781 shares of the preferred are issued and outstanding and are being sold for the account of certain stockholders. Statement also covers 80,000 common shares issuable upon exercise of warrants.

**Address**—408 Summit Street, Toledo, O.

**Business**—Owns and operates a group of nine retail department stores located in Ohio and New York and two specialty shops located in Toledo, O.

**Offering**—The offering price to the public is $25 per share for the preferred and $9 per share for the common.

**Proceeds**—Company has authorized warrants to purchase 80,000 common shares at a price of ten cents per warrant share. Of the total, warrants to purchase 40,000 shares have been sold to J. M. Kobacker, president, and warrants to purchase 40,000 common shares are to be sold to the underwriters of the common shares at the price of 10 cents per warrant share. The warrants entitle holder to purchase common stock at $9 per share prior to April 1, 1950. Net proceeds to be received by company from sale of 40,000 preferred shares and 80,000 common share stock purchase warrants will be used to the extent of $623,900 to reimburse the company for the cost of redemption of 7% cumulative preferred stock and balance will be added to working capital.

**Underwriting**—Van Alstyne, Noel & Co. is named principal underwriter, with names of others to be filed by amendment.

**Registration Statement No. 2-5686.** Form S-1. (4-6-45).

### THURSDAY, APRIL 26

**NEW YORK POWER & LIGHT CORP.** has filed a registration statement for 240,000 shares of cumulative preferred stock (par $100). The stock will be offered for sale at competitive bidding, with the successful bidder naming the dividend rate.

**Address**—126 State Street, Albany, N. Y.

**Business**—Public utility.

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

**Purpose**—The net proceeds from the sale with other company funds will be used to redeem the company's presently outstanding preferred stock as follows: 144,639 shares of 7%, $100 par, stock at $115 per share, and 96,088 shares of $6 preferred, without par value, at $105 per share. The cost of redemption, exclusive of accrued dividends, is $26,722,725.

**Underwriting**—The names of the underwriters will be filed by amendment.

**Registration Statement No. 2-5687.** Form S-1. (4-7-45).

## 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.**

**AMERICAN ENGINEERING CO.** on Feb. 27 filed a registration statement for $3,000,000 5% 15-year sinking fund debentures and 200,000 shares of common stock. Of the stock registered 132,000 shares are issued and outstanding and being sold by stockholders.

**Details**—See issue of March 8.

**Offering**—The debentures will be offered at 100 and the common stock at $8.50 per share

**Underwriters**—Van Alstyne, Noel & Co. heads the underwriting group, with the names of others to be supplied by amendment.

**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.

**ATLANTIC CO.** on March 23 filed a registration statement for $10,600,000 5% sinking fund debentures, due April 1, 1980, and 275,000 shares of common stock (no par).

**Details**—See issue of March 29.

**Offering**—Under reorganization and recapitalization plan company is offering to the holders of outstanding 6% and 7½% cumulative preferred stocks the privilege of exchanging their shares on the basis of $100 par value of stock for $100 par value of 5% debentures and one share of common stock, and to holders of outstanding 6% Class A preference stock the privilege of exchanging their shares on the basis of $50 par value of stock for $50 par value of 5% debentures and two shares of common stock. The holders of the 6% preferred and 6% Class A stock offering their stock for exchange shall receive dividends on April 1, 1945, at the same rate of dividends paid on the stock on Jan. 1, 1945, but shall receive no dividends thereafter, the debentures bearing interest from such date. Any debentures not issued in exchange for stock shall then be offered to holders of presently outstanding first mortgage 5% sinking fund bonds on the basis of $100 par of debentures plus an amount to be determined by the company not exceeding $3 in cash for each $100 par value of bonds exchanged. The 5% sinking fund bonds are callable at 103. All of the outstanding 5% sinking fund bonds not exchanged for debentures and all of the first mortgage 3% serial bonds shall be called for redemption. The company contemplated that about June 1, 1945, it will issue not exceeding $3,400,000 3% notes and use the proceeds either for the purpose of calling all 3% serial bonds and the outstanding unexchanged 5% sinking fund bonds or to reimburse the company for funds previously used for that purpose. Any debentures not taken in exchange for stocks or bonds may be sold by the company at not less than par plus accrued interest.

**Underwriter**—Courts & Co., Atlanta, is names as underwriter.

**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.

**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.

**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.

**CAROLINA POWER & LIGHT CO.** on March 16 filed a registration statement for 156,158 shares of $5 preferred stock (no par).
**Details**—See issue of March 22.
**Offering** — The 156,158 shares of $5 preferred stock are to be offered, share for share in exchange for not more than 90% of the 93,553 shares of $7 preferred and 79,955 shares of $6 preferred now outstanding. All presently outstanding $7 and $6 preferred will be retired either by exchange or by redemption at $110 per share plus dividends to date of redemption. Company proposes to make a cash adjustment which, together with dividends receivable on the $5 preferred stock, will give each stockholder who exercises the exchange privilege a dividend at rate of $7 per share per annum or $6 per share per annum, respectively, up to respectively up to the redemption date of these stocks.
Kirchofer & Arnold and R. S. Dickson & Co., Inc. are dealer managers.

**CENTRAL ILLINOIS ELECTRIC & GAS CO.** on March 20 filed a registration statement for $14,000,000 first mortgage bonds due Feb. 1, 1975, and 30,000 shares of preferred stock, Series A (par $100).
**Details**—See issue of March 29.
**Underwriters**—The bonds and preferred stock will be offered for sale at competitive bidding and the names will be filed by amendment. The successful bidders will name the interest rate on the bonds and the dividend rate on the preferred stock.

**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.

**CORNING GLASS WORKS** on March 22 filed a registration statement for 50,000 shares of cumulative preferred stock (par $100), and an indeterminate number of common shares (par $5). The dividend rate on the preferred stock will be filed by amendment. The common shares are to be sold for the account of certain stockholders.
**Details**—See issue of March 29.
**Underwriters**—Harriman Ripley & Co., Inc. and Lazard Freres & Co., with names of others to be filed by amendment.

**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.

**THE HUB, HENRY C. LYTTON & CO.** on March 15 filed a registration statement for 130,000 shares of common stock (par $1). Of the total 30,000 shares are being offered by certain stockholders.
**Details**—See issue of March 22.
**Offering**—The offering price to the public will be filed by amendment.
**Underwriters**—The principal underwriter is Allen & Co., with names of others to be filed by amendment.

**HYTRON RADIO & ELECTRONICS CORP.** on March 16 filed a registration statement for 225,000 shares of common stock, par $1. Of total, 25,000 shares are issued and outstanding and being sold for certain stockholders.
**Details**—See issue of March 22.
**Offering**—Price to the public $5 per share.
**Underwriters**—Herrick, Waddell & Co., with names of others to be filed by amendment.

**Underwriters**—None named.
demption date of these stocks.

**NEWCOR MINING & REFINING, LTD.,** on March 10 filed a registration statement for 500,000 shares of common stock without par value.
**Details**—See issue of March 15.
**Offering**—Price to the public is $1 per share.
**Underwriters** — Tellier & Co. is named principal underwriter.

**NEW YORK POWER & LIGHT CO.** on March 17 filed a registration statement for $50,000,000 first mortgage bonds due March 1, 1975. Interest rate will be filed by amendment.
**Details**—See issue of March 22.
**Issue Awarded**—Awarded April 10 to Halsey, Stuart & Co., Inc. and associates on bid of 101.80 for a 2¾% coupon.

**OAK MANUFACTURING CO.** on March 19 filed a registration statement for $1,000,000 ten year 5% sinking fund debentures due April 1, 1955, and 350,000 shares common stock, par $1. Of the stock, 300,000 shares are issued and outstanding and being sold by certain stockholders.
**Details**—See issue of March 22.
**Offering**—The offering price of the debentures to the public is 100 and of the common stock $10 per share.
**Underwriters**—Paul H. Davis & Co., is named principal underwriter, with names of others to be filed by amendment.

**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.
**Withdrawal** — Request for withdrawal filed March 30.

**REEVES-ELY LABORATORIES, INC.,** (formerly Reeves Sound Laboratories, Inc.) on March 23 filed a registration statement for 550,000 shares of 30-cent cumulative convertible preference stock ($4 par).
**Details**—See issue of March 29.
**Offering**—The offering price to the public will be filed by amendment.
**Underwriters**—H. M. Byllesby & Co., heads the underwriting group, with names of others to be supplied by amendment.

**ST. JOSEPH LIGHT & POWER CO.** on Feb. 28 filed a registration statement for 13,056 shares of Class A 5% cumulative preferred stock, par $100.
**Details**—See issue of March 8.
**Offering**—The company is offering 13,056 shares of its Class A 5% preferred shares in conversion share for share of the outstanding 5% cumulative preferred shares held by others than Cities Service Power & Light Co.
**Underwriters**—The company has retained Estabrook & Co., G. H. Walker & Co. and Prescott, Wright, Snider Co. as exchange agents to secure and procure consents of preferred shareholders to the conversion.
The company also proposes to refund the $4,806,000 first mortgage bonds, 4½% series due 1947 and to reduce the aggregate principal amount of its indebtedness to $3,750,000 by redeeming the outstanding bonds and issuing $3,750,000 of new bonds. The bonds will be sold at competitive bidding.

**SOUTHWESTERN INVESTMENT CO.** on March 12 filed a registration statement for 12,500 shares preferred stock, convertible, no par, non-participating with cumulative dividend rights of $1 per share per annum, and 60,000 shares of common, no par. Of the latter 20,000 shares is to be reserved to meet conversion requirements of the preferred.
**Details**—See issue of March 15.
**Offering**—Holders of the $1.20 preferred stock have been given the option to exchange their stock on a share for share basis for the $1 preferred stock. Any of the $1 preferred not issued in exchange will be offered to the public at $20 per share. Corporation also is offering 11,822 authorized but unissued shares of common at $12.50 per share.
**Underwriters**—None named.

**TEXAS ELECTRIC SERVICE CO.** on March 2 filed a registration statement for $18,000,000 first mortgage bonds series due 1975 and 68,875 shares of preferred stock, par $100. The interest rate on bonds and dividend rate on preferred stock will be filed by amendment.
**Details**—See issue of March 8.
**Offering**—The company is offering to exchange the new preferred stock for outstanding $6 preferred stock on a share for share basis plus an amount in cash equal to the difference between $110 and the public offering price of the new preferred stock. The bonds and unexchanged shares will be sold at competitive bidding, with the price to the public to be filed by amendment.
**Underwriters**—The names will be filed by amendment.

**UNIVERSAL CAMERA CORP.** on March 19 filed a registration statement for 663,500 shares Class A common stock, par value one cent a share, with Class A common stock purchase warrants. Of the total 530,500 are issued and outstanding and are being sold by certain stockholders.
**Details**—See issue of March 29.
**Offering**—The initial offering price is $5 per share. Of the 133,000 shares being offered for account of company, 20,000 are to be offered to employees at $4.25 per share. Shares not subscribed for by employees will be sold to public through underwriters along with the rest of the public offering. For every ten shares of common stock bought, purchasers, other than employees, will receive warrants to subscribe to one share of common stock, at $5 per share, on or before Dec. 31, 1948. Employees will receive such warrants for each five shares of common stock purchased.
**Underwriters** — Floyd D. Cerf Co. is named principal underwriter.

**UNIVIS LENS CO.** on March 12 filed a registration statement for 42,702 common shares, (par 50 cents). Of the total 12,000 shares are being sold by the company and 30,702 shares are issued and being sold by stockholders.
**Details**—See issue of March 22.
**Offering**—The price to the public is $6.50 per share.
**Underwriters** — Allen & Co. is named principal underwriter.

**VIRGINIA ELECTRIC & POWER CO.** on March 23 filed a registration statement for $33,000,000 first and refunding mortgage bonds Series E due March 1, 1975.
**Amount of Offering Increased**—In an amendment filed March 26 company increased amount to be offered to $59,000,000. The interest rate will be filed by amendment.
**Details**—See issue of March 29.
**Underwriters**—The bonds will be sold at competitive sale and the names of the underwriters filed by amendment.

**WEST VIRGINIA WATER SERVICE CO.** on March 5 filed a registration statement for 14,000 shares of $4.50 cumulative preferred stock and 100,000 shares of common. The preferred stock only represents a new issue.
**Details**—See issue of March 15.
**Offering**—Company will sell preferred stock to the underwriters who will offer same to holders of present $6 cumulative preferred at $104 per share. Any stock not subscribed by the stockholders will be offered to the public at $104 a share.
Offering price of common stock to the public will be $13.50 per share.
**Underwriting**—Allen & Co. and Shea & Co.

# OUR REPORTER'S REPORT

There is no longer any sidestepping the fact that the top-grade public utility bond market is quite definitely established on a 2.63 to 2.70% yield basis as far as the investor is concerned.

**If the latter had any doubt on that score such ideas must have given way under the impetus of conditions surrounding the several large offerings brought out this week.**

Thus, the three largest issues, all recognized as quality paper, were bid in by bankers for resale to the public at 2¾s with the price to the companies in all three instances being well above par.

The Treasury's revelation of details of the new issues comprising its Seventh War Loan Drive, starting about a month hence, what with lengthening of maturities and shaving of coupon rates lent further confirmation if that was needed.

**It has been argued by bankers that subsequent issues have served to sell earlier emissions which have tended to be a little slow because of the fact that the market has been, admittedly, in a transition stage.**

Accordingly, it is not surprising to find that Pacific Gas & Electric 3s, brought out at 107⅝ to yield about 2.66% a fortnight ago, felt the stimulus afforded by the forward thrust of the 2¾% coupon. Marked pickup in inquiry for this big issue was reported through the first half of the week finding reflection in quotations for the bonds.

### Slow on 2.63% Yield

Judging by discussion in dealer circles there was no concerted rush for the $50,000,000 of New York Power & Light Corp. 2¾s slated for public offering at 102½ to yield about 2.63% to the buyer.

**Even though this issue was top quality and priced in line with similar issues outstanding, it was apparent that the investor, institutional included, has not yet become accustomed to these sparse returns.**

But there was no tendency to question the ultimate placing of the bonds. Rather it was recognized as merely a matter of waiting for investors to become acclimated to new conditions that prevail.

### Two Others Move

Ohio Edison Co.'s $26,089,000 of new first mortgage 2¾% bonds, maturing in 30 years, moved with a bit more freedom when offered at 101 to yield an indicated current return of about 2.72%.

**Three banking groups, all bidding for this issue set a 2¾% coupon and their tenders were extremely close ranging from a low of 100.17 to the winning price of 100.279.**

Thus while investors may not yet be thoroughly aware of the basic change in market conditions, it appears that investment bankers are fully cognizant of what has taken place.

**Central Vermont Public Service Co.'s $6,967,000 of first mortgage 2¾s also moved well when offered at 101½ to yield about 2.70% currently.**

### Reading Issue Bids Today

The Reading Co. is scheduled to open bids today on its offering of $84,000,000 first and refunders maturing in 1995. At least two banking groups are expected to be in the running for this financing which will provide funds for redemption of approximately the same total of outstanding liens carrying 4 to 5% coupons, and guesses range from a 3.05 to 3.20% basis.

**If this enormous refinancing goes through without a hitch it will serve to make the current week one of the largest to date this year from a standpoint of volume involved.**

It would bring to approximately $167,000,000 the total of new issues reaching market in the period.

### Little New Money Involved

A recapitulation of the financing operations carried through by the electric and gas utilities last year reveals that the total approximated $1,018,227,600, according to Merrill Lynch, Pierce, Fenner & Beane in a comprehensive booklet just released.

And here is one of the basic reasons back of the steady decline in coupons and yields on debts of such companies. Their financing operations involved only $15,586,920 in new money operations. The balance was refinancing.

Such new capital as has been needed has been provided almost wholly from earnings plowed back into their properties.

# The Increasing Load

(Continued from page 1599)

"reasonable ground to believe" and what constitutes "a reasonable investigation."

When we bear in mind that any salesmen in the industry who have an unsavory background, would be loathe to disclose the fact upon mere inquiry by their employers, the difficulty of the job appears in its true perspective.

What standards of reasonableness has the Commission set in connection with these amendments? If it has not set any standards of reasonableness as yet, does it intend to do so? Must a dealer and broker examine court records and conduct a search of every court in the State or in the country? To what expense can he reasonably be subjected to determine the accuracy of the answer that he receives?

Is it sufficient for the dealer or the broker merely to ask his salesman the requisite questions. If it is not sufficient, how much further is it expected that he must go?

The securities field seems to be getting the one-two punch. While the Commission and the National Association of Securities Dealers on the one hand are doing all they possibly can to limit spreads, on the other hand, the Commission itself is making the cost of doing business much higher by passing regulations and interpretations which shackle the industry.

The prospect is not an inviting one.

The securities field is long suffering.

# Halsey, Stuart Group Offer $50,000,000 N. Y. Power Bond Issue

An underwriting group headed by Halsey, Stuart & Co., Inc., is offering today $50,000,000 New York Power & Light Corp. first mortgage bonds 2¾% series, due 1975, at 102½% and accrued interest from March 1, 1945.

The company will use the net proceeds from the sale of the bonds, together with $5,000,000 proposed to be received from the sale to Niagara Hudson Power Corp. of additional common stock, plus other funds, toward the redemption on or about next May 18 of $55,000,000 first mortgage 3¾% bonds due 1964.

Operating revenues of New York Power & Light and of Hudson Valley Fuel Corp., which was merged into the former last Feb. 16, after eliminating intercompany transactions, were $32,086,080 for 1944, compared with $30,964,931 in 1943. Gross income before interest and other income deductions was $7,108,633 last year and $6,936,616 in 1943.

New York Power & Light agrees to pay, as a debt retirement and improvement fund for the 1975 series bonds on or before each June 1 from 1946 through 1974, a sum equal to 1% of the total principal amount issued and outstanding at any prior time. The bonds may be redeemed in whole or in part at regular redemption prices that begin at 105½%, and are redeemable, in part, through operation of the debt retirement and improvement fund, at special redemption prices beginning at 104%.

Outstanding securities of the company as of the end of 1944, and adjusted to reflect the present financing and the authorization and sale of 50,000 additional shares of common stock will consist of the new bonds; 144,639 shares of 7% preferred stock; 96,088 shares of $6 preferred, and 1,300,000 shares of common stock.

# Corning Glass Stocks Ready for Public

With a dividend rate of 3½% established for its new issue of 50,000 shares of $100 par value preferred stock by an amendment to the registration statement filed April 11, Corning Glass Works sets a new high level for the preferred stock market. Records indicate that this is the lowest dividend rate carried by any preferred stock which has even been publicly distributed in the United States.

The amendments filed with the Securities and Exchange Commission also show that 412,340 shares of Corning Glass Works common, representing stock which has been closely held, are to be distributed to the public along with the new preferred shares.

Harriman Ripley & Co., Inc., and Lazard Freres & Co. will head the underwriting groups handling these offerings.

## Chapple Opens in L. A.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—John W. Chapple is engaging in an investment business from offices at 609 South Grand Avenue. Mr. Chapple has recently been contract renegotiator for the U. S. Army Air Fores.

## Myron C. Taylor Has Audience With Pope

President Roosevelt's special envoy to the Vatican, Myron C. Taylor, on April 5 had a 45-minute private talk with the Pope. The subject of the discussion was not made public.

# "Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The scramble to purchase the taxable issues eligible for commercial banks took place with renewed vigor following the announcement by the Treasury of the maturity dates of the drive issues. . . . As a result the medium and intermediate term 2's made new all time highs. . . .

**A good demand was in evidence for the taxable 2½'s and the restricted issues with improvement also being registered in the partially exempts to bring them in line with the new prices that were being made by the non-exempt obligations. . . .**

While there is no question about the basic fundamental of low money rates, the sharp rise in the price of government securities, has caused considerable discussion about the technical position of the market. The big question is whether or not it is still a one-way street on the upside or will there be some downward adjustment from present levels. . . .

### MARKET STRENGTH

One of the principal factors contributing to the recent strength in the market is the changed method of financing used by the Treasury in the Seventh War Loan. . . . The government in the past always offered substantial amounts of intermediate term obligations, that they knew would eventually find their way into the commercial banks. . . . The insurance companies and savings banks bought these issues, held them for a short time, took profits, as they sold them, to the commercial banks, and then bought the long 2½'s at a slight premium. . . .

**In most cases such buying was done under the profits realized from the sale of the medium and intermediate term issues. . . .**

The commercial banks were not too much concerned about obtaining government obligations offered directly in the drives and were in no great rush to buy outstanding securities during the drive since they knew they could get plenty of bonds at the close of the drive at about ½ point up. . . .

### COMMERCIAL BANKS

This time the Treasury has offered the 1½% issue only to individuals and commercial banks with saving deposits, the latter institutions to a limited extent, which means that the amount of the 1½'s to be outstanding will be small and the commercial banks know this. . . . This type of financing has created a great shortage of the securities that the commercial banks can buy, and at the same time an artificial demand for the medium and intermediate term obligations among these institutions. . . . Likewise the portfolio turnover by savings banks and insurance companies will not take place this time as in the past, which will lessen the supply of bonds that usually come into the market. . . .

**The Treasury now considers sales of outstanding bonds by these institutions to be a serious mistake and it will not be done, although many of these institutions would like to take profits but are scared to do it. . . .**

This shortage of the medium and intermediate term issues, with not too heavy buying, has run up sharply the prices of all the taxable obligations. . . .

### TREASURY NEEDS

The Treasury wants to raise $14 billions in this drive, but will need more than that, because expenses are still large and the deficit so far in this fiscal year is greater than that of a year ago. . . . This poses the question: Can the Treasury sell all these bonds to ultimate investors, without bank credit? . . . It has never been done in the past, with substantial amounts of bank credit being used in the last three drives. . . . Assuming that the Treasury shoots for only $14 billions and no more, can this be raised among ultimate investors? . . . There is considerable support for the opinion that not more than $10 billions will be forthcoming from this source. . . . This would still leave about $4 billions to be raised and where will the Treasury get it? . . . It is believed by many that the solution of this problem will give the clue to the future trend of the government bond market. . . . What can the Treasury do under such conditions? . . .

**It was pointed out that the Treasury could drop a hint to the insurance companies and savings banks that they would have no objections if these institutions sold some of their 2s and used the proceeds to buy the new 2¼s and 2½s. . . . This would bring in between $3 billions and $4 billions of 2s which would be taken by the commercial banks. . . .**

The 2% bonds would go down from these levels under such a development. . . . This could be called a normal portfolio adjustment to meet the new conditions. . . It is believed that the savings banks and insurance companies will not be able to buy as many bonds in this drive, as they have in the past if they are not allowed to sell some of their present holdings. . . .

### ALTERNATIVE COURSE

Another alternative open to the government would be to offer to the commercial banks, the 1½% bond due Dec. 15, 1950, and this would easily raise $4 billions with the Treasury still strictly enforcing the no-trading policy for the insurance companies and savings banks. . . . The commercial banks in most cases would rather have a 5½-year 1½% security at 100, than a 7 to 9-year 2% at 102 22/32 to yield 1.62%. . . . Such a move would possibly effect the price of the outstanding taxable 2s. . . .

The Treasury could strictly adhere to the present financing pattern of offering no bonds to the commercial banks and still not allow the insurance companies and savings banks to sell any of their securities. . . . Near the end of the drive $4 billions to $5 billions of ⅞ certificates of indebtedness could be offered to the commercial banks. . . .

**This would no doubt result in a great demand for the outstanding 2s and 2½s, that would be eligible for purchase by the commercial banks, and higher prices than those registered thus far, would be made. . . .**

Such a development as this would probably mean that the Treasury is through offering any medium, intermediate or long term obligations to the commercial banks. . . . These institutions would keep the 2s and 2½s they now hold and would be buyers of the outstanding 2s and 2½s even if they had to sell a large part of these certificates to Federal at the end of the drive, and Federal would probably be as full of certificates in the future as they are now of bills. . . .

**This would result in a larger floating debt, which would mean that the short term rate would probably move up as the medium, intermediate and long term rate moves down. . . .**

This would be a way to cut the debt service, and bank earnings at the same time, since the trend of bank earnings seem to be a point of great concern to the Federal Authorities. . . . If such a method of financing were to be adopted it would mean that control of the money market by the government would have to be perpetual due to the larger floating debt.







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