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Schedule of Nationalization

By PAUL EINZIG
Political Correspondent, London "Financial Times"

British Financial Writer Contends That Despite the Assertion of the Labor Party Government, as Represented in the King's Speech, Nationalization Will Proceed Slowly. Points Out That Plans Have Already Been Proposed and Under Way to Spread Nationalization Throughout All Fields of Important Industries. If Scheme Is Carried Out, Its "Unscrambling" Will Be Difficult.

LONDON, ENGLAND — After the Socialist victory at the General Election in July, everybody expected the Labour Government to embark immediately on a policy of wholesale nationalizations. Great relief was felt in Conservative circles, therefore, when the King's Speech at the opening of the new Parliament in August last foreshadowed the nationalization of the Bank of England and the coal-mining industry only,

Paul Einzig

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Post-War Securities And Capital Markets

By GANSON PURCELL*
Chairman, Securities and Exchange Commission

Contending That Despite Existing Control Over Securities Markets, Accomplished "Without Injecting Into Our Financial Freedom Authoritarian Powers Over Individual Action," Mr. Purcell Maintains That During the War Essential Stability Ruled the Capital Markets. Though Cautioning Against Inflationary Trends, He Points Out That Prosperity and Full Employment Can Be Attained Only by a Substantial Volume of Corporate Financing. Holds Most Large Corporations Can Readily Obtain Additional Capital, But Still Sees "a Messy Problem" of Small Business Financing, Which Unfortunately "Has Acquired an Emotional Tinge." Looks for Large Capital Exports and Foreign Financing and States That Problem of Additional Control Over Foreign Issues Must Be Dealt With Carefully and Promptly.

I have chosen to talk about subjects of paramount present-day interest and importance, the securities and capital markets in the post-war peiod and the prospects for domestic and foreign financing. The State and Federal regulatory authorities gathered here are charged by law with constant responsibility for the improvement and maintenance of the standards of conduct in these markets, to the end that public confidence in their safety as a place to deal may be assured and justified. It is the vital concern—or should be, if it is not—of all peace loving people, that world reconstruction should proceed without delay. That re-

Ganson Purcell

*An address by Mr. Purcell before the National Association of Securities Commissioners, Chicago, Ill., Nov. 16, 1945.

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"Have Lend-Gift But Get Quid Pro Quo": Col. McCormick

Newspaper Executive Points Out That Britain, Because of Lower Industrial Productivity Than the United States, Requires Greater Efficiency and Greater Capital Application to Pull Out of Her Difficult Economic Situation. Holds Private Investment Cannot Be Expected Under the Policy of Nationalization, and Denounces Sterling Area and Empire Preference as Stumbling Blocks to World Trade. Calls for Liberation of British Colonial Possessions as a Prerequisite of Financial Aid.

In an address before the Foreign Policy Association at the Waldorf-Astoria Hotel in New York City on Nov. 17, Col. Robert R. McCormick, publisher of the Chicago "Tribune," struck out vigorously against the British commercial and colonial policy and called not only for an end of Empire preference and the sterling area as a prerequisite for American financial aid but also demanded for our own protection, the liberation of the British possessions in the West Indies. The text of the part of Col. McCormick's address dealing with these matters follows:

There are those among us—of course I am not one of them—who think that Easterners look up to the English and profess to despise Americans west of the Hudson.

Our view is purely nationalistic. So when the proposal is made give Great Britain 5 billion more dollars, we are inclined to scrutinize the request carefully. This is what we find:

The standard of living of the average American before the war was twice as high as that of the average Englishman. This was discovered by Dr. Leon Rostas

Col. R. R. McCormick

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Some Problems Facing Industry

By LEON R. CLAUSEN*
President J. I. Case Company

Business Executive, Asserting That Manufacturers in Practically Every Phase Have Been Under Government Control, Which Now With Consumer, Labor and Management, Constitute "Four Legs of a Stool," Reviews Labor and Materials Situation and Difficulties Facing Manufacturers in Taxes, Price Controls and Politics. Contends That Despite Labor Shortage, Many Are Living on Unemployment Benefits and That the 40-Hour Week Is Raising Costs. Sees Price Controls as Destroying Profits, and Taxes as Causing Confiscation. Says No Miracles Can Be Expected From Technological Improvements and That Greatest Problem of Farmers and Manufacturers Is That of Becoming Servants of Government.

With reconversion from war to peace, a current problem of both agriculture and industry, it is fitting indeed that representatives of agriculture and industry should be meeting today to discuss this mutual problem.

We are glad of this opportunity to learn of the problems of agriculture.

We appreciate the opportunity to call your attention to some of the more important problems facing industry.

We realize fully that agriculture and industry rise and fall to-

*An address made by Mr. Clausen before a Wisconsin farm and industry conference, in Madison, Wis. on Nov. 1, 1945.

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The Over-the-Counter Market and the NASD

By WALLACE H. FULTON*
Executive Director, National Association of Securities Dealers, Inc.

Asserting That the Distinguishing Characteristic of the Over-the-Counter Market Is Its Individualism and That the Over-the-Counter Dealer Places a High Value Upon His Privacy and Abhors Regimentation, Mr. Fulton Then Describes the Regulating Powers of NASD Over Dealers and Its Aim to Enforce Its Rules and Practices. Tells of Progress in Enforced Registration of Salesmen and Traders Which He Characterizes as the Evolution of Self-Regulation and Denies Attempt to Fix Dealer "Mark-Ups" as a Profit Limitation. Calls for Research in the Securities Business and Closer Cooperation Between Government and the Industry.

All of us here today are concerned, in one form or another, with regulation of the securities business. Some have the duty of enforcing regulations; others are concerned with the impact of enforcement upon the business.

Wallace H. Fulton

I know that all want to see the laws and the regulations implementing the laws enforced fairly. No one of us wants excesses or abuses in enforcement to go unchallenged any more than we will allow excesses and abuses within the business to go unrestrained.

Some—maybe all of you—may feel that you know all about NASD and its field of operation—the over-the-counter market. However, I hope to give you some

*An address by Mr. Fulton before the Convention of the National Association of Securities Commissioners, Chicago, Ill., Nov. 16, 1945.

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India as an American Export Market

By S. CHANDRASEKHAR
Chief, New York Bureau, Janmabhoomi Group of Bombay Newspapers

East Indian Economist Describes India's Vast Resources and Potentialities as an Industrial Nation, and Points Out the Factors Which Make It a Favorable Market for American Products. Says Industrial Expansion Has Been Restricted by British Policy, and That India's Production Has Been Diverted From Consumer to War Purposes. Estimates India's Sterling Balances as $5.4 Billions and Expresses Fear of Their Repudiation. Says India Needs Dollar Credits, but Warns Against American Partnership With British Vested Interests. Holds Future Economic Development Dependent on a National Government for India.

One country which may well become America's leading customer within the next couple of decades is India, land of 400,000,000 people and immense natural resources. India today is in the throes of a momentous upheaval, as much economic as it is political. She is determined not only to throw off foreign political domination but to break the fetters of her economic subjection. She is no longer content to remain a helpless purveyor of raw materials. She wants to develop her resources herself and to industrialize as best she can. When she does succeed in doing so, as she no doubt will in not so distant a future, she may well become America's foremost customer, if America so desires. India will need vast quantities of capital goods and other tools and equipment, and technological skill which America alone can most speedily and efficiently provide. As her standard of living gradually rises she will also require a thousand and one consumption goods that she may not readily be able to manufacture but which America can most easily and cheaply supply. It is not beyond the realm of possibility that 15 to 20 years hence India may be able to absorb $500,000,000 to $700,000,000 worth of American goods every year, or a share larger than that of any single customer during pre-war years.

S. Chandrasekhar

Is America willing and ready to meet these demands? American industrialists and economists would do well to ponder the question, no longer as a remote or theoretical possibility but as an immediate and practical proposition. If the United States is to maintain an expanding economy in the post-war years, solve satisfactorily the problem of post-war unemployment, there can be no two opinions regarding the significance and urgency of such a proposition. Indeed, the time for planning and preparing for it is here and now.

India's Vast Resources

Potentially, India is the third richest country in the world. Her natural resources, as far as known at present (only one-fourth of India's total area of 1,581,410 square miles has so far been properly surveyed by geologists) are surpassed only by those of the United States and the Soviet Union.

India has the largest reserves of high-grade iron ore and the second largest of manganese ore. Her production of mica and ilmenite are the highest in the world. She possesses rich deposits of chrome, bauxite, sulphur, magnesite, graphite, monazite and

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Psychological Pitfalls in ppraising Stock Market Values

By MILAN D. POPOVIC
Chief, Research Department, Blue Ridge Corp.

Market Analyst Points Out Instances of Hysteria Which Have Marked Speculation and Securities Markets in the Past, and Contends That Statisticians and Economists Are Prone to Follow the Same Psychological Pitfalls as the Public. Holds That Present Stock Market Appraisals Are Largely Over-Optimistic and Calls for "Self-Criticism" and More Calm and Conservatism by Statisticians, Who Have a Duty to the Public. Discusses Statistical and Analytical Mistakes With Reference to Rails, Coppers and Distillery Stocks and Concludes That Now Is an Excellent Time to Emphasize the Adverse Side.

When the 1929 crash occurred the offices of a large investment house were pervaded with understandable gloom, with the exception of the senior partner who, even though taking losses, seemed to be cheerful about it. He called a friend of mine who happened to be his assistant at the time into his office and explained the reason for his exuberance: It seems that in the spring of 1929 the stock market and general economics were so completely irrational to him that he asked his partners to retrench. He was definitely in the minority of one. The continually rising market shook him so much that he ultimately began to doubt his own sanity. He had himself examined by doctors and despite all their assurances there remained a shade of uncertainty in his mind which depressed him. Only when the market crashed he had proof that it was not he who was insane but everybody else.

M. D. Popovic

This is a true story and has a moral in it for us all and particularly for statisticians and economists.

This gentleman knew that the market in 1929 was completely irrational and that some sober thinking was in order. He hadn't assurance enough, however, to go against the tide. It is much easier to join the crowd than oppose it, particularly when it is on the optimistic side.

It is interesting to speculate on the reasons for this irrationality of the market. An historian has said that all historical movements are a matter of some sort of rising pitch of mental vibration where entire nations gradually begin to think in a hysterical manner which leads to wars and revolutions.

Market Hysteria

The same thing seems to happen in general business and the stock markets. It is not necessary to recall tulip bulb markets, or South Sea and Mississippi bubbles, or 1929. They were all examples of mass irrationality gradually built up by mass delusion so that even normally sane people accepted completely impossible ideas. It would seem that the stock market is particularly sub-

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Post-War Financing and National Distribution of Securities

By FITZ JOHN PORTER*
Of The New York Bar

Mr. Porter Forecasts Extensive Financing of All Kinds, Both Foreign and Domestic, in Governments, Railroads, Utilities and Industrials. Figures New Investment of $750 Millions in Airlines Alone in Next Five Years, and Points Out That Utilities Will Need Large Sums for Expansion and Reconversion and That New Products Mean Additional Industrial Capital Expenditure. Sees Need of Revision of State Securities Laws Regarding Registration of Dealers and Salesmen and Regulatory Exemption of Certain Securities. Holds "Revenue" and "Authority" Bonds Should Have Same Exemption Privileges as Municipals. Urges Uniform Qualifications for Classifying and Grading Non-Exempt Securities and Defends the Use of Warrants and Stock Option Purchases.

Mr. President and Ladies and Gentlemen, particularly Members of the Association:

Fitz John Porter

Mr. President, no matter how undeserved we know such compliments are, and no matter how embarrassed they make us feel, we like them, especially when they are received from one whom we ourselves so greatly admire.

My friends, as always at these meetings you have welcomed me as one of you and thus have made me feel entirely at home. You could pay me no greater compliment. No one could appreciate and prize that honor more than I do.

Needless to say, it is an especial privilege and pleasure to see you and to talk with you again. We have worked together and played together now for many years. Never during that time have I been accorded anything but the most cordial, friendly and courteous reception. Never have I failed to receive the utmost consideration and kindness. You have always shown a desire to have me present a subject for your consideration fully and completely, and to discuss it frankly without any disposition to interrupt or hurry me. You have always wished to examine a question from all sides and to look at it from my point of view. You have always given a problem all of the attention and thought it needed and deserved, and you have always reached a decision which you conscientiously concluded was right and fair and just in accordance with your law. It is most gratifying to me to realize how

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*An address delivered by Mr. Porter, who is associated with Davis Polk Wardwell Sunderland & Kiendl, at the Annual Convention of the National Association of Securities Commissioners, Chicago, Illinois, Nov. 16th and 17th, 1945.

Security Dealers' Responsibilities

By JAMES A. TREANOR, JR.*
Director, Trading and Exchange Division, Securities and Exchange Commission

Mr. Treanor, After Acknowledging the Contribution of the Securities Business in Expanding National Economy and Preserving Capitalism, Asserts It Is the Role of the Security Dealer to Maintain Confidence in Our Securities Markets. Lists What He Calls "Professional" Responsibilities of Dealers and Reiterates His Advocacy of "Full Disclosure." Makes Implication That Many Dealers Desire That the Market Value of an Over-the-Counter Security Be a Trade Secret, and That Accurate Quotations Be Withheld From Public Knowledge. Praises Financial Press and Urges Dealers Organize Regional "Better Business Bureaus" to Watch and Expose Corporate Practices.

When I received your President's kind invitation to participate in one of your meetings I welcomed the opportunity to come to Chicago and exchange views with you. There is great value to be derived from these meetings. Much of it would be lost, however, were we to confine ourselves to a statement of the things on which we can all agree, and ignore matters which, although controversial, are nonetheless both timely and fundamental. In speaking here today I run the risk that you may think I am expressing the sentiments of the Commission. I make no pretense to do so. What I say is on my own responsibility and should not be understood as expressing the official views of the SEC.

J. A. Treanor, Jr.

Moreover, I am sure that you will find that the viewpoint which I express is not in all respects the viewpoint of a person who makes his livelihood from the business of buying and selling securities. That viewpoint is set forth often enough in the speeches and writings of persons who are engaged with you in the securities business. I hope that I approach the problems which concern me in my official capacity with an open mind. But if it can be said that my experience has given me a special point of view, I hope that special point of view is in the interest of the investing public

*An address by Mr. Treanor before the Stock Brokers Associates of Chicago, Nov. 15, 1945.

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War Losses and Reparations

By ROBERT F. LOREE*

Chairman, Foreign Property-Holders Protective Committee, National Foreign Trade Council, Inc.
Vice-President, Guaranty Trust Company of New York

Mr. Loree Calls Attention to the Neglect of the American Interests in the Reparations Decisions of the Three Great Powers. Says Americans' Just Claims Are Ignored and That Russia Is Getting the Lion's Share. Contends Cost of the War Has Been as Heavy to the United States as to the Other Powers and Advocates a Uniform Yardstick in Claims for Reparations. Points Out We Received Nothing in the Way of Reparations After Last War and Cautions Against Renewal of a Similar Situation, Particularly As We Are Asked to Feed the Axis Population While the Other Powers Are Exacting Reparations.

The Foreign Property-Holders Protective Committee was formed to see that American owners of property in enemy and enemy-occupied countries were protected in their properties. To see that these properties where undamaged, were returned to their rightful owners; where damaged or destroyed, that adequate compensation was given by the enemy either through substitution of similar properties for those destroyed or where such substitutions was not available, then in dollars or local currency depending on the source of the property destroyed and the currency needed to replace it.

Robert F. Loree

The Committee with these objectives in mind drew up and transmitted through the Department of State to the Moscow Reparation Commission certain suggestions for a United Nations agreement on reparations.

These suggestions confirmed and amplified some of the questions raised by members of this Committee in discussions and communications with members of the United States Delegation earlier in the year.

The basic objectives sought by the Committee were to see that the United States Government and its nationals would participate in the total reparations demanded or received from enemy countries on an equal basis with any of the other United Nations and their nationals.

That in the restitution of losses or compensation for losses the foreign interests of United States nationals should be accorded treatment no less favorable than that accorded the nationals of any other United Nation.

These objectives did not then nor do they now, seem unreasonable or selfish—on the contrary the Committee felt then and still feels that their suggestions formed the basis of a just and equitable approach to the reparation problem.

United States Claims Ignored

We regret that these suggestions

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*An address by Mr. Loree before the 32nd National Foreign Trade Convention, New York City, Nov. 13, 1945.

Congressmen Disillusioned on British Loan

Suspicion Aroused That Britain Is Refraining From Making Commitment on Its Commercial Policy as a Bargaining Weapon for More Generous Financial Aid. Failure of Other Nations to Ratify Bretton Woods Agreements a Source of Irritation. Rep. Wolcott Insists That Foreign Financial Aid Be Predicated on Adherence to Multilateral Trade Under Conditions Agreed Upon at Monetary Conference.

WASHINGTON, D. C., Nov. 20—Some members of the Congress who have been keeping an eye on the Administration's discussions with the British are becoming irritated over the British attitude. They have got the impression that the British, ever the hardboiled bargainers, are taking advantage of our goodwill. Partly, the story goes back to Bretton Woods and to the criticism made at that time that Bretton Woods represented a fragmentary treatment of a much broader problem. The defenders of Bretton Woods answered that it would not be possible to advance on all fronts at once, and that commercial policy would have to be separately considered later on.

Jesse P. Wolcott

Now, it appears to some Representatives and Senators, the British—still holding back from any commitment on commercial policy—are seeking to use their ratification of Bretton Woods as a bargaining weapon to secure more generous financial aid from us in the form of a loan agreement containing elements of a generous gift. Not only are members of the Congress privately expressing irritation; but so also are Britishers, who seem to regard efforts to make the coming loan "businesslike" as a form of Shylockism.

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Necessity for Foreign Investment

By WILLARD L. THORP*

Deputy to the Assistant Secretary of State for Economic Affairs

State Department Expert Asserts That Trend Toward International Blocs Is of Grave Concern to the United States, Since It Reduces Our Foreign Trade, Retards Economic Recovery and Creates Political Instability. Says Trade Restrictions Are Not of Free Choice and They Can Be Obviated by Loans to Offset a Short-Run Lack of Balance Between Imports and Exports. Favors Government Lending With Same Restrictions as Under Lend-Lease but Sees Field Later Open to Private Investors. Admits There Is Real Risk in Undertaking Program of Foreign Investment, but Maintains It Can Prove Profitable and Attractive.

The post-war world may be making brave new experiments politically, but it is doing rather badly economically. This is, of course, no surprise. The devastation and economic dislocation caused by the war are not easily repaired. Every country in the world has a major reconversion problem, and many have the even more difficult task of reconstruction. Under these circumstances, it is not surprising that the trend in most countries is towards the continuation and even extension of types and forms of government control, far beyond the

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*An address by Mr. Thorp before the National Industrial Conference Board, Waldorf-Astoria Hotel, New York City, Nov. 20, 1945.

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Bank and Quotation Record—Mth. $25 yr.
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NOTE—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Finland Seeks Ten-Year Loan

Bank of Finland Head, Together With a Finnish Government Commission, in Washington to Negotiate Financial Aid. Finnish Banker Claims His Nation Is a Good Credit Risk, Since Country Will Have an Export Surplus and, in Past, Has Met Its Obligations and Once Paid Off Its Entire Debt. Estimates Loan of $110 Million Needed to Restore Finnish Industry, Since Indemnity of $300 Million in Kind Is to Be Paid to Russia and Almost $24 Million Is Already Due Export-Import Bank Under Pre-War Loan Agreement.

WASHINGTON, Nov. 21.—Among recent visitors to Washington and New York has been the young looking governor of the Bank of Finland, Mr. Sakari Tuomioja, who is visiting not only this country, but also England and France, to make the acquaintance of central and other bankers. A lawyer and a member of the minority Liberal Party of his country, Mr. Tuomioja since 1940 has served successively as Undersecretary of Finance (1940-44), Finance Minister in the Peace Government of 1944, and since July head of the central bank of Finland.

Sakari Tuomioja

Mr. Tuomioja's visit coincides with that of a Finnish economic and financial mission, which has been in Washington for several weeks negotiating with the State Department, and latterly with the Export-Import Bank, for supplies of American foods, fertilizers, chemicals, tires, metals, etc., to be financed by a loan, and for the unfreezing of Finnish assets in this country. That mission is headed by Mr. Walter Grasbeck, managing director of the Finnish Pulp Association. The mission also includes Mr. Artturi Lehtinen, permanent secretary of the Ministry

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Fish and Fowl

Wallace H. Fulton's Over-the-Counter Speech at Securities Commissioners' Convention Noteworthy for Omissions. Maloney Act Creates Monopoly in NASD. Trade Custom and Usage Constantly Invaded. Right of Privacy Destroyed and Industry Progressively Regimented. Abolition of Schism Urged.

At the Annual Convention of the National Association of Securities Commissioners held at Chicago last week Wallace H. Fulton, Executive Director of the NASD, chose as his topic "the over-the-counter market which is the field in which NASD operates."

A reading of that speech (given in full elsewhere in this issue), wading thru its teeming generalities, emphasizes for us the momentous omissions, and leads us to the belief that Mr. Fulton was talking tongue in cheek.

He characterized the Maloney Act as "providing for co-operative self-regulation with standards above and beyond the law."

What does the Maloney Act do in fact?

By an unwholesome scheme it makes it possible for the NASD to have its rule that forbids members from giving discounts to non-members, thereby compelling dealers to join or forego profits they normally would enjoy, and for this reason when Mr. Fulton talks of self-regulation, which implies voluntary action, he borders on the ridiculous.

Under that Act the NASD, via rule making powers, has

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Government Financing of Reconstruction and Foreign Trade

By WAYNE CHATFIELD-TAYLOR*

President, Export-Import Bank

President of the Export-Import Bank Describes the Emergency and Reconstruction Operations of His Bank. Its Operations Represent the Collective Judgment of Various Government Agencies. He Urges That We Continue Supplying Raw Materials and Credit Abroad, Particularly in View of Non-Interference With Our Domestic Demands. Calls for Restoration of Private Financing, and Predicts Joint Ventures by American and British Capital in Democratic Capitalistic Areas. Contends That Trade With USSR Can Be Expanded Through Deliveries of Raw Materials for Current Use or Stockpiling.

In order to economize time and possibly to avoid a rather dull recital, I am making certain assumptions. The first is that you have read the General Policy Statement of the Export-Import Bank of Washington, or that you know where to get a copy in case of need. The second is that you are currently informed by the press of the credit agreements as they are signed, and the third and perhaps the most important is that you share my aversion for listening to statistics.

Wayne C. Taylor

In thinking about this meeting I felt a desire to look back to some of the previous National Foreign Trade Conventions, to check up on what I had discussed with you before. Such a search is pretty useful—you either find how wrong you were at an earlier period or you find that you had expressed a particular thought badly or well. Very often it is a mixture, partly very right and partly quite wrong. This time I was startled to find that certain paragraphs expressed so accurately the policy background against which the current international credit operations of our Government are being conducted, that it was far better to repeat them than to attempt a paraphrase.

Oct. 8, 1941, New York City—

*An address at the National Foreign Trade Convention, Nov. 13, 1945.

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Gamwell to Admit Fant

Gamwell & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, will admit Richard B. Fant to partnership in the firm on December 1st. Mr. Fant in the past was a partner in Biggs, Mohrman & Co.

Robert Laffan Joins J. Walter Thompson

Robert Laffan, formerly financial writer and columnist for "The Wall Street Journal," financial correspondent for the London "Daily Telegraph" and recently in the research and syndicate department of the investment firm of Chas. W. Scranton & Co., has joined the staff of J. Walter Thompson Co.'s office at 1 Wall Street, New York City.

J. E. Larson Elected Pres. of Nat'l Ass'n of Secs. Administrators

J. Edwin Larson, Florida State Treasurer and Securities Commissioner, was elected President of the National Association of Securities Administrators at its annual convention held at the Edgewater Beach Hotel, Chicago. The Association was formerly the National Association of Securities Commissioners.

J. Edwin Larson

Other officers elected were: D. D. Murphy, Securities Commissioner of South Carolina, first vice-president; Harold Johnson, assistant director of the Bureau of Securities, Lincoln, Nebr., second vice-president; Maurice Hudson, Corporation Commissioner of Oregon, treasurer; and Allan S. Richardson, Commissioner of Securities, Denver, Colo., secretary.

Representatives were present from thirty-four states, also the Hon. W. P. J. O'Meara, Under-Secretary of State of the Dominion of Canada; Hon. C. T. Cottingham, Securities Commissioner of the Province of Manitoba; the newly appointed Ontario Commissioner, Hon. C. P. McTague; and the Hon. F. C. Dubeck, Securities Commissioner of the Province of British Columbia.

The meeting was most successful with addresses by Paul G. Hoffman, president of Studebaker Corporation, and Ralph E. Flanders, president of the Federal Reserve Bank of Boston.

Public Utility Securities

Central Arizona Light & Power

An offering of 840,000 shares of Central Arizona Light & Power common was made Nov. 8th by a syndicate headed by First Boston Corp. and Blyth & Co., the price being 13⅛. The issue appeared to go a little slowly at first, being less popular than the Florida Power stock which preceded it by about two weeks, but in the recent buoyant utility market the shares were soon disposed of.

The stock was sold by American Power & Light because of the geographic integration requirements of Section 11. Central Arizona serves an area along the Gila and Salt Rivers in Arizona, located entirely in Maricopa County and including the city of Phoenix and some eight other communities and adjacent areas with a population of about 150,000.

The Salt River Valley is largely an irrigated farm area, the principal products being citrus, melons, lettuce, alfalfa, hegeri, dairy products and cotton. The Salt River Project of the U. S. Bureau of Reclamation uses water impounded behind the Roosevelt and subsidiary dams to irrigate some 240,000 acres of land. Central Arizona lines serve electric pumps to supplement water from other sources or to supply the entire requirements of about 109,000 additional acres west and north of the project.

In the 12 months ended July 31, 1945, total revenues were about 70% electric and 30% natural gas. Residential business accounted for about 33% of the company's electric revenues, commercial customers 31%, industrial 31% and miscellaneous 5%. Industrial power was sold for irrigation pumping, packing houses, creameries, ice plants, steel fabricating plants, cotton gins, cotton oil mills, railroad shops, etc. There was also some war business in connection with Government airfields, Goodyear Aircraft, etc. It is thought that two airfields will be maintained permanently but the status of other war plants remains uncertain. About 8% of electric revenues was derived from defense plants, and 7% of the natural gas revenues. Irrigation accounted for about 9% of the electric sales. Gas revenues were over 52% residential, 19% commercial, 25% industrial and 4% Government and municipal.

The company has been earning a fairly high return on plant investment; in the 12 months ended July 31, 1945, net operating revenues were equivalent to 7.4% on net plant account plus current assets, or nearly 9% on plant account alone. The fair value of property was last fixed in 1934, and recently the Federal Power Commission was invited to cooperate with the Arizona Corporation Commission to establish rate-making bases for utilities in the State.

Central Arizona's plant account is stated on the basis of the company's valuation since original cost accounting is not required in the State. However, on Oct. 19 this year the FPC advised the company that it considered it a public utility within the meaning of the Federal Power Act and that original cost studies should be furnished. While the company has questioned the assertion of the Commission, the fact that the FPC has been invited to join with the State Commission gives it an additional opportunity to secure an original cost determination, assuming that it can persuade the State Commission to go into the matter. Plant account now includes only a small amount of "identifiable intangibles" largely offset by a special reserve. The Property Retirement Reserve is also generous, the two items together equalling over 32% of plant account, a relatively high ratio. Should write-offs prove necessary, therefore, the reserve would furnish some protection.

No definite statement has been made regarding dividends following separation of the company from American Power & Light, but it is generally assumed that the rate will be 60 cents (the approximate amount paid in recent years). Share earnings in the 12 months ended July 31 were stated at 84 cents in the prospectus (though this was not on a pro forma basis with respect to taxes). During the years 1937-44 earnings ranged between 69 cents and 99 cents.

In connection with the stock offering, there has been some discussion of the action of the new

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Auchincloss, Parker Adds West to Staff

WASHINGTON, D. C.—Auchincloss, Parker & Redpath, 729 15th Street, N. W., members of the New York Stock Exchange, announced today that Mr. Millard F. West, Jr., who was recently released by the Army Air Forces, has become associated with them.

Mr. West is a native of Washington, having attended Western High School before graduating from Blair Academy, and Princeton University. He subsequently received a law degree from National University. He is a member of the Chevy Chase Club and the Princeton Club of Washington. Prior to spending nearly four years with the Army Air Forces, during which time he rose from a First Lieutenant to a Lieut. Colonel, he was associated with Ferris, Exnicios & Co., Inc., for a period of nine years and was a Vice-President of the firm when he entered the service. Mr. West has always been active in civic affairs. He was a charter member of the Junior Board of Commerce and a past President of the organization.

Davison Reelected V.-P. by J. P. Morgan

Following his return from service in the United States Navy since March 3, 1942, Harry P. Davison, has been reelected Vice-President and member of the Executive Committee of J. P. Morgan & Co. Inc.

Lytle & Co., Inc. Is Formed In Detroit for Inv. Business

(Special to THE FINANCIAL CHRONICLE)

DETROIT MICH.—Lytle & Co., Inc., with offices in the Penobscot Building, will engage in an investment business. Officers are H. R. P. Lytle, President; Seward N. Lawson, Vice-President; and James L. Blean, Secretary-Treasurer. Harold C. Hill will be connected with the firm.

Congress Again Faces A Silver Decision

By HERBERT M. BRATTER

Writer Recounts the Need of Silver Bullion From the Treasury by Industrial Users and the Efforts Made by the Industry to Extend the Green Act Which Expires This Year. Sees Opportunity Given the Silver Bloc to Agitate for Higher Price of Silver, and Expresses Doubt That Present Administration Will Consent to Repeal Provisions Which Limit Speculation in Silver. Holds China Is Not Likely to Restore Silver Circulation, That Mexico Will Seek to Hoard Its Silver and Return of Lend-Lease Supplies Will Be Long Delayed. Question Will Again Arise as to the Subsidation of Silver Producers.

Senatorial horns are locked in a so far rather noiseless test of strength between two conflicting silver interests: the mine producers and the industrial and industrial-arts consumers of silver. The mine producers want to protect and increase the subsidy they now receive from the Treasury under the silver statutes of 1934 and 1939. The arts and industries want to be assured of an adequate supply of the metal at some price not prohibitive.

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(Continued [...]

Gamwell to Admit Fant

Gamwell & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, will admit Richard B. Fant to partnership in the firm on December 1st. Mr. Fant in the past was a partner in Biggs, Mohrman & Co.

Robert Laffan Joins J. Walter Thompson

Robert Laffan, formerly financial writer and columnist for "The Wall Street Journal," financial correspondent for the London "Daily Telegraph" and recently in the research and syndicate department of the investment firm of Chas. W. Scranton & Co., has joined the staff of J. Walter Thompson Co.'s office at 1 Wall Street, New York City.

J. E. Larson Elected Pres. of Nat'l Ass'n of Secs. Administrators

J. Edwin Larson, Florida State Treasurer and Securities Commissioner, was elected President of the National Association of Securities Administrators at its annual convention held at the Edgewater Beach Hotel, Chicago. The Association was formerly the National Association of Securities Commissioners.

J. Edwin Larson

Other officers elected were: D. D. Murphy, Securities Commissioner of South Carolina, first vice-president; Harold Johnson, assistant director of the Bureau of Securities, Lincoln, Nebr., second vice-president; Maurice Hudson, Corporation Commissioner of Oregon, treasurer; and Allan S. Richardson, Commissioner of Securities, Denver, Colo., secretary.

Representatives were present from thirty-four states, also the Hon. W. P. J. O'Meara, Under-Secretary of State of the Dominion of Canada; Hon. C. T. Cottingham, Securities Commissioner of the Province of Manitoba; the newly appointed Ontario Commissioner, Hon. C. P. McTague; and the Hon. F. C. Dubeck, Securities Commissioner of the Province of British Columbia.

The meeting was most successful with addresses by Paul G. Hoffman, president of Studebaker Corporation, and Ralph E. Flanders, president of the Federal Reserve Bank of Boston.

Public Utility Securities

Central Arizona Light & Power

An offering of 840,000 shares of Central Arizona Light & Power common was made Nov. 8th by a syndicate headed by First Boston Corp. and Blyth & Co., the price being 13⅛. The issue appeared to go a little slowly at first, being less popular than the Florida Power stock which preceded it by about two weeks, but in the recent buoyant utility market the shares were soon disposed of.

The stock was sold by American Power & Light because of the geographic integration requirements of Section 11. Central Arizona serves an area along the Gila and Salt Rivers in Arizona, located entirely in Maricopa County and including the city of Phoenix and some eight other communities and adjacent areas with a population of about 150,000.

The Salt River Valley is largely an irrigated farm area, the principal products being citrus, melons, lettuce, alfalfa, hegeri, dairy products and cotton. The Salt River Project of the U. S. Bureau of Reclamation uses water impounded behind the Roosevelt and subsidiary dams to irrigate some 240,000 acres of land. Central Arizona lines serve electric pumps to supplement water from other sources or to supply the entire requirements of about 109,000 additional acres west and north of the project.

In the 12 months ended July 31, 1945, total revenues were about 70% electric and 30% natural gas. Residential business accounted for about 33% of the company's electric revenues, commercial customers 31%, industrial 31% and miscellaneous 5%. Industrial power was sold for irrigation pumping, packing houses, creameries, ice plants, steel fabricating plants, cotton gins, cotton oil mills, railroad shops, etc. There was also some war business in connection with Government airfields, Goodyear Aircraft, etc. It is thought that two airfields will be maintained permanently but the status of other war plants remains uncertain. About 8% of electric revenues was derived from defense plants, and 7% of the natural gas revenues. Irrigation accounted for about 9% of the electric sales. Gas revenues were over 52% residential, 19% commercial, 25% industrial and 4% Government and municipal.

The company has been earning a fairly high return on plant investment; in the 12 months ended July 31, 1945, net operating revenues were equivalent to 7.4% on net plant account plus current assets, or nearly 9% on plant account alone. The fair value of property was last fixed in 1934, and recently the Federal Power Commission was invited to cooperate with the Arizona Corporation Commission to establish rate-making bases for utilities in the State.

Central Arizona's plant account is stated on the basis of the company's valuation since original cost accounting is not required in the State. However, on Oct. 19 this year the FPC advised the company that it considered it a public utility within the meaning of the Federal Power Act and that original cost studies should be furnished. While the company has questioned the assertion of the Commission, the fact that the FPC has been invited to join with the State Commission gives it an additional opportunity to secure an original cost determination, assuming that it can persuade the State Commission to go into the matter. Plant account now includes only a small amount of "identifiable intangibles" largely offset by a special reserve. The Property Retirement Reserve is also generous, the two items together equalling over 32% of plant account, a relatively high ratio. Should write-offs prove necessary, therefore, the reserve would furnish some protection.

No definite statement has been made regarding dividends following separation of the company from American Power & Light, but it is generally assumed that the rate will be 60 cents (the approximate amount paid in recent years). Share earnings in the 12 months ended July 31 were stated at 84 cents in the prospectus (though this was not on a pro forma basis with respect to taxes). During the years 1937-44 earnings ranged between 69 cents and 99 cents.

In connection with the stock offering, there has been some discussion of the action of the new

(Continued on page 2482)

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(Continued on page 2483)

Real Estate Securities

Narrowing of Margin Between Assessed Value of New York Real Estate and Actual Sales Prices One Contributing Factor in Increased Market Value of Real Estate Securities.

Prices realized in the sales of Manhattan properties are coming closer and closer to assessed valuations.

The dollar volume of business transacted during October in open-market deals in the borough reached the highest figure in many years, and the high level of trading is being maintained this month, according to reports received from brokers.

Many transactions are being closed at prices well above assessed valuations, and quick turnovers at substantial profits are bringing up memories of boom days.

Trading Up 20 Per Cent

The average percentage of assessed values paid by sellers last month was the highest since pre-depression days, reaching 95.6%, and the number and dollar volume of bona fide deals this year are running about 20% above 1944, according to the sales survey of the Real Estate Board of New York.

Last month there were 509 open-market transfers for $48,088,174, as compared with 422 for considerations aggregating $25,113,983 in October, 1944, when sellers realized only 68.9% of assessed values, the survey showed.

For the first ten months this year, 4,865 transfers were recorded for prices aggregating $371,166,280, or 78.9% of the figures carried on the tax books. In the same period last year 4,048 parcels brought $309,123,807, which was 69% of assessed values, the records indicated. During the first ten months of 1943 there were 2,867 transfers for $183,602,701, or 63.2% of tax valuations. In the years just preceding the war the dollar volume of trading for the corresponding period was running around $100,000,000.

Office Buildings Bought

Sixteen office buildings changed hands last month for $17,271,391 to bring in an average of 132.5% of assessed values, the Realty Board reported. Loft buildings also were in demand at increased prices, with 42 such properties bringing $3,698,568, or 85.7% of tax values. There were 387 residential property transfers for $23,081,461, or 78.7% of assessment figures.

In this period of readjustment, investors apparently are turning in increasing numbers to real estate as an outlet for idle funds.

Richard W. Millar to Open Inv. Business

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Richard W. Millar will engage in an investment business from offices at 210 West Seventh Street. Mr. Millar was formerly President of Avion, Inc. and Vultee Aircraft, Inc. In the past he was an officer of Bankamerica Company and the Bancamerica-Blair Corporation.

Cincinnati Municipal Bond Dealers Group Elects Officers

CINCINNATI, OHIO—T. B. Johnson, Jr., of Breed & Harrison, Inc. was elected Chairman of Municipal Bond Dealers Group of Cincinnati at its annual meeting. O. S. Hirschfeld of Stranahan, Harris & Co., Inc. was elected Secretary and Treasurer.

The following were also elected to serve on the Board of Directors:

E. J. Moster, of Weil, Roth & Irving Co.; Ray Houston, of Walter, Woody & Heimerdinger; W. H. Zieverink of W. H. Zieverink & Co., Inc.

John M. Dewar With Walston, Hoffman Firm

LOS ANGELES, CALIF.—John M. Dewar has become associated with Walston, Hoffman & Goodwin, Bank of America Building. Mr. Dewar was formerly a partner in Thomas Kemp & Co. and was with Cavanaugh, Morgan & Co. and Bank of America.

Paul Goldschmidt Is With Pacific Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Paul Goldschmidt has become associated with the Pacific Company of California, 623 South Hope Street, members of the Los Angeles Stock Exchange. In the past he was an officer of Stern, Frank & Meyer.

New Roth Partnership

The partnership of E. J. Roth & Co. was dissolved on November 14th, and a new partnership will be formed as of November 30th. Members of the new organization, which will do business as E. J. Roth & Co. from offices at 41 Broad Street, New York City, will be Emil J. Roth, member of the New York Stock Exchange, general partner, and Selma Ungerleider and Abraham Ungerleider, limited partners. Mr. Ungerleider was formerly a partner in Fagan & Co.

B. G. Cantor & Co. Admits David Wittman

B. G. Cantor & Co., 61 Broadway, New York City, has admitted David Wittman to partnership in the firm. Mr. Wittman has been associated with the firm in the trading department.

Fish and Fowl

(Continued from page 2453)

arrogated to itself legislative functions by the exercise of which dealers and others in the securities field have been kept in a constant dither.

Such delegation of legislative power has been under constant attack. Its legality is questionable, its propriety doubtful.

The statutory obeisance due from NASD to SEC and the power of review possessed by the latter, has made the National Association of Securities Dealers a completely subservient body and robbed it of volition. Its coming into being in the first instance required SEC approval and it continues to be nothing more or less than a superfluous SEC auxiliary.

This set-up has made possible interlocking in camera conferences affecting, but screened from, the public. It has created a system of possible serious penalties imposed by competitors possessing the three-fold powers of prosecutor, judge and jury. From findings of fact by these policemen operating out of the same precinct there is small chance of escape because, acting in review, the judiciary has limited power with respect thereto, less than it has on appeal from similar findings by a court in the first instance.

We could go on to enumerate many other vicious products of the Maloney Act as to which Mr. Fulton was **judiciously** silent. Worst of all are the monopolistic powers granted to the NASD. Oh yes, we know, the statute permits the organization of other such associations, but you and we will never see them in being.

Mr. Fulton tells us the concept behind this legislation was "a form of regulation which would concern itself with that hard-to-define realm of ethics and fair practices."

Since when has square shooting, common honesty, become difficult of definition? Do we need weasel words, circuitous language, to tell us our public duty?

We remind you that long before the Securities Acts were passed there existed in our field a distinctly tracked body of trade custom and usage to which the SEC and the NASD is doing constant violence.

We go on.

Mr. Fulton recognizes that "the over-the-counter dealer places a high value upon his privacy and his right to carry on his business without too much interference and regulation—certainly he abhors regimentation."

Has the NASD respected these values? These prying questionnaires, were they not a flaunting invasion of the over-the-counter dealer's right to privacy? This proposed registration of some thirty thousand salesmen, traders, etc., etc., is that anything but sheer regimentation?

Lastly, the paving of the way for the future control **of profits, commissions and other charges** is the "most unkindest cut of all." As a sample of our vanishing free institutions it is compelling. We suppose that in the eyes of Mr. Fulton this does not invade the right to carry on business "without too much interference."

This separation in the industry, this making fish of one and fowl of the other, demands abolition.

We shall always condemn special and class legislation.

FHA in the Post-War Era

By RAYMOND M. FOLEY*

Commissioner, Federal Housing Administration

Federal Housing Administration Commissioner Warns Against Both Carelessness and Over-Conservatism in Extending Credit. Lending on Inflated Costs and Sales Prices Would Eventually Kill Production of New Housing. The Need for 10 Million Family Units Must Be Supplied Quickly to Curb Inflationary Psychology. The FHA Has Improved Its Service by (1) Shortening Its Processing, (2) Simplifying Its Procedures, (3) Entering the Country Home Field, and (4) Adopting a Firm Commitment Policy for Builder Mortgagers.

We confront today a triple fork of the road in our home financing problem.

We have reached the fork of the road by a painful and costly passage—over two and a half decades of trial and error, in peace and war, prosperity and depression—during most of which time we produced too little housing, often housing too poorly built or financed, and rather generally housing for the most part designed to meet a ready market rather than a closely analyzed need.

Raymond M. Foley

This does not mean in any way to minimize the big job private enterprise, with the aid of mortgage lenders, did in the prewar years—nor in the fine war housing accomplishment. But to guide our future efforts we must study, too, why we face our present situation—the war causes and the prewar causes.

So today, after years of war so totally absorbing and distorting that we must labor long to readjust ourselves to a position of full peacetime production, we are confronted with an immense housing shortage, generally existing throughout the nation. It is coupled with a more pressing and impatient consciousness of housing need on the part of the public than we have ever known before. That consciousness is backed, too, by a greater ability to finance down payment than ever before. And the whole picture is complicated further by an accumulation of emphasis upon the problem areas of shelter, upon the lack of sufficient low rental units, on minority racial group needs, upon slums, upon the middle and low income sales brackets, and the problem of the returning houseless veteran. The emphasis upon them has grown through a long total or partial deferment of adequate action in those fields.

These are the backgrounds and the factors, mainly, that bring us today to the fork of the road in home financing. It is not a choice of two paths we who are concerned with private financing of residential property have to make. It is a choice of one out of three.

One path is that of least resis-

(Continued on page 2481)

*An address before the annual meeting of the Mortgage Bankers Association of America, New York City, Nov. 16, 1945.

Australia's International Trade Position

By THE RT. HON. H. V. EVATT*

Australian Minister of State for External Affairs

Prominent Australian Statesman Presents the Position of Australia as a Member of the Sterling Bloc and a Participant in British Empire Preference. Says That Because Australia Went All-Out for the War, It Reduced Its Exports and Is Now Presented, Like Great Britain, With "the Dollar Problem." Stresses That Australia Is Against Further Borrowing in America and That It Is Geared to the Empire Preference Principle. Holds Situation Similar to That of U. S. and the Philippines. Wants Us to Maintain High Employment and Prosperity on the Theory That the Trend of World Trade Depends on Our Leadership.

What are the facts of the trade relationships between our countries? If you look at the history of our trade you will find that between the two great wars, Australia was in the habit of buying more goods from the United States than she could pay for, **except in gold.** The balance of trade in commodities was always against us. The gold that we produced helped us out. It came to the United States indirectly, through London. For reasons which I need not discuss, the gold that my countrymen dug up became buried again, in some place in Kentucky called Fort Knox. We had no objection to this procedure. We got your automobiles and used them. You got our gold and what you did with it was your business, not ours.

Herbert Vere Evatt

*An address by Mr. Evatt before the National Foreign Trade Council, New York City, Nov. 14, 1945.

Lend-Lease

Then came the Second Great War. Had it not been for the vision shown by the United States leaders in 1941, there would have been a shortage of vital war equipment without which the war would probably have been lost. But under United States initiative, the Allies decided to do without normal trade procedures and remove currency obstacles for the purpose of winning the war. We voluntarily exchanged goods and services. The transactions were called Lend-Lease and Reverse Lend-Lease. Lend-Lease meant aid to Australia. Reverse Lend-Lease meant aid to the United States. I believe that on a true valuation of all those transactions as between Australia and U. S. A., Australia would at least come out square. There would probably be a balance in favor of Australia. Do not be anxious. We do not propose to submit a bill for payment of that balance to us in dollars.

Let me give my reasons for this opinion. In a very important statement before the House Foreign Affairs Committee last year, Colonel Spencer B. Eddy of the U. S. Army said that Reciprocal Aid was given by Australia "in a generous and courageous spirit and was even then running at the rate of a million dollars per day." He pointed out that calculations

(Continued on page 2482)

Dealer-Broker Investment Recommendations and Literature

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

Air Transportation — Pamphlet reporting on the outlook for Alaska Air Lines, Inc.; All American Aviation, Inc.; American Export Airlines, Inc.; Chicago & Southern Air Lines, Inc.; Continental Air Lines, Inc.; Delta Air Corporation; Expreso Aereo Inter-Americano, S. A.; Inland Air Lines, Inc.; Mid-Continent Air Lines, Inc.; and Taca Airways, S. A.—Troster, Currie & Summers, 74 Trinity Place, New York 4, N. Y.

Dow Theory Barometer — A weekly service predicting future trends in the stock market—Four weeks' trial, $1—Gaylord Wood, Inland Building, Indianapolis Ind.

More Bank Stock Extras Seem Imminent—New bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Also a new bulletin on **Third Quarter Statistical Comparison of 19 New York City Bank Stocks.**

Rail Finance Strength—Memorandum on the position of railroad finances—No. 203 in **Oliphant's Studies in Securities**—Jas H. Oliphant & Co., 61 Broadway, New York 6, N. Y.

Railroad Operating Costs—Study of outlook in **Forthnightly Investment Letter**—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Real Estate Quotation Sheet—A monthly quotation sheet on real estate securities designed especially for dealers, showing current market, as well as change in price on each issue since the close of the preceding month — Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Shipbuilding Stocks — Interesting speculations with latent postwar earning power — Circular — Penington, Colket & Co., 70 Pine St., New York 5, N. Y.

Also available is a detailed memorandum on **St. Regis Paper Co.**

Transportation Statistics — Memorandum of monthly comment—Vilas & Hickey, 49 Wall St., New York 5. N. Y.

American Bantam Car Co. — New report and comment—Kneeland & Co., Board of Trade Building, Chicago 4, Ill.

American Forging and Socket—Circular—De Young, Larson & Tornga, Grand Rapids National Bank Building, Grand Rapids 2 Mich.

Arizona Edison Co.—Descriptive circular—Seligman, Lubetkin & Co., 41 Broad Street, New York 4, New York.

Also detailed circulars on **Foundation Co.; Fashion Park, Shatterproof Glass,** and **Wellman Engineering Co.;** and reports on practically all **Real Estate** issues in New York City.

Baker-Raulong Company—Analysis of condition and post-war prospects—F. H. Koller & Co. Inc., 111 Broadway, New York 6, N. Y.

Also available are analyses of **Liquidometer Corp., Delaware Rayon and New Bedford Rayon.**

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

E. G. Brooke Iron Co.—Circular—Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

Chicago Railway Equipment Co.—Analysis of high leverage common stock—Sills, Minton & Co., Inc., 209 South La Salle St., Chicago 4, Ill.

Cleveland Cliffs Iron Co.—Analytical memorandum—Gillis Russell & Co., Union Commerce Building, Cleveland 14, Ohio.

Consolidated Cement Corp. Class A—Bulletin on recent developments—**Lerner & Co.,** 10 Post Office Square, Boston 9, Mass.

Also available are circulars on **Central Iron & Steel, Oregon Portland Cement.**

Consolidated Gas Utilities and **The Chicago Corp.**—Circulars—Hicks & Price, 231 South La Salle Street, Chicago 4. Ill.

Dayton Malleable Iron Co.—Study of outlook and speculative possibilities for appreciation for this company—Ward & Co., 120 Broadway, New York 5, N. Y. Also available are late memoranda on: **Great American Industries; Alabama Mills, Inc.; American Hardware; Douglas Shoe; TACA Airways; American Window Glass; Michigan Chemical; Lawrence Port. Cement; Oxford Paper; and Purolator Products.**

Electromaster Inc. — Recent report — **Mercier, McDowell & Dolphyn,** Buhl Building, Detroit 26, Mich.

Also available a report on **Sheller Manufacturing Corp.**

Empire Steel—circular—J. F. Reilly & Co., 40 Exchange Place, New York 5, N. Y.

Also available are circulars on **Dri-Steam Products, Clyde Porcelain, International Detrola, Majestic Radio & Television.**

Farrell-Birmingham Co.—Analysis—W. J. Banigan & Co., 50 Broadway, New York 4, N. Y.

General Public Utilities Corp.—Memorandum—G. A. Saxton & Co., Inc., 70 Pine St., New York 5, N. Y.

Also available is the current issue of **The Preferred Stock Guide** giving tabulated figures on preferred and common public utility stocks.

Greiss-Pfleger Tanning Co.—Descriptive circular—Amos Treat & Co., 40 Wall Street, New York 5, N. Y.

Gro-Cord Rubber—Recent analysis—Caswell & Co., 120 South La Salle Street, Chicago 3, Ill.

Hajoca Corp.—Circular on interesting possibilities—Hoit, Rose & Troster, 74 Trinity Place, New York 6, N. Y.

Also available is a memorandum on **Thermatomic Carbon Co.; Red Rock Bottlers,** and a new analysis of **Panama Coca-Cola.**

Johnson Automatics — Descriptive memorandum on low-priced building stock—Du Pont, Homsey Co., Shawmut Bank Building, Boston 9, Mass.

Le Roi Company — Study of common stock as a sound speculative purchase — First Colony Corporation, 70 Pine Street, New York 5, N. Y.

Also available are studies of **Pittsburgh Railways, Simplicity Pattern Co., Inc.,** and **Locomotive Firebox.**

Magnavox Company—Report—Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill.

Midland Realization and **Midland Utilities Common** — Revised bulletin—Doyle, O'Connor & Co., Inc., 135 South La Salle Street, Chicago 3, Ill.

The Miller-Wohl Company, Inc.—circular on this operator of a chain of retail stores selling popular-priced women's and children's apparel—Hardy & Co., 30 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 Lime Co.—Brief study of leverage possibilities—Dayton Haigney & Co., 75 Federal Street, Boston 10, Mass.

Ohio Water Service—Memorandum—Otis & Co., Terminal Tower, Cleveland 13, Ohio. Also circulars on **Leland Electric, U. S. Truck Lines, Inc.,** and **Standard Stoker Co.**

Reda Pump — Memorandum — Buckley Brothers, 1529 Walnut Street, Philadelphia 2, Pa.

Also memoranda on **Gear Grinding Machine and Textiles, Inc.**

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.

Tybor Stores — Analysis — Raymond & Co., 148 State Street, Boston 9, Mass. Ask for analysis TS.

Vinco Corp.—Circular—James M. Toolan & Co., 67 Wall Street, New York 5, N. Y.

Wellman Engineering Co.—circular — Wm. J. Mericka & Co., Inc., Union Commerce Building, Cleveland 14, Ohio.

Wellman Engineering Co.—circular—Simons, Linburn & Co., 25 Broad Street, New York 4, N. Y.

Morris Newman Back at Desk in New Orleans

NEW ORLEANS, LA. — Morris W. Newman, who has been serving as a Major in the Army Air Corps for the past four years, has resumed his duties as an officer of Newman, Brown & Co., Inc., Hibernia Bank Building.

Degenstein Rejoins Newburger & Hano in New York

Newburger & Hano, members of the New York Stock Exchange, announce that Major Lester E.

Lester E. Degenstein

Degenstein, recently released from the armed forces, has rejoined the firm as a general partner. He will make his headquarters at the New York office, 39 Broadway.

Prior to his military service, Mr. Degenstein was located in the Philadelphia offices of the firm.

Dr. Szygowski With McMaster Hutchinson

CHICAGO, ILL. — McMaster Hutchinson & Co., 105 South La Salle Street, members of Chicago Stock Exchange, announce the association with their firm of Dr. Julius Szygowski, former Consul General of Poland in Chicago. Dr. Szygowski's consular service with Poland during the last 20 years began as Vice-Consul to Czechoslovakia and extended through Mexico as attache, back to Warsaw from 1931 to 1933 in the Foreign Office and then to Chicago as Consul until 1936. After a year as Consul in New York City, Dr. Szygowski was appointed Consul General of Western Canada with headquarters in Winnipeg until last year when he was appointed Consul General of 16 States in the Mid-West, headquarters in Chicago.

Dr. Szygowski's association with the firm was previously reported in the "Financial Chronicle" of Nov. 1.

Johnston V.-P. of Mullaney, Ross Co.

CHICAGO, ILL. — Mullaney, Ross & Co., 135 South La Salle Street, investment banking firm, announces the appointment of Major Frederick W. Johnston as a Vice-President. Major Johnston served overseas with the 158th Infantry during World War I and was recently released from the Army Air Forces, after serving over three and one-half years. Previous to his being commissioned in 1942 he was for 18 years in the investment banking business in Chicago.

Jas. Hendrix Resumes At Hendrix & Mayes

BIRMINGHAM, ALA. — James R. Hendrix, who has served as Lieutenant Commander in the U. S. Navy in the Pacific area for the past three years, is now back at his desk at Hendrix & Mayes, Inc., First National Building, of which he is Vice-President.

Joins The Ohio Company

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, O.—**Howard V. White** has rejoined the staff of **The Ohio Co.,** 51 North High St. after serving in the armed forces.

Responsibilities for Post-War Financing

By CLARENCE H. ADAMS*

President, National Association of Securities Commissioners

Holding That Furnishing Adequate Capital for Legitimate Business Is Vital to the Whole Scheme of Our National Life, Commissioner Adams Outlines the Responsibilities of Investment Banking and the Securities Commissioners in the Placement of Investments Among Investors and in Protecting War-Time Savings. Says Securities Industry Will Fulfill Its Responsibility If Not Shackled by Undue Restrictions and Regulations and Upholds NASD's Recent Action Requiring Registration of Traders and Salesmen Employed by Members. Maintains Freedom of Action Is Essential in Investment Field and Calls for Coordination and a Mutual Understanding of Each Other's Problems by the State and the Federal Securities Departments.

We meet in Annual Convention for the twenty-eighth time as an Association of Securities Commissioners of the States of the United States. It is altogether appropriate and fitting that we should hold our first post-war conference in the City of Chicago, for our Association was organized here on March 18, 1918, during the First World War.

Clarence H. Adams

The year has brought many changes in the personnel of our membership, and we cordially welcome the new members who have qualified since our last meeting, as well as those from states which have not hitherto taken an active part in the work of our Association. We are delighted to see several representatives of the Dominion of Canada and its Provinces. To the new, as well as the old members, let me say that it is your meeting, and the benefits derived therefrom will be measured largely by the effort each one of you puts into making its deliberations a success. I urge you, therefore, to enter freely and frankly into the discussions of the subjects presented in the full assurance that your opinions will be gratefully received and respected. It is also gratifying to see so many guests representing organizations having relation to our work. To each and every one of you, I extend a hearty welcome, and I earnestly hope that you too will actively participate in the discussions at this meeting. We are always delighted to have you with us. We have found you to be most helpful, and hope you derive benefits through knowing us better and gaining our viewpoint in matters relating to securities regulation.

With amazing suddenness, the war ended. We are all reverently thankful that right has prevailed over the ambitious greed and cunning rascality of international gangsters and once again we enjoy the benefits of that age-old theme, "Peace on Earth, Good Will Among Men." It is neither my province nor purpose to review generally those long, anxious and weary years, or to dwell upon the happiness and gratitude that we have all felt during the past few months, or to pay high tribute to the part our military and productive might took in achieving such a glorious victory against such ruthless enemies on both sides of the world. The mention of them only serves to emphasize that we are now in that indefinite period of history we have all been thinking about and discussing—"the post-war period." So we have selected as a general theme for this Conference what we consider to be a most timely and appropriate subject, "Financing in the Post-War Period and the Protection of Wartime Savings." The subject of furnishing adequate capital for legitimate business and

(Continued on page 2488)

*An address by Commissioner Adams at the Annual Convention of the Association of Securities Commissioners, Edgewater Beach Hotel, Chicago, Ill., Nov. 16, 1945.

Wm. J. Mericka & Co. and Goshia & Co. Acquire Control of Bingham Stamping Company

TOLEDO, OHIO—The sale of controlling stock in the Bingham Stamping Company was announced today. Wm. J. Mericka & Co., Inc., of Cleveland, and Goshia & Co. of Toledo, have purchased approximately 53% of the outstanding shares of the company from the estate of C. O. Miniger and associated interests at $9.50 per share.

An offer to purchase the balance of the outstanding stock at the same price is being mailed to all other shareholders today. This offer will expire on Nov. 30.

The purchasers announced that there would be no change in the present operating personnel or the policies of the company. The executive personnel is composed of Louis E. Yunker, President and General Manager; George R. Roesch, Vice-President, and Elmer R. Baur, Treasurer, all of whom are retaining their present stock interest.

The stock was purchased as an investment.

"Financing Small Business"

By JOHN F. FENNELLY*

Glore, Forgan & Co.

In Pointing Out the Role of Investment Banking in the Attainment of an Economy of Full Employment, Mr. Fennelly Stresses the Need for New Capital Flotations, Estimated at $40 Billions, in Addition to Refundings and Foreign Loans. Says This Will Create a Strain on Investment Bankers and Urges That No Unnecessary Impediments Be Placed Upon Flow of Capital. Holds Problem of Small Business Financing Can Be Solved Not by Exemptions From Registrations but by Simplifying and Streamlining Federal and State Regulations and by Confining These Regulations to Protection From Frauds. Upholds Use of Stock Warrants as Compensation for Underwriting Small Issues and Calls for Mutual Understanding Between the Securties Industry and Regulating Authorities.

I am delighted and flattered by the opportunity to address you here today. It seems to me quite clear that the securities commissioners of the nation and the members of the investment banking fraternity must share together some very serious responsibilities during the years that lie immediately ahead. It is important that each of our two groups understands clearly the nature of these responsibilities and be prepared to carry out its appropriate part of the common task.

John F. Fennelly

By universal agreement the number one domestic problem which we face now that peace has returned is to find ways and means of attaining and maintaining satisfactory high levels of employment within the framework of our free society. It is a problem which will challenge the best in all of us, and which will require the utmost in cooperation among all segments of our economy; business, labor, agriculture, and last but not least, government at the national, state and local levels of authority.

During the past few years the American people have become generally aware of the importance of the post-war employment problem. We have been advised by many experts that the attainment of a satisfactory employment goal will mean an expansion of national output of goods and services somewhere between 30 to 50% over the immediate pre-war levels. Stated in dollars, this means we must raise our national income to somewhere around $140 to $150 billions in terms of present price levels, if we are to avoid a return of the spectre of mass unemployment which haunted us during all of the Thirties.

Role of Investment Banking in Full Employment

In public discussions of this problem too little attention has been paid to the vital role which must be played by all those who originate, distribute and supervise

*An address by Mr. Fennelly before the Convention of the National Association of Securities Commissioners, Edgewater Beach Hotel, Chicago, Nov. 17, 1945.

(Continued on page 2489)

Illinois Personnels

(Special to THE FINANCIAL CHRONICLE)

AURORA, ILL. — **Edwin F. Mathieu** has joined the staff of **William H. Flentye & Co., Inc.**, Graham Building, after service in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—**Frederick J. King** and **Edwin A. Stephan** have become associated with **Fred W. Fairman & Co.**, 208 South La Salle St. Mr. King has recently been with the Office of Price Administration. Mr. Stephan was formerly a trader with Kebbon, McCormick & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — **Harold F. Miller** has joined the staff of **Glore, Forgan & Co.**, 135 South La Salle St. Mr. Miller has recently been in the armed forces.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Franklin G. Emrick has become associated with Fred W. Fairman & Co., 208 South La Salle Street. Mr. Emrick has recently been with the Reconstruction Finance Corporation. In the past he was with Mason, Moran & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL—Major Charles S. Galbreath has joined the staff of Merrill Lynch, Pierce, Fenner & Beane, Board of Trade Building.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Sidney Ginsberg has become affiliated with Norman Mesirow, 135 South La Salle Street.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Paul J. Adelson has rejoined Rothschild & Co., 135 South La Salle Street, after two and one-half years of service in the U. S. Army.

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, ILL.—James E. Hanselman has rejoined A. G. Edwards & Sons, Meyers Building, after two years' service in the U. S. Army.

Soos to Manage Dept. At Seasongood & Haas

Seasongood & Haas, 63 Wall St., New York City, members of the New York Stock Exchange, announce that George G. Soos, formerly with Reynolds & Co., is now associated with them as manager of their research department.

New Teletype for O. C. Johnson, Spokane

SPOKANE, WASH.—O. C. Johnson, Peyton Building, has installed a new teletype, Bell System SP 184.

Canadian Securities

By BRUCE WILLIAMS

Are the economic problems of the British Commonwealth best solved by brilliant universal planners? With regard to Canada's proposed future trade relations with Britain it would appear that the contrary is suggested. In short the Dominion's record of filial devotion to the Mother Country is to be coldly disregarded. Britain is prepared to buy from Canada to the extent only that Canada buys from Britain. The willingness of the Dominion to bridge by credits Britain's temporary lack of Canadian dollars is unacceptable in Lord Keynes' ruthless scheme for Britain's economic survival.

So far the plan is practical albeit somewhat smacking of ingratitude. When however it is suggested that Canada establish branch plants in Britain to augment the British fund of Canadian dollars and thus permit maintenance of Canadian trade with Britain, the door is closed on wisdom and reason.

Admittedly Britain is momentarily economically impoverished but never was there such urgent necessity for the employment of British financial and commercial genius, which created in the City of London the center of world trade and finance. This was not achieved by professorial planning and bureaucratic state direction.

The practical business men and bankers who built up Britain's trading empire by unfettered individual enterprise would plan along entirely opposing lines. Instead of Canada going to Britain, Britain would go to Canada. What are the great Canadian economic assets? . . . her vast forests, her almost limitless resources of diversified minerals, her vast tracts of fertile soil, and last but not least her unrivalled hydro-electric power reserves and ideal factory sites. What are the outstanding Canadian deficiencies? . . . population, and the need of industrial expansion and greater exploitation of her undeveloped resources. Britain's surpluses of population and technical skills form the natural complement to Canada's corresponding deficiencies.

Moreover it must not be lost from view that with the coming of the air age Canada, situated at the center of the air-map, should logically displace the British Isles as the economic hub of the British Empire. The individual enterprise which has just established in Canada Britain's leading aircraft manufacturers, the Hawker-Siddeley group and the world famous firm of Rolls-Royce, are straws in the wind which indicate the natural trend.

Turning to the market for the past week, the belated upsurge finally got under way. All sections were beneficially affected. Institutional demand for high grades has accumulated to such a degree that only part can be satisfied at the current price level. After their recent slight recession Albertas made a strong recovery. The market supply of Montreals was completely absorbed and the way now seems clear for further steady advance. Saskatchewans, which have long been neglected, also shared in the general activity and changed hands at higher prices.

Internals were comparatively inactive but steady investment demand for internal bonds is likely to keep free funds at their peak point of 9¼-9⅛%, especially with the increasing confidence that sterling will be maintained at its current level.

With regard to future prospects, the rapidly declining yields and shrinking coupons on comparable domestic issues make Canadian bonds, with their large coupons and the multiple payment feature of most external issues, increasingly attractive for portfolio leavening purposes.

Menhall a Director of Liberty Aircraft

The election of E. A. Menhall, President of Highway Trailer Company, as a director of Liberty Aircraft Products Corporation, was announced by Oliver H. Payne, Chairman of the Board of Liberty. In this connection Mr. Payne disclosed that Liberty has acquired practically all of the outstanding common stock of Highway Trailer, incident to a postwar program of product diversification for Liberty which will enable Liberty to convert its surplus facilities at the Long Island plant to the output of freight trailers and other Highway Trailer products for distribution in the East.


E. A. Menhall

Liberty Aircraft previously owned about 62% of the common stock of Highway Trailer, which operates plants at Edgerton and Stoughton, Wis., and produces, in addition to trailers, public utility line construction equipment for the telephone, telegraph and power industries.

Diversiform Dishonesty

By EDWARD H. CASHION*

Counsel, Corporation Finance Division
Securities and Exchange Commission

Defining Fraud Under the Investment Company Act, Mr. Cashion Cites Cases Against United Funds Management Company, the First Investment Company of Concord, and the Aldred Investment Trust as Instances of Court Action Instigated by the SEC, Which Put a Stop to Dishonest Management. Holds the Investment Company Is Important in Our National Economy and Says Their Practice Standards Have Been Greatly Improved. Advocates a Broad Concept of Fraud, Without Strict Definition and States That at No Previous Time Has the Bulging Public Pocketbook Looked So Inviting to "Get-Rich-Quick Wallingfords"

At past meetings you gave me the opportunity to discuss with you certain aspects of fraud and dishonesty in connection with securities transactions. It is a problem which undoubtedly will be present in our economy so long as there exists a scramble for profits and power. It is a problem which day in and day out increases your responsibilities and burdens as it does ours. So long as there is any money in the public pocketbook, those who would promote ventures for their own profit will engage in fraudulent and deceitful practices in spite of any statutory attempt to prohibit them.


Edward H. Cashion

We are all fairly familiar with the great variety of fraudulent schemes designed to circumvent the various Federal and State securities laws in selling securities. We have been very successful in bringing to justice those who indulged in such schemes and, as Chairman Purcell said to you yesterday, "We may all be justly proud of the extent to which fraud has been suppressed."

In addition to its disclosure requirements the Securities Act of 1933, as you well know, was designed to prevent fraud in the distribution and sale of securities. The fraud prevention and disclosure provisions of that Act were strengthened by the enactment of the Securities Exchange Act of 1934. Last year I discussed Rule X-10B-5 adopted by the

(Continued on page 2471)

*An address by Mr. Cashion before the National Association of Securities Commissioners, Chicago, Ill., Nov. 17, 1945.

The Stock Broker, the Public—and Regulation

By WILLIAM M. COOPER*

President, Stock Brokers Associates of Chicago

Mr. Cooper Describes the Functions and Activities of the Stock Brokers' Associates of Chicago and Outlines the Educational Background and Experience of Customers' Men That Will Best Serve the Public's Investment Needs. Maintain That the Customer's Man Is Best Equipped to Serve the Public in Establishing Confidential Relations Between Brokers and Customers. Says We Must Guard Against Regulating Ourselves Out of Fundamental Rights and Contends That Securities Business Is Now Done "in the Goldfish Bowl."

It is a pleasure and a deeply appreciated honor for me to appear before you this afternoon. Our organization, The Stock Brokers' Associates of Chicago, welcomes this rare opportunity to tell you who we are and why we are, and in addition, some of the things we have learned ities, the public and regulation.


William M. Cooper

Our membership consists solely of Registered Representatives of firms holding memberships on Registered Stock Exchanges, chiefly, of course, the New York Stock Exchange, New York Curb and Chicago Stock Exchange. We, as a group, are very exclusive. Partners are ineligible. We do not represent the capital in the business. We DO represent what we believe to be a very important segment of the American Securities Industry—the direct contact with the American public. In the Securities Industry we are the connecting link between the financial needs of American Business on the one hand and the great American Investing Public on the other hand. Our experience and background and therefore our viewpoint and attitude, may differ from yours just as it may differ from that of the Board of Governors of the New York Stock Exchange on matters of detail, method or approach, but the objectives and aims of all of us are the same—how best to serve the financing needs of business, and the investment needs of the public; the maintenance of orderly markets, liquid markets, honest markets and the conduct of our business on a high ethical plane, second to none.

I never tire talking of the securities business—more particularly the Stock Market, yet it is surprising how many people—yes even people in our business—fail to grasp the fundamental significance of what the market is all about. Too many people have a vague feeling that its ups and downs are a meaningless, senseless affair. I am reminded of a story—To the uninformed public the daily ups and downs of our markets are just as hard to understand. It is not my purpose here to go into the highly interesting subject of what makes a stock worth so much. I believe we all agree that the best interests of the country are served by maintain-

(Continued on page 2490)

*An address made by Mr. Cooper before the National Association of Securities Commissioners, Edgewater Beach Hotel, Chicago, Ill. on Nov. 16, 1945.

Ohio Municipal Comment

By J. AUSTIN WHITE

To sit in a hotel lobby in Findlay and write about Ohio municipals when one could be hunting pheasants, is carrying the line of duty too far. But, if this comment is no more boring to the one (we had almost said ones) who reads it, than to the one who is writing it, perhaps we can both stand a few minutes of it until the rain stops and we can get back out in the field.

J. Austin White

The most important, and at the same time the most welcome news to those who like to buy and handle Ohio municipals is the fact that a good many bonds were voted here on Nov. 6, and we hope that the supply of good Ohio names suited to the Ohio market will be worthwhile — if only we do not have to wait too long to get some of the bonds that were voted.

On election day this year a total of $105,763,378 of bonds was submitted to the voters in this state. The latest report we have seen of the Ohio Municipal Advisory Council (which is the most reliable source of information about Ohio municipals, and is used by specialists in Ohio bonds in preference to any other source, even in preference to "official" statements of public officials) covers $102,172,237 of these bonds, with preliminary and in some cases unofficial figures. This report indicates that $77,315,037 of bonds were approved and $24,857,200 were not approved. In the entire year of 1944 a total of $57,102,664 of bonds was submitted with $53,724,164 approved.

The amount approved in 1944 had set an all time high record, but some $25,000,000 more bonds were voted 11/6/45 than were voted even in 1944. When one considers that many of the bonds voted in 1944, and some voted even before then, have not yet been issued, due largely to the inability to secure materials for construction, it is obvious that when this backlog of issues is added to the large total voted this year, the supply of Ohios that will be available should be much larger than during the past couple of years.

It is difficult to predict when these issues will actually become available. Many of the bonds will be issued over a period running up to five years. For example, Columbus city and school district and Franklin County voted $24,700,000 this year for comprehensive postwar plans that contemplate construction spread over several years. Dayton city and school district and Montgomery County voted $13,500,000 of bonds with similar plans. Last year Cincinnati city and school district and Hamilton County voted $41,000,000 of bonds to be issued over a period of five years (and $9,000,000 of the total were sold this year).

We anticipate, however, that Ohio bonds should start coming into the market in larger volume by January, 1946, and that the volume should increase gradually in the following months, so that the supply should be worthwhile throughout 1946.

It may be interesting, and worthwhile, to consider the comprehensive territory and names covered by recent approvals. Of the $53,724,164 of bonds voted in 1944 large issues of $1,000,000 or more accounted for $46,980,000, leaving only $6,744,164 of small issues. On the other hand, of the $77,315,000 so far reported approved on 11/6/45, large issues of $1,000,000 or more account for $58,046,000, leaving $19,269,000 of smaller issues.

If one assumes that the large issues will be sold in the general municipal market, and the small issues will generally be sold around in Ohio, then one can see at a glance that almost three times as many bonds that can be expected to sell in the Ohio market were voted 11/6/45 as were voted in 1944.

Actually, we reckon that the supply of Ohio bonds that can be expected to sell in the local Ohio market will be some four or five times the volume we have seen during the past two or three years.

In talking with a few bankers since the election, who are largely buyers of Ohios, we have found none who is concerned that this increase in the supply of Ohios will cause prices to recede. Moreover, the supply of Ohios that may be available in the general municipal market will not, in our opinion, cause the price level to recede. In the first 10 months of 1945 some $688,000,000 of new issues of municipals are reported to have been sold over the country. In comparison with such a volume of bonds neither the $78,000,000 voted in Ohio this year, nor the total of this amount and the $54,000,000 voted last year, would seem to cause much overall increase. Moreover, from information we have, subdivisions in other states did not vote bonds (nor even submit them to the voters) in such volume as we have here in Ohio.

Probably the best news for local Ohio buyers, is that there should be a larger variety of names offered in the next year or two, including some very choice credits. However, with the market as barren as it is now, and as it has been for many months, at least the early issues of choice names should be snapped up without much chance for a buyer to shop around, or to wait and consider.

Ohio Municipal Price Index

Date—	*	†	‡	§
Nov. 14, 1945	1.32%	1.50%	1.15%	.35%
Nov. 7	1.33	1.51	1.16	.35
Oct. 31	1.34	1.51	1.16	.35
Oct. 24	1.35	1.52	1.17	.35
Oct. 17	1.36	1.54	1.18	.36
Sep. 19	1.38	1.58	1.18	.40
Aug. 17	1.40	1.62	1.17	.45
July 18	1.22	1.42	1.02	.40
June 20	1.20	1.39	1.01	.38
May 16	1.19	1.35	1.02	.33
Apr. 18	1.19	1.34	1.03	.31
Mar. 14	1.27	1.43	1.11	.32
Feb. 14	1.30	1.47	1.14	.33
Jan. 17	1.33	1.49	1.17	.32
Dec. 13, 1944	1.34	1.51	1.18	.33
Nov. 15	1.36	1.53	1.19	.34
Jan. 1, 1944	1.41	1.58	1.23	.35
Jan. 1, 1943	1.83	2.01	1.65	.36
Jan. 1, 1942	1.92	2.13	1.70	.43
Jan. 1, 1941	1.88	2.14	1.62	.52
Jan. 1, 1940	2.30	2.58	2.01	.57
Jan. 1, 1939	2.78	3.33	2.24	1.09
Jan. 1, 1938	2.98	3.42	2.55	.87

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

Foregoing data compiled by J. A. White & Co., Cincinnati.

Stanton Aby Rejoins Kalman Municipal Dept.

MINNEAPOLIS, MINN.—Stanton Aby has again become associated with the Municipal Department of Kalman and Company, McKnight Building, Minneapolis, after serving as First Lieutenant in the Finance Corps of the United States Army for over three years, it is announced.

Ohio Brevities

M. A. Hanna Co., Cleveland coal, ore, dock and vessel company, has notified common stockholders that a total of $3,055,000 has been set aside for the purchase of up to 65,000 shares of the company's common at $47 a share.

The letter stated "There are now some estates that are owners of Hanna common stock that desire to sell some of this stock along with other securities to raise money for inheritance tax payments. They are willing to accept $47 a share for some substantial blocks of the shares although the current market for more limited amounts of stock is quoted at from $53 to $55 per share.

"We are not asking any stockholder to sell his stock, we are simply presenting the opportunity in accordance with the terms of the charter, under which every stockholder is entitled to an equal opportunity to sell his stock at the same price."

* * *

Directors of the Federal Reserve Bank of Cleveland have elected William H. Fletcher as First Vice-President, President Ray M. Gidney announced.

Fletcher moves into the post formerly held by Reuben B. Hays, who resigned for the position of Executive Vice-President of the First National Bank of Cincinnati, eighth largest in the Fourth Federal Reserve district.

Fletcher as Vice-President was in charge of bank examinations, bank relations, and the credit, loans and discounts departments. He was a national bank examiner in 1918 when he joined the Federal Reserve Bank as manager of its accounting department.

Hays, who will leave the bank Nov. 30, after ten years on the staff, began his business career as a public relations executive in New York City soon after graduating from Columbia University in 1925.

* * *

Acquisition of three companies in and near Cleveland was reported in the past two weeks.

Maguire Industries, Inc., with six plants throughout the East and two in Illinois, purchased the Radiart Corp. of Cleveland, manufacturer of radio parts and accessories, according to President Russell Maguire.

The Maguire company has bought all common and preferred stock of the company from Louis K. Wildberg and William H. Lamar and will operate Radiart as a wholly-owned subsidiary.

Radiart is the fifth company to be acquired this year by Maguire, an industrial enterprise created by the President in 1939 without government financing or funded debt. It has expanded into electronics, railroad aviation and marine communications equipment, radio-phonographs, automatic record changers, powder metallurgy items, centrifuge separators and similar products.

The second Cleveland concern is Industrial Fabricators, Inc., acquired by Woodall Industries, Inc., of Detroit. The price was not disclosed but the Cleveland company had sales of approximately $1,000,000 annually. Woodall makes and processes materials used in automobile interiors and sound absorptive substances.

H. B. Salter Manufacturing Co. of Marysville, O., has taken over the Glauber Brass Manufacturing Co. of Kinsman, O., adding 45,000 square feet to its 105,000 square feet of space. The consolidated facilities will be used for the production of a complete line of brass plumbing goods.

* * *

White Motor Co. made two important announcements.

First, construction has started on a new $1,000,000 plant for the manufacture of White Motor trucks and busses in Montreal, Canada.

The company's trucks and busses have been partially built in Canada ever since the earliest days of the automotive industry, but the new facilities will permit the production of component parts as well as complete vehicles, the statement said.

The other announcement was the appointment of William J. Cumming as superintendent of field service operations.

Cumming, for three years chief of the maintenance section of ODT, has had extensive experience in the motor transportation field. He is the author of a book on "Automotive Diesel Maintenance" and has written many technical articles for national publications. Besides, he designed the first U. S. Army 4x4 truck in 1920.

* * *

W. R. McKenney was promoted to sales promotion manager of Glidden Co. He is a veteran in the paint and varnish industry, having been connected with the Forbes Varnish Co. for the past 20 years.

* * *

L. A. Woolsey, Vice-President and sales promotion manage of the White Sewing Machine Co., announced appointment of George O. Gould as advertising manager of the company.

H. Ream Baker Forms Own Firm in L. A.

LOS ANGELES, CALIF.—H. Ream Baker has formed H. R. Baker & Co. with offices at 210 West Seventh Street, to engage in a securities business. Mr. Baker was senior partner of the former firm of H. R. Baker & Co. from 1933 to February 1945.

Sidney Congdon Heads Ohio Bankers Group

CLEVELAND, OHIO—The new Chairman of Group Nine of the Ohio Bankers Association is Sidney B. Congdon, President of the National City Bank of Cleveland.

Paul Jones of the Phoenix Bank of Medina, O., was elected Vice-Chairman and Louis A. Wild of the Union Bank of Commerce of Cleveland, was renamed Secretary-Treasurer.

Among the several speakers were E. T. H. Bennett, Vice-President of the Peoples-Pittsburgh Trust Co., Pittsburgh; N. R. Howard, editor of the "Cleveland News"; Russell Weisman, chief editorial writer of the Cleveland "Plain Dealer"; H. E. Cook, Ohio State Superintendent of Banks; Harold Bredlow, Executive Secretary of the Ohio War Finance Committee, and David M. Auch, Secretary of the Ohio Bankers Association. Group Nine takes in nine northeastern Ohio counties.

Warren Wick Mgr. of Goodbody Dept.

CLEVELAND, OHIO — Warren C. Wick, connected with Cleveland banking for 30 years, has been placed in charge of the bond department of Goodbody & Co., National City Bank Building.

Mr. Wick, who started his banking career as manager of the new business department of the old First National Bank, leaves Curtiss, House & Co., where he has been the last ten years. He is Vice-President and a director of Wick Investment Co.

C. A. McLaughlin Forms Firm

Charles A. McLaughlin has formed McLaughlin Securities Co. with offices at 2 Broadway, New York City, to engage in the securities business.

War Financing—Some Implications for the Future

By DANIEL W. BELL*

Under Secretary of the Treasury

Treasury Official Reviews War Financing and Estimates That of $323 Billions of Government Spending, $133 Billions Came From Taxes and Deficit of $190 Billions Was Covered by Borrowing. Holds Government Loans Were "Tailored" to Suit All Classes of Investors and Each Class Holds Securities Appropriate to It. Sees No "Inflationary Dollars" in the Expansion of Currency and Bank Deposits and Contends Low Interest Rates Are Generally Beneficial and Business and Individuals Are in Healthier Condition Than Ever Before. Hopes for Treasury Surplus to Retire Debt Continuously.

It is a pleasure to be here today to speak to the members of the Association of Stock Exchange Firms. I know that you folks have worked hard to help put across our war bond drives, and I want to express the appreciation of the Treasury for your fine cooperation.

Daniel W. Bell

I would like to speak to you this evening about the sources of war financing and the implications for the future. The post-war management of the debt really began when war financing started. How the debt was distributed by investor classes, the maturity structure of the debt, the interest rate policy—these are all important factors which had to be determined step by step in financing the war, and which, together, determined post-war management of the debt at its very core. It is like putting up a building—you must do your planning in the blueprint stage in order to have the building successfully arranged when it is completed.

You members of the financial community are closer to this subject than are most of our citizens. I hope you will bear with me as I draw on a good many figures in an effort to analyze the financing story from the point of view of the income flow of the country and the integration of the war bond program to that income flow.

For convenience, let's begin by reviewing the size of the job from July 1, 1940, when the defense program began, to June 30, 1945, the approximate end of the Seventh War Loan. In these five fiscal years the Federal Government spent in all $323 billion, of which $290 billion was directly for national defense and for war. Of the remaining $33 billion, slightly over half was for items indirectly connected with the war—interest on the public debt, veterans' benefits, and tax refunds—with the other half covering mostly the regular costs of government.

As against $323 billion of expenditures, tax receipts brought into the Federal Government $133 billion, leaving a deficit of $190 billion. You know that this deficit was financed mainly by war loans and a regular payroll savings program as well as by offerings of securities in the market in the early part of the period. What have been the effects of this financing on the economy during the war? What are the implications for the future?

The tremendous importance of Government buying in the market place during the war period is evident from the fact that Federal Government spending accounted for $323 billion out of aggregate spending of $833 billion during the five-year period. This latter figure, by the way, would be cited by the statisticians as 8/10ths of a trillion dollars. These figures show that the Government accounted for close to 40% of the aggregate spending taking place throughout the country. The remaining $510 billion of spending was accounted for by $428 billion of spending by consumers, $41 billion by business for capital goods, and $41 billion by State and local governmental units.

The Government share of total spending in this war reached a peak of almost 50% in the fiscal

(Continued on page 2486)

*An address by Secretary Bell before the Association of Stock Exchange Firms at the Hotel Commodore, New York City, Nov. 19, 1945.

Geo. Jacquemot V.-P. of Distributors Group

George A. Jacquemot has been elected a Vice-President of Distributors Group, Incorporated, 63

Geo. A. Jacquemot

Wall Street, New York City. His election to this post marks his return to the organization after more than three years of military service, in the European theater as a commanding officer of an L. S. T. and subsequently as a commander of a group of L. C. I.'s in the Pacific.

Boston Forum On Open-End Inv. Cos.

BOSTON, MASS.—Vance, Sanders & Co. announce that the two and one-half day educational conference, to be held in connection with this year's Boston Forum on open-end investment companies will open Wednesday morning, Dec. 5, and conclude with the Forum on Friday afternoon, Dec. 7. All sessions of the conference, designed primarily as a "refresher course" for former servicemen, will be held in the charter room of the New England Mutual Building, Boston.

Henry T. Vance, of Vance, Sanders & Co., will open the morning session on Dec. 5. Mayo Adams Shattuck, an authority on trustee practice, will be a speaker and Vernon B. Hitchins, trust officer of the State Street Trust Co., Boston, will discuss the custody of assets of open-end investment companies.

At the afternoon session on that day, Warren Motley of the law firm of Gaston, Snow, Rice & Boyd, will speak on "Federal Regulation of Investment Companies." Harry I. Prankard, of Prankard & Zimmerman, accountant and auditors, will speak on "Federal Taxation of Investment Companies and their Shareholders."

On Thursday morning, Dec. 6, Charles F. Eaton, Jr., of Eaton & Howard, Inc., investment counsel, will discuss "Managing the Investment Portfolio of the Investment Company." Henry W. Dunn, Professor of Finance Emeritus of the Harvard Graduate School of Business Administration, will speak on "Fallacies and Facts About Common Stock Investment."

On Thursday afternoon, the speakers will be Dorsey Richardson, Vice-President of the Lehman Corporation, who will review aspects of closed-end investment companies. Merrill Griswold, Chairman of Massachusetts Investors Trust, will talk on "Dividend Policies of Open-end Investment Companies—Are Capital Gains Distributions Spendable Income."

The Friday morning session will be devoted to a forum-type discussion of "Venture Capital." Speakers will include Charles C. Abbott, Associate Professor of Business Economics, Harvard Graduate School of Business Administration, and James J. Minot, partner of Paine, Webber, Jackson & Curtis, who will discuss "Venture Capital—The Investment Banker and the Investment Trust."

All sessions of the conference will be open to investment dealers and their salesmen generally, as well as to returning servicemen.

Investments Discussed

By ROGER W. BABSON

Mr. Babson Recommends Investment of Funds in Diversified List of Dividend-Paying Common Stocks and Victory Bonds.

This column is no place to discuss investing for profits. Stock market profits are too risky for a reader to strive for without competent impartial advice. Readers are, however, justified — even from a safety point of view — in putting part of their money in good dividend-paying stocks listed on the New York Exchange.

Roger W. Babson

Why Buy Stocks

Interest rates on savings are now very low. The best banks pay only from 1 to 2%. No interest is received on checking accounts. Most good corporation bonds yield much more than government bonds. I do not care much for preferred stocks unless they are noncallable. This means that if one has $1,000 to invest he would do well to put $500 in Victory Bonds (my cousin Paul T. Babson figures the "E" U. S. Bonds yield 3.30%) and $500 in the capital stock of some good dividend-paying company listed on the New York Stock Exchange.

As an illustration, I mention the following 32 companies which have paid dividends every year for over 40 years:

American Tel. & Tel. (utility).
Borden Co. (food prod.).
Colg.-Palm.-Peet (soap mfg.).
Commonw. Edison (utility).
Cont. Insurance (insurance).
Diamond Match (misc.).
Dow Chemical (chemical).
Eastman Kodak (misc.).
General Elec. (elec. equip.).
Ins. Co. of N. Amer. (insurance).
Kroger Grocery (ret. trade).
National Biscuit (food prod.).
Norfolk & Western (railroad).
Otis Elevator (mchy. & equip).
Parke, Davis (drug prod.).
Pennsylvania RR. (railroad).
Pennsylvania Salt (misc.).
Pepperell Mfg. (textile).
Pfizer (Chas.) (chemical).
Philadelphia Electric (utility).
Pitts. & Lake Erie (RR.)
Pitts. Plate Glass (glass mfg.).
Procter & Gamble (soap mfg.).
Pullman, Inc. (rail equip.).
Sherwin-Williams (paint var.).
Standard Oil Indiana (oil).
Standard Oil N. J. (oil).
Texas Co. (oil).
Union Pacific (railroad).
United Fruit (food prod.).
West Va. P. & P. (paper mfg.).
Westinghouse Air Br. (rail. eq.).

Importance of Diversification

The $500 above mentioned should, however, be divided among five, or perhaps ten, good stocks. Looking back over the 40 years during which time I have invested for clients probably several billion dollars, I have been greatly impressed by the importance of diversification. This means that you should not put all your eggs in one basket.

If you have good dividend-paying stocks, well diversified, and invest whenever you have the money, irrespective of market conditions, you should average up well in the long run. In such a case, however, you should forget all about booms and panics and not be bothered about quotations or what your friends say about the stock market. Buy stocks for safety and yield.

How to Diversify

The most important feature of diversification is the proper distribution of funds between investments which are fairly stable in their price action on the one hand, and those which historical experience has taught us will prove volatile in their price actions on the other hand.

Generally speaking, I advise working along the lines of reducing commitments in the railroad, coal, automobile, airplane manufacturing and household appliance industries. A careful scrutiny of the selling prices for many stocks leads me to the conclusion that prices are beginning to outrun even the most optimistic estimates of future earnings.

What Industries Look Best

In my opinion, the following industries are favorably situated and the prices of their stocks have not generally discounted prospects:

Railway equipment
Oil
Labor saving machinery
Steel
Copper
Electrical equipment
Variety chains
Chemicals
Casualty insurance

However, it is never wise to select a group of stocks merely on industry prospects. Seemingly adverse developments may oftentimes help a given industry. For example, if the Full Employment Bill should pass as originally drawn, the effect of such spending would be very stimulating to a number of lines, including variety and food chains.

While the effects of inflation will be evident everywhere in 1946, I warn against over-optimism. During recent years, I have continually urged readers to maintain a large part of their assets in common stocks. Next year many thoughtless speculators may be attracted to the stock market, but they may find they are coming in at the end of the party. The wise investor will use periods of over-optimism and high spirit to batten down his hatches and prepare for the coming storm. Proper diversification is the first step in such a constructive program.

Denver Dealers Will Hear Harold H. Young

DENVER, COLO.—Harold H. Young, Eastman, Dillon & Co., New York City, will address a joint luncheon meeting of the Rocky Mountain Group of the Investment Bankers Association and the Bond Club of Denver on Dec. 4. Mr. Young will speak on the subject of public utilities.

The meeting will be held on Tuesday, Dec. 4, at 12:30 p.m. in the Mural Room of the Albany Hotel. As reservations are a definite problem, it is urged that all planning to attend purchase their luncheon tickets well in advance as the number available is limited.

Tickets may be obtained from Bernard Kennedy, Bosworth, Chanute, Loughridge & Co.; Elsie Pulham, Boettcher & Co.; Edward Hanifen, McCabe, Hanifen & Co.; Ernest Stone, Stone, Moore & Co.; Philip Clark, Amos C. Sudler & Co.; or Earl M. Scanlan, Earl M. Scanlan & Co.

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION

NATIONAL SECURITY TRADERS ASSOCIATION

The Chairmen of all Committees are asked to sit in at the meeting of the Executive Council of the National Security Traders Association, Inc. to be held in Chicago on Nov. 29.

FLORIDA BOND TRADERS' CLUB

The Florida Bond Traders' Club and its affiliate, the Florida Security Dealers Association, will hold its regular meeting for the year 1945 at The Inn, Ponte Vedra Beach, Florida, on Dec. 6, 7 and 8. A large attendance of members from all parts of the State is expected.

The Ponte Vedra Inn is located on the Atlantic Ocean 20 miles from Jacksonville, and according to many of its guests (in addition to the management) is one of the South's loveliest spots. The 18 hole golf course, adjacent to the Inn, is of championship length and has been chosen more than once for the sectional qualifying rounds of the National Open.

This meeting is expected to mark the resumption of activities on the part of the Florida Association, and is the first meeting of the entire Club since America's entry into the war. There will be no formal speeches, but general discussion of Association policies and objectives. Any investment dealer who should be in the neighborhood of Jacksonville on those dates is cordially invited to drop in. The Association guarantees food and drink, good fellowship and golf, but does not guarantee hotel accommodations for non-members.

Philco Introduces Expanded Line of Products

Corporation Reveals Reconversion Program With $7,000,000 Expenditure for New Facilities for Manufacturing Refrigerators, Freezers, and Air Conditioners. Its Production Plan for 4,000,000 Radio Receivers in 1946 Will Far Exceed Previous Records In the Industry.

In addition to its radio business, Philco Corporation is widely expanding its line of products to include refrigerators, freezers, and air conditioners, it was announced by President John Ballantyne at a preview of the 1946 line of Philco products in New York City November 19.

John Ballantyne

"Philco is spending $7,000,000 on its reconversion program for new facilities and to design and tool up for completely new postwar lines of radio sets, radio-phonographs, refrigerators, freezers, and air conditioners," Mr. Ballantyne said. "A large plant to cost upwards to $1,000,000 for the manufacture of radio-phonographs is now under construction in Philadelphia. We believe that the public demand for all our products is far greater than ever before, but people definitely want brand-new merchandise, embodying the very latest ideas — not 'warmed-over' lines—and Philco has gone 'all-out' in the return to peacetime business to offer its distributors, dealers, and the public far better merchandise and greater values than ever before."

Plans to manufacture 4,000,000 radio receivers in 1946, nearly twice as many as its production in the last peacetime year, and exceeding the output of any other company in the history of the radio industry, were also disclosed by Mr. Ballantyne.

Featuring the radio line are the revolutionary new Philco Advanced FM circuit, the first true FM detector ever invented for commercial radio, a portable radio employing the war-developed miniature tubes, and new ideas in styling designed to blend with the most modern types of architecture and home furnishing.

In radio-phonographs, Philco is introducing an automatic record player that is said to make the single-record, manual radio-phonograph obsolete. In the new Philco, you have only to put a record of any size in a specially designed slot and the rest of the operation is automatic. The motor starts, the tone arm places itself, the music plays and the motor stops when the record is finished—all automatically.

Philco also introduces two new automatic record changers incorporating the results of a consumer and dealer preference survey. The new Philco De Luxe Record Changer operates on the "push-off" principle and changes 10 12-inch or 12 10-inch records with great rapidity. A removable spindle in the center of the turntable facilitates loading or unloading of records, and by its special design makes it absolutely impossible for the mechanism to release more than one record at a time for reproduction.

12 New Refrigerators

The newly-designed line of 12 postwar refrigerators introduced by Philco range in size from the nine-foot Philco Advanced Design with 16.4 square feet of shelf space, large freezer locker, Conservador Shelf-lined inner door, and capacity of 84 ice cubes to Model 622 with 13.3 square feet of shelf space, large freezer locker, and ice capacity of 56 cubes. Every model in the Philco refrigerator line includes a large freezer locker, which the company was first to offer the public in 1940, "Easy Out" ice trays, vegetable crisper, covered meat storage compartment and vegetable bin.

All the new Philco refrigerators incorporate the Philco Super Power System, the hermetically sealed power unit built with methods of precision manufacture never before used in refrigeration. This unit gives surplus power and extra-fast freezing, new quietness of operation and freedom from vibration.

Philco Freezers Introduced

To serve the fast growing market for frozen foods storage facilities, Philco is introducing four freezers. The smallest of these is a 2½ cubic foot freezer that reaches 25 degrees below zero. A unique feature of this unit, as well as all other Philco freezers, is a warning bell which rings automatically in the event of a blown fuse or electric power stoppage. Other Philco freezers have a capacity of 5 cubic feet, 7½ cubic feet, and 10 cubic feet, the two largest sizes being upright models.

Views of SEC on Tax Reductions

The views of the Securities and Exchange Commission on the treatment of "tax savings" in profit and loss statements intended to reflect actual results of past operations were published on Nov. 13, the Associated Press reported from Philadelphia, adding that the statement had declared, "It is our view that the amounts shown should be in accordance with historical facts and should not be more 'normal' or likely to recur in future years." From the Associated Press we also quote:

The problems of tax savings which have an important bearing upon income statements frequently occur in registrations and financial statements filed with the SEC and the commission will be guided by these views in future considerations of such cases.

The tax savings (or reductions, as the SEC calls them) arise because certain costs or expenses deducted in computing the amount of income taxes actually payable are not also treated as charges against income in the current income account. Under such circumstances, some companies and accountants include in the income accounts a special "charge in lieu of income taxes" equal in amount to the reduction in taxes attributed to such excluded costs.

In other cases, the provision for income taxes does not reflect the estimated actual taxes payable, but is increased to reflect the amount that would have been payable had not such excluded charges been deducted for tax purposes.

When income taxes have been reduced by deductions for tax purposes and items deferred or charged to surplus in the accounts, the commission said, part of such items might in appropriate cases be charged to income, ordinarily as the nature of the item is clearly disclosed.

Estes, Snyder & Co. Reopens in Topeka

TOPEKA, KANS.—The firm of Estes, Snyder & Company, which has been closed for the past three years, due to the fact that both partners were in the armed forces, has resumed business from offices in the National Bank of Topeka Building.

Ulen Names Winkler Economic Adviser

In order to keep informed on economic and financial conditions abroad, where the major portion of its properties are located, and for the purpose of being aided in their efforts more accurately to appraise the corporation's status in the light of foreign developments, the board of directors of the Ulen Realization Corporation has named Dr. Max Winkler, a recognized authority on international affairs, as Economic Adviser.

Dr. Max Winkler

Dr. Winkler has for many years been intimately connected with all problems pertaining to foreign economics, and has for three years acted as Economic Adviser to a Senate Sub-Committee of Banking and Currency and as Financial Editor of the "North American Newspaper Alliance (NANA). He is the founder of the American Council of Foreign Bondholders, an Associate Professor of Economics in the College of the City of New York and a member of the Stock Exchange firm of Bernard, Winkler & Company.

Foster & Marshall Add Taylor & Meyer; In Larger Quarters

SEATTLE, WASH. — Foster & Marshall, members of the New York Stock Exchange, announce that Donald A. Meyer has become associated with the firm as Manager of the Municipal and Canadian Bond Department. C. Arnold Taylor has become associated with the Trading Department. Mr. Meyer, who has been serving in the Air Corps as a Major for the past three and one-half years, was previously with Bramhall & Stein and prior thereto was associated with Drumheller, Ehrlichman Company (now Pacific Northwest Company) in the Trading Department. Mr. Taylor, who has just been discharged from the Coast Guard, was formerly with Merrill Lynch, Pierce, Fenner & Beane.

Foster & Marshall also announce that they have removed their offices to new and larger quarters at 820 Second Avenue, now occupying five times the space of their previous location.

Lawrence Miller Rejoins Staff of G. H. Walker

ST. LOUIS, MO.—Lawrence G. Miller, who had been connected with G. H. Walker & Co. since 1931 prior to entering the Army, has returned to our organization after having been honorably discharged from the Army Air Forces as a Major. The firm, which is a member of the New York, St. Louis and Chicago Stock Exchanges, is located at Broadway & Locust.

Horkins Securities Corp.

Horkins Securities Corporation has been formed with offices at 70 East 45th Street, New York City, to engage in the securities business. Officers are Ralph Horton, President and Treasurer; Thomas Lee Perkins, Vice-President, and Robert B. Tyler, Secretary. Mr. Perkins was formerly a partner in Pemberton Berman & Co.

Commercial Banks Enter Instalm't Finance Fiel

A Billion Dollar Annual Volume is Anticipated. William B. Hall, Vic Household Appliances. Will Not Compete for Automobile Paper, bu A Billion Dollar Annual Volume is Anticipated. William B. Hall, Vic President of The Detroit Bank, is Appointed "Coordinator" for th Participating Banks.

The National Sales Finance Plan, an arrangement whereby 1,00 commercial banks throughout the country will finance installmen sales to dealers as well as to consumers, will become operative in its initial stages Monday, November 26. The organization, covering 37 states east of the Rocky Mountains, is composed of 12 "signatory" banks who will supervise the operations of 100 "Key" Banks serving the important trade areas. who in turn will be coordinated with about 900 smaller banks in their respective adjacent communities.

Operations will begin in the household appliance field, it being understood that arrangements are already being made with refrigerator manufacturers for making available to their dealers facilities for uniform nationwide financing of their merchandise. The automobile field will not be touched, for the present at least, but a billion dollar volume when consumer durable goods become plentiful, is anticipated by the participants.

Spokesmen for the plan assert their ability to render a "streamlined" public service through reduction of overall costs of installment financing to the consumer. No extra steps will be required of the purchaser to obtain the benefits of bank financing. Forms to be signed "on the dotted line" will be available in retail stores carrying manufacturers' goods which the banking group has agreed to finance.

The type of manufacturer's contract which has been worked out by the participating banks does not tie up a manufacturer "exclusively." Thus, a television manufacturer or a refrigerator manufacturer can sign an agreement with the National Sales Finance Plan in addition to his arrangements with other financing agencies.

The market in which the banks expect to obtain their share is a substantial one. Before the war, the American public purchased the majority of all capital goods on time, and about 69 per cent of merchandise sold in household appliance stores was bought on the installment plan.

Formation of the National Sales Finance Plan goes back to early 1944 when a group of banks met in New York to discuss participation in consumer credit from which banking had been largely excluded before the war by its inability to make contracts with manufacturers covering sales arrangements over a wide geographical area.

Wm. B. Hall, former vice-pres. of The Detroit Bank, has assume the post of "Coordinator" c installment operations of the 1,00 participating banks. Mr. Hal whose headquarters will be i Chicago, is a consumer financ specialist. He established, developed and supervised the Tim Credit Department of The Detroi Bank, and he previously operate a finance company and an indus trial bank in Michigan.

The 12 "signatory" banks whic have taken the lead in organizin the Plan are: the Bank of th Manhattan Co., New York; Th Fifth Third Union Trust Co., Cincinnati, Ohio; The National Shaw mut Bank of Boston, Boston, Mas sachusetts; The Citizens an Southern National Bank, Atlant Georgia; Peoples-Pittsburg Trust Company, Pittsburgh, Penn sylvania; Republic National Ban of Dallas, Dallas, Texas; Unio Planters National Bank and Trus Company, Memphis, Tennessee The Detroit Bank, Detroit, Michi gan; The Pennsylvania Compan for Insurances on Lives and Grant ing Annuities, Philadelphia, Penn sylvania; State-Planters Bank an Trust Company, Richmond, Vir ginia; Mercantile-Commerce Ban & Trust Company, St. Louis, Mis souri, and Central National Ban of Cleveland, Cleveland, Ohio.

Moroney Beissner Co. Resumes Inv. Business

HOUSTON, TEX. — Announcement is made of the resumption of the business of Moroney, Beissne & Co., investment securities, upo the release of the three principa of the firm from active duty wit the United States Navy. The firm specializes in the underwritin and distribution of Texas munici pal bonds and Texas corporatio securities.

Partners in the firm, which wa established in 1919, are Robert E Moroney and Henry M. Beissne associated with them is Claude T Crockett, who will be in charge o the trading department.

Offices are temporarily locate on the mezzanine floor of th Guardian Trust Company pend ing completion of arrangement for larger and permanent quar ters.

Railroad Securities

The year 1945 will presumably go down in history as the banner year of railroad financing and its claim to fame is not apt to be challenged for many years to come at least. There were a number of factors operating to stimulate financing and by the end of the first ten months of the year offerings had topped $1,260 million. The vast majority of the offerings was for refunding purposes, with only a minor amount of equipment financing representing new money. The magnitude of the job accomplished is apparent when it is considered that total funded debt of the Class I carriers as of the end of last year was less than $10 billion. Moreover, this total included the bonds of roads in reorganization and outstanding equipment trust certificates.

The total of new offerings was in itself impressive but this figure does not cover the total amount of bonds involved in the year's financing. As stated above most of the offerings were for refunding purposes and in a vast majority of the refunding a portion of the issue or issues called was retired with treasury cash. In addition, a number of railroads, particularly those handicapped by non-callable features on their bonds, have continued buying in their bonds. All in all, there has been a very substantial shrinkage in the floating supply of railroad bonds in the past year. The last two weeks or so have seen the opening up of a new phase in these debt programs.

In no small measure the rush of railroad refundings has been due to the tax situation. Where bonds are called for redemption or are purchased above par and retired the premium paid is deductable before Federal income taxes. With most of the railroads well in the excess profits tax brackets the premiums paid actually cost the companies very little money. When the tax saving is considered the payment of a premium of ten points actually costs the company, net, only about a point and half. This advantage naturally lapses with the end of 1945 and it is this factor which has apparently brought about the new phase.

Within the last few weeks four railroads have asked for tenders of bonds which are either non-callable or not callable for a number of years. In two instances, Southern Railway and Chicago, Burlington & Quincy, the company has set definite prices at which bonds will be accepted. In the case of Southern the tender offer covers the two high coupon 1956 maturities of the development and general mortgage with the offer limited to $5,000,000 of bonds. The funds will come from the treasury. The Burlington offer is limited to $50,000,000 of bonds of the general mortgage and the first and refunding 4½s, 1977. The former are non-callable to maturity and the latter are not callable until 1952. The Burlington intends to finance the call for tenders through the sale of a new series of the first and refunding mortgage.

The other two roads asking for tenders have not announced any limitation on the amount of bonds to be accepted and have not apparently planned any offering of new bonds to replace those to be retired. Illinois Central has asked for tenders of practically all the various mortgages (all non-callable)) maturing in the years 1950-1952, inclusive. Finally, Southern Pacific has asked for tenders of the Central Pacific first refunding 4s, 1949 which are also non-callable. This is the second attempt of Southern Pacific to handle this near term maturity through an offer to holders. Last year the company made an offer to exchange the bonds for a new issue (better secured) bearing interest at the rate of 4¼% to Aug. 1, 1949 and 3½% thereafter to maturity in 1974. A total of $32,604,000 of the new bonds was issued in exchange leaving outstanding $55,589,000 of the 1949 maturity.

Obviously refunding operations will continue in 1946 but in large measure this will likely be confined to mortgages of roads emerging from bankruptcy. There appears to be little possibility that the 1946 volume will even closely approach the 1945 figure. With the very substantial tax advantage eliminated it will henceforth be necessary to accomplish a materially greater reduction in the coupon rate to make a refunding operation financially attractive to a railroad. Moreover, there will probably be less buying by the railroads of their high coupon non-callable bonds.

Proposals on Collective Bargaining

Management Delegates at National Labor-Management Conference Present Proposals on Collective Bargaining and Report "That Certain Differences of Principle Cannot Be Reconciled." Employers Insist on Absence of Threat of Force and Lawlessness, and Advocate That Contracts Provide for Appropriate Guarantees and That Both Parties Be Equal Before the Law. Labor Delegates Reported to Demand Acceptance of Collective Bargaining in Every Instance Where Workers Choose to Organize and Ask for Union Security.

WASHINGTON, D. C., Nov. 20—Management's proposals anent collective bargaining were presented to the Legislative Committee of the President's National Labor Management Conference today, with the explanation that the Labor and Management Groups on the Collective Bargaining Committee had reached the conclusion that certain differences of principle cannot be reconciled. The proposals of Management are as follows:

Collective Bargaining—The Committee on Collective Bargaining is charged with considering:

"The extent to which industrial disputes can be minimized by full and genuine acceptance by Management of collective bargaining where workers choose to organize to bargain collectively on questions of wages, hours and working conditions."

Collective bargaining on wages, hours and working conditions should be a process by which an employer, and the freely chosen representatives of workers negotiate in the interest of effecting a transaction mutually advantageous to the employer, employees, and to the public served by the enterprise of which they are a part.

Genuine collective bargaining on wages, hours and working conditions involves a determination to resolve disputes and conclude an agreement with such terminal or renewal provisions as may be defined, on matters under consideration when approached with a fair and open mind, in a conscientious endeavor to understand each other's problems and in the interest of stabilizing employment relations. Collective bargaining on wages, hours, and working conditions is required by law. It is approved by the public. It is and must be accepted by employers, employees and their representatives in every instance where workers choose to organize to bargain collectively on questions of wages, hours and working conditions.

The parties to the practice of collective bargaining as herein defined may find it undesirable as collective bargaining relationships are established on a satisfactory basis. To jointly engage by mutual consent in other activities which they may regard as mutually advantageous and desirable and not contrary to the public interest.

Initial representation of demands is the first step in the collective bargaining process. When either party makes extravagant demands on the other, the process of full and genuine collective bargaining may be impeded.

Full and genuine collective bargaining may result in disagreement. Sincere bargaining cannot be regarded as requiring the demands must be in full or in part

(Continued on page 2494)

Tilly Elected to Bd. Of Comm. & Ind. Ass'n

David L. Tilly, 235 Dover Street, Brooklyn, was elected to the board of directors of the Commerce and Industry Association of New York at the board's regular monthly meeting on Monday, Nov. 19.

David L. Tilly

Mr. Tilly is President and director of the New York Dock Company, New York Dock Railway and New York Dock Trade Facilities Corp. He is also director of the American Short Line Railroad Association; member of Executive Committee, Merchandise Division of the American Warehousemen's Association; trustee, Brooklyn Savings Bank; director, Intertype Corporation; director, New York State Warehousemen's Association, and director of the Regional Plan Association, Inc.

He is a member of the Mayor's Business Advisory Committee and the Mayor's Committee on Port and Terminals.

Active in civic and philanthropic activities, Mr. Tilly is a director of the Brooklyn Chapter of the American Red Cross, a trustee of Brooklyn Hospital, a trustee of Brooklyn Polytechnic Institute and a trustee of the Industrial Home for the Blind.

Geyer & Co. Formed In New York City

Geyer & Co., Inc., has acquired the business formerly conducted by Huff, Geyer & Hecht, specialists in bank stocks and insurance stocks. The company also will continue to operate the branch offices at 10 Post Office Square, Boston and 231 South La Salle Street, Chicago, formerly maintained by Huff, Geyer & Hecht.

The following will be associated with Geyer & Co.: George Geyer, Willard N. Bastian, Richard J. Beall, John Butler, George L. Collins, Wilbur Krisam, Fred O. Cloyes (Chicago) and Robert H. Warren (Boston).

Main office will continue at 67 Wall Street, New York City.

Our Reporter's Report

There is growing indication that investors will be given an opportunity to look over a substantial roster of new stock issues once the current Victory Loan Drive is completed and out of the way.

For several days now the flow of registrations with the Securities and Exchange Commission, for new security issues has been liberally sprinkled with projected new stock offerings.

Since investment authorities have been reporting an almost insatiable demand for equities this trend should prove in the nature of good news for them. It has been the experience of underwriters in recent months that they had only to be mentioned in connection with a prospective new stock issue to have their facilities virtually inundated by inquiries from potential buyers.

High-grade bonds, of the type which have been forming the bulk of new offerings, largely as an outcome of refinancing operations, naturally do not appeal to the individual investor. The yield is too limited for one thing, and the chance for appreciation is viewed as limited by reason of conditions already prevailing in the open money market.

Equities, on the other hand, offer the investor at least a degree of protection in the event that inflation takes a greater toll of the purchasing power of the dollar. Most of the companies which have applied for new stock issues are firms with seasoned background, which makes them the more interesting to the potential buyer.

"Street-Sized" Deals

Another favorable side of the growing trend toward equities is the fact that for the most part these offerings fall into the category that underwriters are disposed to term "Street-sized," meaning of the right proportions for ready handling.

Some five companies have registered with SEC for stock issues. Among these Howard Stores Corp. is projecting an issue of 31,525 shares of $100 par cumulative preferred and 55,000 shares of $1 par common, the latter for certain large current holders.

Insurance Co. of North America, Philadelphia, plans to offer 300,000 shares of $10 par stock and warrants for them, with prior rights going to present stockholders until Dec. 31. Hammermill Paper Co. has registered $5,000,000 debentures and 15,000 shares of new $100 cumulative preferred.

Latest to join the list are Pressed Steel Car Co., with 85,955 shares of $50 par 4½% convertible cumulative preferred series A stock, with prior rights to common holders; and Fansteel Metallurgical Corp., to be offered to present stockholders first on a rights basis.

No Need to Rush

Passing of the pressure on corporations to carry through their refinancing programs in the brief intervals between war loans is indicated by the plans announced by Illinois Central Railroad for overhauling its debt structure.

The road's holders will vote at a meeting Jan. 16 on creation of a new open-end mortgage on the properties under which new bonds would be issued to replace outstanding debts.

If the war were still on, and the Treasury making its recurrent treks to the money market, it is likely this issue would be stepped ahead as much as possible. This road has asked tenders of $53,115,000 of non-callable bonds maturing 1950 to 1953, inclusive, and will use treasury cash to take up such bonds as are presented.

Should its refunding program be approved in January, the road will call for payment May 1, next, $35,000,000 of outstanding 4s and 5s, with certain underlying loans to be refunded from time to time as conditions permit.

Utility Prepares Issue

Buffalo Niagara Electric Corp. has requested the SEC to approve its proposed issue and sale, at competitive bidding, of $56,929,000 of first mortgage bonds to mature in 1975.

The company would apply the proceeds, together with treasury funds, toward redemption of an equivalent amount of outstanding loans or obligations, issued or assumed, through predecessor companies by Buffalo, Niagara Electric and Niagara, Lockport & Ontario Power Co.

It is proposed that the new bonds would bear an interest coupon in excess of 3% and be issued under a mortgage trust indenture between the company and Marine Midland Trust Co. of New York, as trustee.

Leo Schoenbrun in L. A.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Leo Schoenbrun is engaging in a securities business from offices at 1273 Westwood Boulevard.

Sattler & Co. Formed In Los Angeles

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Joseph Sattler has formed Sattler and Company with offices at 639 South Spring Street to engage in the investment business. Mr. Sattler was formerly with Pledger & Co., Oscar F. Kraft & Co., and Young, Clark & Co. In the past he did business as an individual dealer.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

For many years The Spectator Insurance Year Book has reported aggregate figures of the annual business written, losses paid, etc., of all fire and marine underwriters, comprising stock companies, mutual companies, and Lloyds and reciprocal underwriters. The data is given in such a way that a comparison can readily be made between the total business of the stock companies and of the mutual companies. To those dealers and investors who are concerned lest the mutuals be slowly but surely taking over the business of the stock companies, the published comparative figures should prove reassuring.

For example, in 1944 mutual fire and marine insurance companies wrote 15.8%, and stock companies 84.2% of the total premium volume of mutual and stock companies. This compares with 16.5% and 83.5%, respectively, in 1943. The business of the Lloyd's and reciprocals is so small, approximately 3.5% of the aggregate of the three groups, that they are not considered in this comparison.

The following table shows the relative premium volume written each year since 1927 by stock and mutual companies:

	PREMIUM RECEIPTS Stock Companies	Mutual Companies	Total	PERCENT OF TOTAL Stock	Mutual
1927	$980,105,000	$128,330,000	$1,108,435,000	88.4%	11.6%
1928	990,605,000	141,351,000	1,131,956,000	87.5	12.5
1929	1,027,028,000	152,604,000	1,179,632,000	87.1	12.9
1930	918,039,000	153,495,000	1,071,534,000	85.7	14.3
1931	787,019,000	142,233,000	929,252,000	84.7	15.3
1932	680,521,000	97,391,000	777,912,000	87.5	12.5
1933	622,277,000	112,190,000	734,467,000	84.7	15.3
1934	672,437,000	130,433,000	802,870,000	83.8	16.2
1935	702,620,000	134,415,000	837,035,000	83.9	16.1
1936	759,429,000	131,426,000	890,855,000	85.2	14.8
1937	831,622,000	140,506,000	972,128,000	85.5	14.5
1938	782,204,000	139,469,000	921,673,000	84.9	15.1
1939	814,514,000	142,128,000	956,642,000	85.1	14.9
1940	932,074,000	156,298,000	1,088,372,000	85.6	14.4
1941	1,075,617,000	183,206,000	1,258,823,000	85.4	14.6
1942	1,144,461,000	199,826,000	1,344,287,000	85.1	14.9
1943	1,074,725,000	212,042,000	1,286,767,000	83.5	16.5
1944	1,154,056,000	217,764,000	1,371,820,000	84.2	15.8
Totals	$15,949,353,000	$2,715,107,000	$18,664,460,000		
	85.5%	14.5%	Average	85.4%	14.6%

During the 18 years shown, stock companies have taken 85.5% of total premium receipts, and mutual companies 14.5%, while the average of the annual ratios is 85.4% and 14.6%, respectively. It will be observed that the mutuals increased their proportion of the total available business quite vigorously from 1927 to 1934, expanding from 11.6% to 16.2%, although their actual volume rose only fractionally. Stock companies' volume, however, dropped from close to a billion dollars to two-thirds of a billion. This drop is partially explainable by a decline in average fire premium rates charged by the stock companies from approximately 96¢ to 72¢, while there seems to have been no such comparable decline in the case of the mutuals.

Since 1934 the mutuals' share of premium receipts has declined somewhat from the 16.2%, except for the year 1943, when it was 16.5%. It would almost appear that their share may be stabilizing at between 15% and 16%. Although it is true that the mutuals' net rates to policyholders are generally lower than those of the stock companies, yet it is doubtful whether they can encroach much further on the business of the strongly capitalized and firmly established old-line stock companies, whose country-wide agency system represents an investment of several million dollars. To compete successfully in the wider field covered by the stock companies would require the mutuals to build up the equivalent of the stock companies' agency plant.

RATIO OF LOSSES PAID TO PREMIUM RECEIPTS

Year—	Stock Companies	Mutual Companies
1927	51.2%	33.2%
1928	48.9	33.2
1929	47.6	54.4
1930	56.8	40.2
1931	59.7	41.5
1932	58.9	37.1
1933	46.3	36.0
1934	42.9	33.1
1935	36.6	28.8
1936	42.8	35.3
1937	42.8	34.6
1938	48.3	37.7
1939	45.0	38.1
1940	43.5	37.6
1941	43.8	38.4
1942	55.0	36.4
1943	47.2	33.1
1944	48.1	37.7
Average	48.1%	37.0%

The general practice of the mutuals is to operate in relatively small areas and to confine their writings to the safer risks. As a result of this practice, volume is restricted but losses are more favorable. This is indicated in the foregoing tabulation of figures as published in "The Spectator":

It is of interest to compare the investment practices of stock and mutual fire companies. According to Alfred M. Best Company, as of Dec. 31, 1944, their admitted assets compared as follows:

CLASSIFICATION OF ADMITTED ASSETS, DEC. 31, 1944

		Stock Fire Companies		Mutual Fire Companies
Cash		9.5%		10.4%
Real estate and mortgages		2.4		5.9
Miscellaneous assets		5.3		5.7
U. S. Government bonds	33.6		46.7	
Total bonds		42.0		64.2
Stocks		40.8		13.8
Total		100.0%		100.0%

It is clear that the stock companies are heavier investors in equities than are the mutuals, while the latter are 50% more heavily invested in bonds and also heavier in real estate and mortgages.

The United States has not yet reached maturity. It is still growing, both as regards population and new industries. By the same token, the insurance business must also continue to grow and there is ample room and opportunity for both mutual and stock companies to compete and prosper and expand for many years to come. Meantime, such competition affords some advantages to the insuring public.

Post-War Securities and Capital Markets

(Continued from first page)
construction must be financed—financed through the wise expenditure of capital, most of which is available only here in the United States. Under a full employment economy we can also look forward to a substantial volume of domestic investment. The needs for this financing, the methods by which it is to be obtained, and the manner in which a sound financial mechanism can affect and protect it. I hope to develop to the extent that this brief talk will permit.

First, let us review for a moment some of the current factors in our securities markets and our financial economy. The most casual student will see, almost at a glance, that great changes have been brought about in the last few years, first through legislative and administrative governmental reform, and, more latterly, as the result of the devastating pressures and dislocations of the total war through which the world has just passed.

The passage of the Federal securities legislation and its administration, the improvement of State laws and the constant strengthening of their enforcement, the combined effects of these steps on the health and vigor of our financial economy, are well-known to us all. We may all be justly proud of the extent to which fraud has been suppressed, corporate economic information disseminated and the general standards of business ethics raised, without at the same time injecting into our financial freedom authoritarian powers of control over individual choice and action. We have not, however, reached this point over night; nor would I contend that we have achieved the perfect state.

The Pre-War Financial Markets

Let me survey the various stages of the operation of our financial markets during the period of the past war. Not long after the outbreak of hostilities in Europe in the latter part of 1939 you will recall that securities trading in our markets experienced a rather considerable decline which continued downward and remained at an extremely quiet level until the late part of 1942. Public offerings for industrial and other financing were also quite low with a moderate and fairly steady amount of public utility financing occasioned by companies which were going through the early stages of compliance with the Public Utility Holding Company Act of 1935, together with a modest sprinkling of industrial offerings, most of which, like the utility issues, were in the nature of refundings.

Even prior to the entry of the United States into the war after Pearl Harbor, a large part of the attention and energies of the people of this country were focused and concentrated on the tremendous effort which was made to convert and expand our industries for the production of war materials. At that time the great demand for munitions came from the nations which were defending themselves against the then mighty German war machine. While this program had of necessity to be financed, it obtained its funds not from the private capital markets but from Governmental sources established for the purpose. Investment in a war machine, or even in a munitions industry manufacturing war materials for export, is not, as we well know, a widely attractive medium for private capital—nor is it an appropriate one for the general run of investors, individual or institutional. In addition, the amount of funds which can be obtained from such sources and the cost of such money is too uncertain to permit risking the success of such a vital undertaking.

The lack of response of our private capital markets to the substantial increase in activity during this early period was largely occasioned by the resort to Government financing. Furthermore, when the United States declared war and joined with its allies in active hostilities against the Axis powers, the trend away from private transactions was very much intensified.

There were many at that time who, because of these conditions, felt that our whole private financial system was in a precarious position. Some, instead, looked on these as certain signs of the collapse of that system and its institutions. It is to the great credit of the men of vision and courage who stood by and saw this great industry through its lean years that such a collapse was averted.

A New Era in Finance

I appreciate that it may be unbecoming in me to herald the arrival of a new era of finance under the administration of the Federal securities laws. I do feel, however, that at the very least the contribution of this legislation to the successful survival of our financial economy must be pointed out. Much of the story has been told before, but I think it will bear repetition. The administration of the Securities Act of 1933 and the Securities Exchange Act of 1934 had been underway for four or five years before the first rumblings of war in Europe were heard. During that time the organization and practices of our principal securities exchanges had undergone thorough examination and review and such changes under authority of law had been made as appeared to be desirable or necessary in bringing about sound conditions in those markets in which the public had been encouraged to trade. When war finally came with the invasion of Poland in September 1939, there was no panic, although the exchanges and the Securities and Exchange Commission were prepared for it—if it should come. The exchanges did not close as they had at the beginning of the first world war in 1914. To whatever specific causes it may be due—whether an absence of manipulated price structures, a restriction on the volume of credit in the market, or whatever—there was no great distress selling and the blow was absorbed without real event. This experience repeated itself at the fall of France, the debacle of the

Balkans, the invasion of Russia, the whole inundation of the European continent, the near fall of Britain itself and finally, Pearl Harbor. Most of us have come to recognize that this performance under such adverse conditions was proof of the essential stability which had been created in our markets.

And if that were not proof enough, it is well to call to mind the events which have taken place since the low period of 1942. There has been a notable revival of interest in our securities and capital markets. Prices and activity on the exchanges and in the over-the-counter markets have steadily increased and public offerings of securities of private enterprise have been made and absorbed in greater amount.

Must Prevent Inflation

But here let me sound a note of warning. Up to a very recent date, I think our markets have reflected basic conditions generally in our industry and the widely held view of the outlook for the future. It has, however, been suggested—and I think not without reason—that they also reflect an anticipated acceleration in the inflationary trend which was so successfully held within limits during the years of conflict. If this is true we should take care to see to it that it does not continue while our faces are turned the other way.

I recognize, of course, that certain controls exercised in actual wartime must be lifted or readjusted in order to ease the way back through the reconversion process into peacetime acticities. But we must not let ourselves take precipitate action. Inflation must be prevented through such controls as are necessary for the purpose in order that our economy may not burst at the seams. To permit inflation to take place in the United States of America at his particular juncture in the world's history would be disastrous. It would increase enormously our reconversion problems and make more difficult the attainment of world reconstruction.

It is gratifying to look back over the war years and see just how well those engaged in all walks of business during that hectic period have been able to hold together and even strengthen their organizations when it was most difficult to do so. Some of us who had occasion to discuss on the threshold of our war activity the difficulties which undoubtedly would beset our financial and business organizations laid great stress on the importance of creating during the war sound financial structures and practices capable of withstanding the stocks of the reconstruction period. I expressed my own view in the fall of 1941 on one or two occasions, that if we could succeed in this our securities markets would be able to perform a very important service in post-war finance. We have succeeded, in my opinion, and we must turn to and tackle the job now that we are face to face with it.

What is the outline of this task; what are its principal problems; is it concerned with the domestic or the international field—or both?

Prospects of Domestic Financing

Let us turn first to the prospects for domestic financing. Apart from refunding operations, the volume of new issues of American corporations in the past-war period will depend almost entirely on the level of industrial production. Only if a very high level of national income is achieved will any significant amount of new issues be required to take care of additional capital investments and working capital.

During the war there was comparatively little net private investment in plant and equipment in spite of the unprecedented level of business activity. The reason of course is obvious. For War industries, the necessary new plant and equipment was financed directly by the Government; for non-war industries, priorities, allocations, etc. effectively prevented any capital expansion. Where corporations needed increased working capital, this was amply provided by retained profits, depreciation charges in excess of replacement expenditures, larger Federal income tax reserves, V loans, and advances and prepayments by the U. S. Government.

While there was over the war years a substantial volume of corporate financing in the capital markets, amounting to nearly $8 billion from the end of 1941 to the middle of 1945, most of it was for purposes of refunding. Companies in all fields have been taking advantage of the low money rates to reduce their interest charges and to extend their bond maturities, at the same time availing themselves of the privilege afforded by the corporate tax laws to charge off to tax liabilities any premium paid on bonds redeemed. In addition to refunding operations, there were substantial amounts of outright redemptions of corporate bonds. Thus in the period since our entry into the war, retirements of corporate securities exceeded issues by close to $1 billion.

As an aftermath of the War, American corporations taken as a whole have such a substantial reserve of liquid assets and such high net working capital that they could undertake considerable expansion from any previous level of peacetime activity without any very significant recourse to the capital markets. This extremely favorable financial position of corporations resulting primarily from the high level of retained profits has been discussed at some length in our quarterly releases on this subject.

Data collected by the Commission as well as by other Government agencies also show that though there was considerable variation for various industrial and size groups of corporations, practically all shared in the rise of working capital over the war period and were in a much stronger financial position at the end of the war than at the beginning. These studies indicate that small firms fared at least as well as the larger companies.

Additional Capital Needed for Expansion

However, in spite of the favorable financial condition of corporations as a whole, there will undoubtedly be a number of individual corporations which will not be in so advantageous a position. There will be other corporations, existing as well as new enterprises, which will need additional capital for purposes of expansion. Finally, it is obvious that the financial position of all corporations will be affected by developments in the post-war period, particularly in the price level.

Several nationwide surveys have been carried out to determine what the actual capital needs for industry will be in the reconversion and transition period. Recent field studies by the Federal Reserve banks in conjunction with the Committee for Economic Development, covering several of the more highly industrialized regions in the country, suggest that actual reconversion costs will be quite small. Businessmen covered in these surveys do not feel that there will be any problem in financing reconversion internally.

Another study by the Department of Commerce, covering planned capital outlays and financial requirements during the 12 months following the end of the war in Europe, indicates that though

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planned outlays are fairly high, the financial requirements for funds to be secured from other than corporate resources are comparatively small.

It is extremely difficult to forecast the long-run level of capital expenditures in the post-war period and even more difficult to estimate the volume of capital issues. So far as capital expenditures are concerned, the Commission now receives from most registered corporations quarterly data on actual plant and equipment outlays and anticipated outlays for the next two quarters. On the basis of this information we are able to estimate for the first time capital expenditures for corporations as a whole on a current basis with a reasonable degree of accuracy. The importance of such data for the economy as a whole as well as the capital markets is self-evident. Our first release on this subject appearing in a few days will show that though private capital expenditures for American companies in 1945 will not differ greatly from 1944, which was a relatively low year, there was a steady rise in the rate of such expenditures over the year, with quarterly expenditures in the fourth quarter of 1945 likely to be approximately twice as high as in the first quarter. We hope that in future reports we can indicate the extent to which companies will rely on the capital markets to finance such anticipated expenditures.

One development is almost certain. Only with the high level of production accompanying full employment or at least approximately full utilization of our resources will there be any very substantial recourse to the capital markets. There will certainly be no dearth of available funds for the capital markets, with the exception possibly of small company issues. Given the huge accumulations of liquid assets by individuals, institutions, and corporations, it seems quite clear that for the foreseeable future there will be an insufficiency of new security offerings to absorb the funds seeking investment outlets. Such funds will be needed and raised only if the level of activity is far greater than ever before in our peacetime history. This does not imply that we are now in a mature economy with our capital markets facing stagnation. It does imply that the activity and health of our capial markets as well as and possibly even more than most other sectors of our economy will depend on a level of post-war national income beyond anything we have experienced before the present war. The relationships, however, are not one-sided. Arrangements in the capital markets affect as well as are affected by the level of business activity and we must insure that they make their full contribution to the best functioning of our economy.

Problem of Small Business Financing

Let me give just one illustration of the problems facing the capital markets in this connection. So far as the overwhelming majority of large established businesses are concerned, it is probably safe to say that any deterrents there may be to obtaining funds for expansion lie outside the organization of the capital markets. However, this is not true for new, small and medium sized firms, a group which may well be able to use profitably and with benefit to the whole economy a large amount of new capital which they are not able to obtain from the capital markets as presently constituted.

Information gathered over the past few years has indicated the extreme difficulty small business finds in obtaining loan financing at reasonable rates, a striking contrast to the very low interest rates paid by large companies. The available material also indicates the virtual impossibility of obtaining equity financing as a result of the organization of the investment banking machinery which does not and, as presently constituted, possibly cannot handle small issues.

There have already been several attempts to make capital available, almost entirely in the form of loan financing, to small and, to some extent, to new business. These have been set up at interest rates which would not be so exorbitant from the viewpoint of the small business, but would at the same time permit a fair return or at least not involve a net loss to the institution advancing the loan. Such attempts, unfortunately have not been particularly successful. Lending institutions both public and private have not advanced any considerable amounts of needed capital to small business even where empowered to do so under existing legislation. This may reflect to some extent an excessive conservatism of the banking fraternity, possibly induced in part by credit standards set up by public authorities. However, another very important factor tending to discourage a wider granting of loans has been the extremely risky nature of such commitments. Lending institutions were in the unenviable position of sharing in business gains only to the extent of interest charges, but sharing completely in any losses which might wige out their entire capital investments. It is not entirely surprising that such institutions were sparing in their loan commitments to small business.

Most of the current plans, including congressional bills now under consideration, for providing capital to small business propose to accomplish this end by a Government guarantee though there is of course considerable variation in the particular institutional arrangements advocated. For the most part the proposed legislation stresses loan rather than equity financing. Unfortunately, there has been far too little objective evaluation of the necessity for or desirability of Government participation or of the relative needs for or advantages of loan and equity financing. Some of the dangers of loan financing except in the most stable methods of businesses and economic conditions are too well known to need repetition here. In addition, I think there is some reason for believing that equity financing may be more profitable or at least less costly to the financing institution. Such considerations of cost are of obvious importance to the Government if it is to engage in any substantial program of guaranteeing capital advances to small business and should be thoroughly investigated. On the other hand, even if equity capital is preferable from the viewpoint of the overall economy, there is considerable question as to the attitude of the individual entrepreneurs to this type of financing, i.e., the extent to which small business will be willing to have outside capital enter on a partnership rather than creditor basis.

This whole subject of providing needed capital to small business is, I think, timely, and potentially quite fruitful; it is not simply an intellectual exercise. The problem, however, is admittedly a messy one and has acquired an unfortunate emotional tinge over the course of years. The professional advocates of small business claim that a solution of this problem is the solution to our economic ills. On the other hand, some of our more skeptical economists deny that the problem is a real one. It seems to me that the truth, as usual, lies somewhere in between the extremes and that this sphere of activity may provide a fairly important outlet for new investment. Even if the final solution of this problem requires Government subsidies, something which some of the proponents of aid to small business claim will not be necessary, this approach might conceivably provide a greater dollar for dollar stimulus to our economy than other types of Government spending.

In my opinion there is room for further research in filling the more important gaps still remaining in the information necessary for establishing new machinery for financing small business—for instance, obtaining through a stratified sample quantitative data on the total amount and characteristics of the demand for financing by small business. Personally, I feel that some form of investment company offers a promising vehicle, but this is simply one of a great many possible devices.

Before leaving this subject I should like to point out that there is not much basis to the claim that the registration costs of floating an issue of securities under the Securities Act of 1933 is a deterrent to financing by small business. Thus, a survey recently made by the Securities and Exchange Commission shows that the total average cost of flotation of equity securities issued by the small companies under our jurisdiction is 21.6% of the anticipated gross proceeds to the company. Of this amount the compensation of investment bankers alone amounts to 19.7%. On the other hand, all other expenses in any way affected by registration, including such costs as printing legal, accounting, engineering and miscellaneous expenses (which would be encountered to a very large extent regardless of registration) aggregate only 1.9% of these proceeds. The experience of the larger companies with respect to these expenses affected by registration is not too much different. Furthermore, it should be noted that the Commission's regulations exempt from the registration requirements any offering of new securities totaling $300,000 or less.

Limits to New Domestic Financing

To sum up, there seem to be definite limits to the prospects for new domestic financing in the near future, particularly if we do not attain full employment of our physical resources. We are presented, however, in the field of foreign investment with quite a different set of factors. We are recognizing more clearly every day to what extent the rest of the world is looking to the United States for its financing. Not only are the countries in need of reconstruction seeking loans in our markets and from our Government institutions, but also many foreign governments and private enterprises abroad which have plans for industrial expansion look to the United States' markets for their best and virtually their only source of credit. Our position today is not unlike that of England following the Napoleonic wars of the early nineteenth century. At that time the English bankers and investment public were practically the only source for rehabilitation and reconstruction of a war-torn Europe. The manner in which the British succeeded is now familiar history, and it is notable that in achieving these objectives the whole international economy was so stimulated that undreamed of levels in foreign trade and commerce were shortly achieved. Not least among these collateral results was the development and industrialization of our own country.

Our present financial position is considerably different from that in the period following World War I. The world at that time still looked upon the British as the world banker. Today, however, there is no ambiguity in the situation. England herself is an applicant for financial accommodations from the United States to a very substantial sum. There are other potential sources of credit outside of this country such as Canada, Sweden and Switzerland, but it may be frankly admitted that the exportable capital from these sources is inconsiderable relative to the demands of other nations.

Prospective Capital Exports

There have been of late a number of estimates as to the anticipated magnitude of the foreign trade of the United States during he next decade. One of these current estimates for instance contains a recommended foreign trade budget for a typical post-war year which has as its principal components merchandise exports of ten billion dollars, merchandise imports of six billion dollars, giving an excess of receipts on merchandise trade of four billion dollars. To offset this, the budget foresees an excess of payments on service transactions of about three hundred million dollars and of primary importance an annual net outflow of capital consisting of between three and four billion dollars, of which at least three billion would consist of long-term capital investment. Indeed, the entire estimate is based upon the premise of capital exports of these magnitudes for a sustained period of time.

This type of analysis would seem to indicate that foreign investment by the United States is a matter of deep concern to all countries and peoples, including ourselves. Without a substantial and sustained export of capital it would seem clear that in the near future we could not expect to enjoy for any extended period a volume of merchandise exports anywhere approaching the level which ordinarily would accompany the high gross national product we are hoping for in the post-war period. Furthermore, it may even be contended that without the sustained export of capital by which high levels of foreign trade are generated and sustained, the achievement of a full employment economy in the United States would become more difficult. There is, I realize, considerable difference of opinion among experts as to the importance of foreign trade for prosperity within the United States but I think that it is generally agreed that a high level of foreign trade and a program of substantial capital export properly administered would at least facilitate the maintenance of a high level of domestic production.

The amount of United States capital which might be employed can be viewed either from the demand side or from the supply side. Taken from the former, the amount of funds which could be employed abroad in the next decade is of fantastic magnitude. We know, for example, that England has been negotiating for accommodations of three to five billion dollars; that Premier Stalin mentioned a figure of six billion dollars to a delegation of United States congressmen recently; and that France, the Netherlands and a number of other European countries have actually filed application for substantial amounts. Eastward, we know that China hopes to find the United States as helpful in her reconstruction and development as in her war effort. We have also been reading of plans for expansion and industrialization emanating from India, which looks to us as well as to the mother country for financial assistance.

On the supply side, there are several known factors and many unknown. Among the known factors are the recently extended lending facilities of the Export-Import Bank. By recent enactment Congress authorized this bank to make loans for the promotion of our export and import trade up to the extent of three and one-half billion dollars. The Export-Import Bank has already acted under this authority and has either concluded or has in contemplation some rather substantial loans. It was not expected, however, that this bank alone would be able to handle the volume of credits that would be sought. Besides the Export-Import Bank the International Bank for Reconstruction and Development, which is one of the two institutions covered by the Bretton Woods Agreement, will be an important organization in the field of international investment for many years to come. The International Bank will have a lending power at about nine billion dollars when all the signatory nations have accepted the agreement. The lending power of the International Bank, however will, for the most part, depend upon the disposition of private investors to buy bonds of foreign governments or to buy the bonds guaranteed by foreign governments through the Bank itself. Unlike the Export-Import Bank, therefore, the International Bank will employ for the most part the funds of investors and not public funds raised by taxation or otherwise.

A question which is of utmost importance for the success of any foreign investment program by the United States relates to when and how American investors will be inclined to buy foreign securities or the bonds of an international institution. The program is most acute for the substantial volume of foreign issues which will probably be needed outside the framework of the International Bank and without any such guarantees. It may be expected on the one hand that, because of the experience in foreign investment which followed World War I, investors in this country will be hesitant to buy issues of foreign origin. Furthermore, political stability would seem to be an essential pre-condition for confidence on the part of public investors. On the other hand, the liquid position of American investors' institutional as well as individual, would seem to encourage a rather more optimistic view. For some years, this Commission has reported at regular quarterly intervals upon the volume and composition of saving by individuals in the United States and upon the working capital of United States corporations and its components. The magnitude of these savings by individuals and the volume of assets held by corporations in highly liquid forms has been frequently commented upon. From this combination of circumstances in conjunction with the prospective requirements for new financing by United States corporations there would presently appear to be an excess of available funds over investment outlets in the domestic scene.

To date, there have been no important foreign long-term loans or investments made by the public. The American public has not as yet been called upon to evaluate foreign issues, and therefore it may be well at this time to ask what the average American will want to know, and what protections he will ask for in facing the prospect of investment of his savings in foreign governments and for foreign business projects.

Certainly one of the most valuable protections which has been afforded to the American investor since the previous era of foreign lending is the information made available to him under the provisions of the Securities Acts. Since the enactment of the Securities Act of 1933, which covers new issues, there have been practically no new issues of foreign securities. However, there are registered with the Commission under the Securities Exchange Act of 1934 practically all important issues of foreign origin sold in this country which were outstanding on the effective date of that Act.

New foreign government issues will come under the registration requirements of the Securities Act of 1933. Schedule B in that Act sets forth the data and information required in connection with such new issues. It is not unlikely that foreign governments will wish to have their securities admitted to dealings on a national securities exchange and will therefore undertake to file annual reports as required by the Commission under the Securities Exchange Act of 1934. Securities offered by foreign private enterprises will, of course, be subject to the same registration requirements as those of domestic firms. Through the medium of the Securities Acts, therefore, there will be made available to the American public far more information relative to foreign investments than it was accustomed to expect prior to the enactment of these statutes. Whether the provision of such information alone will give the full measure of protection to American investors which they will require or which should be afforded to them on their foreign securities is another question.

Problems of Foreign Flotations

We in the Commission have, through the years of administering our Securities Acts, learned to respect the importance and value of full disclosure of information as a means of protection to public investors in securities. It must be admitted, however, that there are problems to be faced in connection with the flotation of foreign securities in addition and beyond those which emerge in the course of domestic financing. These raise questions of importance to the State governments as well as to the Federal governments. The irresponsible and undirected foreign lending that followed World War I had serious repercussions within State borders, resulting in some instances in the collapse of financial institutions with losses to many policy holders and depositors.

The political picture is one of the most important problems. It has been suggested that it is one where disclosure may have to be supplemented by administrative action by some Government agency. Also of utmost importance are the economic ramifications which arise from the intricacies of foreign trade and commercial relations. How much and how closely these factors should be disclosed to public investors in foreign and international securities are questions which we are now concerned with. American investors will want to keep currently informed as to the status of their investments. This quite natural and justifiable demand would seem to require at least annual statements from borrowing countries and their enterprises which will keep up to date the information contained in the original registration application. Further the information now required might very well be expanded to cover some of the problems not involved in domestic investment.

For example, the balance of payments position of importing and exporting countries is a matter of vital interest to their foreign creditors. Information on this subject would naturally be expected by investors who had, like the American public, become accustomed during the past decade to being kept informed on the affairs of corporations issuing securities.

But in spite of all the information that might be required under presently existing statutes or by extension or amendment of these statutes, there are some who still feel that the American public has not adequate protection in respect of foreign borrowers. This opinion has been expressed recently in Congressional circles with respect to the proposed repeal of the so-called Johnson Act. This Act, as you know, prevents the sale to the public of any obligation of a foreign nation in default to the United States Government. In opposing repeal of the Act, several members of Congress have raised questions as to what protections will be afforded to replace those which the Act was designed to provide. These representatives may not be satisfied that the disclosure of information provides a satisfactory answer to their questions.

In view of the difficulties encountered during the early period—how shall we proceed from here on? Is there in the experience of this early period a lesson for us? Shall we wait and watch, shall we be satisfied if bankers and underwriters merely comply with disclosure requirements? Or shall we try to work out a policy to guide foreign investment and to correlate it with our foreign economic and commercial policies? These are some of the questions which are of current daily concern to many officials of the Government in Washington. They must, of course, be dealt with carefully but promptly, and at any rate, before the private markets open up as they eventually will, to the foreign borrower.

I have undertaken to raise these questions at this meeting for two reasons. First, as I have indicated, they stem from problems of vital interest to the States and, secondly, to solicit the views of the States in their solution. Our Commission, is perhaps best placed to be of assistance to all Departments of the Federal Government in the solution of the National problem. We cannot, in my opinion, render that service to the best effect unless we are made conscious of the views of the various states. I therefore ask you to communicate those views to us and to permit us to act as a clearing house on your behalf.

Mutual Funds

More Liberal Dividends

The potential increase in earning power of American corporations could pave the way for more liberal dividend policies over the next several years, according to **National Securities & Research Corp.**'s current issue of National Notes.

In order to satisfy the pent-up demand for fundamental necessities, corporations plan to spend (according to a survey of the Department of Commerce) some $9 billion for expansion purposes.

In this report it is pointed out that during the war many corporations built up huge amounts of cash and government securities in their treasuries. This development should permit them to pay off short term debt, finance expansion out of their own resources without diluting common stock equities and diversify their operations with a view to finding new sources of income. This, in turn, should result in increased dividend payments.

Comparative figures for the 54 issues comprising the portfolio of **National's Selected Groups Series** are given, showing cash and government securities of these issues currently 175% over 1939.

Good News for Building Supply Industry

Hugh W. Long & Co. has issued an optimistic letter covering a new folder on the **Building Supply Industry Series of New York Stocks.** The Company interprets the recently announced proposed plan of the OPA to permit rent ceilings on new dwellings and apartments to be 15% to 25% higher than those on existing houses as an indication that the government will encourage builders to start work promptly.

It is brought to attention also that the claim of prosperity for the building supply industry is more valid than that of most other industries because the period of record activity will be longer. Some estimates say ten or twelve years.

Highly Specialized

In a letter presenting revised folders on **Investing Company Shares** and **Mining Shares** of **Group Securities, Distributors Group** suggests the use of these two highly specialized groups for use in handling certain types of accounts.

"Investing Company Shares with its ultra-speculative, high-leverage holdings assures magnified participation in an inflation market.

"Mining Shares, with its gold-mining stocks, provides the traditional hedge against inflation and, in the present situation, against a possible increase in the price of gold."

Serving the Larger Investor

The Trustees of **The George Putnam Fund,** in the current Portfolio Review, comment on the advantage to the large investor of the use of conservative type funds, such as the Putnam Fund. These funds have much to recommend themselves as "backlog investments" for more substantial estates, especially under prevailing conditions in the bond market.

Although the greatest field of service, point out the Trustees, is with the investor of moderate means, there is a definite field of usefulness with the larger investor provided the Fund is properly presented by the dealer and understood by the investor.

Such funds are a means of providing investment management to accounts which are large enough to employ investment counsel services. The disadvantage of the investment counsel approach is that management efforts are spread over a large number of individual accounts of varying needs and objectives.

"This weakness is not present in the Putnam Fund where the Trustees exercise complete control over the portfolio and management efforts are concentrated on a single fund with a well-defined objective."

Labor-Price Problems

Keystone Co.'s current issue of Keynotes asks: "Can business surmount labor-price problems? How serious is the situation? Does it threaten the foundations of business prosperity?"

"In order to preserve our perspective in the present confused situation," writes Keynotes, "it is necessary to keep in mind certain basic facts." We briefly summarize them below:

1. Demand for wage increases and the national rash of labor strikes are not surprising in view of the fact that the Federal Government for 12 years has fostered a policy of giving unions unrestricted economic power. It is now evident on all sides that a new labor policy must be formulated.

2. The two ideas of rising wages and frozen prices are in conflict. One must give way.

3. Wage demands are only one factor tending toward an inflationary rise in prices. Monetary trends are also building up inflationary pressure.

4. Manufacturing concerns naturally concentrate upon items which can be produced at a profit. Business must be allowed to operate at a profit if general employment and national purchasing power are to be maintained.

The Aviation Industry

Referring to the optimistic outlook envisaged by Raymond L. Hoadley, Financial Editor of "Aviation, America's First Aeronautical Magazine," in a comprehensive discussion entitled "Don't Sell This Industry Short," **Hare's Ltd.** presents some significant facts about the aviation industry.

Following the surrender of Germany last May, and Japan last August, and with the Military cancelling a very high percentage of their orders for aircraft, aviation companies should have been decidedly vulnerable had their future been over-dependent on war conditionsa rather than on peace conditions. Yet, from their April lows to Nov. 1, aviation stocks showed far greater appreciation in market value than high grade stocks in general. Their appreciation was approximately 47%, compared with approximately 20% for the Dow-Jones Industrial Average.

51 for 2

Lord, Abbett, in a current Investment Bulletin on **Union Common Stock Fund,** asks if the accredited experts in the investment company field are producing the results reasonably to be expected.

"The Union Common Stock Fund record says 'yes,'" reports the sponsor. To substantiate this statement, the performance of Union Common Stock Fund is compared with the performance of the Dow-Jones Industrial Average for the period from Nov. 1, 1944 to Nov. 1, 1945. The result is a gain of 39.2% for UCS against 28.7% for the Average.

"If Union Common Stock Fund had just done as well as the Dow-Jones Average . . . its present price would be 51 cents per share lower . . . the managemet fee for this period amounted to less than two cents per share."

Time To Be Careful

W. L. Morgan's current issue of Wellington News is devoted to a discussion of the substantial rise in stock prices and the manner in which to invest following such a rise.

With prices reaching levels where one must be much more selective as to the individual securities, since some may show losses over the intermediate term whereas some others are still likely to go up substantially, it is suggested that the logical investment would be in a balanced, diversified fund, such as Wellington Fund.

R. A. Bigger Pres. of R. S. Dickson & Co.

CHARLOTTE, N. C. — R. S. Dickson has been elected Chairman of the Board of Directors of R. S. Dickson & Company, Inc., Wilder Building. R. A. Bigger was elevated to the presidency of the corporation, succeeding Mr. Dickson. S. V. Duncan was elected Vice-President, following Mr. Bigger.

R. A. Bigger

Mr. Dickson has been with the company since its organization in 1919. He also is President of American Yarn and Processing Company of Mt. Holly, N. C. He requested that he be relieved of the presidency in order to devote more of his time to the manufacturing business.

Mr. Bigger, who had been Executive Vice-President for the past four years, joined the company in 1924. For 12 years prior to that time he was engaged in the textile business. Mr. Duncan has been associated with the company since 1933.

In his report to stockholders Mr. Dickson said the company had increased its net worth to $2,084,000.

Mutual Fund Literature

Selected Investments Co. — A memo showing diversification of a $10,000 investment in **Selected American Shares;** revised Prospectus on **Selected American Shares** dated Nov. 14, 1945. . . . **Distributors Group** — Investment Report dated Oct. 31, 1945. . . . **Lord, Abbett**—Current issue of Abstracts; revised Prospectus on **Affiliated Fund** dated Oct. 26, 1945. . . . **W. L. Morgan & Co.**—booklet on **Wellington Fund** entitled "Investing for a Widow and Two Children." . . . **National Securities & Research Corp.**—Latest issue of Investment Timing; revised leaflet on **Industrial Stocks Series.** . . . **Hugh W. Long & Co.** —Memo on optimistic outlook for mining industry; portfolio holdings on **Manhattan Bond Fund** dated Nov. 1.

Diversiform Dishonesty

(Continued from 2460)

Commission under the latter Act. I stated I thought there was no difference in protecting people from purchasing securities from dishonest promoters than there was in protecting persons from selling their securities to insiders who persuade investors to give up their securities by techniques as vicious as those used by dishonest promoters. I have heard it said that my discussion on that subject was provocative. I have heard protestations made in answer to charges brought by the Commission, bottomed upon alleged fraud upon the seller of securities, that that type of fraud is a new concept. I did not think it a new concept at the time the rule was adopted, nor do I think so today. Fraud and dishonesty in connection with securities transactions, however varied, however diversiform, are none the less fraud and dishonesty.

Fraud Under Investment Company Act

I would like today to follow fraud in its general sense beyond that practiced in the ordinary purchase or sale of securities. "Fraud, indeed, in the sense of a court of equity," says Mr. Justice Story,[1] "properly includes all acts, omissions and concealments which involve a breach of * * * trust * * *." Having in mind fraud in this generic sense I propose to discuss with you some of the applications of Section 36 of the Investment Company Act of 1940.[2] That Section authorizes the Commission to seek an injunction in the proper United States District Court against any person for gross misconduct or gross abuse of trust in respect of any registered investment company which such person serves in any of certain designated capacities. If the Commission's charges of gross abuse of trust are established, then the Court is obliged to enjoin such person, either permanently or for a period of time, from acting or serving in the designated capacities.

In discussing the applications of Section 36, let it be recalled that the Investment Company Act is the result of abuses and defects uncovered in an exhaustive study made by the Commission. Let it be clear that the investment company industry itself recognized the existence of those abuses and defects and joined the Commission in urging the passage of the Act. Let it be very clear that the terms and provisions of the Act were worked out in conference by the representatives of the industry and the Commission with the approval of the Congressional committees concerned. Let it not be unclear that I am very appreciative of the fact that investment companies are vitally associated with our national economy although relatively few of them are more than 20 years old. As of June 30, 1945 the total assets of all registered investment companies, excluding fixed and semi-fixed trusts, installment investment plans, face-amount certificate companies and companies in process of liquidation and dissolution, aggregated approximately three billion dollars. The assets of companies excluded from that figure run into several hundred millions of dollars. At the end of 1944 there were 371 investment companies registered with the Commission. The number of security holders of investment companies has been sharply increasing since the advent of the Act and in the Spring of this year there were two million persons scattered throughout the country holding such securities. These figures are of importance, not only in considering the relation of investment companies to our national economy, but are of vital importance in considering the concept of the investment company business — a business which provides a medium for public investment in common stocks and other securities — a business designed to administer a pool of money belonging to a large and widely scattered body of investors. These figures are of importance not only in considering the investment trust business, but in giving consideration to particular investment companies and to those who make up their managements. Managements after all assume the high responsibility of administering other people's money.

Basically the problems of the industry flow from the very nature of the assets of investment companies. Those assets for the most part consist of cash and securities which are usually completely liquid and readily negotiable. Because of these characteristics, control of such funds offers manifold opportunities for exploitation by an unscrupulous management.

It is a fundamental of trust law, as with all other fiduciary relationships, that the trustee must be wholly faithful to the interest of his trust. In conscience and in equity the beneficiary, not the trustee, is the owner of the trust property. I am confident that the industry as a whole is vitally interested in seeing to it that fiduciary standards are maintained. Indeed they must be if public confidence in the investment company business is to continue.

I think Federal and State agencies charged with the administration of the regulations and requirements pertaining to the distribution of investment company shares, as well as the industry itself, are quite aware that not all the managements of investment companies are good and there is no assurance that past good managements may not deteriorate as internal personnel changes occur. This hazard can be overcome by careful investigation and constant watching of performance.

Cases Under Investment Trust Act

In considering the "gross abuse of trust" section of the Investment Company Act, I should like to present to you the facts of some of the less involved cases which have come before the Commission and the courts. Time will not permit a discussion of all of the cases because the facts of each are involved and complicated.

The first time the provisions of Section 36 were invoked by the Commission was in its action filed in the Federal District Court at Kansas City, Mo., in 1942, against United Funds Management Company, a face-amount certificate company, and its officers and directors. The nature of the contract which United sold was such that in the later years in which it was in force the burden of maintaining it became increasingly difficult. The management knew the company did not have sufficient reserves to provide for the payment of its outstanding certificates at maturity. Faced with these bothersome facts, the management embarked upon a campaign to switch their security holders out of their certificates into other investments. As a part of this campaign United mailed to its certificate holders a letter stating that its reserves had been questioned. The purpose of that letter was obvious.

Here was a company whose certificate holders were being induced by the management to surrender their certificates for less than they had paid and to relinquish the benefit of the proportionately greater improvement called for by the certificates as they proceeded to maturity. This plan was calculated to relieve the company of its burdensome obligations at the expense of the certificate holders and thus to enrich the directors and officers, who were the principal owners of the equity stock. Here was a situation where the directors and officers had refused and failed to effect a plan of liquidation which would have been fair and equitable to the real owners of the trust's property.

Because of these alleged facts the Commission filed its action under Section 36 of the Act seeking the removal of the officers and directors for their gross misconduct and gross abuse of trust. In addition, the Commission asked for the appointment of a receiver to conserve the company's assets and to hold them subject to the order of the Court for liquidation and distribution. The District Court issued a temporary restraining order and appointed a trustee to take over the company's assets. While our action was pending, United filed a petition in bankruptcy and was subsequently adjudicated a bankrupt.

I think this case illustrates that an investment company may not be operated in the interests of its officers or directors or in the interest of special classes of security holders. It must be operated in the interests of all classes of security holders.

Let us look at another situation. In the spring of this year the Commission filed an action against First Investment Company of Concord, N. H., and its president, one Charles L. Jackman.[3] The company was comparatively small and was dominated and controlled by Jackman. He also controlled the Northern Securities Co., a personal holding company.

Jackman had engaged in a scheme to acquire the stock of the investment company at less than asset value through his personal holding company as the ostensible purchaser by means of misleading statements in violation of Rule X-10B-5. In addition, this investment company had failed to file with the Commission or submit to its stockholders financial reports as required by the Act. The complete absence of financial information regarding the condition of the company was of great assistance to Jackman in his stock acquisition program. Lack of financial information certainly prevented the establishment of any true over-the-counter market for the company's stock. The company was charged with other violations of the Investment Company Act, such as making loans to controlled affiliates and purchasing securities of affiliates. The Commission's action resulted in a final judgment against First Investment Company, Jackman its president, and his personal holding company. The judgment, which was consented to, besides enjoining the many violations of the Investment Company Act and the Securities Exchange Act, enjoined Jackman from serving or acting in the capacity of officer, director or investment adviser of the investment company. In addition, Jackman stipulated that upon liquidation of the company he would pay to the persons from whom he had purchased the company's securities the difference between the price at which he acquired the stock and the final liquidating value of the stock.

I think this case illustrates the proposition that it is gross abuse of trust for a management of an investment company to purchase company securities from its shareholders without fairly presenting adequate financial information concerning the company.

The last of my illustrations involving the application of Section 36 is the Commission's action against Aldred Investment Trust and its officers and trustees.[4] The Trust was established as a common law trust under the laws of Massachusetts. Its investment policy, until Jan. 1, 1944 was to invest its assets in readily marketable securities of public utility and industrial corporations.

The absolute control of the Trust was vested in the trustees. To the debentures which it sold to the public were attached 100,000 common shares. In addition there were issued 112,000 free common shares which were not attached to the debentures. All shares had equal voting rights. It will be seen that the holder of the free shares had complete control of the Trust. Absent a default in interest, the shareholders were not entitled to put an end to the Trust until the year 2002. The trustees, however, could terminate the Trust earlier. The trust agreement provided that no investment would be deemed improper because of its speculative character. The Trust had been insolvent since 1937. The asset value of the Trust was substantially less than its funded debt. Earnings were insuffficient to meet the interest requirement on this debt. To prevent a default in interest and a possible termination of the Trust, a large proportion of interest was paid out of capital. In the latter part of 1941 the Trust had assets of approximately $2,000,000 and a funded debt of $5,900,000. That was the picture in October, 1941, when one Hanlon bought the controlling block of voting stock for less than $20,000.

What were the details of his conduct and that of most of the other trustees which the Court found to constitute gross misconduct and gross abuse of trust?

Immediately after acquiring control Hanlon elected himself and certain friends as trustees and officers. He was made president of the company. Salaries were paid to trustees and officers. The office of the Trust was moved to Hanlon's brokerage office in Boston. With the Trust facing bankruptcy and unable to meet interest except by the sale of portfolio securities, Hanlon sought to effectuate various plans of reorganization which would relieve him of the pressure of the interest requirements. He was stopped at the outset by the position of the Commission that any plan would be grossly unfair which did not leave the debenture holders in full control of the Trust. Hanlon, however, continued to use capital to meet interest requirements and management expenses when fairness should have indicated the necessity of a fair recapitalization or liquidation. Finding the way blocked to any recapitalization which would leave him in control, he gambled one-third of the Trust's choicest securities in purchasing control of the Suffolk Downs Horse-Racing Track. Since this purchase involved a change in investment policy, the Investment Company Act required stockholder approval. In procuring such approval, the trustees deliberately refrained from telling stockholders anything about the racetrack purchase, the details of which had already been completely arranged. Such notice as was given was a masterful bit of understatement.

The Circuit Court of Appeals in sustaining the judgment of the District Court against the defendants in the Aldred case, said:

"We have examined the record carefully, and in our opinion the only inferences permissible from the evidence and testimony presented at the trial are clearly to the effect that Hanlon and his associates during the period they had the management of the Trust were motivated primarily by ideas of personal gain. From the moment they took over they embarked upon a course of action which culminated in the acquisition of the Eastern Racing Association. That transaction enabled Hanlon and his associates to elect themselves as directors and officers of Suffolk Downs Horse-Racing Track, a business about which they knew nothing but which carried the certain prospect of handsome salaries."

Even eliminating the race track incident, I personally believe the other facts indicated the necessity for injunctive action.

The District Court, in order to prevent future violations by Hanlon or any other nominees he might select, appointed receivers "with the power either to reorganize the capital structure of the Trust or liquidate the Trust and distribute the assets . . ." The Court of Appeals, in affirming the judgment of the District Court, said:

"With respect to the appointment of receivers, the appellants contend that Hanlon, as the owner of voting control, has the power, 'with which no one has any right to interfere,' to supersede the enjoined trustees and elect new trustees; and that, conceding the propriety of receivership, the Commission under the statute has no authority to ask for such relief.

"We do not agree with either of these contentions. Hanlon's voting control represents no equity interest in the Trust, and to permit him to remain in control would be to perpetuate the very conditions that brought about this suit. In granting relief the District Court relied upon its equity power to appoint receivers with power either to reorganize or liquidate the Trust. In the light of the circumstances surrounding this case the only effective means of protecting the interests of the debenture holders was to remove Hanlon from the control of the Trust assets which do not belong to him. Section 36 invokes the equity power of the Federal Court and that calls into play its inherent powers where necessary to do justice and grant full relief. The appointment of receivers in the case at bar was an appropriate exercise of the court's inherent equity power. . . ."

Proposed Revision of the British Companies Act

The problem of breach of duty has [illegible] con-

(Continued on page 2472)

Diversiform Dishonesty

(Continued from 2471)

cern to the English. In June of this year the Committee on Company Law Amendment, which was appointed before the present Labor Government came into power, recommended major amendments to the Companies Act, 1929. The amendments recommended would be applicable to all companies and would in several respects be broader than Section 36. Under the proposed amendments the Board of Trade would be empowered to appoint inspectors to investigate the affairs of a company if it appears that:

"... there is reasonable ground for suspecting that there has been fraud in the promotion or formation of the company or that there has been fraud or misfeasance or breach of duty in the management of the business or affairs of the company or that the company has been party to fraud or misfeasance or breach of duty or that a minority of the members or of a class of the members has been oppressed by the majority, or that information has been withheld from members which ought reasonably to have been given to them ..."[5]

Inspectors may be appointed also upon the recommendation of a court or upon the request of a certain number or percentage of the stockholders.

Where the inspectors' report indicates a prima facie case of fraud or misfeasance the Board of Trade would have the power to apply to the Court for an order to wind up the company.

Reference for criminal prosecution is provided where the Board of Trade deems the facts to justify such action.

While Section 36 of the Investment Company Act is not as broad as the proposed amendment to the Companies Act, once the charges of gross abuse of trust are established to the satisfaction of the Court it has the inherent power to reorganize or liquidate the Trust. The Aldred case is authority for this proposition.

No Definition of Fraud

I want to make it clear that the recitation of the facts in the cases to which I have referred is not in any way to be taken as delimiting the extent of Section 36. Like fraud, abuse of trust is not a fact but a conclusion to be drawn from facts. The terms "gross abuse of trust" or "gross misconduct" should not be limited by any hard and fast definition. Both constitute fraud in its general sense. In this connection I think a quotation I cited last year is applicable. Judge Lamb of the Missouri Supreme Court said:

"Fraud is kaleidoscopic, infinite. Fraud being infinite and taking on protean form at will, were courts to cramp themselves by defining it with a hard and fast definition, their jurisdiction would be cunningly circumvented at once by new schemes beyond the definition. Messieurs, the fraud-feasors, would like nothing half so well as for courts to say they would go thus far, and no further in its pursuit."[6]

The declarations of policy as set forth by Congress in Section 1(b) of the Investment Company Act are a good guide in any interpretation of gross misconduct and gross abuse of trust. As the Court properly held in the Aldred case, the interpretation of gross misconduct and gross abuse of trust as used in Section 36 will depend not only upon relevant common law principles of fiduciary duties but also upon the declaration of policy as set forth in the Act.

Congress has declared that the policy and purposes of the Act are to mitigate and so far as is feasible to eliminate certain enumerated conditions which it found adversely affected the national public interest and the interest of investors. Congress states that the provisions of the Act shall be interpreted in accordance with its policy and purposes. Congress has also declared that the national public interest and the interest of investors are adversely affected—

"(1) when investors ... receive dividends upon, vote, ... sell, or surrender securities issued by investment companies without adequate, accurate, and explicit information, fairly presented, concerning the character of such securities and the circumstances, policies, and financial responsibility of such companies and their management;

"(2) when investment companies are ... operated, managed, or their portfolio securities are selected, in the interest of directors, officers ... or other affiliated persons ... rather than in the interest of all classes of such companies' security holders;

"(3) when investment companies ... fail to protect the preference and privileges of the holders of their outstanding securities;

* * *

"(5) when investment companies, in keeping their accounts, in maintaining reserves, and in computing their earnings and the asset value of their outstanding securities, employ unsound or misleading methods, or are not subjected to adequate independent scrutiny;

"(6) when investment companies are reorganized, become inactive, or change the character of their business ... without the consent of their security holders;

* * *

"(8) when investment companies operate without adequate assets or reserves."

I believe that any substantial deviation from that codification of the fiduciary obligations imposed upon directors and officers of investment companies, ipso facto, constitutes gross misconduct and gross abuse of trust. And once such a deviation is established the power of the Court to reorganize or liquidate the Trust should not be lost sight of.

Practice Standards Improved

My remarks are not meant to imply that most investment companies which had been operating in this country before 1940 were guilty of unfair practices or were mismanaged. I feel we should be pleased that progress has been made by the members of the industry voluntarily to eliminate some of the major abuses and deficiencies and to improve generally standards of practice.

With personnel problems being gradually alleviated, those charged with the administration of the regulations and requirements pertaining to the distribution of investment company shares will be able to give more and more attention to the problems in the industry. To paraphrase a statement by a member of the industry, although no amount or kind of government regulation can guarantee good investment management or insure investors against losses, the investment company industry itself can provide considerable protection against the recurrence of past abuses and excesses that characterized early investment company history.[7]

At no time in the history of the country has the bulging public pocketbook looked so inviting to our perennial get-rich-quick Wallingfords. We must therefore intensify our efforts to combat the subterfuge and sharp-tongued salesmanship of those who would indulge in nefarious schemes in connection with the purchase or sale of securities. At the same time we must not lose sight of the more devious dishonest practices within the corporate enterprise itself. We must be alert to dishonesty however diversiform. The prospective investor must be alerted to investigate before he invests in any venture, including an investment company, and to watch the performance of any company in which he invests. I repeat, the investment company is important in our national economy and provides a medium for public investment in common stocks and other securities; but we should never forget the limitations on conduct of management or those in control of a corporate enterprise. I close with this statement of Mr. Justice Douglas:

"He who is in such a fiduciary position cannot serve himself first and his cestuis second ... He cannot use his power for his personal advantage and to the detriment of the stockholders and creditors **no matter how absolute in terms that power may be and no matter how meticulous he is to satisfy technical requirements. For that power is at all times subject to the equitable limitation that it may not be exercised for the aggrandizement, preference, or advantage of the fiduciary to the exclusion or detriment of the cestuis.** Where there is a violation of those principles, equity will undo the wrong or intervene to prevent its consummation ... Otherwise, the fiduciary duties of dominant or management stockholders would go for naught; exploitation would become a substitute for justice; and equity would be perverted as an instrument for approving what it was designed to thwart."[8]

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1 Story Eq. Jr. §187; *Moore* v. *Crawford*, 130 U. S. 122, 128. 2 Section 36. 15 U. S. C. 80a-35. 3 Civil Action, File No. 400; USDC New Hamp. June 19, 1945. 4 *SEC* v. *Aldred*, 58 Fed. Supp. 724, —— F. 2d ——, (CCA 1, Sept. 17, 1945). 5 Report of the Committee on Company Law Amendment, p. 101. 6 *Stonemets* v. *Head*, 248 Mo. 243; 154 S. W. 108 (1913). 7 Investment Companies — 1945 Edition — Arthur Wiesenberger—p. 47. 8 *Pepper* v. *Litton*, 308 U. S. 295, 311 (1939).

India as an American Export Market

(Contiued from page 2450)

gold. Her reserves of coal are immense, though the proportion of high-grade coal is said to be comparatively small. This deficiency, however, is more than offset by her immense potential resources of water power, probably the second largest in the world. Only about 3½% of the estimated potential horsepower has so far been developed.

In agricultural products India holds a virtual monopoly in jute and heads the list of the world's producers of sugar, tobacco and oilseeds. She is the second largest producer of cotton, rice and tea, and is among the leading producers of wheat, barley, coconuts, rubber, hemp, lac and silk. A third of the world's livestock is in India, and she is the largest exporter of hides and skins, raw as well as tanned.

—and Incredible Poverty

And yet, with all these vast resources, India today is among the poorest countries in the world. Her gross national income barely amounts to $19 per capita per year, or five cents per head per day. For 60% of her total population of 405,000,000 the average per capita gross income is less than five cents a day. In other words, the average Indian income is just enough either to feed two men in every three of the population, or give them all two in place of every three meals they need, on condition that they all consent to go naked, live out of doors all the year round, have no amusement or recreation, and want nothing else but food, and that the lowest, the coarsest, the least nutritious.

Poverty, starvation and disease stalk the land. Nearly two-thirds of the population are chronically under-nourished and disease-ridden. Well over 100,000,000 people suffer annually from malaria alone. Nearly 10,000,000 people die every year, mostly from preventable diseases. The rates of infant mortality and maternal mortality are the highest in the world. The mean expectation of life is less than 27 years.

The crux of India's economic problem today is the terrific pressure on agriculture and the lack of industrialization. For nearly 70% of the population subsist on agriculture, and about 90% are directly or indirectly dependent on the land. Barely 1% are engaged in organized industry, and not more than 5% derive their living from industry of all sorts, including cottage industries and handicrafts.

"Eighth Industrial Country"

We are often told that India is one of the eight chief industrial countries of the world. How different the economic picture in India would have been if this were true. Actually, this myth was fabricated in 1922 in order to secure for British imperialist interests an extra seat in the governing body of the International Labor Organization. The claim was not based on India's industrial activity or output, or even on the number of persons employed in organized industry. It was based on a fictitious figure of 20,000,000 "industrial wage-earners"—composed overwhelmingly of village artisans, handicraftsmen and others, bearing no relation whatsoever to modern industry.

But India *was* the leading industrial country in the world at one time, as industry went in those days. It was the lure of India's fabulous wealth in manufactured goods—and not raw materials—that first attracted European traders to her shores. For centuries before the British conquest of the country India's silks, cotton textiles, metal manufactures and woodwork were known and prized throughout the world. Even towards the end of the eighteenth century nearly £100,000 worth of Indian cotton textiles used to be imported annually into America. Today India's exports of manufactured goods are almost negligible. These age-old industries have been systematically and deliberately destroyed during the past 180 years, in order to reduce India into a source of raw materials and a closed market for British manufactures.

During the past half a century or more this system of economic emasculation has assumed a more refined and scientific form. Part of the "plunder" taken out of the country has been reinvested in India, through the establishment of a closely-knit chain of industrial and commercial enterprises which has insured a larger share of profits for the British interests. Today more than three-fourths of the organized industry in India is in British hands. The so-called British capital "investments" in India probably do not exceed $2,500,000,000 at present, but this figure represents only a small portion of Britain's total economic stake in the country. The assets and reserves of the various British concerns operating in India amount to many times this figure. The profits also are immense, and cases are not rare of actual dividends of 200% to 300% per share having been paid. Then there are the fantastically high salaries, allowances and pensions drawn by Britishers in India. These also amount to a huge total. Altogether, nearly one-twelfth of India's gross national income of some $7,000,000,000 a year goes into British pockets. To cover up the truth regarding the huge proportions of this annual "drain" out of India, British spokesmen assiduously try to explain that India does not pay any "tribute" to Britain—as if any colonial country has done so since the American War of Independence—and that Britain's economic stake in India is almost negligible.

War-Time "Expansion"

Another matter on which considerable misinformation has been circulated in this country, in England, and even in India, is the nature and extent of India's industrial activity during the war. It is often stated that Indian industry expanded considerably during the war. Available facts, however, do not bear out this contention. In fact, they point quite to the contrary. Mills and factories in India, which constitute the so-called organized industry of the country, derive their power from coal and electricity. Coal output or coal "raisings" from the mines fell sharply during the war years. Coal dispatches from the mineheads also decreased proportionately. The output of electricity increased slightly, but not enough to offset the loss in coal production. Altogether, the supply of industrial power was less than it was in 1937-38. How could the mills and factories, therefore, work more if their power supply is less?

Many of the jute mills were in fact closed down due to shortage of coal and loss of export markets. Tea production was less, and so was sugar and cement production. The only major industries which showed any real increases in output since the war were cotton textiles and steel. The output of cotton mills increased from some 4,200,000,000 yards to about 4,700,000,000 yards per year; and the output of steel increased from about 800,000 tons to about 1,200,000 tons per year. The overall picture, however, was that industrial activity in India during the war was less than it was in the peak years of 1937-38. This is also borne out by the monthly index of industrial activity in India, compiled and published by "Capital," the leading British-owned financial and industrial journal of Calcutta.

The real reason behind this singular failure to expand production was the anxiety of the British vested interests to ensure that even the stress of war-time necessity did not enable Indian industrialists to make any real headway which might jeopardize Britain's absolute hold on India's economy. Not a single new industry has been allowed to be established in India during the last five years of war. Only some comparatively unimportant articles which were not produced in the country before the war were allowed to be manufactured in experimental quantities. Few of them are likely to survive now in the post-war competitive market.

India's much-publicized industrial war effort, therefore, actually amounted to this: The sum-total of industrial activity has not increased, but a very large proportion of existing production—in some cases amounting to nearly 90% of the total output—was diverted from civilian consumption to war supply. And this has been misrepresented and boosted as "war-time expansion of industry."

The Real Picture

The real economic picture in India during the past few years has been one of acute shortage of food grains and consumption goods, brought about by loss of imports and heavy war purchases. Prices all around have rocketed sky-high, the general inflationary tendency being aggravated by the indiscriminate issue of Government currency notes in order to pay for the war purchases. Maldistribution, inadequate transport facilities, lack of effective controls, Government and private hoarding, inefficiency of the administrative machinery, lack of popular support for Government—all these have contributed to a further worsening of the situation. Prices in many cases have shot up to 1,000% or more over pre-war levels, and the general cost of living has risen by 250% to 300%. While some people have reaped enormous profits from war orders, speculation and black market operations, the vast majority of the population who already were on the verge of starvation have been reduced to a state of utter destitution, unparalleled within living memory. Famine and pestilence have ravaged the land, killing off over 5,000,000 people and incapacitating some 50,000,000 more* within the past 18 months alone. Few countries even in occupied territories have paid such a high price for the war.

India's Sterling Assets

The total value of war supplies and other goods, services and credits obtained from India by the British Government since the outbreak of war amounts to over $5,400,000,000. The major portion of these supplies and services have been used in the North African, Middle Eastern and other overseas theaters of war. They have been paid for in sterling, which has been placed to India's credit in the Bank of England. Of the total balances so held, about $1,350,000,000 has already been utilized for the liquidation of India's so-called sterling debt,† and the rest has been "frozen" for the duration. These frozen sterling assets now aggregate nearly $4,000,000,000 and are increasing at a rate of more than $200,000,000 per month.

The liquidation of India's sterling debt and the accumulation in its place of huge sterling assets have been boosted up by British imperialists as a supreme example of Britain's "generosity" towards India. We are told, for instance, that India has been transformed almost overnight from a debtor country to a creditor country largely owing to the fact that Britain has been generously shouldering the major part of India's defense expenditure. If we examine the true nature of the transaction, however, it becomes obvious that the redemption of the sterling debt and the freezing of the sterling assets represent, in effect, a forced loan wrung out of India at the cost of the blood, sweat and tears of her starving millions. India was declared a belligerent without her consent. She was denied the right to arm herself and fight as a free and equal partner of the United Nations. The so-called "two million volunteer army" which Britain has been able to raise in India remains in reality a purely mercenary army—an army of "rice soldiers"—in spite of all ballyhoo to the contrary. To squeeze out of her, on top of all this, a loan of over $5,000,000,000 and then to misrepresent it as an act of generosity on Britain's part in the cause of India's own defense, becomes a bit of a cruel joke.

Financial "Rope Tricks"?

During the past couple of years India has become increasingly apprehensive that Britain will not honor this debt, or will at least repudiate the major part of it on some excuse or other. Recent official and semi-official statements in England, coupled with India's bitter experiences after the last war, afford good cause for such misgivings. Already a substantial sum appears to have been earmarked for a proposed commutation of salaries, pensions, annuities, etc., of British officials retired from India. Then there is the question of the so-called "financial settlement," or the final apportionment of the war expenditure as between Britain and India. According to a tentative arrangement made some two years ago, this was estimated to work out at a ratio of about three to one. Recent reports from London, however, indicate that British financial pundits, led by Lord Keynes, are maneuvering to place a much higher burden on India. Dark hints to this effect are frequently being bandied about. One London dispatch dated June 24, 1944, ominously stated: "Whatever the Indians may say about it, this huge expenditure has been made to prevent India from being made a Japanese province." As if Britain had no personal interest in fighting the wars in North Africa, Abyssinia, Eritrea, Syria, Iraq, Iran, Burma, Malaya, Singapore and Hongkong; as if all these wars were fought for defending India's "freedom" against Axis aggression! Another suggestion recently made is still more revealing and perhaps reminiscent of the notorious "Reverse Councils" after the last war. Sir Purshottamdas Thakurdas, a leading Indian financial expert, referring to it, said: "It is hinted that if India does not reduce her demands on sterling, it may have to be depreciated to meet the balance of payments position. In brief, India is asked to commit financial suicide in order to save herself from financial slaughter."

India is deeply apprehensive whether even a small proportion of her sterling assets will be left intact after all these financial rope tricks have been performed. If anything does remain, it will probably be utilized for financing Britain's own exports to India, as and when she can deliver the goods. Never before in history has a creditor been so ruthlessly at the mercy of the debtor!

India Wants Dollar Credits

For herself, India is most anxious that a substantial proportion of her sterling assets should be transferred to the United States and converted into dollar credits to enable her to buy freely from this country after the war. Hitherto, every attempt made by Indian industrialists to import capital goods from the United States has been thwarted by British refusal to grant import permits or to extend dollar credits. Whatever dollar credits India has been able to acquire through her increasing trade in private merchandise with this country have been either absorbed in the Empire dollar pool or frozen as part of the sterling assets, leaving India no scope for utilizing them for her own commercial requirements. True, Britain has now, with a flourish of generosity, agreed to set apart for India's use a small portion of the dollar credits accruing to her; but it is doubtful if these credits will suffice even to meet the cost of current cash purchases of war materials from America, not to speak of the ultimate adjustment of lend-lease accounts. Obviously this generous gesture was intended more as a "sop" to America than as an actual concession to India.

So far Britain has turned a deaf ear to India's persistent demands for conversion of a part of the sterling assets into dollar credits. At the Bretton Woods monetary conference two of India's delegates, British nominees as they were, feebly broached the subject of such conversion. Lord Keynes and his colleagues in the British delegation asked them to withdraw the proposal on the ground that such conversion would make it more difficult for Britain to meet her obligations to the United States and that, in any case, it was Britain's private affair and as such outside the purview of the conference. One fails to see how the transference of a portion of India's balances from sterling to dollar could hamper Britain's ability to repay America, unless it were assumed that Britain has no intention of honoring her debt to India.

How America May Help

Though the immediate prospects of obtaining sufficient dollar credits thus appear somewhat obscure, India certainly has not given up hope. She wants to buy freely from the world market, and especially from America, and she has enough faith in the good sense and sound business instincts of Americans to feel that, in their own interests, they will not let the present state of affairs continue. She hopes that American economists and business men, who are now casting about for new outlets for the expansion of American economy, will soon see through the maze of misrepresentation, concealment and perversion which has deliberately been built round the whole Indian picture. And she is confident that once they do so and realize the vast possibilities of expanding American trade with India, they will do their best, by rousing public opinion and otherwise, to prevail upon the Administration to take some effective steps in the matter. Even if such steps fail, though there is no reason to apprehend that they will, India feels certain that American business men will devise other means of expanding trade relations with India. This can, for example, be easily done by extending long-term credits to India, to be adjusted against future accumulations of her increasing balance of trade. India's vast output of raw materials, much of which America already uses and more of which she can profitably use, provide a

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*These estimates are not based on Mr. Amery's statements in the House of Commons, but on the results of sample surveys made by the Anthropological Department of the Calcutta University.

†Much of this debt was originally built up by charging to India such items as the cost of transference of the country from the hands of the East India Co. to direct rule by the Crown, the costs of the Opium Wars in China, a war in Abyssinia, the conquest of Burma, a reception to the Sultan of Turkey in London, maintenance of consular and diplomatic representations of the British Government in Persia, Iraq and China, and even part of the expenses of the British Mediterranean Fleet.

Securities Salesman's Corner

By JOHN DUTTON

Good Customers Are Worth Cultivating

It's either a feast or a famine—that's the securities business. Today business is good—but back in 1939 it was different. In those days every salesman was happy to have all the customers he could get—large or small accounts—every one was welcome. In those days no one had too much business. But what about today? There are more customers for securities than there are securities. The tide has turned—after 16 years we are once again witnessing a parade of stock buyers from one corner of the land to another. It all goes to prove that HISTORY DOES REPEAT ITSELF AND DON'T EVER BELIEVE THAT IT DOESN'T.

From the salesman's viewpoint (and that's what we are concerned with in this column) the problem today is making the most out of present opportunities. What is the best way to "cash in" on this bull market? Sell good securities, of course. Sell securities that will perform well for your customers. These things are basic. But what about a salesman's time? What about his end of the business? For years he has been talking his heart out trying to convince a lot of people that 1929 was past . . . that good investments were preferable to cash . . . that there were opportunities to receive a generous return on investments; and also achieve an appreciation in principal. A few people believed him and today they can be thankful for it. But most individuals are just beginning to wake up to the fact that securities are attractive investments ONCE AGAIN.

Today the public is back again "in the market." So once again a host of avid stock buyers; many of them bent on making a "quick profit," are eagerly asking some salesman they know such questions as, "WHAT SHALL I BUY?" "How can I make money?" That's the $64 question today.

As far as we are concerned, we'd leave all of these "get-rich-quick customers" to their own devices. THERE IS ONLY SO MUCH TIME IN A DAY. For some men it's eight hours . . . a few will put in a longer day; BUT IF YOU ARE GOING TO MAKE THE MOST OUT OF YOUR TIME WHEN MEASURED IN RESULTS AND DOLLARS AND CENTS, THERE IS ONLY ONE KIND OF CUSTOMER TODAY THAT'S WORTHWHILE—HE'S THE ONE WHO GIVES YOU HIS CONFIDENCE AND WHOSE BUSINESS IS LARGE ENOUGH TO BE WORTHWHILE.

Selling securities is the most personal sort of business. There is no reason why a salesman shouldn't do business with the people **who like him**, and who have **enough business** to make it worthwhile for him to cultivate, not only their **business, but their friendship.** There is no line of endeavor in which human beings are engaged where there is any bar to the cultivation of a close, personal relationship. As far as we are concerned, we believe that if a salesman has good customers he should show them every courtesy. We don't bar the line at gifts, personal favors, luncheons, or even staying as a week-end guest of a good customer. The better you know people—the more you like them—know them—and they like and know you . . . THE BETTER JOB YOU CAN DO FOR THEM AS FAR AS CONCERNS THEIR INVESTMENTS.

The reason this is true is very obvious. The basis for success in the investment of money, wherein a salesman proposes and an investor has the final say in the matter, is first of all predicated upon confidence in the salesman. Timing, that important ingredient in any successful investment program, can only be accomplished if the client ACTS WHEN THE SALESMAN SAYS IT'S TIME TO BUY OR SELL. If a salesman knows his business his client will only benefit to the extent that he follows that salesman's suggestions. The closer the two parties concerned are attuned to each other's viewpoint, the better will be the results.

The greater the concentration a salesman puts into the development of large accounts—the less he bothers with the small fry . . . or the free rider . . . or the get-rich-quick speculator . . . and the fellow who wastes his time and then finally gives him a small piece of business that isn't worth the effort he put into it . . . the better off that salesman will be. The salesman who CONCENTRATES UPON THE SIZABLE ACCOUNTS AND THEN MAKES IT HIS BUSINESS TO KNOW HIS CUSTOMERS AND TO BECOME AS FRIENDLY AS POSSIBLE, IS THE ONE WHO IS GOING TO MAKE THE REAL MONEY DURING THE NEXT FEW YEARS. And he will do it with less effort, and in a much more enjoyable manner THAN IF HE TRIED TO DO BUSINESS WITH EVERYONE . . . NO MATTER WHETHER THEIR BUSINESS WAS WORTHWHILE OR NOT.

India as an American Export Market

(Continued from 2473)

sound security for extending such credits.

One thing that India is afraid of is the likelihood of powerful American business groups being inveigled into partnership with British vested interests in the exploitation of India, as a foil to possible American competition in the Indian market. In view of her long and bitter experience of imperialist exploitation such fears on the part of India are perhaps understandable. Informed American observers returning from India have reported that such fears and suspicions do exist and are, in fact, fomented by the British interests themselves. For the sake of America's good name, if for nothing else, these fears and suspicions must be allayed, and the best way of doing so is for the heads of the Administration and of industry to make unequivocal declarations of America's genuine sympathy with Indian aspirations and her desire to do business with India on a free and honorable basis.

A Plan of Economic Development

The extent to which India may provide a market for American goods in the immediate post-war years is somewhat difficult to assess, in view of the uncertainties attaching to India's political and economic status after the war. But some idea of the nature and extent of India's requirements in capital goods once she is able to embark on a program of economic development—which can reasonably be expected to be in full swing within the next decade —may be obtained from the so-called Bombay Plan which has recently been put forward by eight of India's leading industrialists. The plan, which derives its inspiration and most of its data from the preliminary reports of the National Planning Committee set up some years ago by Pandit Jawaharlal Nehru, does not pretend to be a blue-print for India's economic development. It is merely a presentation of its author's views and suggestions, which may or may not ultimately be acceptable to the country as a whole, as to "the objectives to be kept in mind in economic planning in India, the general lines on which development should proceed and the demands which planning is likely to make on the country's resources." The fundamental assumption underlying the plan is the formation, on the termination of the war or shortly thereafter, of a National Government of India vested with full freedom in economic matters. The principal objective of the plan is to bring about a doubling of the present per capita income within a period of 15 years from the time the plan comes into operation. To achieve this increase the authors propose that the plan should be so organized as to raise the net output of agriculture to a little over twice the present figure and that of industry, including both large and small industries, to approximately five times the present output.

The total capital requirements of the plan are estimated at $30000,000,000, distributed as follows: industry, $14,440,000,000; agriculture, $3,720,000,000; communications, $2,820,000,000; education, $1,470,000,000; health, $1,350,000,000; housing, $6,600,000,000, and miscellaneous, $600,000,000. For purposes of execution, the plan is proposed to be divided into three five-year plans costing $4,200,000,000, $8,700,000,000 and $17,100,000,000, respectively. The suggested sources of finance are as follows: (a) external finance: hoarded wealth, $900,000,000; sterling assets, $3,000,000,000; balance of trade, $1,800,000,000; foreign borrowing, $2,100,000,000; (b) internal finance: savings, $12,000,000,000; "created money," $10,200,000,000.

Market for America

It is not perhaps unreasonable to assume that at least one-third of the total capital expenditure suggested in the plan, that is to say $10,000,000,000, would have to be spent on capital goods, mostly of foreign manufacture. As America is likely to be the only country, during the immediate post-war period, able to meet such huge demands with speed and efficiency and on comparatively favorable terms, there is no reason why she should not be called upon to supply the major part of the requirements, if she so desires. Even assuming that she undertakes to supply half the requirements, her net share of the total orders for capital goods may well amount to $4,500,000,000, distributed progressively during the three five-year periods.

The above estimate is intended merely to illustrate the importance of India as a potential market for this country; it must not be construed to be an invitation to count the chickens before they are hatched. For much would depend on the nature of the struggle which India may yet have to wage before she is able to achieve her ultimate goal of complete economic and political freedom. Much would also depend on the extent of moral support and encouragement she may receive, now and later, from those who profess to champion and cherish the cause of a free and democratic world economy.

Traps and Pitfalls

Meanwhile, signs are not wanting that India's efforts to achieve her economic development will be beset with many traps and pitfalls. The reception accorded to the Bombay Plan in British official and semi-official circles, for example, gives an inkling of the subtle maneuverings going on behind the scenes. The first official reaction to the plan, as evidenced by the inspired comments of the London "Economist" and other journals, was one of unalloyed criticism and open hostility. This was followed by a soft-pedaling on the critical note and a labored attempt to discover some good points in the plan. Next came a broad gesture on the part of Viceroy Lord Wavell to give a death kiss of official patronage to the plan, coupled with an invitation to its sponsors to a round of wining and dining in London. And now, finally, there is an overt move by Government to take the whole thing under its own wing—and so neutralize it. For its own part, the Government has put forward a series of paper plans which India suspects to be a subterfuge to divert attention from the main political issue. They also fear that any scheme which may ultimately be put through will be only an added instrument of imperialist exploitation, cleverly camouflaged perhaps under an Indian facade but actually designed to secure a more vicious stranglehold on the country's economic and political life.

A New Confidence

India, however, is determined no longer to take it lying down. Out of her travail and desperation has emerged a new confidence, a new spirit of grim resolve to mould her destiny according to her own needs and desires. And she is fully confident of achieving her goal in the not too distant future. A free, progressive and prosperous India is sure to prove a bastion of democracy and a mainstay of an exanding world economy. Along with China and Russia she may then inaugurate a new era of peace and prosperity in the Eastern Hemisphere, which will no doubt be a source of permanent gain to America, Britain, Europe and the rest of the world. America, with her immense prestige, power and resources, can do much to hasten the day of such a reawakening. Is she willing and prepared to take up the task?

Some Problems Facing Industry

(Continued from first page)

gether; neither can long prosper unless the other prospers.

So, specifically, and frankly, I would like to present to you today some of the manufacturers' problems, the solution of which will not only affect the future of the industry but also the future of agriculture.

During the past few years manufacturers (as well as farmers) have been under the control of government. In practically every phase of their business, manufacturers—

Finance—Through the SEC and taxes.

Plant — Through government control of materials.

Production Plans—By government control of schedules.

Raw Material—By government allotment.

Raw Material Prices—By government control of prices.

Labor Supply—By government employment agencies.

Wages—Through labor boards and unions.

Distribution — By government allotment.

Sales Prices of Products — By the OPA.

Profits—Limited and controlled by excess taxation which is now confiscatory.

Working Conditions in the Plant —Through government inspections of various kinds.

Some of these controls have been lifted in whole or in part but such removals have not been effective in several cases because of the controls existing elsewhere, so in speaking of the problems of the immediate future of industry we must keep in mind the conditions under which industry is now trying to operate.

In discussing some of our daily problems we naturally turn to the most important at the moment, and that is—

Labor

(Labor Shortage) Whether this is real or not cannot be demonstrated until there is released from the army and navy the millions who are not required, and released from the government civilian service other millions who are not required and who are now merely an excess burden on the backs of the producing people of this country—like an old man of the sea; until we cease making excessive payments from reserves for not working. There are many communities today in which there are an ample number of unemployed persons to take up the slack, but they are encouraged to loaf on unemployment compensation rather than to work for wages which are reduced by income tax deductions, labor union dues and fees, social security deductions, etc.

There is also the restriction which prevents a man from freely making his own contract. There must come a restoration in this country of the constitutional right to work, which has been largely removed or eliminated by labor unions with the support of labor boards or other representatives of the government itself. The American citizen is almost without the right to make his own contract, which is the right to make a living, until he first subordinates himself to some so-called labor leader. Until these obstacles are removed and we have returned to the American system, we cannot tell whether there is a real shortage of labor or real unemployment.

At this point it is desirable to make clear that there is much misleading propaganda going around the country, in the press and otherwise, regarding employment and unemployment. Politicians are talking about 60,000,000 jobs; others say 55,000,000 or 57,000,000 and in practically all cases they speak about the necessity for providing these jobs as being a **burden of industry.** The natural public reaction to this word "industry" is "manufacturing industry."

The real facts are that the manufacturing industry has never employed more than 24% of the gainfully employed, therefore, under any percentage of employed, manufacturing industry would normally be expected to give employment to something just under 25%, agriculture 20% approximately, and 55% in other lines of endeavor.

Along with this matter of labor goes the question of wages and cost of manufacture which determine selling prices. It is interesting to note that hourly earnings today, in the manufacturing industry, are something over 100% above the normal level of 1923 or 1929, while **wholesale prices,** as shown by the Bureau of Labor Statistics, are only approximately 7% above the normal of 1926.

The cost of living, likewise, as determined by the Department of Labor, is approximately the same amount above normal as the wholesale index of prices, viz. 7%.

Obviously this great discrepancy cannot last indefinitely and prices must go up or labor rates must go down so that prices and labor rates will be nearer together. In other words, the problem of industry is to bring the level of hourly earnings and prices more nearly in line where they can be economically justified and maintained.

In spite of this obvious truth there is at the moment general nation-wide demands for excessive increases in hourly wages whereby the factory employees would secure **52 hours pay for 40 hours work,** together with other advantages that are included in union demands.

In view of the fact that wages constitute from 80% to 90%* of the cost of most manufactured products, it is obvious that any such demands, if granted, would mean a substantial increase in prices, especially in view of the fact that prices today are below the point where they should be, based on present wage rates. A further increase in wages would make an even larger increase in prices necessary eventually. This includes wages from mine and forest to factory warehouse.

The only offset to this is the fact that there has been some technological advances which have the effect of reducing or holding down costs, but these advances only run at the rate of about 2½% per annum. Wage levels have advanced far more rapidly than the technological reduction of costs. Furthermore, when a reduction in costs is made by some improvement in machinery and methods, the benefits cannot all be extended to labor. The consumer and the stockholder must receive their fair share, otherwise there is no incentive for the investment of savings which is necessary in making such technological improvement. As the matter stands today, the stockholder is receiving a smaller return on his investment than he formerly did.

The 40-Hour Week

Another problem facing industry on the labor front is the labor legislation restricting the weekly hours to 40, with penalties for running beyond 40 hours. Wages can be increased and hours reduced in industry only if improvements are made in methods, machinery, etc. There is nothing else to support such increases in wages or reductions in hours. Legislatures or Congresses cannot decide by legislation that hours shall be so and so, and wages shall be so and so. This is beyond their power. **Real wages and real hours** will be governed by forces far more powerful than that of political bodies. The men who work in a farm machinery plant, only 40 hours a week, cannot expect to trade their services freely with the farmers who are working 60 or 70 hours a week. This kind of trade is undoubtedly restricted very much under what it might be.

The result is that the farmer secures less machinery and the workman is out of work more weeks in the year; thus he pays the penalty for the 40-hour week. This principle is very well illustrated in the building trades, where workmen cannot afford to buy or live in the houses that they themselves build.

In addition to these fundamental facts we have the tendency of labor unions to introduce and to compel the pegging of production. In other words, restrict the individual in the amount he may produce per hour or per day. This is a well-known and quite general practice. It is an economic fallacy and grows out of the false idea that the total possible amount of work is limited and must be divided up. It is just as erroneous as the idea of the 40-hour week established by legislation. We can only have greater wealth and wider distribution by greater production. This is so obvious that all of us should understand it. It is amazing therefore to find, still in existence and widely practiced, a method of reducing and restricting production which has the effect of reducing the standard of living for everyone.

Material

The supply of materials in industry is one of the most difficult problems facing it today, due to strikes and the rising costs of such raw materials. For example, steel, castings and lumber today are being produced in relatively small quantities due—

(a) Primarily to labor disturbances.

(b) Secondly to government interference and restrictions.

This restriction on the supply of raw material may have even greater effect than the labor disturbances in the final manufacturing plants which may occur during the next few months. Together they may have a very important effect in reducing the amount of goods that will be available for the farmer during the coming year.

The remedy for the situation is simple. All we need is a restoration of law and order in this country and the insistence by our people upon our public servants carrying out their oaths of office and the law; to restore the right to work so those who do not want to work may quit for any reason whatsoever, and those who want to work may work without molestation or interference from anyone. When this condition of Americanism is restored to this country, 90% of our industrial difficulties will pass away. The so-called labor problem in this country does not exist in fact; it is a political problem, and a failure of local, state and national governments, the people's servants, to carry out their sworn duties.

No industrial labor or similar problems can be solved unless there is a condition of law and order. Collective bargaining

*See page 99—National Income in United Sales 1929-35. Published by Dept. of Commerce.

should not be allowed to cover up collective coercion and collective lawlessness.

Another problem in industry at the present time is the inability to restore and renew buildings or to build new buildings because of the materials supply and general restrictions, such as the inability of contractors to make reasonable bide due to the unsettled conditions.

Prices

Another problem confronting business today is prices, which are limited and restricted generally to the 1942 levels by the OPA. During the period of price restrictions the government, through the decisions of Labor Boards, have supported the demands of labor unions to such an extent that prices now have fallen far behind the increased costs of production. This has been concealed up to the present time by the fact that most manufacturers have been working second and third shifts with large volume production, and have been engaged in a substantial war program where the prices were not controlled by the OPA. Now that industry is returning to civilian production, and probably a one-shift basis instead of a two or three shift basis, and the volume may be much lower, most industries will be thrown into the red figures through the increased costs referred to and the pegged ceiling prices established by the OPA. Under this condition profits which are already lower than pre-war because of taxation, will disappear.

Taxes

Along with this, of course, is the question of taxes, which are on a confiscatory level. You really cannot speak of them properly as taxes when a government takes more than 10% of the national income—then they have gone far beyond the field of taxation into the field of confiscation.

Engineering and Development

Articles in papers, magazines, etc. which are easily written, have promoted the idea that there will be miracles presented to the American people after the war because of the great advance in one or two lines, such as plastics and chemicals. These promises or implied promises have given rise to many fantastic expectations and ideas.

So far as farm machinery is concerned we know of no outstanding miracles to be expected. There will be some improvements, of course, but the facts are that the energies of engineers and men in development work in most industries have been diverted to war production and development of methods and techniques to produce war goods. Our organization has devoted all the time and effort possible to the improvement and development of farm machinery. In our estimation the development of farm machinery will be gradual; improvements will come as soon as they can be properly studied, tried out and applied. Our industry will continue to study the farmer's problems and to help him solve them. As each one is solved there will be another one come up, and new ones will develop from time to time; new ideas, new crops; new methods of handling, and new machinery adapted to them will continue. This progress we believe will go on into the future in a perfectly natural way. We see no miracles ahead of us.

We do not consider that all the problems of the farm are solved by any means but we, as manufacturers, will help, as always, because we recognize very clearly that only as we can help the farmer can we expect to live as an industry. Our reward will be in direct proportion to our service to the ultimate users of our product.

Observation of years has indicated that manufacturing and farming are very similar; both are lines of endeavor which take raw materials and try to make them into finished products. The same principles of succesful management and rewards are involved in both cases; they are both dealing with Old Mother Nature and the natural laws of the universe, and they both must learn that wealth cannot be created by propaganda or political speeches or promises. On both the farm and in the factory good equipment and good facilities and good management bring results. Balanced all-year round operations are necessary in both cases for the best results.

We must, however, look the plain facts in the face—that not all farmers or manufacturers are alike. Some are better than others because of their natural ability as managers. One of the peculiar facts about people is that they think fairly straight in many phases of life, such as in sports, activities, music, the arts, and certain professions; in other words, we recognize that one person can sing better than another; that one person is a better baseball player than another, or a better pugilist, or even a better doctor, but for some strange reason, when it comes to the economic production or business side of life, we seem to feel that because one business does better than another there is something unfair in the situation and we try to restrict, tax away or confiscate the rewards of unusual ability. It is exactly as though we might penalize or hobble in some manner the good athlete or muzzle the good singer and thus try to make good singers and good athletes out of all of us.

Farmers and manufacturers have a greater mutual interest than they realize; the facts indicate that the wages of employees in industry almost exactly parallel the farm income. This is perfectly logical and natural when we consider that about half of our people are living on the farm or in rural communities and the other half live in the cities. The products of the people in the cities must be exchanged with the products of the rural half for their mutual benefit.

The Political Problem

If the rural half are doing well, then the people in the cities can likewise do well and vice versa. The problems of the farmers and the manufacturers are very similar but the greatest mutual problem of all that we have is the political problem and that of government; the tendency is to make us the servants and government our master. Very clever methods of securing votes have been developed through subsidies of one kind or another — government jobs, government assistance in deciding industrial or labor difficulties. The government itself has no money that it does not first take away from the people, therefore, in distributing this money it has merely taken from the people what is their property, and then gives it back to them in some other form, after deducting a very substantial percentage to support the bureaucrats who take it. Many do not realize that any form of government assistance or government subsidies means government control and thus our servants become our masters by depriving us first of a portion of our earnings.

Forty years ago only 5% of our national income was required for the support of our Federal, state and local governments; at that time the governments were properly our servants, and we had a far beter government than we have today. Today the Federal Government alone is taking over 30% of our national income.

In addition to this it is printing bonds as money and spending twice as much as it collects in taxes. There appears to be no thought or no attempt to balance the budget. We not only spend the money with an extravagant hand in this country, far beyond the needs of the situation, but we hand it out by the thousands of millions to other countries where we have little or no obligation. All of this means bankruptcy or repudiation as has occurred in other countries. Inflation is right before us. Any undue increases in wages beyond the present high levels means a reduction in the value of our life insurance policies, savings deposits, government bonds, and any other accumulations of the past payable in dollars. This is a step toward inflation, toward the inflation toboggan from which there may be no turning back. There probably never has been an example of government being able to stop inflation once it is well started.

Sometimes we forget that the government is exactly the same as an individual and must live within its income; it must pay its debts if it borrows; the same ethics or principles should apply to a government as to an individual.

During the past decade all of these ideas seem to have been thrown over the fence, and government promises and obligations in international and domestic affairs seem to be more or less meaningless; whenever it becomes convenient, governments can forget them.

These facts represent the greatest of our mutual problems and the farmer and the manufacturer rise or fall together. We are in exactly the same boat.

Any business is a three-legged stool—

1—Consumer
2—Labor
3—Stockholder (Management)

It is rapidly becoming a four-legged stool; a new leg called the "government" is being added, with its regulations, restrictions, its policy and its attack upon industry. All of these four interests, management must try to satisfy and cannot consider one to the exclusion of others. Every farmer knows how much difficulty he would have trying to make a four-legged stool fit squarely on a round surface. We got along fairly well with only three legs—the employee, consumer and the stockholder, but since the government has begun to invade and control industry the difficulties have mutliplied and the problems are becoming insoluble except through bankruptcy, just as is true in the case of the railroads, unless we are willing to remove irresponsible government controls and return to the American system of natural economic law.

In conclusion, industry wants and needs a prosperous agriculture; the facts show that they rise and fall together, and obviously if industry had no other motive, selfishness alone would direct it to assist agriculture to a prosperous level. Industry should know the problems of agriculture and it also wants the farmer to know the problems of industry. If we are both well acquainted with each other's problems, there is no doubt that we will work together in the greatest harmony and with mutual trust and confidence.

New Daniel Rice Co. Branch in Florida

Daniel F. Rice and Company announce the opening of a Palm Beach office at 246 South County Road, under the management of Louis Woods, Jr. This is the fourth office the Rice firm has established in Florida in the last several years. Forrest A. Graves has been appointed as the representative of the partners to supervise the operation of all four offices.

Mr. Graves, until recently, was retired from active business but has been well-known in the brokerage and investment fields for more than 30 years. Until 1940 he was a member of the Cleveland Stock Exchange.

President Signs Tax Reduction Bill

The tax reduction bill, providing a cut of $5,920,000,000 in 1946 taxes, was signed by President Truman, according to White House announcement reported November 9 by the Associated Press from Washington. The bill, which it is hoped will stimulate business and create jobs, accomplishes the following:

1. Removes 12,000,000 low income persons from the tax rolls and assures reductions of 10% or more for individuals making up to $50,000 annually. Smaller cuts are provided for those with incomes over $50,000. Total reductions for individuals amount to $2,644,000,000.

2. Provides special tax treatment for veterans of world war II, forgiving all levies on the service pay of enlisted men in wartime and giving officers three years in which to settle with the Government.

3. Clips $3,136,000,000 off the burdens of business next year, principally through repeal of the war-imposed 85.5% excess profits tax on corporations.

4. Repeals the $5 use tax on automobiles and boats at a saving of $140,000,000.

5. Freezes the social security tax in 1946 at 1% on employees' pay and employers' pay roll. Without the "freeze" this tax would have jumped January 1, to 2.5% for each.

The bill makes no change in the excise levies on items such as liquor, luggage, furs, jewelry and cosmetics.

After the $5,920,000,000 cut is made, fiscal experts estimate, according to the Associated Press, the Treasury will collect next year approximately $26,500,000,000. They said the national debt will increase by about $12,000,000,000 in 1946. Revenues hit a peak of more than $45,000,000,000 in 1944. They were about $5,000,000,000 annually before the war.

Philip Eyrich Opens

Philip C. Eyrich will engage in a securities business from offices at 1800 East 24th Street, Brooklyn, N. Y.

Security Dealers' Responsibilities

(Continued from page 2451)

whom history demonstrates needs protection in matters involving the purchase and sale of securities. Although in the final analysis you and your customers have a common interest in corporate securities and their issuers, that common interest is frequently obscured by the private interests of one person or another to the point that, of two persons to a contract, one must be protected against the other. I know of many cases in which public buyers and sellers of securities have needed protection against professionals engaged in the securities business. I know of only one fraud case in which the professional needed protection against the customer, and it is a matter of record that the SEC put that customer in jail.

Investment Banking and Capitalistic System

Much has been said and written concerning the contributions made by those in the securities business to our economic development. I do not underestimate them. The rise and expansion of our industries were in the past due in no small measure to the success of our investment banking system which gathered together the public's savings and directed their flow into the productive uses of business and commerce. The future health and growth of our system of free enterprise require that this process continue at a higher rate than ever before. Truly your business and our capitalistic system are inseparable. One could not exist without the other.

However, we cannot afford to ignore the fact that in a sense all our economic and political institutions are on trial today. As the world shrinks in size with the advance of communication facilities, and as the peoples of the world draw closer together because of our common necessity to find an international way of life which will preserve the peace of the world, it is inevitable that the contributions which our institutions are making toward our spiritual and material advancement will be compared and contrasted more than ever with the customs and institutions of other people. You and I are dedicated to the preservation and advancement of our democratic form of government and our capitalistic system. All of us, I am sure, are convinced that our political and economic system is the best which has yet been devised for the promotion of our public welfare and the preservation of our private liberties. Our convictions make it imperative that we do nothing to undermine those institutions.

What is the connection between your business and the preservation of those institutions? The most obvious connection is the one I have already suggested. To the extent that you help to raise capital for industry and to gear it to a high and increasing level of production, you are insuring economic and political stability. But you have another role in the preservation of our institutions, one which is at least as important as the job of raising capital. That is the task of instilling and maintaining public confidence in our securities markets and our securities issuers. In a real sense, you men who offer securities for sale to the public are tendering them a share in capitalism. You are asking the American people to invest their savings in American enterprise. You are urging them to place their confidence in our securities markets and in our corporate issuers. You are saying to them that our markets, our securities, and their issuers are all that they seem to be; that they are free of fraud and undisclosed special privilege.

There have been times in the past when the American people, after responding to the appeal of investment bankers and securities salesmen, have felt that they had been betrayed. Most of us still preserve a vivid recollection of the late 20s and early 30s when the practices of certain of our financial leaders created that sense of betrayal in the public mind. With that sense, public confidence in American business was shaken to its very roots. There have been few occasions in our history when the stability of our institutions was more seriously threatened. All of us are resolved that there will never be a repetition of the events of those days. We are proud that brokers and dealers, both individually and through their organizations, have joined forces with the State and Federal Governments in overhauling our investment banking machinery and purging our securities markets of the ills that almost brought about their destruction.

The Future of the Securities Business

But the crucial question today is: Have we done enough? Are we satisfied that we have taken every reasonable precaution to prevent a repetition of the 20s? Are we sure that it will never again be justly said that carelessness or ignorance or greed has so shattered the confidence in our financial institutions of the individuals who comprise our nation as to imperil our political and economic system?

We have made progress. We are reasonably sure that misleading prospectuses, concocted of half truths and baseless phophecies, will never play a prominent part in another boom and bust. We are fairly certain that the colorful pools and the melodramatic corners of another era are gone for good. We have confidence, too, that bucket shops and boiler shops have passed permanently from the American scene. Of course, there will always be customers who will lose money in securities. And there will always be firms which, after honestly appraising all the facts about the security and the market, will have guessed wrong. That is bound to happen.

I am not concerned with situations of that sort. What I am concerned with, and what I think all of us should be concerned with, is customers who suffer unnecessary losses because they have acted on recommendations which no person having any claim to be expert in the securities field ought to make. I am concerned with firms which adopt unsound business practices because they are unwilling to face the facts of life as they pertain to the securities business. I am concerned with the securities firm whose ignorance or cupidity blinds it to the fact that it must place the interest of its public customers before its own.

Before offering a security to his customer, it is enlightened self-interest for the professional to ask not "Can it be sold?" but rather "Should it be purchased?" Happily, there is abundant evidence that investment bankers and selling group members usually do exercise care and restraint in their offerings of new securities to their customers; and while it is disturbing to note that of late there is increasing criticism of some offerings of the securities of "war babies" it is worth recording that much of the criticism of such offerings has come from the ranks of the professional brokers and dealers themselves.

"Professionals" in the Securities Business

The reason why it is to the professional's interest to inquire whether a security should be purchased by his customer is obvious. It is not exaggeration to state that most securities firms which deal with public customers advise those customers on matters relating to the purchase and sale of securities. It is not doing violence to the truth to say that the reliance of public customers upon securities firms for investment advice is fostered and encouraged by those persons in the securities business with whom they deal. I think that it cannot be said too often that the professionals in the securities business are not in competition with their public customers. From the very nature of things such competition would be unfair, and for your spokesmen to proclaim publicly that such competition exists would be to announce the destruction of your business. This is bound to be true because there are few members of the public who would do business with you at an arm's length, and there are even fewer members of your profession who would be bold enough to invite business on such a basis. Your customers look to you for counsel and advice. They feel the need of the assistance of the professional in the complicated business of deciding what securities to buy and what to sell. When you offer them disinterested and impartial assistance in their investment problems, you find them eager and responsive. Were you to offer them less you would meet with suspicion and distrust. You cannot shut your eyes to the fact that, if the average individual investor became convinced that he could not look with confidence for impartial advice to those whose business it is to be expert in securities matters, then there would be no future to your business.

I emphasize these facts about your business because from them spring obligations which many firms chose to ignore. There exist today in some quarters practices which threaten to undermine the public's confidence in your business. All too often firms which solicit business as agents confirm trades as dealers because of their unwillingness to disclose the amount of compensation that they are obtaining from the trade. They justify their act by stating that they can make a greater profit by this method. Whether such reasoning is calculated to inspire public confidence in your business I leave to you. This practice is particularly vicious when followed by stock exchange firms which have for years held themselves out to the public as brokers and are generally regarded as such by the persons with whom they transact business. They do most of their business as brokers, yet not infrequently it happens that when unlisted securities are involved some member firms take off their broker's coat and put on a dealer's coat without informing their customer of the reason for the change or its significance. Such conduct is frequently inconsistent with the best interests of the customer, and in such cases is highly detrimental to the welfare of the exchange itself.

Moreover, it is not uncommon to meet professionals who will not recommend listed securities to their customers because their markets are publicly quoted. I do not mean to imply that listed securities are of necessity the best securities, but I do wish to say that a firm which in considering the investment needs of its clients rules out the securities of some of our most prosperous and best situated companies simply because these securities are listed and traded publicly does not render that kind of disinterested service which customers are usually led to expect.

Among other obnoxious practices which seem to exist, I should include that of churning accounts, by which I mean the practice of trading a customer out of one security and switching him into another for the sole reason that this activity is profitable to the firm handling the account. I have no idea whether this practice is widespread, but it is disturbing to talk with so many professionals who volunteer as a mark of distinction the fact that their firm does not churn accounts. One is led to wonder if failure to churn is a special virtue to be found only in a selected few.

Market Disclosure

If I were asked to mention the one fact about the conduct of your business which seems to me to threaten most your claim to public confidence, I would mention the attitude of your business toward the disclosure of the market values of over-the-counter securities. Happily, it can be said that at almost every point of contact with public customers your business has made steady and substantial progress in its efforts to win and preserve the unique position of trust and confidence which it now occupies. It is a matter of great regret that such little progress has been made in providing facilities whereby members of the public can obtain accurate quotations for over-the-counter securities. The desire of the securities business to withhold public knowledge of accurate quotations in this field has given rise to controversies which have wracked your business for years. It underlies your debates concerning how much of a markup is fair; it is at the bottom of your troubles involving the manner in which over-the-counter securities should be quoted in the daily papers.

I venture to say that most of you know that I believe there should be full and complete disclosure of the market value of all securities. I know of no better objective standard by which to judge the present value of a security. I know of no good reason either in business or in morals why this objective standard should be so jealously kept from the public. I daresay that there is not a single person in this room who would buy or sell any security for his own account without first ascertaining its market value. I am sure there is no banker in this city who would lend money secured solely by an over-the-counter security without first ascertaining its market value. Yet I venture to predict that there is nothing affecting the securities business in this city on which you find more agreement among those engaged in the business than on their opposition to market disclosure; and it requires no clairvoyance on my part to say that were the matter submitted to the public customers with whom you do business you would find them unanimously in favor of complete market disclosure. If this is true, do you not risk the public's confidence on which you so much depend by your insistence that the market value of an over-the-counter security is the trade secret of the professional? If the golden rule is a sound principle of business, is this not a perfect field for its application?

This problem of over-the-counter quotations will one day be solved. I have the greatest confidence that, when it is solved, it will be by making public the market value of these securities. It is the only solution which will create public confidence in the over-the-counter markets. I know that there are some bugs that will have to be corrected before a perfect system of disclosure can be devised. It is a matter of great regret that the securities business has not evidenced a desire to work out these bugs. I know that certain of your organizations have stated that they have made real efforts to devise a system of market disclosure and that it just can't be done. I say to you publicly what I said privately to a representative of one of these organizations not so long ago. This problem can easily be solved provided your business and its representatives accept the underlying principle. It can be solved if there is a will to do it. That will is lacking.

Praises Financial Press

I said at the outset that one of the jobs of the securities business is to help to preserve public confidence in the issuers of securities. Let me develop that theme a little bit. It is a matter of pride to all of us, and it is due in large part to the efforts of persons engaged in your business, that corporations whose securities are publicly owned are becoming increasingly conscious of the obligations which they have to their security holders. This is reflected in more adequate reports to stockholders, and in the restraints exercised by most managements in such matters as those relating to the voting of special emoluments to themselves. Yet we are all disturbed at times by the action of the managements of some of our publicly-owned corporations who seek unearned compensation by voting themselves special retirement benefits or stock purchase options, or by otherwise attempting to enrich themselves at the expense of the corporation and its security holders. In many of these cases the facts are fully disclosed publicly, thanks to the requirements of the statutes administered by the SEC. This is particularly true when a stockholders' vote is required and proxies must be solicited. The success of most efforts of this character is due in part to the lethargy that immobilizes security holders. Yet each of these gouges leaves its scars and each of them tends to undermine the confidence of all of our citizenry in our corporate system. A commission such as ours cannot prevent these acts. All we can do is require that they be fully disclosed in cases coming within our jurisdiction. The only public voice that is usually raised in opposition to such matters comes from the financial press, to whose great credit it is that it has often exposed these legal but reckless efforts at self-enrichment. Would that there were voices in your business that added their influence to that of the financial press in such cases.

Protecting Rights of Security Purchasers

Most security firms believe that their responsibility to their customers does not end with the sale of a security. In recognition of this belief they undertake to advise their customers whenever new or changed circumstances require the liquidation of a given security. In certain situations they have sought to do more. A ready example comes to mind in the steps often taken by a security firm which originated or was actively interested in an issue to protect its security-holding customers in any reorganization of the issuer. As in many other fields, the public interest has required the enactment of legislation governing the conduct of such representatives, but the basic soundness of the proposition that security holders need the protection of expert representation in such cases has remained unchallenged. I daresay that few will be found who will not concede that on other occasions a disinterested advocacy of the investors' interest is required. Who shall be that advocate? Experience has shown that the individual investor is not usually equal to the task. The easy alternative is to suggest that some Government agency do it.

Such an alternative should be the last resort and will never be needed if private groups will undertake to protect investors from unfair management. There is none better equipped than your own voluntary organizations, and there are no persons in the country having a greater natural interest in such a program than those whose business it is to act as the middle-man between the issuer and the investor. The goal sought by all of us here, the goal of a strong system of regional finance, will be brought many steps nearer of achievement by the creation of a strong voice in each region to bespeak the interests of investors, not in general terms but in specific cases and as applied to specific proposals or derelictions. The strength of our political institutions is due in no small measure to the informed criticism of those most dedicated to their preservation. Has not the time arrived when all friends of capitalism must strengthen it for the challenges that may come, by a vigorous but loyal opposition to the excesses of capitalism whenever such excesses are threatened? In the financial field are there any persons better equipped for that task than you who are both students and salesmen of our corporate economy?

Yet, although we know that unfair treatment of their security holders by issuers is not uncommon, rarely do we hear the voices of your chosen leaders publicly raised against them in specific cases. Although many in your ranks can be found who will take a public position against sin, there is none who undertakes to expose it when it appears. This is not surprising since there are few individuals with the facilities or the time to examine into instances of corporate abuses. Many of your voluntary organizations are so equipped, however, and if the will exists to turn these agencies toward a more vigorous defense of the rights of investors, there is little doubt that such action will be followed by an increase in public confidence in our financial and corporate institutions. I am not suggesting that you embark upon a witch hunt, but I am saying that you can serve your interests and our common interest by an impartial but critical examination of the treatment by some issuers of their security holders.

Let me be more specific. We have encountered a number of cases in which an issuer or members of the management of an issuer which has met with unexpected and unpublicized prosperity have sought quietly to buy up some of the outstanding shares of the enterprise. Almost invariably the assistance of some one in your business is sought to accomplish this buying. Here is a shameful betrayal of your security holders who have borne the risks and disappointments of many years of unrewarded participation in the enterprise. To trade them out of their investments just as they are on the verge of a return not only defrauds them of their just expectations, but also is bound to engender in them a cynical and distrustful attitude toward you and securities generally.

Other instances of abuses come quickly to mind—the solicitation of proxies by an unregistered company on the basis of inadequate disclosure; the failure of a company to employ independent accountants to audit its affairs at reasonable intervals; the failure of an issuer to furnish adequate financial information, even when readily available, to its security holders; or the postponement of a necessary reorganization by preserving the enterprise from technical financial default while those having voting control deplete its assets for their own benefit. These and other derelictions of management are often publicly known. The sense of futility which must come to the unfortunate security holders of such issues is not far removed from the sense of distrust in all securities. It is not far removed from a sense of distrust in the economic system that tolerates the callous disregard of obligations which, when created, were usually accompanied by pious protestations of good intentions. Should you not be on the watch for such situations, and should you not speak out against them publicly when they are found?

"A Better Business Bureau" of Corporate Practices

It would appear to be feasible for your business to select representatives to report publicly on the merits of some of these proposals to increase executive compensation, or on the derelictions of those corporations which do not deal fairly with their security holders. Such action would increase your stature and add to the public confidence not only in your business but also in our system of corporate enterprise. There exist many active organizations of persons engaged in the securities business—organizations like your own; the Chicago Stock Exchange, our host today; and the other exchanges in the country; as well as the over-the-counter organizations of which many of you are members. Cannot some of them undertake the responsibility of voicing the financial conscience of the regions which they serve? Can we not have a "better business bureau" of corporate financial practices—not alone in matters involving the sale of corporate securities to the public but also in matters pertaining to fair dealing with security holders?

It appears to me that this is a matter worthy of your earnest consideration. There is no more effective critic than a friendly one. There can be no greater service to the preservation of our corporate economy than the speedy exposure by its friends of those practices which threaten its claim to public support.

It is fitting to emphasize the significance of your work in relation to the individuals whom you serve. Remembering always the contribution which investment bankers make toward furnishing capital for our industrial machine, we must nevertheless not forget that the interests of the individuals whose savings are at stake cannot be subordinated to that machine. We have just fought two bloody wars to maintain the freedom of the individual from domination by the State. As we turn to the ways of peace we must ever be mindful that our industry, like our Government, is the servant of the individuals who form our nation. Business expediency cannot justify the marketing of unsound securities or unfair dealing with security holders, nor can the need for commissions or profits justify loose dealing by professionals with their public customers.

It is regarded as trite to dwell upon the fact that the individuals who own securities are frequently widows and orphans, or the aged, or persons under various disabilities. Although trite, it is worth remembering that the support of the helpless, the education of the young, and the care of the aged or the infirm frequently depend upon the probity and skill of a securities firm. It is this fact that gives your business a dignity which it could not possess were you to confine yourselves to dealing only with persons as versed as you are in the ways of finance. It is this fact which places upon you a unique responsibility toward the public.

You in the securities business have come a long way in the past ten years. For better or for worse, your business more and more is acquiring a professional status. This is so because investors generally are demanding professional guidance and because experience has taught them the value of your training and your skill. I believe that the future of your business demands that you accept this challenge of those whom you profess to serve. You may sell yourselves short by resisting this change in your business or by accepting it grudgingly and with reservations.

Wants Preferred Stocks to Broaden Life Insurance Investments

Life Insurance Investment Research Committee Recommends a Formula for Valuing Preferred Stocks and Points Out That if a Stable Method of Preferred Stock Valuation Be Adopted, Life Insurance Would Be in Position to Furnish More Capital Funds to Industry.

With a view to broadening the investment fields for life insurance funds and making a greater share of such funds available for the capital needs of industry, a new method of preferred stock valuation by life insurance companies has been proposed to the National Association of Insurance Commissioners by the Life Insurance Investment Research Committee, a joint undertaking of the American Life Convention and the Life Insurance Association of America.

The committee presentation cites the excellent record of high grade preferred stocks over the past 20 years, as to value and yields, and points out that they are suitable for life insurance investment except for the factor of wide fluctuations in market prices under abnormal conditions. It is proposed that, instead of being valued at market price as now required, they be valued by a new formula which would level off the effect of the fluctuations.

The formula provides that in the case of a preferred or guaranteed stock determined to be eligible and held during the entire year of the statement, the asset value at the end of the year shall be the asset value at the end of the previous year, increased or decreased as the case may be by one-fifth of the difference between such asset value at the end of the previous year and the market value as of December 1 of the year of the statement, except that in no event would such asset value at the end of the current year exceed the redemption value. The stocks acquired during the year of the statement would be carried at cost.

It is proposed that the rule for eligibility of preferred stocks be patterned after one of the rules in use for a number of years to determine the eligibility of bonds for amortization. In the case of stocks not on the eligible list, the same formula would apply when the Dec. 1 market value exceeds the previous asset value, with the market price being used otherwise.

In urging the adoption of the proposal, the committee points out that the investment of life insurance funds has become increasingly difficult in recent years and new outlets are being sought.

"Traditionally the life insurance business has made the bulk of its investments in private long-term debt," the committee said. "It will be observed that in 1930 the assets of life insurance companies, at almost $20 billion, amounted to only about a fifth of the volume of private long-term debt, while now, at about $40 billion, they amount to somewhat more than one-half of the private long-term debt. Investment grade preferred stocks offer one additional outlet. It seems quite likely that an increasing percentage of new capital will be raised through the issuance of preferred stocks. Should a more stable method of valuing preferred stocks be adopted, the life insurance business would be in a far better position to furnish a larger amount of capital funds to industry and thus contribute to the maintenance of a healthy national economy."

The report was prepared by the Committee on Preferred Stock Valuation, a sub-committee of the Life Insurance Investment Research Committee. The members of this sub-committee are: O. J. Arnold, President, Northwestern National Life Insurance Co.; Sherwin C. Badger, Financial Secretary, New England Mutual Life Insurance Co.; George N. Emory (Chairman), Financial Vice - President, Home Life Insurance Co.; Stephen M. Foster (Secretary), Economic Advisor, New York Life Insurance Co.; Harry C. Hagerty, Vice-President and Treasurer, Metropolitan Life Insurance Co.; Robert F. Maine, Associate Financial Secretary, Provident Mutual Life Insurance Co.; F. J. McDiarmid, Manage, Investment Research Department, The Lincoln National Life Insurance Co.; Louis R. Menagh, Jr., Comptroller, The Prudential Life Insurance Co. of America; Donald B. Woodward, Research Assistant to the President, The Mutual Life Insurance Co. of New York.

Capital Inv. Control Considered by British

The Socialist program of Britain's new Labor Government is said to be getting under way with plans for submitting to Parliament before Christmas a measure setting up controls for investment capital, Associated Press London advices stated on Nov. 8. Through the creation of a national investment board, the measure would be designed to give the Government the power to direct investment capital where it was considered needed, especially to export industries. London reports added that the board would be empowered to determine what types of new capital issues would be permitted.

The scheme as outlined, the Associated Press continued, would not require investors to lend money to the Government for investment and would permit them to buy directly shares offered on the market.

The Government's intention, the accounts added, is to avoid a situation which existed between the first and second World Wars when basic industries were unable to get needed capital while investors placed money in semi-luxury lines.

St. Louis Dailies Raise Price to 5 Cents

The two St. Louis afternoon newspapers, the "Star-Times" and the "Post-Dispatch," announced that their sale price would be increased from 3 to 5 cents per copy on Nov. 19.

The morning "Globe-Democrat" has also announced that the price for its daily issues would be 5 cents a copy beginning Nov. 19 in metropolitan St. Louis, including East St. Louis, Belleville, the tri-cities and the city zone area generally.

The "Globe-Democrat" in its announcement Nov. 17 also said in part:

This is the first change to St. Louisans in more than ten years, although the 5-cent daily price has been in effect outside metropolitan St. Louis for some time.

Never before in newspaper history has the task of providing worldwide news coverage been so costly. With the progress of world reconstruction and development of domestic economic problems, the cost of labor, newsprint and other materials has increased enormously.

Mounting costs of publication have been absorbed during recent years while newspapers in other comparable and many smaller cities have found it necessary to adjust prices before now in order to meet the additional heavy payroll expenses, increased costs of newsprint, ink, other materials and the much greater costs of reporting, news services, features, and recurring daily and Sunday delivery charges.

Notwithstanding the fact that comparable Sunday papers in Chicago, New York, Cleveland, Cincinnati, Detroit, Pittsburgh, San Francisco, Los Angeles and other metropolitan cities now sell for 12¢ and 15¢ per copy, the price of the Sunday "Glove-Democrat" will be maintained at 10 cents.

Herzfeld & Stern Admit

Kurt Berger will become a partner in Herzfeld & Stern, 30 Broad Street, New York City, on Jan. 1, 1946.

The Over-the-Counter Market and the NASD

(Contiued from page 2450)

fresh thoughts on the Association and its activities.

The Over-the-Counter Market

First however, I'd like to discuss the over-the-counter market which is the field in which NASD operates.

When we think or talk about the over-the-counter market, it is important first to be sure that we are thinking and talking about precisely the same thing. The term over-the-counter to some means the business of trading in securities between dealers in all of its ramifications. To others it means the retailing of securities, listed and unlisted.

To still others it is the mechanism employed for the underwriting and orginal distribution of securities.

Each of these is a part, but only part, of the over-the-counter market. The term in its full meaning embraces all of these parts as one. Every activity involving securities and every transaction in securities that does not occur on a stock exchange takes place in the over-the-counter market. In other words, in the language of Section 5 of the 1934 Act, everything "otherwise than on a National Securities Exchange" is the over-the-counter market. It is a large market, with and in billions of Government securities—federal, state and municipal—and with the billions of corporate securities of all kinds annually distributed through it.

The trading activity in listed and in unlisted issues between dealers themselves, is, we know, large in volume, but as to the exact extent or volume of such trading, there can only be conjecture since no worthwhile statistics have ever been compiled in measurement of such trading. The same may be said of the retail sale to customers of listed and over-the-counter issues.

However, as to the volume of retail activity, we have some ideas. We made a study of our 1944 questionnaires of Association members, considering only retail sales of corporate securities to customers other than institutional, and eliminating new underwritings, secondary distributions, and sales of investment trusts. Our best estimates indicate that such sales to customers in the year 1944 exceeded $1 billion.

Since we eliminated banks and all types of institutional buyers from consideration as customers and many kinds of securities and offerings the figure of more than a billion dollars of securities retailed by salesmen is helpful in arriving at some idea of the magnitude of the over-the-counter market. That market is one which you cannot "see" in the same sense that you can "see" a stock exchange market. It is made up of many more thousands of individuals than are directly concerned with stock exchange activity.

In fact its distinguishing characteristic is its INDIVIDUALISM. Its great resource is the capacity of the individual engaged over-the-counter to fit his service to the needs of his clientele. Almost literally no two dealers do identically the same kind of business. They specialize, or they do not, they serve sophisticated buyers or the most unsophisticated, as well as every variation between those extremes; their customers are rural or urban or suburbanite, country club or town hall.

It is no reflection on any dealer to say that the one who confines himself to one type of clientele is just a little at sea about how the fellow next door makes his living.

The over-the-counter dealer places a high value upon his privacy and his right to carry on his business without too much interference and regulation—certainly he abhors regimentation. He does not, you can see, lend himself to ready definition — and is proud that he does not.

But as individual as the over-the-counter market may be—as hard as it may be to "see" it in the contrasting sense with a stock exchange—it is a vast, sensitive and alert market place.

The over-the-counter market makes a vital contribution to the raising of governmental and industrial capital; to the creation of jobs in industry; to the starting of private enterprise; to the orderly liquidation of private investments as well as corporate ownerships; to the spreading of investment risk and opportunities; yes, and to speculation—all to the end that the nation's economy shall progress, expand, modernize and profit.

What I have said is, I know, not new to you, but it is well sometimes to restate the obvious.

The NASD

In talking about the Association itself I want again to be specific. We, of the NASD, want our organization understood and you, as the representatives of your various states want, I am sure, to know us and to have a clear understanding of what we are and what we stand for.

What was NASD organized to do?

Its objectives and purposes are:

—to promote the investment banking and securities business, to standardize its principles and practices, to promote high standards of commercial honor and to encourage and promote among members observance of federal and state securities laws.

—to confer, consult and cooperate with governmental and other agencies in the solution of problems affecting investors, the public and its members.

—to have and enforce rules of fair practice, to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade.

—to promote self-discipline and to investigate and adjust grievances between the public and members.

You will note that one purpose is promoting observance of federal and state securities laws. The assignment is NOT to enforce those laws. The distinction between enforcing them and promoting their observance is a significant one. Enforcement of those laws is your job. Observance of them is a requirement of citizenship.

The Maloney Act

Congress was well aware that there was a vast field in the over-the-counter market for the control of ethical practices which was not a field which the Government could regulate by statutory law. The Government could not cope with those methods of doing business which were outside the area of definite illegality but yet constituted unfair business practices—unfair both to customer and to decent competitor.

That is why the business and the Federal Government itself joined in urging the adoption and why Congress passed the Maloney Act providing for cooperative self-regulation with standards above and beyond the law.

The concept was a form of regulation which would concern itself with that hard-to-define realm of ethics and fair practices. NASD, the product of that concept is an adventure in cooperation of business with Government. The impulse behind its creation was protection of the public interest. Its justification is in the record.

That record, I believe, proves that NASD has conscientiously pursued its objectives and purposes. It has promulgated and enforced rules of fair practice and just and equitable principles of trade. It has conferred, consulted and cooperated with all agencies, federal, state and private, concerned with the problems of the business. It will continue on this course, knowing that a great deal more can still be accomplished in this direction.

The "Registration" Amendment

Perhaps reference should be made at this time to a current and important phase of NASD's work. We are in the process of registering with the Association 25 to 30 thousand persons—principals, officers and employees of members under amendments to our by-laws recently adopted.

The registrant agrees to abide by the Rules of Fair Practice of the Association and further to become subject individually to appropriate disciplinary action in case of violation.

This registration is a forward step. It provides for the first time, among other things, a census-taking of those individuals engaged in the over-the-counter business and it provides a control over the individuals who actually transact that business.

In the final analysis, the individuals who actually transact or conduct a business or a profession determine the character of that business or profession. The individual's concept of fair treatment and fair practice is in the last analysis, the measure the client has of the business or profession.

That is why it is most important for every individual in our business to conduct himself in accordance with the highest standards of practice. Whenever there is failure, the business suffers.

This development is one example of the evolution of self-regulation as represented by NASD.

Registration of those engaged in the over-the-counter market will come to be recognized as a forward step toward preserving the integrity of that business in its internal relations as well as in its public relations. Sight should not be lost of the fact that opportunities in the securities business will, in fact are attracting already, a growing number to that business. Many of those who are entering this business now have little or no experience in it. They must be made aware of the high standards guiding the business today, so that the confidence the public now has in it, will not suffer.

Every one of us must be conscious of the fact the lowering of standards and of ethical practices on the part of a few can cause untold damage and all of us must be ever watchful and on guard against any indications of such tendencies.

The business, I assure you, does not intend again to be the object of public attack because of abuses by the few. The constructive efforts made by state and federal regulatory agencies disciplining those few is recognized and appreciated and our cooperation on that front you can rely upon.

When he addressed your 1942 convention, our then Chairman, Robert W. Baird of Milwaukee, told you that NASD had provided the securities business with a mirror in which to examine itself. He said that some of the things our business had seen in that mirror were not altogether satisfying. What it sees today, however, is, I think it fair to say, more pleasant to contemplate.

The Question of 'Mark-Ups'

In 1942, our District Committees and the Board of Governors were then studying most carefully the question of members' mark-ups in their transactions with customers.

Up to that time, we had arrived only at the point where we were willing to say what was UNfair We were hard-put when the question was presented: "What is a FAIR markup?"

Recognizing the individual character of the over-the-counter business, one appreciates the difficulty of determining arbitrarily a mark-up which is fair in one kind of transaction and in applying that determination as a measure of the fairness of other kinds of transactions.

Securities entering into one transaction might differ in character from those entering into the next transaction; their availability in the market might not be the same; the cost of obtaining one against the other might vary; the amount of original service and effort entering into the negotiations and the completion of one transaction against another might be entirely different. . . . The price of one security in contrast to another, the amount of money involved in the transaction, the relationships of the dealer and customer all vary with every dealer and with every customer and almost with every transaction.

However, it was recognized that the amount of mark-up was at least a starting point and that progress might be made if the general practice of the business on this score could be established.

To find that out, the Association in 1943 made a membership-wide questionnaire examination of mark-ups in customer transactions.

The resultant information, made known to members in October of that year, showed that 71% of the transactions computed were made at mark-ups of 5% or less.

These findings were reported by the Board of Governors for the "guidance of members."

The effectiveness of the release of those figures and the statement of policy as a guide for members was shown by our analysis of the questionnaires of the following year, 1944.

In that year, analyzed transactions at mark-ups of 5% or less accounted for 82% of transactions analyzed—82% in 1944 against 71% in 1943.

The official publication of your National Association, the "Blue Sky News," last June, had some observations to offer on what the NASD mark-up statistics established. I quote pertinent extracts from the article:

"The facts recited would seem to be conclusive:— . . . that established and reputable dealers in securities operate on an average at modest rather than exorbitant profit margins . . . it is grossly unfair to publicize surveys . . . about a certain class of dealers who may be evil-doers without giving due credit to the established firms of good repute who continue in business year after year with satisfied clients and an ever-expanding clientele. . . . In contrast to some sweeping allegations that very large profits are made by dealers in over-the-counter securities, the NASD studies showed that only about 2% of transactions analyzed in 1944 were at mark-ups of 10% and more."

The article went on to point out that those mark-ups involved securities in the lowest-priced brackets and individual transactions where the amount of money involved was equally low.

What about this year's statistics?

A sampling of mark-ups reflected by 1945 questionnaires shows that 90% of sample transactions were made at mark-ups of 5% or less.

Of course, we must recognize that the general upward trend in business volume and prices have also played a part in this trend toward more uniformity in mark-ups. We would be rash indeed to claim that the guide supplied members was the sole contributing factor.

NASD did not and does not seek to regulate, let alone curtail, profits of its members. It is devoted to the principle that its members are in business to make money.

Our interest in the individual transaction is only with the fairness of the mark-up or commission realized.

In retrospect, it is pertinent to recall that in October, 1943, Henry G. Riter, Chairman, speaking for the Board of Governors said: "The Board is convinced that if every member . . . is guided by the practices which are satisfactorily serving the best interests of a large majority of the membership and the business at large, the question of fair profit or spread will disappear as a problem."

He went on to say: "The immediate and long term effect will be beneficial both from the standpoint of our relations with the public and the character, volume and profits of the over-the-counter business."

His forecast was correct.

Research in the Securities Business

What we have learned in the past three years from our studies of members' reports has been of real value in expanding our knowledge of the over-the-counter market and in developing a greater appreciation of some of its problems. The studies have demonstrated the necessity of expanding and broadening research and analyses of the securities business.

Other businesses, professions, trades and industries, as a regular and essential part of their programs, take inventory of their operations, accomplishments, problems and future opportunities.

It is our hope that the securities business as a whole will, before long, sponsor an objective, impartial and scientific program of research. Our Association has signified its willingness to support such a program, financially.

One final thought.

Self-Regulation vs. Regimentation

The simplest and most accurate definition of self-regulation is that kind of regulation supplied by those who themselves are the regulated. Such as NASD. That kind of regulation is the antithesis of regimentation which I am sure you, we and the business do not ever intend to countenance.

Serving NASD at present in one capacity or another, are 400 men making their livelihood in the securities business. They serve in the purest volunteer sense. They not only are paid nothing—they give time away from their own businesses in the service of NASD. These men represent all types of over-the-counter activity. It is they who consider problems channeled to NASD and it is they who decide how these shall be attacked and solved.

They may err—they would not be human if they did not make mistakes. For that matter, some, understandably, may not even like their assignment and the responsibility that goes with it. But they meet its demands to the fullest extent of their capacity.

All of them are conscious that regulation, regardless of its source, must be administered so as to avoid oppression, because oppression soon leads to regimentation with all its consequences.

NASD, it must be remembered, is a businessman's organization and the businessmen who direct it are grateful for the opportunity given them to apply self-regulation. They believe that the task thus assumed can be successfully carried out only in a businessman's way. That way may not be the most spectacular way—in fact, it will not be spectacular at all, Neither will it be over-reaching nor technical in its practical operation.

On the other hand, it has proven its capacity for treating irregularities in business practice as well as in treating flagrant departures from the fair and ethical.

We cannot forget that the securities business in the past decade has been subjected to a considerable amount of legislation and regulation. Without NASD, however, I think it fair to say that there would be more not less regulation. Without questioning the necessity or wisdom of these measures, it is only fair to observe that probably no other American business has ever been surrounded with so many legal restrictions in time of peace.

But the securities business has carried this burden well and stands today with vigor unimpaired, ready to meet any responsibility it might be called upon to discharge. It faces the future with confidence in its strength prepared to meet whatever other responsibilities lie ahead.

This strength ought not be wasted upon unnecessary, time-consuming, costly diversions from the primary task of assisting in the reconversion of industry and the creation and restoration of jobs.

There is enough, if not too much, machinery existing for the regulation (and control) of the securities business. Any new problems which the immediate future might bring forth ought to be approached with the tools now available. There is opportunity even to anticipate new problems and to prepare for their solution by consultation among those concerned. We have had demonstrated to us the results that can be obtained in such an atmosphere.

As you will remember, the representatives of your Association, the SEC and the securities business, the stock exchanges, the IBA and the NASD, not long ago and after not too protracted an effort agreed upon a form of financial statement which with few variations could be used by those in the business to comply with appropriate state and federal laws. Such an example of the wholesome result that can be obtained from coordinated cooperated effort should encourage us to use the same method whenever opportunity presents itself.

In the final analysis, the laws and regulations administered by you and the ethical concepts advocated and enforced by us have the same objective—protection of the public interest. We can and must combine our efforts to that end.

With this objective ever in mind, those vested with the job of administering the securities laws, both State and Federal, ought now to work toward greater uniformity of those laws, ever strive for fair and enlightened administration, and foster closer cooperation between Government and the financial community so that we can meet foresquare the postwar challenge to our national economy.

You may be assured that to this three-fold endeavor the National Association of Securities Dealers will dedicate its wholehearted support.

Richard Redfield Is Forming Own Inv. Co.

PASADENA, CALIF. — Richard W. Redfield is forming Redfield & Co. with offices at 16 North Marengo Avenue to engage in the investment business. Mr. Redfield has recently been with the Citizens Commercial Trust & Savings Bank of Pasadena as investment officer. Prior thereto he was with Dean Witter & Co. and served in the armed forces. In the past he was president of Redfield & Co.

War Losses and Reparations

(Continued from page 2452)

(in many instances in complete accord with those made by the Federation of British Industries) met with little if any consideration by the Reparations Commission.

One cannot, of course, know at what period or at what conference the decisions regarding reparations were taken, but it does not take much imagination to conclude that the decisions were taken before the Potsdam Conference and before the Moscow Reparations Commission even met.

Further, one cannot help but feel that the decisions were taken without any adequate knowledge of the relative cost of the war to the individual nations or their citizens nor of the damage these latter may have sustained in their various properties at home and abroad.

One can say this with reasonable certainty, for so far as we know no attempt has yet been made to ascertain either total costs or total damage.

In fact, no opportunity has been given American owners of properties in Germany, with few, if any, exceptions, to determine what damage their properties have suffered.

We can go further and state that few have even been permitted to see their former properties.

Ambassador Pauley's press release of August 30th stated that one of the three basic policies agreed upon with the United Kingdom and the Soviet Union was, and I quote—"to agree first among the three great powers and then with their other Allies on a fair division of removable industrial equipment and other German assets so as to compensate as far as possible for the losses suffered by all nations on the basis of damage sustained and contribution to victory over the aggressor."

Apparently on this basic policy 50% of the removable industrial equipment was given to Russia and Poland while the other Allies, who as far as we know have never agreed concerning their share, were to be compensated out of the other 50% which they were to divide with the United Kingdom and ourselves on some basis to be determined in the future.

While it seems certain that the representatives of the three great powers had no information at their disposal which would have permitted them to arrive at even an approximate estimate of the damage sustained by the various Allies, one is even more impressed with their courage in so easily agreeing on the relative contribution of each to the victory over the aggressor.

The Russian Professor Varga estimated in October, 1943, that the total reparation claims of belligerent countries were between 400 and 500 billion dollars directly or indirectly against Germany.

I feel sure that the Professor failed to include the vast sum representing cost of the war which should be included along with all other claims so far as the reparation bill is concerned.

Cost of War to U. S.

In the case of the United States this cost exceeded 300 billion dollars alone, and we believe this cost should be weighed also in the scales of "contribution to final victory."

May I remind you that Mr. Ickes is authority for the statement that this country has already been so prodigal of its resources in the common interest that we are no longer a "have nation" but are now a "have not nation."

The National Industrial Conference Board in 1938 estimated the national wealth of the United States to be 309 billions of dollars, broken down into real property and improvements, 166 billion; all utilities, 47 billion; other productive assets, 23 billion; stocks of goods, 73 billion.

The Bureau of Census reports that in 1940 total assessed valuation of property subject to State or local property taxes was 144 billion.

The Treasury Deparment in 1940 gave the net capital assets of all active corporations in the United States as 100 billion, while a third pertinent figure taken from the Statistical Abstract of the United States gives the value of farm land and buildings in 1940 as 34 billion, and the value of live stock and machinery on farms an additional 7 or 8 billion.

With all due respect to the national wealth of other nations, I cannot conceive that they contain more than this country, nor can I admit that they have been totally destroyed.

Against this background of our own national wealth the colossal cost of the war to this country in the common cause stands out as an appalling figure and worthy of inclusion in any basis of reparations assessment.

What I have been saying is intended as no reflection on the magnificent effort the Russians made in the Allied victory, nor in any way to belittle her losses in men and material.

For one, I can put no monetary value on any man lost in the war regardless of his nationality or on the suffering of the blind and the maimed; but given time and opportunity a real appraisal of the cost of the war and the material damage sustained by each United National should be possible.

A Uniform Yardstick Called For

This Committee felt, and still feels, that the only equitable basis of arriving at each claimant-nation's share of available German reparations was the adoption of a uniform yardstick to be used by each and every country.

As it is, one cannot help but feel that some other consideration than an equitable division caused the great powers to arrive at the fifty-fifty division between Russia and the other Allies.

Aside from the question of equitable division of available means of providing reparations, one cannot help but wonder if sufficient consideration was given to the end result of the policy adopted for obtaining reparations.

I am not, of course, inclined to waste any sympathy on the German people or their satellites, but is not the policy of despoiling German factories of their productive equipment and the attempted reduction of Germany to an agricultural nation the product of a brain bent on revenge and lacking in consideration of what such a policy might mean to certain of our Allies?

The census taken in the United States in 1940 showed some 21 million persons engaged in production, of which a little over 10 million were engaged in agriculture and 11 million in manufacturing.

I have no similar figures for pre-war Germany as to the percentage of her population engaged in these two broad classifications of production, but whatever these may be, with no more than one out of 13 persons in this country able to earn his living from agriculture we may presume that it would be impossible for the German population as a whole to do so.

If this assumption is correct, how then is it proposed that the remaining population of Germany is to exist?

So far as I am concerned, I am fearful that the result of such a policy will be that our people will be called upon to feed her, and this not in exchange for goods and services we desire but because her people will be starving and we will not permit them to starve.

I call your attention to the fact that we are already being told that Germany must be fed, and you may rest assured that we in the United States will be told that we are the only nation which can afford to do this, or at least that we must make by far the greater contribution in that direction.

Should We Pay Also for World War II

Is it fair to ask if history is to repeat itself?

Much of the reparations Germany paid after World War I was out of loans she contracted in this country and never repaid.

Are we again in effect to provide German reparations this time through food and other items of relief furnished at our expense because Germany has been so reduced economically by the removal of her productive assets as to make such assistance necessary?

Great perseverance and strength of character will be required to overcome the natural inclination to abandon controls as the memory of war and its sufferings fade with time.

Add to this natural inclination the urge induced by the sacrifices we will be called upon to make to feed and clothe a Germany reduced not only by war but by a reparations policy to an economic existence which would require us to do so, and I ask you whether we would have the necessary strength of character to persevere in our control.

Regardless of the position in which such despoiling of German productive assets will place Germany, what will be its effect on Germany's neighbors who found in pre-World War II Germany either their best customer or a customer high up in their trade figures?

What will be the effect of this policy on Holland, on Denmark, on England and many others?

We and England may feel that we will be compensated by adding to our exports Germany's former exports to the remainder of the world, but I wonder if we are correct in our assumption that this will make up for what we formerly exported to Germany.

Has it not been pretty clearly established that the world's best customers in international trade are countries which themselves enjoy a high productive capacity?

Prewar Germany was such a country.

Are any of her customers outside those of us who numbered her among our best customers able to take her place as a consumer of the world's production?

Was it not just this lack of German purchasing power in the world market brought about by excessive reparations after World War I which broke down our willingness to control Germany, permitting her to play on our selfish interests and allowing her to prepare for World War II.

A Suggested Plan

May I again suggest, as I did here once before, that a more realistic and sensible approach would be to set up a United Nations control of German exports and imports through an exchange control. This would prevent to a large extent the importation and stock piling of essential war materials.

At the same time some percentage of the valuta arising out of her exports could be set aside for reparations.

One might say that this method failed after World War I to provide much in the way of reparations.

My answer would be that we attempted to collect reparations too rapidly without consideration of the amount of Germany's exports and we established no adequate control over her imports by license and exchange allocation.

Can we not assume that through such a control we could at least collect a sum equal to that formerly set aside for her preparation for war?

American Foreign Assets

In all this where today do we find American foreign properties? We find them in a variety of situations:

1. Damaged or destroyed during the war.
2. Confiscated by the enemy.
3. "Purchased" or liquidated by the enemy under a depreciated currency.
4. Inaccessible to their owners.
5. Used to pay current reparations.
6. Removed by friendly governments.
7. Subject to deindustrialization processes in enemy countries.
8. Subject to nationalization processes in friendly countries.
9. Producing an entirely different product.

As a result, the Foreign Property Holders Protective Committee now finds itself seeking a solution for unforeseen problems brought on not by our enemies but by our own government and by our friends.

American owners gladly furnished information to our Armed Forces that their foreign properties might be destroyed in the interest of our own Army and the Armies of our Allies, but their willing sacrifice seems ill-requited both by their own government and other friendly governments when they are robbed of their properties after the shooting is over.

We cannot accept the theory that our properties lose their nationality because they happen to be located in a foreign country even when incorporated under local incorporation laws any more than a citizen loses his nationality because he happens to reside abroad.

I for one should think Congress would be reluctant to extend credit to those nations who feel themselves justified in nationalizing or appropriating the property of American corporations and American citizens without prompt and adequate dollar compensation.

Certainly payments in German marks or other foreign currencies to be converted into dollars at some unknown future date is not adequate or satisfactory compensation.

Such treatment seems inconsistent with the idealism of the United Nations Organization or even a proper appreciation of the effort of this or any other similarly situated country which has contributed to the liberation of the nationalizing country or to the common victory against the aggressor.

When I contemplate the difficulty faced by American foreign property owners, I am reminded of an old Negro slave who, when called upon to pray during Grant's seige of the City of Richmond, began by calling upon the Lord to look down upon His children and lend His aid and protection—and as the shells fell closer and came in greater numbers he exhorted the Lord to come on down from heaven, and finally as one particular shell fell very close he waxed really eloquent and cried out to the Lord: "O Lord, come on down, come yourself, don't send your son, this is no job for a boy."

Wm. Walters Securities Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William A. Walters has formed the William Walters Securities Company with offices at 3923 West Sixth Street. Earl H. Marsh will be connected with the firm.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The Government bond market continues to hold at its alltime highs despite some evidence of profit-taking which appeared the latter part of last week. . . . Demand for the bank eligible 2s is still substantial although there are indications that non-banking institutions are likely to let out some of these bonds, near the end of the drive. . . . It maybe that this selling will not take place until the loan is over. . . . The 2½s due 9/15/67/72 have reached the 107 level, which means that the longest bank eligible issue is on a 2.10% basis. . . . Nevertheless, this is still the highest yield that can be obtained by the deposit institutions among the taxable bonds. . . .

Although this security has advanced sharply, it is the opinion of many students of the money market that this obligation will eventually seek higher levels with a price of 108, being talked of quite freely among some of the trading fraternity. . . .

PARTIAL EXEMPTS STRONG

The partially exempt issues particularly the longer maturities came in for good buying and again moved ahead to new all-time highs. . . . These bonds are still considered attractive at present prices. . . . The ineligible bonds were steady to better, with the prevailing opinion that these obligations will do better after the Victory Loan is over. . . . A good tone was in evidence in the notes, with offerings of certificates that came in last week from industrial concerns well taken. . . .

TRADERS CAUTIOUS

The substantial and fast rise that has taken place recently in the bank eligible taxable bonds, particularly the 2s, seems to have created a cautious attitude among some of the shrewd traders. . . . There is no feeling that these securities will have a sharp set back, but there is the opinion that with "normal portfolio adjustments" that will probably be made near the latter part of the drive, these bonds may move down from their alltime highs. . . . In other words, some investors are waiting for what they believe may be a better buying opportunity, at prices somewhat under those presently prevailing. . . .

Nevertheless if there should be profit-taking in the general list, it will be an excellent time to pick-up the issues that one needs, since the postwar financing policy of the Treasury indicates higher prices for the longer term obligations. . . .

LOOKING ELSEWHERE

Since the longest bank eligible bonds have gone to levels where some of these institutions cannot obtain the return they need, there is appearing a good demand for the highest grade corporate bonds particularly, the public utiltiy obligations. . . . With the Government evidently committed to a program of forcing the long-term bank eligibles to higher prices, which will have to be maintained in the future, there seems to be less fear of the long-term high grade corporate bond market. . . . Accordingly, some of the deposit institutions are finding it profitable to take on certain of the AAA and AA bonds that yield from 2.60% to 2.70%. . . . This gives these banks about ½% more return than they are able to get in the highest yielding eligible taxable issue. . . .

Also it is indicated that aside from a few refundings of high grade corporates that will take place after the drive, in order to take advantage of the present tax law, the bulk of the bank quality corporate bond financing is about completed for the time being. . . .

There will not be the same incentive to refund outstanding issues in 1946, particularly those obligations with high call prices, because of the change in the tax law. . . . Accordingly, the more desirable of the high grade corporate bonds that have been available in the market are now being taken on in sizeable blocks by some of the commercial banks and trust companies. . . .

DEBT MANAGEMENT

Management of the Federal debt, and its effect on our economic system, undoubtedly will be among the important subjects to be brought out in the open soon by the monetary authorities. . . . Our Government is committed to a policy of full employment just as surely as it is to a policy of low interest rates. . . . These two go together in the opinion of the money managers, and it is indicated that management of the Federal debt will be one of the avenues through which they hope it will be accomplished. . . .

This means that the Federal authorities will make greater use of the qualitative method of credit control, or direct action, in the future and much less use of the quantitive method, to control credit. . . .

The recently published study entitled Jobs, Production, and Living Standards, by E. A. Goldenweiser, of the Federal Reserve Board's staff of economic advisors, seem to be the opening of a campaign for greater control over the money markets. . . . He points out that the Federal Reserve authorities will need in the postwar period all the powers over the general volume and cost of money that they had in the past, and they should have additional authority over member banks reserves. . . . Also, the study continues, that the authorities should perfect and expand the instruments of selective credit regulations acquired in recent years and develop an effective technique for using them in conjunction with the broader powers that influence general credit conditions. . . .

This probably means that the monetary authorities want to maintain their control over installment loans as during the war, and they are undoubtedly exploring the possibility of imposing new credit controls, particularly over real estate loans. . . . Public Federal debt, he indicates, should be managed so that it is increased during a period of depression to provide employment, and a balanced budget with debt retirement is advocated during periods of prosperity. . . .

On interest rates the study points out that because of the need for avoiding wide fluctuations in the value of Government securities, long-term interest rates should not be permitted to rise. . . . More control over the money markets would seem to be in the making if the ideas put forward in this report are adopted. . . . Greater power by the Federal authorities over the money markets certainly means that the debt burden will not be increased through higher interest rates. . . .

Psychological Pitfalls in Appraising Stock Market Values

(Continued from page 2451)

ject to these psychological extremes. It goes down and discounts the worst; then, it swings back and everything is seen in the rosiest light.

To a considerable degree the statisticians are responsible for the development of these movements. Being the idea men and the brains of the Street, their reports and analyses eat persistently into the minds of the investors and business men in general. Review of the market movements of individual securities or industrial groups shows this influence clearly. In recent years the behavior of railroad securities is a case in point. Some years back they were appraised from the gloomiest angle and every analyst was trying to get the investors out of them. Then the tide reversed itself and today the opposite is true. This change occurred largely because a great many analysts have convinced themselves and others by a sort of self-intoxication process that the railroad future is bright; facts to the contrary. This wide swing in appraisals of the future is evident in a great many groups, sometimes on a rather inconsistent basis. Such is the case in airlines, distilling and copper stocks at present quotations. All of these groups changed from one extreme to the other in recent years without material changes in their indicated prospects.

Present Market Appraisals

I am beginning to believe that the market and general business are reaching a point where reasoning is again on rather dubious ground. The thought process leading to optimism is sometimes rather peculiar and I think that statisticians now have to be extremely careful in their appraisals. Of course, it is very difficult to be the iconoclast and point to the black when everybody sees white, particularly when it is almost impossible to gauge the extent and the length of this upward movement. The awakening may happen next month and then again it may be two years off. It is not easy to be sober when the calmest and most thorough appraisal of a stock may be proven to be wrong by the irrational rise in the market that just "happens". The negative facts may be pointed out clearly but quotations prove them wrong. At this stage of the market there is no doubt that more money is made by ignoring facts than by most careful studies.

I believe therefore that self-criticism at this time is particularly in order because after all statisticians have a public duty to perform. I shall devote the rest of this review to pointing out some typical errors in our current reports and thinking.

The reports generally can be classified as:

1. The releases of public relations men who tell you with beautiful pictures and charts a lot of interesting but not pertinent detail. They contain such valuable statistics as that General MacArthur bought the product, or that volume laid end to end reaches two miles beyond Chicago.

2. Statistical summaries which are nothing but a partial replica of the manuals.

3. Lastly, there are the bona fide statistical and economic studies which give pertinent facts with expert interpretation of them and an opinion on their practical meaning.

Insofar as this review is concerned, the first two should not be dignified by the name of analytical reports, even though they do serve a legitimate purpose.

Analytical Mistakes

The analytical reports themselves may have various types of mistakes in them.

1. The garden variety of typographical and mathematical error that is inexcusable, but we all make them, particularly now when junior help is so scarce.

2. The errors of judgment in interpreting. This is also unavoidable and is excusable if the originator is right more often than wrong.

3. The worst errors are those made by anylysts who are so concerned to sell and promote an idea that they deliberately omit facts or distort them to make their story better.

This last of the errors is the most vicious. Sometimes it is made because the so called analyst who writes the report in question is constituted that way or is just ignorant. At other times he knows better, but does not care.

As an excuse for this, one can say that after all these reports are written to get business and one can not sell unless one exaggerates and colors the story a bit. That explains the fact that probably not more than 1 out of 50 reports that are circulated are bearish. The bullish side wins because more commissions and appreciation will develop on the "constructive" side. The dangers of this one-sidedness are obvious. The public is entitled to a fair and thorough presentation of facts even though the emphasis may be on the favorable side. That is the reason why we should be more realistic than we generally are.

I shall review a few actual examples of this one-sidedness and incompleteness.

A recent study of the railroad industry said in part: ". . . and missing what may prove to be a very long cyclical upswing in railroad activity and prosperity."

It takes considerable daring to make a statement like that, a typical example of starry-eyed bullishness. The economist or business man, even without examination of statistics, knows that railroads have been gradually falling behind in our industrial development, simply because more efficient means of transportation were developed. It is not necessary to prove the retrogression. It is evident that with the coming improvement in roads and motor transportation, airlines, subsidized waterways and coastal marine there will be even acceleration of downtrend.

Faulty Railroad Analysis

Apparently the fact that the railroads had a great temporary increase in volume due to the war was accepted by this writer as something permanent. How flimsy this recent prosperity is, is indicated in the following simple table showing an excerpt from the published income account of Eastern District Class I railroads:

Eastern District Class I Railroads
(Millions of Dollars)

	1944	1939	Incr.
Gross pass'gr' rev.	$723.8	$232.4	$491.4
Income tax (Fed.)	297.7	10.0	287.7
Net after charges	214.9	44.6	170.3
Net before tax	512.6	54.6	458.0
Fixed charges	248.6	277.7	*29.1

*Decrease.

The significant thing is that increase in income before taxes was smaller than the increase in gross passenger revenue. Since passenger service costs are relatively fixed it is evident that, if not all, most of the rise in profits of railroads since 1940 was due to passenger traffic. Not even the greatest bull on the railroad future can hope to retain this increase in passenger revenue on a return to full peace. So apart from other adverse factors, particularly rising wages and costs and inevitable loss of war freight, it is clear that current railroad prosperity is on an extremely weak ground. It must also be noted that the much advertised reduction in fixed charges was relatively small in this period, only a little over 10%.

In that light, the recent estimate that Baltimore and Ohio will earn $6-7 per share seems very high. Making a comparable statistical analysis for that road, it would appear that its position is just about the same as that for Class I railroads in the aggregate.

A study of a locomotive company says in part: ". . . peak efficiency for steam engines is arrived at during the first year only. In three years, maintenance costs double. In twenty-seven years such expense is actually quadruple that of the third year . . . Summed up, the present total inventory is 45,180 (locomotives). The new inventory is expected to be about 37,000 efficient units. About 26,000 will have to be new. Figuring the locomotive building industry's total capacity at about 4,500 units per year, this pent-up demand is expected to invite peak production for at least five years to meet domestic requirements alone."

The statement on the efficiency of engines is curious to say the least. Our locomotive builders ought to be very much ashamed of themselves if their product is at "peak efficiency" for only one year. The maintenance here is confused with operating costs. The cost of maintaining an engine even at eight times that of the first year, when it should have been very small, may still be low enough to provide economical transportation.

The writer goes on and practically discards our entire inventory of engines in forecasting their replacement. Before the war we had a surplus of engines, and during the war more was spent on maintenance and replacement of equipment (excepting passenger cars) than in any comparable period of railroad history. Our rolling stock therefore may be ample for reduced postwar traffic. Actually the locomotive builders may be lucky to average 1,000 new units in the next five years.

The Copper Situation

In recent months there was a drive to push the copper stocks up and 14 cent copper was promised before long. These optimistic thoughts ignore basic economic factors that copper is not consumed; that we have imported three years' supply and produced at top rate in the last four years; that foreign production is cheaper and much larger than their own demand; that there is long-term downtrend in costs and price with increasing substitution; that the future of the industry is entirely dependent on the unpredictable factors of tariff and stock-piling policy of the Government. If copper goes to 14 cents it could be based only on a tremendous boom or on a subsidy from the Government, neither of which can be accepted as fact. More specifically this country is in the position where it has to choose between using its limited supplies of the metal or reducing the tax to permit the entry of cheap foreign ingots. We have nearly a year's supply in the stock piles now. That is enough for immediate emergency. The remainder of the stock pile can be kept in the ground at home. It is also better to import raw materials and so help the export of finished goods. In any event it would seem that all reason is on the side of reduction of the tax and a lower copper price; but copper bulls, led by aggressive industry spokesmen, ignore all that.

Similarly the representatives of the distilling industry have talked of scarcity of liquor so much that there is a tendency to visualize shortages for years to come. The stocks have gone up by capitalizing the present high earning power as permanent. The facts are that now we have on hand enough aging liquor to cover at least four years of withdrawals. In this year we shall have produced over twice the amount consumed and the capacity of the industry is far in excess even of the current rate of production. It is evident that while there may be shortages of certain types of whiskey there is no doubt that actually we will have all we need and more. It is sufficient to remember that in 1934 we had no stocks at all and by 1937 there was too much liquor for sale with intense competition and lower profit margins. Therefore the present non-competitive status with large profits cannot last long.

These examples are sufficient to indicate the state of mind of some analysts and the current stock market. In view of the dangers involved it would seem that this would be an excellent time to emphasize the adverse side rather than the optimistic in our market comments and analyses. In that way we may succeed in neutralizing at least part of the excessive bullishness that is being generated.

Business Man's Bookshelf

Bank Credit for Soil Conservation—Darryl R. Francis—Federal Reserve Bank of St. Louis, Mo.—paper.

Construction Revival — Guide-signs to peacetime expansion and prosperity—a market study—F. W. Dodge Corp., 119 W. 40th St., New York 18, N. Y.—paper.

Full Employment Bill, The—An analysis — Henry Hazlitt — American Enterprise Association, Inc., 4 East 41st St., New York 17, New York 18, N. Y. paper.

Government Mediation and Arbitration of Labor Disputes—Selected references—Industrial Relations Section, Princeton University, Princeton, N. J.—paper—10¢.

Problem of Reconversion Is the Recovery of Freedom — Recommendations of The Reconversion Council, National Association of Manufacturers, 14 West 49th St., New York 20, N. Y.—paper.

Regulation of Prices in the Reconversion Period—Jules Backman—American Enterprise Association, 4 East 41st St., New York 17, N. Y.—paper—50¢.

Manual of Stock Transfer Requirements—Raymond J. Berlin and Raymond C. White—Fairchild Publishing Co., 8 East 13th Street, New York 3, N. Y.—cloth —$2.50.

Banker's Job, The (Assist the Returning War Veteran) — Reprinted from the "Association News Bulletin" of the Savings Banks Association of the State of New York, 60 East 42nd Street, New York 17, N. Y.—paper.

British Balance of Payments Problem, The—Arthur I. Bloomfield—International Finance Section, Department of Economics and Social Institutions, Princeton University, Princeton, N. J.—paper.

France Before the Economic Reconstruction—Robert Mosse—Brentano's, 586 Fifth Avenue, New York 19, N. Y.—paper—$1.00 (printed in French).

FHA in the Post-War Era

(Continued from page 2457)

tance. It is a thoughtless path. The lender who takes it will be he who encourages private enterprise still to avoid, evade or dodge the problem areas and stick to the top of the market, and will himself yield to the pressure of idle loanable funds by recognizing inflated sales prices as real values. That path will lead the nation up the hill to the disastrous peak of inflation. In the end it will kill production of new housing, which is the only final solution of our problem.

Another path is that of undue conservatism—a defeatist pessimism that will prevent production by an unwillingness to believe that America can produce what Americans need in housing at a price the mass of Americans can pay. That way lies frustration and further and further accumulation of desperate need. Along the path of that type of lending, too, are ranged all the oversights and indifferences that in the past have helped to prevent the ingenuity of private enterprise from applying itself to the several problem fields of housing need I have mentioned.

The other is the third road of mortgage lending, the middle road that steers between the errors of the other two and contains promise of a successful course for private enterprise in shelter production during the coming critical years. Those who follow it will refuse to encourage inflation by lending on the basis of sales prices temporarily sent absurdly high by shortage in the face of overwhelming demand. All over the country evidence is presented of older houses selling for much more than even their replacement value at present building costs. There is some evidence of lending practice influenced dangerously upward by such conditions. Not all of the increased sale price of old houses is inflationary. Sometimes it is in part only a recognition of true, sound value previously marked too low. But a great deal of it is premium price due to scarcity.

And in newly built housing there is some evidence of the same sort, wartime houses selling well above the original ceiling prices which recognized current costs and fair profits in most cases.

Mortgage lenders can't fully prevent such inflation. The presence of much buying power and much need precludes that. But mortgage lenders can do a great deal to prevent the most disastrous housing inflation of all, an inflation financed by borrowing against the excess of price that is not an increase of real value.

There is only one final answer to inflation and that is production. The estimates of need are immense, ten million family units in ten years is a common one. How rapidly the need may express itself in active demand upon the market is a question. But there can be no doubt the utmost capacity of the industry is needed to produce an early *rate* of production that will restore the psychological balance that deters inflation by curbing impatience.

An easy and a perilous mistake would be to measure the adequacy of housing production in the next few years by numbers of units alone. The measurement must be in numbers and in purposes served, in rental and in sale brackets, in special pressures lessened. We cannot concentrate upon the quick higher-priced market of sale and rental and accomplish our purpose, for the bulk of pressing need is not there. It is in the ranks of the average citizens, the legion of families whose annual income is from $1,200 to $2,500 a year.

Private enterprise has claimed all of the housing market as its own. It must therefore seek to supply it all, with decent quarters. It must seek to make home ownership available for all who seek it, and on a secure basis. That is why I have been urging upon all of private enterprise that it broaden the base of its housing operations, all of those engaged in it, starting at the woods, the mines, the quarry and clay pit, including fabricators, suppliers, land developers, salesmen, builders, lenders and labor.

The challenge is to all, the opportunity for all.

There are many difficulties and not the least just now is materials. That will pass. We will in the coming months have ample materials, if the efforts of industry and Government are continued.

But there is also the problem of costs. Today they are high and rising in some places. They contain many factors resulting from war and some obviously temporary items. Lenders and builders everywhere ask what the attitude of FHA is going to be as to these costs. Many refer to our present attitude as unrealistic.

True, we do not recognize all of the current costs of today in our commitments in most areas. We are still bound by the requirement of economic soundness in insurance of lending, bound both by law and by regard for the public good. But we will recognize the increase of costs as and if it stabilizes.

But if you think that will be an adequate answer to the question of building costs in housing you are seriously mistaken. We won't give the final answer. You won't give it. It will be given by Joe Doakes, the average man from whose income the price of housing must be paid. When the costs rise beyond his reach, he can't buy and the great mass of the market for private enterprise will disappear.

In many respects private enterprise has done an excellent job in recent years, both war and prewar. We have reached down into moderate priced housing farther than is generally agreed. But it has only been a good start. We have no right to be complacent about it.

It is in the handling of this matter of building costs that solutions are to be found for both housing shortage and inflationary dangers. It is not just a matter of hourly wage rates. It is not just one of lengthening the term of lending so the higher price can be met by a lifetime of payments.

If that is our best and only answer we are barren of ingenuity indeed.

Rather, the answer is to be found in greater efficiency in production, the application of new techniques, new methods, new productiveness. It lies, too, in the elimination of every unnecessary cost, every payment of too much for too little, no matter to whom it goes.

In this you lenders have more than a passive part to play. An easy, over-liberal lending policy encourages unnecessary costs. They will persist if you as lenders or we as insurers will support them.

You have an active part to play in your own and the public interest. With your builder clients you can do a great deal toward development of greater efficiency, toward arousing interest in the middle-market in both sale and rental properties. You can profitably turn your own and your builder clients' attention toward the minority group field. Those who have done so are too few, but they have found it sound and profitable, and they have done an immense good in their communities besides.

You can and should remember that our existing housing inventory is vastly greater than the total of new additions we can make to it in many years. It must be conserved and improved. That ought not be the haphazard business it has been in the past. It deserves the organized attention of the industry. We can check the spread of blight. We can hold back depreciation. We can convert much of the sub-standard, old structures into sound and decent homes, often making two or three of one.

Your attention as lenders ought to be upon this necessity. We of FHA can help, both through insured mortgages and Title I.

Throughout all of this urging of a sound middle course for lenders and a broadening of the base for the industry which we are also urging, very properly the industry may ask, "What is Government going to to about all of this"?

I can answer only for the Federal Housing Administration, but for the Federal Housing Administration I *do* answer. Within the limitations of the law, the agency's policy becomes my responsibility. Our policy already is actively one of broadening our base with you. We have completed the first phases of our studies on how it may be done. Already you have had the announcement of several steps.

We have first made improvement of our service by shortening our processing time a No. 1 must. It has been over-long. It rapidly grows shorter in most offices.

We have next undertaken to simplify our procedures so far as is consistent with sound results. Many of the smaller steps have been taken. The bigger ones are now under study.

We have moved into a field of housing largely new to insured lending in the country home activity recently announced. We believe it to be a most important one for the American people, a most constructive one for our suburban areas, a most practicable and sound one for you lenders. We earnestly suggest that you and your builder clients explore its possibilities and consult with our field offices on it.

We have advised you of our new firm commitment policy for builder mortgagors. That, we think, will be a successful means of providing construction credit. It is not intended as a means of consumer credit, especially for equity accumulation sales. It is aimed to help builders plan their programs and cut their costs. In most States it will make direct savings in fees and costs through use of one mortgage for interim and permanent financing even after sale to an owner-occupant.

We have sought to help in the rental field by streamlining our Section 207 procedure. For the first time we have given our field offices complete processing and commitment authority. That itself is an evidence of our aim to simplify, to make flexible and practicable this system of ours; relying upon strong staffs afield and as few strings running to Washington as is consistent with soundness and uniform policy.

Presently we will have recast our Title I operation so that it will be a major part of the operations of every field office in the hope that it will be increasingly useful.

Thus far we have gone under existing legal authority. We continue to explore new applications of the authority we have.

But we explore also the possibilities of further authority that might be advisable and helpful in putting private enterprise most effectively into this immense task. We must concentrate largely on homes for lower income groups. We believe a simpler legal provision for insuring loans on smaller rental projects would improve the situation in a great many communities.

In brief, we want the FHA to be just as widely useful to the home-seekers of America as it can soundly be, and if it is not sound, it will not be really useful.

We don't intend to disregard the mandate for economic soundness. We intend to interpret it constructively.

We ask of you that you do the same, taking that middle course of lending that refuses to inflate in order to invest, and that provides an active role rather than a passive one in developing better housing for all our people.

It is an immense task. We in Government and you in business cannot do it separately. But together, the whole of private enterprise, with the proper aid of Government, we can succeed.

Goldsmith Resumes as Ira Haupt Partner

Ira Haupt & Co., 111 Broadway, New York City, members New York Stock Exchange, announce

Maj. B. M. Goldsmith

that Major Bertram M. Goldsmith, A. U. S., has resumed his activities as a general partner in the firm.

Argentina Open for American Imports

PHILADELPHIA, PA.—C. Robert Haines, Foreign Department Manager of the Corn Exchange National Bank and Trust Company of Philadelphia, who is making an economic survey in several South American countries for the Bank, reports from Buenos Aires that Argentina "is in a good position for purchasing in the United States now and will be for some time to come." Mr. Haines wrote that there are naturally great shortages in many things for which Argentina depends on importations. Among the Philadelphia industrial products which might have good markets are street cars, buses, locomotives, railway cars. High count cotton yarns, cars, trucks, repair parts for cars and trucks, office machinery, electrical supplies, agricultural machinery and all sorts of machine tools.

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was made Nov. 14 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $43,810,000, 0.90% consolidated debentures dated Dec. 1, 1945, and due Sept. 3, 1946. The issue was placed at par. The proceeds, together with treasury cash of $1,990,000 will be used to retire $45,800,000 debentures maturing Dec. 1. As of Dec. 1, 1945, the total amount of debentures outstanding will amount to $242,285,000.

Gordon Crockett Has Rejoined Christie

HOUSTON, TEX. — A. Gordon Crockett has rejoined B. V. Christie & Co., First National Bank Building, as manager of the trading department after three years service on the U. S. Coast Guard.

Australia's International Trade Position

(Continued from page 2457)

based on the current exchange rate of $3.23 to the Australian pound did not give a fair idea of the value of the aid received and cited as an example a million woolen blankets supplied by Australia under reciprocal lend-lease and valued on the records as $2.64 apiece, whereas the same item cost $7.67 in the United States. The items supplied ranged from hand-grenades to stretchers, from telephone to printing facilities, from laundries to tiles.

Australia's All-Out War Effort

But perhaps the best comparative picture of Australian Reciprocal Aid is that the U. S. devoted about 14% of total war expenditures to lend-lease while Australia devoted approximately 18% to reciprocal lend-lease. The essential thing is that the resources of both countries through the Lend-Lease Reciprocal Aid mechanism were utilized in the most effective manner possible for the prosecution of the war. "I do not think," Col. Eddy concluded, "That one can find a better example of cooperation between two sovereign States, to their mutual benefit, than that which exists between Australia and the United States."

Nor is reverse lend-lease any measure of assessing the full value of Australia's war effort even in the Pacific. According to General MacArthur, and no one should know better, "No nation in the world is making a more supreme effort than Australia. It is rapidly gearing to full capacity. Its resources are relatively meager, but is utilizing them to the utmost. Its effort is universal, and embraces equally all classes and all parties."

Peace Has Brought a Dollar Problem

And so the United States and Australia exchanged goods and services in the common cause. We cannot repeat that procedure in peace-time. What can we do? The war has ended with Australia in possession of no dollars at all, and with our gold production almost down to zero. Production of gold was reduced solely because gold made only an indirect and not an immediate physical contribution to victory in the Southwest Pacific. In fact we used nearly all our available manpower either in the Armed Services or in direct war production. The percentage of manpower used in Australia solely for war purposes was not exceeded by any country.

All through this period, however, large stocks of wool were grown and accumulated in Australia. We must use this staple product to help balance our trade accounts with overseas countries. But your exporters want dollars, not wool. And such dollars as we can earn in your markets must be allocated to the American products we need most urgently. The obstacles to United States-Australian trade are not entirely or mainly obstacles of our creation. They are obstacles created largely by your customs duties, of which an example is your duty of 34 cents a pound on our raw wool. One question is whether this trade barrier can be removed or lowered without injury to the true interests of the producers and consumers of both countries.

I can assure you that Australians desire to trade more freely with their American friends. But how can we buy from you if we cannot sell to you? How shall we rid ourselves of the rationing of dollars if we cannot earn more dollars?

Australia Against Borrowing

There is, of course, one way that we might follow to escape this dilemma, we might borrow dollars. We may be urged to do so. But I may say at once that the Australian Government's policy is against borrowing abroad, against adding to her external debt. By borrowing, the dilemma would be escaped but only temporarily. This is no unfriendly policy. It covers all overseas borrowing and is necessarily applicable to the United States. Would it be wise for us to borrow dollars with the prospects before us? We are justly proud of our credit-worthiness. Our government stocks stand high in all overseas markets. We have always honored our commitments. During the great depression we imposed severe sacrifices on ourselves to do so, and we learned a stern lesson thereby. We shall never forget that lesson. Australia will endanger neither her future reputation nor her future domestic welfare by a resort to borrowing abroad.

If there is a solution of this trade problem to which we can contribute we hope to be able to find it. At the moment, part of the answer lies right here in the United States. It is a form of freedom we need; freedom to earn your dollars. And until we can earn more here, we may have to do with less of your excellent products, or to make more of them for ourselves. In short, traffic between any two countries in their commodities must be two-way traffic.

British Commonwealth Based on Freedom of Each Member

I now proceed to describe briefly and informally the Australian attitude to two problems which have been exercising the minds of many Americans in connection with our trade. These problems are our relations to the Sterling Area, and the question of British Commonwealth tariff preferences. Before doing so I should make perfectly clear, if that is possible, hat within the limits of economic necessity we are parties to these two arrangements of our own choice, and entirely of our own free will. If anyone still supposes that we are not possessed of full freedom in these respects, he is many years out of date. As to all this, we are bound by no ties which we cannot agree to change, if our national and international interests should warrant any change, subject of course to the elementary proposition — elementary but often forgotten — that a multilateral agreement can be altered only by the free consent of all who are parties to it: And that no country can be expected to give such consent unless it sees clearly what the new situation will be if and when the multilateral agreement is altered or ended.

Sterling Area

We belong to what is called the Sterling Area. We have always done so, even in those days when a buyer of American goods had merely to go to his bank and buy dollars at the old par rate: when international traders could go ahead with their own particular deals on the safe assumption that they need not bother about any curious habits of their respective countries in the matter of currencies. But our dealings with foreign currencies were even then always through sterling. It was a practical convenience. We left the worries of fluctuating balances between two countries to our friends in London, and when we called on them for dollars we got them. They kept a sort of informal "dollar pool."

When the war came, we found to our dismay that the dollar resources of our British kinsmen were no longer freely available to be used for normal trade either to us or to themselves. We found that the "dollar pool" had to be made strictly formal, and to be made subject to rationing. It suited us to put into and take out of this pool the dollars we earned and the dollars we needed, because on the whole we are a dollar deficit country. But we had to ration dollars with the rest. There was nothing secret or sinister about it, nor anything significantly subordinate in the part which Australia took in the whole affair. And if there was anything in it deserving of the term "Sterling Bloc" it was quite justifiable.

Imperial Preference

The other matter I have mentioned is our system of preferential duties in favor of other British countries, and their systems with us.

The Ottawa agreements are objected to because we admit into our respective countries goods at lower duties than importers from the United States have to pay. Let me remind you that the Ottawa Agreements **followed** and did **not** precede the Hawley-Smoot tariff of 1930. They were in fact consequential upon that U. S. A. action, upon the great Depression, and upon the failure of the international economic conference of the time. But the principle of preference goes much further back. It is associated with the histories, habits, and sentiments of a particular family group of nations, and with their economic interests.

I may remind you that the United States has a problem not unlike ours in its treatment of the Philippines. The case is more extreme, for the transition there is to be much greater. If the Philippine Commonwealth is to become genuinely independent it cannot remain within the United States tariff wall. On the other hand no one expects that the Philippines can be excluded from its strong preferential position suddenly, ruinously, and without time for readjustment. I do not see how the United States can avoid discrimination in its treatment of the independent nation that the Philippine Commonwealth is to be. If that is so, some preferences must be justifiable.

If I may use a mechanical synonym which is well understood in this country, I may say that our economy is geared to a set of "preferential" tariff systems, both for exports and imports, and we cannot scrap the gears without stopping the whole machine.

In all of these trade problems we in Australia are hopefully anticipating a constructive and impartial lead from the United States, and from the Conferences yet to be held. More, we are anxiously awaiting the outcome. If we are to find expanding world markets for our farm produce, and a reasonable share of them for our new industries, we can expect to buy more from others. If not, we must buttress our defenses and build as we can at home. We alone cannot control the situation. To a very large extent we shall have to follow others. But we must grow. We are too young, too sparsely settled in our territory, too full of energy and ambiton not to grow. All that is part of Australia's "manifest destiny"—to use a significant American phrase of years long past.

Need for U. S. Leadership

The general direction of trade must depend on world trends, under your leadership.

Mr. Chairman, I have mentioned some of our trade difficulties; I am not unaware of your political difficulties in the United States. But we have ours too. Australia's Government is responsible to a democratic Parliament and a democratic people. Consider what our Parliament and our people in Australia would say if, without adequate guarantee for our overseas trade, we were to invite them to abandon their economic defenses, their sovereign rights over their tariffs and over their own currency and exchange rates. Adequate guarantees are not to be found merely in the good intentions of various international bodies, which might well be dominated by a few Powers.

Nevertheless I believe that the Australian people might be willing to review the situation and assess all its advantages and disadvantages. We realize what the stakes are. We shall strain every nerve to achieve the common objectives of the United Nations. We shall play our part in peace as we have played our part in war. But we have one important condition which must be satisfied.

World Importance of Economic Conditions in United States

I am striking a note which is the keynote of our approach to all these problems of international cooperation, when I say that the condition I refer to is simply that **you** continue to be prosperous and when I say that Australia's willingness to follow your leadership in any new international program must be measured by our confidence in your ability to maintain that prosperity.

But there is more to be said. We know from bitter experience that another great depression, following the postwar boom, seems to many observers to be as natural to the world's economic way of life as night following day. We know that, whatever may have been its causes, the great depression of the 30's made its first impact in the great stock market slump of 1929. Australia, and other exporters of primary products suffered at once from slumps in world prices. We know that your industrial depression came much later. It followed ours in direct sequence. We know that when you and other leading industrial nations, especially Britain, are prosperous, we are prosperous, and that when you fail, we suffer too.

Moreover, the point is that we suffer first. Your investors may get the first shock, but our farmers and workers get the second and greater shock which means widespread unemployment and suffering in many homes. You will realize that by the time your people really feel the full force of such an economic blizzard, we in the countries with more dependent economies have already been in it for some time. It would be futile to commence investigations at that late stage and to hold inquests. To Australians, this is no mere "business cycle." To us the welfare of the producers is not consequential or subordinate but of prime significance. For that reason we emphasize the term "employment" rather than the term "prosperity." And we make full employment, and the highest level of employment, the simple criterion for our basic international economic policy.

Full Employment

We know something of the difficulties which you face in this matter. They may indeed be greater than those which you solved so effectively in producing war equipment. Their technique may be even more involved than those faced by your scientists in producing the atomic bomb. It is not the time to discuss them. But it is within my province to suggest that the great new human achievement which must come out of the war is the solution of the problem of maintaining employment for all of our peoples. If we fail in that, all talk of freedom from want turns out to be a delusion and a sham.

If you have a high percentage of employment and a high percentage of purchasing power you can be quite sure that both domestic and external trade will certainly be developed and extended. For the past three years, my colleagues and I, and our representatives in this country and elsewhere have been missionaries in this positive cause, i.e. we have regarded the doctrine of removing trade barriers as ancillary to the task of maintaining the highest possible degree of employment. We have done our best to accentuate the positive and to eliminate the negative. We have put our thesis forward, with very substantial success, at the conferences at Hot Springs, at Philadelphia, and, especially, at San Francisco. The words "full employment" have passed into common speech. They are now to be found as declared objectives in several binding international agreements. The words were included in the United Nations Charter as an obligation of each member. That was largely the result of the initiative of Australia and New Zealand. The objectives and the pledges concerning full employment appear direct language each time they progressively in more forceful and are stated. The machinery for interpreting and implementing them grows in strength month by month, as for example in the Economic and Social Council of the United Nations. So far so good. The intentions are excellent. But good intentions have to be translated into effective action. Then and only then will our countries achieve that growth of trade that we earnestly desire solidly based upon the postulate of high levels of employment and rising standards of living for all peoples. It seems to me to be necessary, especially at the present time, to assert these objectives in the interests alike of our farmers, our workers, our industrialists, our exporters, and our importers. True prosperity is both indivisible and all-pervading.

Public Utility Securities

(Continued from page 2454)

Arizona Power Authority in filing a last-minute protest with the SEC against sale of the stock, on the grounds that if the sale went through it might have to bring condemnation proceedings against the company to obtain its steam plant for stand-by purposes. However, it is understood that the Authority (which was created for the principal purpose of handling and selling on a wholesale basis the State's allotted share of power from Boulder Dam) has not been very active as yet, and has not released the names of possible customers for this power.

Central Arizona considers the steam plant (which has an estimated value of over $4,000,000) essential to its own business for seasonal power requirements. However, should the company have to surrender the plant it appears likely that they will receive severance damages plus fair value in any court or jury condemnation award (there is, however, little precedent in Arizona regarding condemnation).

The stock was retailed to yield about 4.58% (assuming a 60 cent dividend rate), and at about 15.6 times the latest stated earnings. Tax savings in 1946 might amount to an estimated 48 cents per share but there will be a partial offset in loss of consolidated system tax savings. The company has had an excellent long-term growth record.

R. K. Creighton With Kirchofer & Arnold

RALEIGH, N. C.—R. C. Kirchofer, President of Kirchofer & Arnold, Inc., Insurance Building announces that Robert K. Creighton has become associated with the firm as director of business development.

Mr. Creighton was formerly regional director of the National Housing Agency in eight southern states. He also was formerly Secretary and Director of the Housing Authority of the City of Raleigh, North Carolina.

Congress Again Faces A Silver Decision

(Continued from page 2455)

legislation. This for some time now has been the outlook, and the industry has been making efforts to secure the necessary legislation.

Yet Senator Pat McCarran of Nevada, a leader of the strong Senate silver bloc, has chosen this period to agitate for a higher price for silver. Mr. McCarran has had the support of other Western Senators and Congressmen. One result of this agitation, in which the Mexican Government has not been idle, was the recent increase in the ceiling price of imported silver from the long standing 45¢ an ounce to 71¢. Thereby foreign silver receives the same treatment as domestic newly-mined silver.

With the Treasury standing ready to buy silver at 71¢ an ounce, industrial consumers can obtain silver outside the Treasury by paying something above that price, however slight the premium. Virtually the whole domestic mine output of silver has been going to industry in this manner. But if Senator McCarran should get his way and the price obtainable by United States mine producers at the Treasury should be increased to $1.29 an ounce, the entire domestic mine production would be sucked into the Treasury, where there is no need for it, and some 40,000,000 or 45,000,000 ounces of silver would be subtracted from supplies presently earmarked for American industry.

Because manufacturers estimate that, without this silver, their sales would be cut down by at least $200,000,000 at a time when there is a crying need for consumer and other civilian goods, the industry has been to Washington to seek, and it is expecting active Treasury support for the Green Bill (S. 1508).

During the past two or three weeks several visits have been made to the Treasury by Edward Otis, Secretary of the New England Manufacturing Jewelers and Silversmiths Association, Wm. F. McChesney of the Gorham Company, and Howard Boynton of Handy and Harman, bullion dealers and processors.

While the Treasury is expected to work for the passage of the Green Bill, so that Treasury silver may be sold to industry during the coming calendar year, it is expected to oppose the efforts of the silver mining bloc to raise the price of silver to $1.29.

Readers of the "Chronicle" will recall that several weeks ago Senator McCarran endeavored to have his silver proposals tacked on to the then pending tax bill as a rider. The McCarran rider not only called for $1.29 an ounce for domestic silver, but repeal also of Section 1805 of the existing Internal Revenue Code and of Sections 6, 7, and 8 and the second proviso in Section 3 of the Silver Purchase Act of 1934. These sections of the law at present stand in the way of trading in silver futures. They are a deterrent to speculation. Even without adoption of the $1.29 proviso, it is believed, repeal of the sections named would result in a rapid and marked increase in the price of foreign silver on the open market, and so achieve McCarran's obvious purpose.

Administration's Attitude

That the Administration would consent to the repeal of the special transaction tax on silver at this time is unlikely. It has always opposed repeal, ever since Senators McCarran and Elmer Thomas of Oklahoma tried to secure it in 1935. Were the transactions tax to be repealed at this time, there might be undue enrichment of Americans who acquired silver abroad at 45¢ an ounce in anticipation of the recent Administration lifting of the price ceiling to 71¢ an ounce for foreign silver. As matters stand, half of such trading profits must be paid to the Treasury.

Moreover, so long as there is any possibility, however slight, of Congress increasing the price at which the Mints accept silver, the Administration may be expected to oppose repeal of the transaction tax on silver, lest future speculators profit by discounting the event. What lends special emphasis to this is the theoretical possibility of acquiring Treasury silver for the purpose. For example, during the rest of this calendar year, while the Green Act now on the books remains in effect, industrial users may buy silver from the Treasury at 71¢. Theoretically, they might build up inventories of bar silver until Dec. 31. If the price of silver should be raised before the inventories are used, it would be possible to sell the bar silver from inventory at a profit.

Perhaps the strongest argument against repeal of the statutes which at present stand in the way of resumption of speculative trading in bar silver is that the building up of speculatively held stocks of the metal would lead to a repetition of the experience of 1933 and 1934. At that time, it will be recalled, speculators acquired large actual holdings or interests in silver futures in **anticipation** of "something being done for silver," and then became a strong pressure group **demanding** that that something be done—as eventually it was done. The history of that period may be traced in the broadcast Sunday discourses of the Rev. Charles E. Coughlin; and in the "List of Silver Hoarders," compiled by the Treasury Department and published in 1934 as a Senate Document.

Whenever imports of foreign silver increase, the supply problem of American jewelry and other industrial consumers will tend to be eased. The industry's great reliance on domestic mine production in recent years has been due to the paucity of foreign supplies coming on the market and the large wartime demand abroad for silver coins. In India and the Near East the very large Allied military expenditures during the war brought about troublesome inflation of incomes and prices. The consequence was a demand for more currency, notably silver coins. Now that the war is over, contraction of Indian and Near Eastern currencies is natural, and along with it one may look for the offerings of surplus monetary stocks of silver. An increase in the American buying price of silver would attract large amounts of Oriental silver here.

Position of China and Mexico

Just what China is going to do about silver the writer does not know. China has had such extreme paper-currency inflation during the war that some drastic corrective is called for. Doubtless the Government there would welcome an opportunity to get silver on loan from us for coinage use in China. But the putting of silver coins into circulation while there remains outstanding an astronomical amount of virtually worthless paper currency would be only to court the penalties of Gresham's law, the new coins disappearing as fast as issued. China's problem is much more difficult than that of a smaller and more orderly country like Holland, where all the wartime currency above a nominal denomination has been called in.

Mexico, as the world's greatest silver mining country, is looked to for the greater part of American industrial needs during the coming year. Latterly, Mexican silver has not been coming on the market. Reportedly the Mexican Government had been accumulating newly-mined production with a view to profiting by the American price increase from 45¢ to 71¢, which Mexican officials had reason to anticipate. Offsetting this boon to Mexico is the temporary inconvenience of having Mexican silver coins now more valuable as bullion than as currency. For the second time in barely a decade American silver policy has had this effect on Mexico's circulating coins. There is talk of the Mexican Government offering the people a premium to turn in silver coins presently being hoarded because of the current premium. If so, the Government will be sharing with private Mexican citizens the profits of the anticipatory hoarding.

Even the availability here next year of the entire mine production of Mexico, estimated at 70,000,000 ounces, and that of the United States, estimated at 40,000,000 to 50,000,000 ounces, will not suffice to meet the estimated American industrial needs of 125,000,000 ounces, it is said. Of course, there will be silver available from other mining countries like Canada and Peru, plus additional amounts of demonetized or other secondary silver. On the other hand, not all of Mexico's production will be available for export as bullion. And there will be coinage and industrial demands in other countries. Silver lend-leased to foreign governments and to be returned to this country ounce for ounce is estimated to total more than 400,000,000 ounces, but it will be some time before repayment can be expected. Indeed, if and when this silver is replaced in U. S. Treasury vaults, the foreign governments concerned may be in the market competing with American industrial consumers. The American industrial users are arguing, therefore, that in any case some Treasury silver will be needed by them next year, or industrial production will suffer.

What the Congressional silver bloc doubtless would like would be to take advantage of the need of the industrial consumers, giving the silver bloc's tacit consent to the new Green Bill (S. 1508 of October 24) in exchange for the McCarran $1.29-an-ounce proposition. Since that would involve either the Treasury's buying silver at $1.29 an ounce with one hand and selling it to industry at 71¢ an ounce with the other, or else, if selling it to industry at $1.29 an ounce, an exorbitant subsidy to silver sellers at the expense of industrial consumers, there does not seem to be the basis of a deal. The next few weeks should tell.

Alexander Seidler to Open Dept. for Bank

NEWARK, N. J.—Alexander Seidler, Jr., formerly with Julius A. Rippel, Inc., has become associated with the National State Bank, 810 Broad Street, where he will open a bond department.

Post-War Financing and National Distribution of Securities

(Continued from page 2451)

many times we have been in agreement, because it makes me feel that I have been fair too. I have tried to be.

Many, when they think of this great country, which means the great states which comprise it and over the welfare of which in the realm of securities you preside, visualize a map divided by irregular lines into parts. To me it means people, very fine and adorable people, members of this Association, and it means cities and towns studding this vast land, sparkling like jewels in the sun and moonlight and commemorating so beautifully the many happy occasions when I have partaken there of your warm and gracious hospitality. It is indeed grand to be with you again.

When your President extended to me your very kind invitation to talk to you, he said, "Fitz, the Commissioners tell me you have been bothering them more than usual lately sending a lot of packages filled with papers of one sort or another and they think it is about time you told them whether you intend to keep it up and if so, give some justification for it."

Naturally I felt highly honored and consequently I am here to tell you of the type of securities which it appears to us will most likely be offered to the public from now on for a while and whether in our opinion your state securities laws will require compliance in order to effect their national distribution.

I

Let us consider first the type of securities which it appears will be offered to the public in these post-war years.

As you know, most of the financing in the last few years has been for the purpose of refunding. As interest rates have declined, the volume of securities issued for the purpose of retiring those issued at higher rates has increased. Practically all of the money for the tremendous expansion and conversion of industry to war production has come from the Federal Government or through the commercial banking system in the form of credits guaranteed fully or in part by the Government. In some cases, notably the automobile and steel industries, the companies themselves have drawn heavily on their own resources for necessary funds. Recourse to the public market for new money, except in isolated instances, has been of relatively small volume.

Until the Government debt is reduced, interest rates will continue at present levels and may go even lower and, of course, the Government is still increasing, not reducing, its debt. This does not mean that refunding financing will continue to increase. Much of the large refunding operations has been completed and unless interest rates should decline to an extent which would make it worthwhile to issue new securities to refund those recently offered, which is possible but now seems unlikely, the volume of this type of financing will lessen.

Does this mean that the volume of new securities issues as a whole will decline? Quite the contrary. It would appear that the activities of investment bankers in obtaining substantial amounts of new capital will increase rather than decrease and will continue at a high rate for some years—the duration depending upon the wisdom with which many problems now confronting us are met.

Risk Capital Essential

While economists differ as to details, there appears to be fairly general agreement that our post-war economic structure, if it is to support a balanced budget of the size that sound fiscal policy necessitates, must include a national income expanded far beyond pre-war levels. This can be achieved and maintained only by profitable production and employment at much higher levels than heretofore. Industry cannot be financed solely, nor in many cases should it be financed largely, by debt and preferred stock. It is evident that the needs to a large extent will be for risk capital. The flow of such capital into new industry has been on a very restricted basis for twelve years. It must be made profitable for risk capital to venture into new enterprises and to supply additional needs for money that established businesses will require. A revitalization of the spirit of enterprise in this country will go far toward solving the economic and social problems which we are now called upon to face. The problem has been well stated by Professor Charles Cortez Abbott of the Harvard Graduate School of Business Administration in a study entitled "Forces Influencing Investment in Business Enterprise After the Transition Period," as follows:

"It seems probable that business with the assets which it will have at the end of the war, will not be able without additional financing to produce and distribute the volume of goods and services necessary to provide full employment. The needed increased expenditure by business concerns for investment purposes, which implies an enhanced volume of investment in business, is itself one of the principal circumstances requisite for the attainment of a high level of employment. Should this needed investment take place, it will go far toward producing the desired level of employment.

* * *

"If a high level of employment is to be achieved and maintained in the post-war period, one of the major objectives of both business policy and public policy must be to make ownership more attractive than it has been recently. On this point must unite, if they adhere to the logics of their respective positions, both those persons in the business world who of late years have been critical of many governmental policies on the grounds that such policies allegedly threatened property and property ownership, and those persons in the government service and the academic world who have been critical of the functioning of the financial and investment process and the activities of property owners on the grounds that insufficient investment was taking place to provide a satisfactory volume of employment."

What types of financing will be needed?

As you know, during the last two years there have been a great many secondary offerings consisting primarily of the redistribution of large blocks of listed stocks. No doubt these will continue. There has been also a degree of activity in a type of financing which promises to continue if not increase. I refer to the recapitalization and refinancing of industrial companies whose securities have been closely held and are now being offered to the general public for the first time. The high levels of corporate and personal income taxes of those who previously had funds for investment, as well as large increase in inheritance and gift taxes, have been strong influences in this development. Competition and reconversion problems also have caused the owners of many closely held companies to consider mergers or the sale of equity securities to the public so that there will be an established market in which further new capital can be raised, if advisable, in the years ahead.

Loans Abroad

Most foreign governments are bankrupt and their people destitute. Those which are to receive financial aid from this country must in the first instance, of course, receive it from the Federal Government. Naturally we are moved by compassion to aid those who are starving, sick and freezing. It has been a serious question whether with the tremendous debt under which we are laboring we can afford, for humanitarian reasons, to lend the large sums necessary. Consideration, however, has led many to the conclusion that for purely selfish reasons alone we cannot afford to refuse to advance such amounts as careful study deems requisite. The stoppage of foreign purchases by refusing credits would certainly prevent the full production which alone can prevent inflation and create and maintain employment at the high rate desired. Given the existing structure of the American economy, production cannot be maintained at a high level without very substantial exports. In due time private capital should find its way to such foreign governments as are deserving and prove themselves financially responsible.

Our Governments, Federal, state and municipal, and their political subdivisions, agencies and instrumentalities, are planning vast improvements and new projects requiring construction and contracting jobs entailing large expenditures of money and consequent issuance of new securities.

All means of transportation, railroads, airlines, motor bus and motor trucking companies, taxicab companies, and the like, are in dire need of rehabilitation.

Railroad equipment is most inadequate for present and future needs. New engines and cars are being streamlined and produced with an eye to far greater comfort for passenger travel and efficiency for freight transit to meet the increased competition from airlines and motor transportation. Equipment trust certificates are again coming into their own.

Airlines Good Prospects

Bankers Trust Company, The Mutual Life Insurance Company of New York, The Chase National Bank of the City of New York and The New York Trust Company issued in April, 1945, the result of a comprehensive study which they made regarding airline finance. Their conclusions may be summarized as follows:

"In the next five years the American domestic and international airlines will spend nearly $750,000,000 for flying equipment and non-flying equipment and facilities, and may have to borrow as much as $350,000,000.

* * *

"Well-managed airlines should be able to borrow a substantial portion of the cost of their flying equipment. The size of the potential borrowings indicates that most loans will be secured. No standardized borrowing instrument, such as the railroad equipment trust, is likely to be adopted in the near future. At this time, it is expected that loans will be based, to a large extent, on chattel mortgages, equipment trusts, or conditional sale contracts, depending upon the circumstances in each case. Certain changes in legislation are desirable, and the form of the loan instrument will be influenced by the legislation that is passed. The airline loan should be shaped to meet the borrower's requirements. The chattel mortgage will probably be most frequently used in domestic operation, and the equipment trust or conditional sale contract for American airlines operating abroad.

"There is an important and constructive opportunity for lenders to serve the young and expanding air transport industry in the next few years. It will represent major financing of a desirable nature which can best be undertaken with the cooperation of the airframe manufacturers, the airlines, the governmental authorities, and the financial institutions."

That there will be means of airline financing other than that mentioned above is indicated by a 15-year 3½% convertible income debenture issue of Pennsylvania-Central Airlines Corporation offered last September, and by an issue of cumulative convertible preferred stock of The Aviation Corporation offered this month.

Similarly the utilities will need large sums of money for needed repairs and for expansion and reconversion purposes.

Telephone companies have about completed their refunding operations and are in great need of new funds. As you know, Southern and Southwestern Bell Telephone Companies issued debentures for refunding purposes not long ago. Pacific Telephone and Telegraph Company plans the sale soon of $75,000,000 principal amount of 40-year 2¾% debentures. American Telephone and Telegraph Company, the parent company of the Bell System, had two large debenture issues this year. Those issues complete the refunding requirements of the companies mentioned and they are now making reconversion plans which will require new capital. American Telephone and Telegraph Company has already planned to raise two and one-half billion dollars during the next ten years, an average of over two hundred million dollars a year.

The reconversion needs of established industrial corporations and the initial requirements of new enterprises no doubt will demand far more new capital than the other types of corporations mentioned.

New and improved automobiles, boats, radios, television sets, air-conditioning and refrigeration units, sewing machines, new housing projects, home and office furnishings and innumerable devices, made of new and improved materials, will find their way on the market to supply our needs and provide for our comforts, and money for their advertising, manufacturing and distribution must be obtained.

Source of Equity Capital

Where is the needed equity capital to come from?

I had a talk with the officers at the Federal Reserve Bank in New York just before coming here. Their records show that deposits in commercial banks and mutual savings banks increased from 55 billion dollars in June, 1939, to 137½ billion dollars at the end of August, 1945. Of course, some of these funds are required for current business purposes and individual expenditures but the greater part represents idle money available for the purchase of goods or for investment. In addition, currency outside of the banks, part of which is circulating and part of which is idle and available for the same purposes, increased from 6 billion dollars in June, 1939 to 26½ billion dollars at the end of October, 1945. It is apparent, therefore, that expansion in the income of the country since the beginning of the war has been tremendous.

Obviously equity investments must not be substituted blindly for Government bonds now owned by so many people. The existence of these large funds, however, presents one of the greatest invitations to inflation as the termination of the war releases the people from wartime and patriotic restraints, thus creating a large demand for goods which cannot be satisfied immediately. The conversion of a portion of these liquid funds into sound equity investments would serve the double purpose of lessening the chances of inflation and furnishing, at least in part, the funds which industry will require in the post-war period.

II

Now let us consider how the securities laws of the various states will affect the national distribution of the types of securities we have mentioned:

State Laws vs Security Financing

Of course, you know your own laws so much better than I do, and the reasons for the inclusion or exclusion of certain provisions to which I shall refer, that it would be most presumptuous of me to do other than first, speak of the practical effect which experience has shown such laws have on the advertisement, offer and sale of securities which underwriters wish to distribute throughout the country from New York, and second, express a personal opinion as to how, with slight changes, such laws can be made less burdensome to legitimate business, which they were never intended to affect adversely, without thereby lessening the protection which they afford to the investing public, for which purpose they were enacted. Necessarily my comments must be brief, but I shall be very glad to talk further later with anyone who is interested.

Of course, some of the States have fraud laws and others do not require the registration of securities, so when I speak of the registration of securities you will know that I am referring only to the laws which do require such registration in one form or another. This will avoid my distinguishing between such laws as I go along.

Let me speak first of the necessity of registering as a dealer and registering securities when selling the latter to registered dealers, banks, savings institutions, insurance companies and corporations. Such sales are generally classified as "exempt transactions," which are exempted entirely from the provisions of the laws, requiring neither registration of the seller as a dealer nor the registration of the securities sold. This is as it should be. None of those named needs any protection in the purchase of securities. The laws of a few important States, however, do not contain such an exemption. The only one of those mentioned who can resell the security to the public is the registered dealer. He is registered with the securities commission, is subject to suit in the State, and cannot legally resell the security to the public, unless it is exempt, without registering it. The institutions mentioned have expert advisers as to the purchase of securities and need no protection. It is impracticable for New York underwriters to register as a dealer in each State of the Union and if they have no office in the State and send no representatives therein, they will not register as a dealer and register the security in order to offer to those named unless the demand there for securities is sufficiently large to warrant the underwriter as a matter of business policy subjecting itself to suit in a foreign jurisdiction. The result is that the underwriter will either telephone the offer from New York, consummate the transaction in New York by having payment and delivery for the account of the purchaser made there, so that the only infraction of the law is his offer made in the State over the telephone, or he will respect the law and refrain from making the offer. Representative underwriters will adopt the latter course, irresponsible underwriters the former. All that the refusal to include such an exemption in a state law accomplishes is to deprive the residents of that state from purchasing the better type of securities offered by representative underwriters in other states having such exemption.

Secondly, let me speak of the type of securities which are very generally exempted from registration when offered by registered dealers, but which some states do not exempt.

First are Government securities. All states except two exempt Government securities, although some of the exemption provisions are more inclusive than others. The only suggestion I make for your consideration is to add to the exemptions, where they are not specifically named, securities of municipalities and of political subdivisions, agencies and instrumentalities of a state. If this is done it will render the exemption of much more practical use. I think I may best make my point clear by way of illustration.

The Legal Aspects

Suppose it is desired to distribute a security of a city of State A in State B. If the securities law of State B specifically exempts the securities of municipalities, the security in question may be offered there. If the law of State B does not contain such exemption, does it exempt the securities of both political subdivisions and agencies of a State? If so, the security in question probably may be offered there because a municipality ordinarily is defined as either a political subdivision or an agency of a State. It is necessary, however, to examine the constitution and court decisions of State A to determine that. If the law of State B exempts only the securities of a political subdivision of a State or those of a State agency, the security in question may be offered there only if the constitution or court decisions of State A define a municipality of the State to be either a political subdivision or an agency in accordance with such exemption. When it is realized that, undoubtedly it would be desired to offer the security in question not only in State B but also in most other States, it will be seen how helpful it is to include specifically in State securities laws those governmental units the securities of which it is desired to exempt.

If securities of State agencies or instrumentalities are not exempted, such securities as those of the Port of New York Authority, California Toll Bridge Authority, Department of Water and Power of the City of Los Angeles, Delaware River Joint Commission of Pennsylvania and New Jersey bridge bonds, and similar securities may not be offered. Of course, all of such securities could be offered if registered, but underwriters acquire most of them by public bidding and usually there is no time for registration. It seems that Federal and State agencies and municipalities are increasing in favor as the best means of accomplishing certain purposes and if, as appears, it is desirable to exempt their securities along with those of other governmental units, and to exempt the securities of municipalities, it is a simple matter to name them specifically.

Issues Not Exempt from Registration

Also among securities which are generally but not always exempted from registration are those issued or guaranteed by a corporation owning or operating a railroad or other public service utility, provided the corporation is subject to regulation or supervision either as to its rates and charges or as to the issuance of its securities by a public service commission of the United States or of a State, and in some laws, of a municipality. Some States are more demanding and do not grant exemption unless the issuance of the security is subject to approval by such public service commission. This exemption is logical and is based on the theory that if the corporation is subject to regulation or supervision as to its rates and charges, and particularly if the issuance of the security itself has been or is to be approved by a body of experts especially versed in public service matters and chosen for their particular knowledge of the subject, it is unnecessary for the securities commissions to review the matter. A few States do not include this exemption; some confine the exemption to railroad securities, others confine the public utility exemption to securities approved by the commission of their own State, while still others attach an additional requirement regarding earnings which must be met. The failure to grant the more inclusive exemption appears to be designed and presumably is because of distrust of the public utility commissions of other States, which is hardly the attitude toward a representative body of a sister State one would expect, and no doubt is one which would be resented if found to exist regarding those assuming such position. One State exempts the security of railroad corporations which have been approved by the Interstate Commerce Commission but does not exempt securities sold subject to such approval. Such exemption is of no real value since practically all such securities are sold subject to the approval of that Commission. It is hoped that the wording of this exemption will be amended to accord with that of most States.

Issues Listed on Exchanges

Similar to the exemption from registration of securities of railroads and public utilities, and based upon the same principle, is the exemption of securities fully listed on certain stock exchanges which are named, or on those which are previously approved by the securities commission, and securities senior thereto. This exemption is included in about the same number of laws as that mentioned regarding securities of public utilities. Since the corporation issuing such listed security, as well as the security itself, has met the presently rigid requirements of such exchanges, there seems to be no good reason why such security should have to be registered. The exemption of the listed security is of no practical value except in the case of secondary offerings, as it is impossible to list an issue fully, or to trade in it where this is an added requirement, prior to its initial offering, since it has not then been issued. If the security to be offered is an additional amount of a security already listed, some laws exempt it when regularly approved for listing upon its issuance. This exemption is of value and should be more generally adopted. The exemption which is of most practical value is that relating to securities senior to those listed. Some securities commissions are opposed to this exemption because the security itself has not been subjected to the scrutiny of the stock exchange officials. It would seem, however, that they lose sight of the fact that such officials are being continually apprised of what the issuer of the security is doing and its finances and business condition, as a requirement for the continued listing of its junior security. If something occurred which would affect the issuer, and consequently the new security, adversely, it would be reflected in the action of its listed security and anything serious no doubt would result in the striking of its junior security from the list and thus terminate the exemption of the new security.

Now let us consider securities which are not entitled to exemption for any of the reasons which we have discussed but are issued by a corporation owning a business property or industry which has been in continuous operation for a certain period of years, usually three or five, and has shown certain prescribed earnings for the last two or three years. Securities of issuers meeting the required test would be exempt from registration in a few States. They could also be registered easily by notification in a large number of States and would be readily registerable in most other States not having such form of notification registration. We encounter no real difficulties in registering such securities for sale except in a few States.

These States require the issuer to subject itself to suit whenever its securities are registered. Although issuing corporations understand that they must comply with State securities laws when they offer their securities by agents to whom they pay a commission, and are perfectly willing to do so, they will not subject themselves to suit generally throughout the country when they have sold their securities outright to underwriters, have no title thereto, and have nothing to do with their sale. Experience has taught them that to do so lays them open to "strike" suits instituted by unscrupulous persons in the hope and expectation that such corporations will find it cheaper to settle even an unfounded claim than to engage local counsel and incur the expense necessary to the conduct of a trial in a foreign State and the transportation there of their records and witnesses, most of whom are needed to conduct their business in the home office. As a result these States are invariably omitted from national offerings of securities, unless the issuer is already subject to suit there by reason of its business, and the residents of such States are given no opportunity to purchase such securities. It would seem that the securities commissions of such States should be sufficiently well satisfied with the financial responsibility of and their regulatory power over the dealers registered with them who sell the securities and it appears entirely unnecessary to require the issuer also to subject itself to suit.

Non-Exempt Issues

Now let us give a little thought to securities of corporations which meet none of the requirements entitling them to exemption, or to registration by notification or comparable simple means of registration, and which consequently can be registered, if at all, only by furnishing detailed information. This ordinarily is called registration by qualification or as a Class "D" security. It will include corporations which are newly formed, of which there should be a great many if our hopes and plans are to be realized for a sound, inclusive and sustained improvement and expansion of business created and shared by new enterprises and established concerns.

We are confronted with the problem, of which I have spoken, regarding the subjection of the issuing corporation to suit but in a far greater number of States. That will be required not only in the States to which I have referred but in all States having registration by notification and qualification. As you know, when securities are registered by qualification the issuer must subject itself to suit even if application is made by a registered dealer.

Unless the commissions are disposed to support legislation removing this requirement from their laws or new corporations are less adamant in their opposition to complying with it, it would seem that the sale of securities of many such corporations will be diverted to States which do not have such requirement.

While speaking of the registration of securities I should like to say a word of sincere commendation of the commissioners for their very constructive and cooperative policy in administering the registration provisions of their laws by permitting the information required by the forms to be furnished by reference to the registration statement or prospectus.

Uniform Qualifications Urged

Having been an early advocate of the uniform form for the qualification of securities and later having been accorded the privilege of cooperating with the commissioners in its preparation, I continue to think that its advantages deserve greater recognition and to hope that there will be renewed consideration and discussion of its adoption by additional commissions.

Among the matters which have been the subject of considerable discussion during the past year has been that of warrants or stock purchase options granted to underwriters or to company executives. My own practice has not included any securities issues in which such warrants or options were involved, and I shall therefore limit my remarks to rather general observations.

At the outset it may be noted that the statement of policy of certain commissioners issued last May was the result of discussion and consideration of a group of them. This is in accordance with the growing and healthy disposition of commissioners to arrive at even temporary rulings only after thoughtful consideration with a number of their associates. This practice of consultation and exchange of views, widened to include discussion with a representative group of the persons affected, has been one of the outstanding features of these conventions.

Warrants and Stock Purchase Options Essential

There is nothing inherently wrong in the use of warrants or stock purchase options. They serve a useful purpose and there should be no attempt to ban them. It is their abuse which is wrong and should be stopped.

The valuation of the warrants and stock purchase options admittedly is difficult and I think it is the failure to solve that difficulty which is causing the dissatisfaction with their use and which underlay and prompted the declaration of policy to which I have referred. When a proper valuation is placed upon the warrants and stock purchase options I think the problem will solve itself.

The total underwriting discount must be determined by adding the value of the cash underwriting discount and the value of the warrants or stock purchase options granted to the underwriters and deducting therefrom any cash payment made by the underwriters. The intangible value to be derived by the issuer in the future from the enlightened self-interest of the underwriters, by reason of the rights they have acquired, should be disregarded.

Underwriting Discounts

This total underwriting discount must not exceed that allowed by the securities law of the particular State, but it cannot be determined until the warrants or stock purchase options, which constitute an essential part of it are properly valued. When a proper valuation has been placed upon them it will become apparent whether the total underwriting discount exceeds the limit prescribed by the law or by the reasonable rules and regulations of the commission. If it does, the commission should not, of course register the security. If it does not there should be no objection to its registration in so far as the warrants or stock purchase options are concerned.

Although the valuation of the warrants or stock purchase options is difficult, it is not impossible. Accordingly, I suggest to you that a committee of commissioners meet with the securities dealers present here who are interested in the subject and by frank exchange of views find a workable answer to the problem.

The granting of similar warrants or stock purchase rights to corporate executives seems to involve somewhat different considerations. This is not a matter of underwriting discount as to which a number of states charge their commissioners with specific responsibilities. Speaking generally, it is one aspect of a general estimation of the issuer to determine whether any reasonable ground exists for refusing to register its securities. The statutes differ widely in the various states and each commissioner must be guided by the law of his state in deciding whether the existence of these rights is sufficient basis to empower him to deny registration. Assuming the power exists, I suggest further the salutary approach that only clear abuse of corporate authority should be deemed a basis for denial of registration.

You have had many years of experience with the management of business and know that in most companies a practical system of checks and balances has been established. You know also that such a system prevents most abuses and that when the truth about a particular occurrence is ascertained it is found that many apparent abuses are not such in fact. The courts have long followed the practice of not interfering in corporate management in the absence of clear abuse. I suggest that your responsibility under most of your statutes is similarly limited and that your approach follow the lines laid down by the courts.

Responsibility of State Agencies

My friends, in these momentous times of stupendous events and climactic happenings, your responsibilities are tremendous and will become increasingly so. It is no exaggeration to say that without your reasonable administration of your securities laws and the willingness to use your great influence in procuring necessary amendments to those laws, the hopes and aspirations of mankind for an orderly, timely and successful transition from war to peace will not be realized.

Without the necessary funds obtained largely by the distribution of securities in accordance with the laws which you administer, industry cannot be financed to produce what is essential to meet the needs of this and other countries and to furnish the employment required for our welfare.

Without prosperity this country cannot exert the beneficent and constructive external influence so necessary to the proper solution of the intricate international problems confronting us. The United States, prostrate in the throes of depression, will hardly inspire the admiration and confidence of the world or demand the wholesome respect so necessary to our prestige and influence for good in the adoption of an enlightened foreign policy.

So you see how important your administration of your laws is, not only to your State but to the nation and the world, and how necessary it is that your thought and outlook governing such administration be commensurately broad and universal.

Your ability, your wisdom, your knowledge, your willingness to examine all sides of a question and to consider the other person's point of view, are among the marks of your merit. In coming to a conclusion regarding the important and difficult problems which will be presented to you, I know that Great Power without which none of us can reach a correct decision, will be with you and will guide you always.

War Financing—Some Implications for the Future

(Continued from page 2462)

year 1945 when the Government accounted for $100 billion out of $211 billion total spending. Contrast this situation with that in World War I when the Federal Government accounted for a maximum of only about one-fourth of aggregate market spending, with the other three-fourths coming from consumers, business, and State and local governments. In the fiscal year 1919 — the peak year of Federal spending in World War I—total expenditures in this country amounted to about $75 billion, of which the Federal Government accounted for a little under $19 billion.

I think it is obvious from these figures — and, of course, most of you have known it all along—that the difference in the financing job in this war was not only one of size but one of kind. When the Government takes over such a large proportion of our output to fight a total war the economic effects become important all along the line. The figures I have cited merely point out the tremendous contrast between the financing problems of World War I and World War II.

Where Government Spending Went

Let's look further at that $833 billion of total spending in the five-year period. It is axiomatic that aggregate spending in the country is equal to aggregate income. The head of the coin is the $833 billion of spending while the other side is the $833 billion of income flow. It should be noted that this is a gross income flow since it includes such items as funds flowing into business reserves as well as net income in the usual sense.

Who received this gross income flow? We know that the Federal Government received in taxes $133 billion or about 15% of the total income flow, and State and local governments received about $49 billion. Of the remaining $651 billion of income after taxes, about 90% was distributed to individuals and 10% to corporations. Corporations are here treated as a conduit and only the new funds remaining in their hands over the five-year period are counted as being received by them. The corporate income items thus consist of retained earnings plus accretions in reserves, such as depreciation and depletion accounts, over and above what was invested in new capital goods — plant, equipment, and inventories. The income flow to individuals includes dividends received from corporations.

Turn these figures around another way. The Federal Government spent $323 billion and received in taxes $133 billion, leaving a deficit of $190 billion. Individuals and corporations spent $469 billion but had income after taxes of $651 billion. Here was a surplus of $182 billion, and if you add in the $8 billion surplus of State and local governments you obtain an exact correspondence with the $190 billion Federal deficit.

One of the major goals of Treasury financing was to try to channel back into the Treasury as much as possible of this $190 billion which people were accumulating as a result of the Federal deficit. From a financing point of view, every means possible had to be taken to persuade people to hold these funds rather than to attempt to spend them, for such an attempt on a large scale would have meant inflation. Direct controls on production, wages, prices, etc., operated on one front to dam up these funds, but the Treasury had to operate on another front to see that the funds remained saved. The best way to accomplish this was to get as much as possible of these funds into Government securities.

What were our results? Let's look at the three major forms of liquid assets held by all nonbank investors combined, namely, currency, commercial bank deposits, and Federal securities. These are the significant ways in which the deficit manifested itself. Because of various minor transactions in the economy which we do not need to go into here, the total increase in nonbank holdings of these major liquid assets during the five-year period we are talking about was actually $189 billion, rather than the $190 billion deficit.

Government Bond Purchases

Of the approximately $190 billion available, $121 billion was placed in Federal securities by nonbank investors. Individuals were the largest investors, adding $49 billion to their holdings of Government securities over the period. Insurance companies absorbed $16 billion of Government securities and savings banks took $6 billion. Other corporations and associations absorbed $27 billion. State and local governments acquired $5 billion, and Federal agencies and trust funds invested $18 billion—the last representing mostly social security and military insurance funds.

In other words, about two-thirds of the $190 billion of new funds was placed directly in Federal securities and one-third in money savings—that is, currency and commercial bank accounts. The one-third placed in money savings in turn resulted in a corresponding amount of absorption of Federal securities by the banking system. Because individuals and businesses chose to place one-third of their new savings in currency and commercial bank deposits, commercial banks and Federal Reserve Banks absorbed Federal securities of an equivalent amount. Over the five-year period the banks, accordingly, absorbed $68 billion of Federal securities to match the growth of currency and commercial bank deposits. They absorbed also an extra $20 billion of Federal securities as a result of other factors, the most important of which was the growth of the Treasury's cash balance.

Coming back to this $68 billion of money savings over the five-year period, why did the people of this country make the collective decision to place this much in cash rather than to invest even more in Federal securities than they did? We have asked ourselves many times what should have been par for the amount placed in Federal securities or, vice versa, what should have been par for money savings under the circumstances. Unfortunately, there is no precise answer to these questions. You may be interested, however, in some observations on the factors bearing on them.

Increase in Currency

First of all, take the question of currency. Out of $68 billion of savings going into money forms, currency accounted for $18 billion. While this is a big increase, I believe it must be seen in perspective to be understood. The major forms of liquid assets held by all nonbank investors combined have increased from $85 billion in the middle of 1940 to $275 billion at the end of the Seventh War Loan. As a proportion of these totals for liquid assets, currency has been remarkably stable—accounting for 8% of the total in June, 1940, and 9% of the total in the middle of this calendar year. We studied this series in World War I and found the same stability in the proportion of liquid assets held in the form of currency, the figures running from 7½% to 9½% in that war.

It must be remembered that during World War II the distribution of income was significantly altered so that millions of families, formerly on a subsistence level or even below, received adequate and decent incomes for the first time in their lives. Naturally, they increased their holdings in currency—from a figure of approximately zero to something running up to, I suppose, several hundred dollars in some cases. In our surveys some people have stated frankly that they derived a sense of security and comfort from having a wallet full of currency.

Another factor bearing on the currency increase was, of course, that the level of business was so much higher than ever before that all along the line it was necessary to have more currency to carry on transactions.

A third factor is that banking was not always convenient for many people, either because of odd working hours or because of a lack of nearby banking facilities, particularly in communities where industrial growth was most striking.

Finally, there are, of course, the motives of tax evasion and black markets. You know from the tax evasion cases which have been discussed in the papers that a few of our citizens tried very hard to beat the tax laws. Some part of the currency outflow has been due to these illegal activities, but it is believed that this has been a relatively small factor in the currency growth.

From the standpoint of selling war bonds, these explanations of the currency outflow are important because most of the people who absorbed this currency also bought bonds. A total of 85 million people have purchased Series E bonds and I doubt that very many of those who haven't bought bonds hold much of the currency either. What has happened is that people have both bought bonds and acquired currency, and so long as the currency is not hot money from the inflationary point of view it is not inconsistent with our campaign for new savings to avoid inflationary pressures.

Subtracting the $18 billion growth of currency, the remainder of the $68 billion of money savings consisted of a $50 billion increase in commercial bank accounts. What should we conclude with regard to the motivation of people in wanting this particular increase in the money supply? We know first of all that about $38 billion of this increase was in demand deposits and about $12 billion in time deposits.

Increases on Deposits

In the case of demand deposits, corporations and associations accounted for about 40% of the increase, or about $16 billion. These were not inflationary funds but rather, for the most part, were needed increases in working capital and funds set aside for reconversion. In addition, for various reasons corporations were accumulating temporary reserves which they preferred to keep to a considerable extent in readily available cash.

Another large part of the increase in demand deposits is accounted for by unincorporated businesses and farmers, which in many cases were faced with the same need for larger working capital as corporations. About $10 billion of the demand deposits accumulated by individuals during the period should be credited to these investors as business accounts. In addition, State and local governments acquired about $2 billion of demand deposits over the period, while insurance companies and savings banks actually reduced their deposits by nearly a billion dollars in the five years. This leaves only about $11 billion of the increase in demand deposits to be credited to the broad group of wage-earners, professional people, etc. Some of this is certainly hot money, but a large part is definitely in the class of legitimate savings. In short, it is clear that only a relatively small part of the $38 billion increase in demand deposits is dangerous money in the inflationary sense.

The growth of time deposits in commercial banks is probably to be explained mostly by the word "diversification." We have found in our surveys that many people want to spread their savings among different forms. They feel that they have done their duty in the war bond program by investing more than 10% under payroll plans and by participating in the purchase of extra bonds in each war loan. In too many cases, our goals have thus become "psychological ceilings" to many people, which have been difficult to penetrate. In any event, savings over and above the amounts invested in bonds are spread around partly into currency, partly into demand deposits, and partly into time deposits. On the other hand, some part of the funds placed in time deposits is just as hot as some of the currency or demand deposits. The psychology varies with each depositor.

I have not here cited separately the figures for increases in deposits in savings banks as opposed to commercial banks, because savings banks have been treated as part of the composite group of nonbank investors in the figures I have given you, and it would be double counting to take up their deposits on the one hand and also to include their purchases of Government securities with other nonbank purchases on the other hand. For your information, however, deposits in savings banks increased by close to $4 billion over the five-year period; the purchases of Government securities made by savings banks as they invested these funds are included in the figures previously mentioned for nonbank absorption of Federal securities.

Thus the inflationary dollars involved in the $68 billion of money savings made over the five-year period represents a fairly small proportion of the total. Some part of each of the categories of money savings is definitely hot money, but it is my opinion that in each case the largest part of the funds placed in cash forms represents legitimate savings. In short, I believe that in absorbing $121 billion out of $190 billion of new funds, we came pretty close to shooting par. On the other hand, no one in the Treasury would argue that the job has been perfect. Moreover, we well realize that even Government securities are not completely foolproof in preventing inflation, since bonds can be redeemed or they can be sold in the market.

The Future Outlook

What of the future? First of all, we have arranged the debt so that each investor class holds securities which are appropriate to it. Over 60% of the securities held by the commercial banks are due or callable in less than five years. On the other hand, insurance companies hold only about 10% of their portfolios in the form of securities due or callable within five years, and 90% in longer categories. Individuals largely hold Series E, F and G savings bonds, which they may either cash when the need arises or continue to hold at an ascending rate of interest. About half of the holdings of individuals is in the form of Series E bonds, a security designed exclusively for the average small investor.

Corporations other than banks and insurance companies hold close to one-third of their Government securities in the form of savings notes—a highly flexible instrument which may be turned in on taxes, redeemed for cash or held for investment at increasing rates of interest. The bulk of the remainder of corporation holdings is in the form of short-term securities, largely certificates of indebtedness.

This "tailoring" of securities to the needs of the investor is a healthy thing for the economy.

For example, corporations have readily available funds to use for plant expansion as well as for reconversion purposes. Individuals are in a position to draw on their bonds to aid them in periods of unemployment and to assist them in purchasing new supplies of consumers' goods as they become available. Most of all, however, the existence of a flexible portfolio of bonds in the hands of individuals will add to their sense of security and thereby aid them as a group in taking off of the markets the volume of production which they, as workers, produce.

Our public debt will soon be more than $270 billion, and it is clear that the annual interest charge in the next few years is going to run in excess of $5 billion. The average rate of interest on the debt today is 1.94%, and our net borrowing during the war has been done at an average rate of around 1.8%. Contrast this with World War I, when the average interest rate was about 4¼%. We have lightened the future burden of the debt considerably by our low interest rate policy. Indeed, if rates had averaged 4¼% in this war, the interest burden would be about $12 billion a year instead of something over $5 billion.

Effect of Low Interest Rates

But low interest rates are not only beneficial in so far as the burden of the debt is concerned. Secretary Vinson has stated the advantages of a low interest rate policy for the entire economy, as follows:

> "Interest rates determine the real burden of the debt. They should continue low for a long time to come. It is self-evident that this is in the interest of people as taxpayers. Not as evident, but just as valid, is that low interest rates—what the economists call a 'cheap money policy'—benefits the people as consumers, as workers, and as citizens. Low interest rates, for example, will be an important factor in making possible the better homes, the better industrial plants, and the better public facilities which will make our country tomorrow more productive and a better place to live in than it was yesterday."

All of the things I have been saying boil down to the simple statement that the war has been well financed and that, as we enter what I hope will be a long period of peace, our banking institutions, business in general, and individuals are in a healthier financial condition than ever before.

I hope that conditions will be so good in the next several years that we will have a surplus in the Treasury and will be able to retire debt continuously. If that proves possible, so much the better; if not, we have done the best we could to prepare for the problems facing us.

In closing, I want to say that the work done by the volunteer war bond organizations throughout the nation has been a source of stimulation to all of us in the Treasury. In a sense, we have been merely planners and strategists; the real generals and the army itself have consisted of the local war finance organizations and their six million volunteers. I think it is a tribute to American democracy that this program has in essence represented a sum total of many, many smaller programs. We have had special campaigns carried out by virtually every group in this country. Many of these overlapped, but far from weakening the results the overlapping proved beneficial for it meant that there was an intensification of sales efforts. I am sure that bond sales were stimulated by the fact that many a man has been asked to buy bonds by his children as a result of a school

Municipal News and Notes

The municipal bond dealer who makes it a practice to look to the Government bond market as a possible indicator of the future trend of municipals, cannot fail to be impressed with the marked strength and spectacular performance displayed by the former in recent weeks. The extent of this virility and buoyancy has been carefully portrayed by the conductor of this publication's regular feature, "Our Reporter on Governments."

According to this source, much of the Government bond market's impressive performance is based on the feeling of investors and dealers that the currently low interest curve maintained by Treasury authorities is destined to undergo a downward revision in the case of future Federal borrowings. That such a view has substantial adherents appears to be amply reflected in the almost uninterrupted advance of all types of Treasury issues to new all-time highs.

Under the circumstances, it is only natural for the dealer in municipals to ponder the developing situation in the light of its possible effect on his own market. This would appear to be justified, moreover, even admitting that the Government market of today, because of its unusual character, is no longer an unqualified barometer of the general course of money rates, etc.

This to the contrary, it cannot be denied that the trend of Government credit conditions necessarily must have an important bearing on the course of other types of investments, whether of public or private origin. Indeed, this would seem to be of particular significance insofar as State and municipal bonds are concerned, because of the unique position they hold with respect to tax exemption.

This feature is being rapidly eliminated with respect to Governments, a fact that serves to enhance its value insofar as local government obligations are concerned. Incidentally, while the value of such tax exemption may be expected to decline in direct proportion to the lowering of Federal taxes, all evidence suggests that it will continue to be of far greater value than was true in the past, with the exception of recent war years.

In any event, the recent strength in the Government bond market and the accompanying strong rumors of an impending cut in interest rates on future financing undoubtedly has been a factor in the comparable strong pricewise tone of the municipal market. Evidence of this is reflected in the increasingly aggressive competition among dealers for new issues and the resultant attractive terms obtained by borrowers.

This point has been noted in these dispatches in recent weeks and constitutes one of the most important indexes of the widely-held confidence among dealers in the existing price level. Moreover, the latter is now rather close to the figures that obtained prior to the weakness in evidence prior to V-J Day, which brought in its wake a decline of large proportions.

In connection with the above comments, it must also be noted that some investors either do not share the optimism of dealers as to the future level of prices or are unable, due to other considerations, to take an active buying role. This view is based on the fact that, while new flotations have continued relatively light, the supply of bonds in the hands of dealers remains quite substantial. It may be that the attention of portfolio managers is being largely focused on the movements of the Government bond market, including active participation in the securities being offered via the current Victory Loan financing.

Whatever the explanation, the fact is that the municipal bond market continues in a somewhat somnambulent state, with trading in particular being especially dormant. This condition has been underscored by the absence of any inspiring volume of new business, which, in the last analysis, usually provides the basis for the market's activity.

Incidentally, it is difficult to assess the part that the diminutive supply factor has played in the upsurge of the price level in recent weeks. It is true, however, that the sharp recession that developed subsequent to V-J Day was largely occasioned by the widespread belief that a veritable flood of new borrowings would immediately ensue. This, it was concluded, would result in a dissipation of the scarcity factor, which was a potent force in pushing the price level to the record all-time highs reached earlier this year. Another consideration, of course, was the feeling that with the war at an end, the value of the municipal tax-exempt feature would materially diminish in consequence of the expected precipitate slash in Federal taxes.

As already indicated, neither of these forecasts has come to pass as yet, although a fairly sharp cut has been made in taxes. However, the reduction has not been of sufficient degree to cause any material lessening in the value of the tax-exempts vs. taxables, although the prospect is that additional cuts will be made in the near future. This to the contrary, it is evident that the burden will still continue at high levels, thus giving the tax-exempt feature a continuing important value.

With respect to the volume of new issue borrowings, the indications are that no marked improvement is likely to develop until sometime next year. At this writing, for example, the list of proposed awards includes only a few offerings of material size, with the largest consisting of the $15,000,000 State of California item for which auction bids will be considered on Dec. 11.

Prior to that event, the market is scheduled to receive $622,000 Hendersonville, N. C., bonds on Nov. 27; $4,000,000 Dallas, Texas, bonds on Nov. 28; $850,000 Lake Worth, Fla., on Nov. 29; $700,000 St. Petersburg, Fla., on Dec. 4, and $2,900,000 by State of Louisiana on Dec. 18. The final large transaction now in prospect is the $2,840,000 Richmond, Va., loan, for which bids will be opened on Dec. 19. There is always the possibility, of course, that the present list will be greatly broadened on short notice. In this connection, mention may be made of the dispatch with which the City of Baltimore, Md., elected to undertake its recent $13,050,000 bond award.

We have in mind, too, the considerable number of large bond issues that were approved by the voters at the recent general elections. As is generally understood, there is a huge backlog of municipal financing awaiting the market, a great portion of which seems destined to develop in the coming year.

program, by a neighbor as a result of a community program, by a payroll worker at the plant, through a call from a banker or broker, and by a volunteer in one of the other programs. It has been a tough job, but all of us should feel a deep sense of satisfaction in the success which has been achieved.

Assessing Officers Consider Realty Market Conditions

A six point description of current real estate market conditions of interest to state and local assessing officers has been issued by the National Association of Assessing Officers.

According to the Association, the most important problem faced by assessors during the present reconversion period is the degree of adjustment which assessors must make in real estate assessments because of prevailing and prospective market conditions. The points of the statement are as follows:

1. There has been a substantial general increase in real estate values during the war period.

2. Such increase varies materially among the different states of the nation, among different sections of any particular state, and among classes of property within a particular assessment jurisdiction.

3. In general the type of property where increases have been greatest have been in residential units, especially among medium and low priced groups.

4. In most recent sales of small residential properties there usually has been included an amount that might be called "premium for immediate occupancy," or "bonus for shelter," which should not be considered as reflection of the value of the property.

5. Increases in value which may be traced to increases in the cost of labor or material are likely to remain, as there are no prospects that labor or material costs will decline in the near future.

6. Assessing officers who believe that assessments in their jurisdiction should be increased should not exceed as an upper limit the reproduction cost new, even where this is substantially below the price at which the property recently sold.

Tomorrow's Markets Walter Whyte Says —

By WALTER WHYTE

Minor dip in last few days touched off close stops and brought new issues into list. Some hesitation indicated with new strength to follow.

There is little point in arguing with a market that seems evidently determined to go higher. That technical conditions point to still higher prices is also a factor to consider. Under ordinary conditions the penetration of one average followed by similar penetration of another a few months apart is not bullish. In the old days such action would have been suspect, assuming, of course, that it was possible for any person, or group, to manipulate such a thing as an average. But today a confirmation by averages, even though months apart, sets off a set of conditions that cannot be disregarded.

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The major condition is inflation; whether or not it takes hold is something else. To most people inflation is something mystical. Yet it is here, if prices, outside of the stock market, are any yardstick. So far as the stock market is concerned, inflation has only begun. Where it will go and how it will end is anybody's guess. The market itself doesn't give any clue. Long ago, William Peter Hamilton, the disciple of the Dow theory, said that the averages ". . . have a virtue not shared by many of the minor prophets. The averages are not talking all the time."

* * *

Up to the time of the industrial penetration, thereby confirming the previous rail move, the market hemmed and hawed, giving rise to all sorts of opinions. It wasn't until the industrials actually went through, two weeks ago, that the market actually began talking. It said prices are going higher by stating that the bull market was still on.

* * *

For the market to start pointing to lower prices in terms of the Dow theory, it would have to decline to a point lower than the previous resistance level. On subsequent rallies it would have to show inability to make new highs and further declines would carry them still lower than previous lows. Unfortunately such action is seldom of value to the average market follower. For one thing, it comes too late to be of much practical use, and for another, it is frequently so confused that by the time the actual confirmation of a bear market is had the losses already are considerable. For that reason, among others, the successful market operator has to develop a sense of timing that will anticipate Dow theory signals if he is to stay in business.

* * *

Selection is as vital as timing. It is at this point that stops have their value. In a thing goes up. At least that bull market practically anything goes up. At least that is the theory. Actually, there are plenty of stocks which do little on the up-side but gain momentum on the down-side as the market declines. Obviously such stocks should be discarded at the first opportunity. One way is to get out of them on strength, the other way is to limit their declines by stops. Sometimes these stops are taken and the stock turns around and goes up again. But that is a chance one has to take. On sharp breaks stops are useless. No sooner are they broken than they become market orders. Where they shine is during strong markets. It is then that an issue which cannot maintain itself and shows a weakness in relation to the market should be sold.

* * *

The practical application of stops was demonstrated last week. Readers had, among others, two stocks, A. M. Byers at 19 with a stop at 21, and Paramount at 30½, stop at 43. During the week both broke their respective stops by fractions. Total gross profit in both is 14½ points. On the other hand, Allied Mills, bought at 34½, touched its stop price of 33, but bounced up. Western Union also came into the list when it sold down to about 51¼ (buy point was 51½-52½—stop 50). Lockheed didn't get in. Still too high; price makes it inadvisable to buy unless it declines to 31½-32½. So we'll sit with what we have and wait for further developments.

* * *

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.]

With Paul & Davis & Co.

CLEVELAND, O.—**Clarence W. Whitwell** has become associated with **Paul H. Davis & Co.**, Union Commerce Building. Mr. Whitwell was formerly with L. M. Greany & Co., Wm. J. Mericka & Co. and Cunningham & Co.

Responsibilities for Post-War Financing

(Continued from page 2459)

the protection of wartime savings is potentially of most vital interest in the whole scheme of our national life. In essence, they go to the very heart of the system of free enterprise and the democratic form of government which have heretofore characterized the development of this great country. It is not my intention to deliver a long and tiresome review of all the activities of your Association this past year, as this will be fully covered in the reports of the various committees, so I should like to take this opportunity to speak briefly of some of the problems facing us in the post-war period.

Responsibility of Investment Banker

Let us consider the responsibility of the investment banker. Post-war prosperity and economic freedom to a large extent will depend upon our ability to adequately provide for the necessary capital for financing of sound business enterprises. We should not look to commercial loans or Federal grants to provide permanent capital. The source of funds for permanent capital, risk capital, and equity monies falls mainly upon the individual investor. The funds available are more than adequate to provide for the needs of business, provided it is directed in the proper direction. We have lately heard much about venture capital and the financing of small business. The free flow of venture capital is essential for the creation of jobs. This is of prime importance when we consider that more than 90% of all manufacturing concerns have assets of less than one million dollars apiece, and of all labor engaged in manufacturing more than 60% works in plants employing less than 500 men.

This is one of the major problems of the post-war period and will be discussed at this convention by those qualified to do so. It seems to me, however, that in considering these subjects, we must not be unmindful of the changing conditions and principles with respect to the investment of funds. The laws of some of our States concerning investment of trust funds have been recently amended to place responsibility on trustees under what is known as the "Prudent Man Rule." This is also true with respect to the statutes governing the investment within certain limitations of deposits in savings banks. My own State of Connecticut recently made it possible through the enactment of legislation for life insurance companies to invest their funds to an amount not to exceed 5% of admitted assets in securities not otherwise qualified. I am not advocating that funds of life insurance companies, trust accounts or savings bank deposits should in any way be used to furnish venture capital in order to preserve our society of free enterprise. I only mention this to emphasize the trends with respect to investment of funds. It has been suggested that a certain portion of the funds of an investment trust, say not to exceed 5% of its total assets, might be used for the purpose of furnishing venture capital to legitimate business. This, it would seem to me, is most worthy of consideration. There will be a greater demand for capital funds under peacetime conditions than ever before experienced in the history of this country. It is the responsibility of the investment field to find ways and means to provide adequate capital for business ventures. I am sure that investment bankers will fulfill their responsibility to the utmost, provided they are not shackled by undue restrictions and regulations governing the public distribution of securities.

Responsibility of Securities Commissioners

Let us turn the tables and consider the responsibility of the Securities Commissioner. Some of our State laws were enacted many years ago and need to be modernized to meet present day conditions. Several days ago, I received a communication which stated, in part: "For some time now we've been picking up isolated bits of information about the difficulties which are encountered in various States when attempts are made to sell stock in new enterprises, even though the stock prospectus has been wholeheartedly approved by the Federal Securities and Exchange Commission and even though the companies and underwriters involved have made it perfectly clear in the prospectuses that the stock is speculative in nature. Apparently the blue-sky laws in some States and the State Commissioners' attitudes in other States make it almost impossible to sell stock in new enterprises." A study of this statement clearly indicates that the author is wholly unaware of the underlying principles of the various State blue-sky laws. I am sure that no State Commissioner refused to qualify a sound business venture merely because the applicant is a new enterprise. The securities laws are administered by able, conscientious, and efficient men, and the fault, if there be any, is due to the law, which, in some cases practically places upon the shoulders of the administrator the responsibility of passing upon the merits of the securities as an investment.

The Federal Securities Act of 1933 is commonly referred to as the "Truth in Securities Act." This act was adopted with the following preamble: "To provide full and fair disclosure of the character of securities sold in interstate and foreign commerce and through the mails, and to prevent fraud in the sale thereof, and for other purposes." The late President Roosevelt, in his message to Congress requesting the act, included the words "with the least possible interference to honest business." The statute itself rests entirely on the theory of full and fair disclosure with adequate means for the prosecution of fraudulent practices. It would seem to me that we would do well at this time to consider amendments to our State laws along the lines of the principles as contained in the Federal Act of 1933 so as to provide for the principle of full and fair disclosure with respect to the securities offered and, in addition thereto, provide for every possible means to effectively control the detection and punishment of fraud and dishonesty involving securities transactions.

Interstate Securities Business

A major part of the investment business as conducted today is transacted by dealers doing business in more than one state. It has been said that such dealers have been inconvenienced to a considerable extent because of the lack of uniformity in the requirements of the various State Commissioners with respect to different dates for filing various papers in connection with state licenses, bonds, and financial statements. A recent survey of our state laws shows a complete lack of uniformity with respect to the licensing and registration of brokers and dealers. It was found that 18 states provided for the licensing of dealers for the period from January 1 to December 31; for the period from July 1 to June 30, 6; one year from the date of issuance, 8; 7 various expiration dates; 3 continuing registration with no expiration date, subject only to cancellation for cause; and 6 states with no licensing or registration provisions. It was also found that many states do not even require the filing of financial statements.

It would seem to me that our state procedure could be greatly simplified by providing for the continuous registration of brokers, dealers, and salesmen, subject, of course, to the payment of the yearly licensing fee and compliance with the provisions of the act. Where a dealer is a member of a registered stock exchange, the date of the yearly audit should correspond with the requirement of the exchange. We should not place dealers under the burdensome expense of having several audits a year. This, I am sure, would greatly facilitate the work of our own departments and be of valuable assistance to the industry as a whole. We should make it as easy as possible, within reasonable bounds, for brokers and dealers that operate in more than one state to comply with our requirements.

The Question of Minimum Capital

The post-war period will undoubtedly see a return to the investment business of many former dealers and salesmen, some of whom may have had difficulty under our laws. We should welcome the return of reputable and honest individuals who possess the necessary qualifications to render needed and valuable assistance to the investor. We must use every means at our command to prevent an influx of nefarious operators who seek to take advantage of the increased savings and accumulations in the hands of inexperienced investors. This condition presents a challenge to all of us. If a man wants to enter the grocery business, he is risking his own capital. In the securities business he not only risks his own capital but he has control over other people's money and securities. Just because a person may have $10,000 capital, with no investment experience, but may be absolutely honest, he should not be allowed to go into the securities business as a principal. We can also do much for the public protection to see to it that only those are permitted to act as brokers and dealers who have the necessary qualifications as to character, honesty, and experience, with good and sufficient capital resources to carry on the business. The early part of this year, I appointed a committee headed by Hon. Edward J. Samp of Wisconsin to study the matter of adequate capital for brokerage concerns, and I am sure that he will present to this Convention a most constructive report.

The National Association of Securities Dealers is to be commended upon its recent action in amending its by-laws to provide that member firms of the Association may employ as traders, salesmen, and solicitors of investment advisory and investment management business only persons registered with the Association, and that these employees will be subject to the rules of fair practice of the Association. This should do much to keep out of the business the undesirable element. It is urged that each State Commissioner cooperate in every way possible with the NASD in carrying out this program. By doing so, we will render a worthy public service.

Protection of War Savings

The protection of war-time savings is of paramount importance to all of us. A new group of swindlers may be counted on to take every advantage of their opportunities and may be expected to employ new techniques in addition to the most successful ones used for many years. America was not security minded until after the First World War when several billions of Liberty Bonds were in the hands of the public. These funds, made available through fraud and misrepresentation, resulted in an era of stock speculation and stock swindling, which caused the enactment of most of our state laws regulating the securities industry. The magnitude of our present job as compared to conditions after the First World War is shown by the huge amount of money that is around. There is twenty-eight billion dollars in circulation against less than five billion in 1929, plus the one hundred and forty billion dollars in savings accounts and War Bonds. The potential investors built up by War Bond sales is more than ninety million people, holders of the E Bonds, against only twenty-six million Liberty Bond buyers in World War One. An excellent weapon, in addition to criminal prosecution of offenders, against the type of fraudulent promoters in this field is an effective public educational program. The Education and Publicity Committee of our Association, headed by Hon. Harold Johnson of Nebraska, has done an outstanding job during the year in providing us with material for this purpose. This program should be intensified and broadened in every way possible.

Freedom of Action in Investment Field

The free enterprise system as known in this country cannot exist without the free flow of investment funds into industry. There will not be this free flow of capital without freedom of action in the investment field, subject only to sound regulation without the imposition of dictatorial concepts over and beyond that which is necessary to afford public protection against fraud and dishonesty and the assurance of full and fair disclosure of all material facts. If we fail in our responsibility to fully carry out the foregoing principles, it will mean the end of our free enterprise system, that is, business and industry privately owned and privately operated, and you know what that means—state socialism. There must be a coordination of the work of the Federal and State Securities Departments, as well as cooperation. Both must work in close harmony with the industry, united for a common cause—the protection of public investment funds. We, as securities administrators, as well as the investment field, must be alert, informed, forward-looking, hard-working, gracious leaders, with the perspective of the historian, the insight of the economist, the skill of the diplomat, the faith of the prophet, and the iron of the soldier. We must daily achieve the impossible. We have, all of us, a great public responsibility. Let us seek wisdom, patience, and courage, but above all things let us work together with a mutual understanding of each other's problems.

We can no longer look forward to the post-war period. It is here. We are in it. Victory is ours. The guns are silenced, the bomb-bay doors are closed, our ships ride quietly in the waters of the seven seas, there is peace in America and throughout the world. Peace is a precious word. Let us never forget how precious it is. Let it be the watchword of our every thought and action in the days to come. President Truman has said "Nearly every international agreement has in it the element of compromise. . . . No one nation can expect to get everything that it wants. It is a question of give and take, or being willing to meet your neighbor half way." The words of our President state in very simple and understandable terms the formula of peace and good will in any relationship, international or national. The relationship between the securities industry and the securities commissioners, the relationship between states, the relationship between employer and employee, family relationships, or individual relationships; it is a question of give and take. Let us each resolve to carry out in our daily lives this principle of "give and take." Then we will all know we are doing our part in maintaining the American way of life and peace for all time.

Stock Exch. Firms Reelect W. Cabell

Wymond Cabell, senior partner of Branch, Cabell & Company, Richmond, Va., was reelected President of the Association of Stock Exchange Firms for his second term at the annual meeting of the Association. Mr. Cabell is also a member of the Board of Governors of the New York Stock Exchange.

Governors of the Association elected are as follows:

To Serve Three Years: James F. Burns, Jr., Harris, Upham & Co., New York; F. Dewey Everett, Hornblower & Weeks, New York; Walter W. Stokes, Jr., Stokes, Hoyt & Co., New York; Joseph M. Scribner, Singer Deane & Scribner, Pittsburgh; C. Newbold Taylor, W. H. Newbold's Son & Co., Philadelphia.

To Fill Vacancies: George R. Kantzler, E. F. Hutton & Co., New York; and Thomas F. Lennon, Delafield & Delafield, New York.

Reelected to Serve Three Years: Ranald H. Macdonald, Dominick & Dominick, New York; Winthrop H. Smith, Merrill Lynch, Pierce, Fenner & Beane, New York; Richard P. Dunn, Auchincloss, Parker & Redpath, Washington, D. C.; John Witter, Dean Witter & Co., San Francisco; and Laurence P. Smith, Crouse, Bennett, Smith & Co., Detroit.

The Board of Governors was increased from 30 to 33 members and the following were elected to fill the newly created positions: M. A. Willem, Beer & Co., New Orleans (three years); James E. Hogle, J. A. Hogle & Co., Salt Lake City (two years); and F. E. Bosson, Putnam & Co., Hartford (one year).

The 1946 Nominating Committee elected consists of: Roy E. Bard, Shearson, Hammill & Co., Chicago; John L. Clark, Abbott, Proctor & Paine, New York; Allan H. Crary, E. F. Hutton & Co., Los Angeles; Henry Harris, Harris, Upham & Co., New York; and Edgar Scott, Montgomery, Scott & Co., Philadelphia.

Winthrop H. Smith, Merrill Lynch, Pierce, Fenner & Beane, New York, and George E. Barnes, Wayne Hummer & Company, Chicago, were elected First and Second Vice-Presidents, respectively, and Gilbert Burdett, Laidlaw & Company, New York, was elected Treasurer.

Max Jacquin, Jr., Sidney L. Parry and William W. Peake were reappointed Special Assistant to the President, Vice-President and Secretary, respectively.

J. I. Rohde Rejoins Lewis as Trading Mgr.

SEATTLE, WASH.—First Lieutenant John I. Rohde of the United States Army Air Corp, Ordnance Division, is returning as Manager of the Trading Department of John R. Lewis, Inc., 1006 Second Avenue, members of the Seattle Stock Exchange, after three and one-half years in the Service. Two years of his duty was spent in the European Theatre.

Thos. Comstock With R. W. Pressprich Co.

Thomas B. Comstock, formerly a director of Cole, Hoisington & Co., has become associated with R. W. Pressprich & Co., 68 William Street, New York City, members of the New York Stock Exchange, as investment advisor. Prior to that time he was connected with Lionel D. Edie & Co. as account manager.

"Financing Small Business"

(Continued from page 2459)

the issue of new capital securities. A few figures will serve to demonstrate the close correlation between a large volume of capital issues and high levels of employment. Recently I have seen some very careful estimates as to the size of the increment which will have to be added to the productive capital of the nation if we are to achieve the desired national income level of $140 to $150 billions. These estimates show that to attain such a volume of national production the business establishments of this country will require between $15 and $20 billions of additional working capital and somewhere between $50 and $60 billions of added investment in plants and equipment. Adding these figures together we reach a grand total of from $60 to $80 billions of needed capital investment. I cannot pause to describe the method by which these estimates were reached; I can only assure you they were arrived at by scientific and conservative analysis.

Sources of New Capital

Suppose we assume that the total additional business capital required will be only $60 billions. It appears conservative also to assume that this total investment will have to be attained during not more than a four to five year period if employment is to be sustained. Under normal pre-war conditions, it would have been correct to assume that between 50 and 60% of total business investments could be derived from the ploughed back earnings of business itself. With present and prospective tax burdens on business, however, no such percentage of business savings to total investment seems possible. Nor, indeed, is there a chance, under the most favorable conditions, that any such large percentage of the very large total required could be attained within such a short period as four to five years.

About the most we can assume is that not more than one-third of the total of $60 billions will come from business savings. Of the remaining $40 billions which must come from sources outside of business itself, it appears safe to believe that about one-half will come from private sources and that one-half, or a total of $20 billions, will take the form of publicly offered security flotations. Twenty billions over a period of four to five years means an annual average of $4 to $5 billions of new capital issues. Such a volume of new capital issues offered to the public would be five to six times greater than the average annual rate for the period of 1935-1939, and at least 50% greater than the previous record rate which prevailed during the period 1925-1929.

Future Refunding and Foreign Loans

In addition to a record volume of new capital issues for business, we are certain to witness a continued large volume of refunding issues and a greatly expanded flow of new issues by the states and municipalities of the nation. On top of all this, we are likely to see the revival of foreign financing in the United States on a large scale.

The net result of this development will be put to an unprecedented strain on all our machinery for originating, distributing and supervising capital securities, and the price of failure to have this machinery in perfect working order will be the imposition of a serious obstacle to the attainment of prosperity and employment.

We have today a volume of savings awaiting investment in the hands of the American people far beyond anything in our previous history. We can also look forward with confidence to a record demand on the part of business and of government subdivisions to put these savings to work. Our combined task is to be sure that we make the flow of savings into investments as smooth and efficient as possible. If we allow unnecessary impediments to check this flow, the effect will be not only to reduce prosperity and total employment but also to provide a positive stimulus to inflation. If the dammed-up savings of the nation cannot find a proper outlet in new capital investments they are certain to bring about an inflationary rise in the prices of outstanding securities. Moreover, if businesses needing additional capital cannot make proper contact with savings they are certain to put tremendous pressure on the commercial banks to meet their capital needs. The net result of distorting the legitimate uses of commercial bank credit into capital investment will be bank credit inflation, which was one of the basic causes of the boom and collapse in 1929.

A Strain on Investment Banking

The investment banking fraternity must prepare itself to carry this load. Today our business, as a result of twelve years of depression and almost four years of war, finds itself dangerously undermanned. Since 1929 very few young men have entered investment banking and large numbers have fallen by the wayside. As a result, our organizations are now badly depleted in numbers and the average age of our remaining personnel is much too high. We face a serious task of recruiting new and vigorous blood into our industry, but we are hopeful that our needs can be met from the cream of the nation's youth now returning from the war. With the business restored to a state of vigorous activity, I am sure we shall be able to secure and train the necessary personnel for the job that lies ahead, although the task of overcoming quickly a gap of fifteen years will not be easy.

On the other hand, those charged with responsibility of supervising and regulating the flotation of security issues must accept the responsibility of making certain that the regulatory machinery is modernized and streamlined as much as possible. Never, in my honest opinion, has there been such an urgent need for greater simplification of procedures and more uniformity of regulations. I urge that you give this problem your most earnest consideration, not from the standpoint of making the life of investment bankers more tolerable, but because of the vital importance of this problem for the future welfare of our economy.

Problem of Small Business Financing

The title of my address is the "Financing of Small Business," but so far I have said nothing directly germane to this subject. I have done this deliberately because of my desire to emphasize the fact that the problems of business financing, both large and small, are very much the same, except for those businesses whose financial requirements are too small to permit them to use the established machinery for public distribution. The main difference is one of degree, and it seems correct to state that the smaller the financial requirements of a business the more serious are likely to be the obstacles in meeting the requirements for qualifying its securities for public sale. The large corporations, with their command of legal talent and financial resources, can usually surmount all such difficulties much more easily than the smaller companies.

With almost 50% of the total business employment of the country provided by establishments employing less than 100 workers each, it is obvious that proper access to capital for small business is a matter of vital importance for sustained prosperity and employment.

Providing capital for the small businesses which have financial needs of less than $100,000 presents a special set of problems because, except in rare instances, the investment banking machinery is not geared up to handle security issues in such small amounts. This particular field has been the subject of investigation by The Committee on Small Business of the Investment Bankers Association. Last spring our committee published a report in which some specific recommendations were made. Since copies of this report have been made available to all of you I shall not risk boring you by repeating this story in detail. Suffice it to say that our plan calls for the creation of a decentralized system of investment companies supervised by the local Federal Reserve banks and aided by Federal Reserve credit.

The basic problem with which we had to cope was one of finding ways and means of making adequate financing charges to cover the very risky character of practically all such business, and yet of providing assurance to the issuers that they are not being overcharged. I am sure that our recommended solution of this problem will be of interest to you in case you have not seen it. I have available here some copies of our report for those of you who wish to see it.

My concern today is rather with security issues ranging in amounts from $100,000 to $1,000,000 which for all practicable purposes can also be classified as those of small business. It is issues of this general size which usually must go to the public and for which security regulations are likely to be a matter of serious concern.

As I understand it, the securities acts of our nation, both federal and state, have had as their basic purpose the protection of investors from fraud. With this purpose every right-minded citizen must be in complete sympathy. It is for this reason that I am not one of those who believes that the way to solve the problem of small business financing is a progressive raising of the exemption from registration requirements. It seems to me quite clear that the risk of fraud is considerably greater in the case of small security issues than it is in the case of large issues. The great corporations are forced to live in the pitiless spotlight of publicity and have much less chance of getting away with fraudulent statements than smaller, less well-known companies, even if they chose to do so. To propose, therefore, as a solution of the difficulty a mere raising of the exemption level is to duck the issue rather than to solve it, and to bring about a weakening of the whole structure created for protection of the public.

Streamlining of Regulations

Instead, I am sure that the correct solution is to be found in a simplification and streamlining of securities regulations which should be applicable equally to security issues of all sizes which are offered to the public. It seems to me that this objective can be accomplished if we cling to the one basic idea of protecting investors from fraud.

In recent years there has been a definite tendency on the part of our regulatory bodies, both at the federal and state levels, to move beyond the field of fraud protection and to assume on behalf of the investor the right of judgment as to kind and type of security which he shall be permitted to purchase. I can only assure you that this tendency, if continued, is certain to result in a stifling of the flow of savings into investments which will be badly needed for sustained employment in this country.

As an example of what I mean, I wish to cite the recent decision of several state commissions to look with disfavor upon the use of stock purchase warrants as a method of compensating underwriters. Now there can be no doubt that stock warrants have been subject to abuse in the past. It is also true that countless individuals have died from overeating, but I have yet to learn of a doctor prescribing the abandonment of all food as a cure for this difficulty.

The plain fact of the matter is that stock warrants, properly used, provide one of the most economical and mutually attractive ways of financing small businesses ever devised. We must never forget that practically all small business financing is essentially risk financing, and that no intelligent underwriter will undertake such risks unless he has at least a chance to earn a profit commensurate with the risk taken. Stock warrants give the underwriter a chance to earn such a profit only if the company grows and prospers. In this event, the company can easily afford to pay this profit. If the company does not prosper the underwriter will not make a profit on his warrants, and the company will have suffered no cash loss by the use of this device. In other words, it is a method by which the underwriter assumes some of the risks of the business as compensation for the risks he has undertaken.

If you choose to prohibit the use of stock warrants as compensation to underwriters I can assure you the inevitable result will be a widening of the cash underwriting spreads for many small growth companies at a time when they can least afford such cash outlays. It will have the further effect of stifling security offerings by many such companies who will be unwilling to face the increased cash costs. I should like to assure you further that the effect of such prohibition will be much more serious on small business financing than it will on the financing of large, well-established companies.

In conclusion, I should like to express the hope that we can face our common problems in a spirit of mutual understanding. If we can accomplish this, I am sure that you will be able to fulfill your responsibilities of protecting the public interest while we shall be able to fulfill ours of assuring an adequate flow of capital to sustain prosperity and employment.

E. D. Howard II Mgr. Of Schoellkopf Dept.

BUFFALO, N. Y.—Schoellkopf, Hutton & Pomeroy, Inc., 70 Niagara Street, announces that Lt. Commander E. D. Howard II, USCGR, has become associated with them as manager of their trading department.

Mr. Howard was recently released from active duty in the Coast Guard Reserve after four years active sea duty, during which time he served as commanding officer on a destroyer escort and a coast guard cutter. From 1933 to the outbreak of World War II, Mr. Howard was head of his own investment firm of E. D. Howard & Co., Inc., of Buffalo.

New Fagan Partnership

The present partnership of Fagan & Co. will be dissolved on November 30th and a new partnership will be formed consisting of Albert E. Fagan, member of the New York Stock Exchange, Charles J. Hyman, general partners, and Bessie Sherman, limited partner. The firm is located at 41 Broad Street, New York City.

Broker-Dealer Personnel Items

NEW YORK, N. Y.—**John Germann**, formerly with R. M. Horner & Co., is now associated with **Amott, Baker & Co., Inc.**, 150 Broadway.

(Special to The Financial Chronicle)

ATLANTA, GA.—**William Cabell Hopkins** has rejoined the staff of **Courts & Co.**, 11 Marietta St., N. W., after serving in the armed forces.

(Special to The Financial Chronicle)

BOSTON, MASS.—**Frederick L. Fish** has rejoined the staff of **Chas A. Day & Co., Inc.**, Washington at Court Street, after four years service in the U. S. Army.

(Special to The Financial Chronicle)

BRIDGEPORT, CONN.—**Raymond W. Smith** is now affiliated with **Gaynor, Clemence & Co.**, 137 John Street. Mr. Smith has recently been serving in the U. S. Navy. Prior thereto he was Chas. W. Scranton & Co. for many years.

(Special to The Financial Chronicle)

INDIANAPOLIS, IND.—**Russell D. Priest** has rejoined **City Securities Corporation**, Circle Tower, after serving in the U. S. Army.

(Special to The Financial Chronicle)

KANSAS CITY, MO.—**Lyle F. Brownell** and **Roger B. Coleman** have become connected with **Herrick, Waddell & Company, Inc.**, 1012 Baltimore Avenue.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Alfred F. Ingold** is with **Buckley Brothers**, 530 West Sixth St.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Warren N. Kilborn** has been added to the staff of **Conrad, Bruce & Co.**, 530 West Sixth St.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Arnold A. Fransioli** is connected with **Carter H. Corbrey & Co.**, 650 South Spring St.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—**Laurence Casselman III, Lionel B. LeBel**, and **Harry E. Meacham** have joined the staff of **Nelson Douglass & Co.**, 510 South Spring St.

(Special to The Financial Chronicle)

PORTLAND, MAINE—**C. Everett Page, Jr.** has been added to the staff of **Bond & Goodwin, Inc.**, 120 Exchange Street.

(Special to The Financial Chronicle)

ST. LOUIS, MO.—**William H. Taussig** has rejoined **I. M. Simon & Company**, 315 North Fourth Street, after serving with the U. S. Navy.

(Special to The Financial Chronicle)

ST. LOUIS, MO.—**Harold J. Kauble** and **Ivan D. Teter** are with **Slayton & Company, Inc.**, 111 North Fourth Street.

(Special to The Financial Chronicle)

ST. LOUIS, MO.—**Walter E. Felter** has rejoined **Taussig, Day & Company, Inc.**, 506 Olive Street, after serving in the U. S. Army.

(Special to The Financial Chronicle)

ST. LOUIS, MO.—**Lawrence G. Miller** has rejoined **G. H. Walker & Company**, 503 Locust Street, after serving with the U. S. Army Air Forces.

(Special to The Financial Chronicle)

ST. PETERSBURG, FLA.—**Harry C. Holt** has joined the staff of the **Ranson-Davidson Co.**, Florida National Bank Building.

The Stock Broker, the Public—and Regulation

(Continued from page 2460)

ing an open and liquid market where business can obtain long term loans, or new capital, where the investor can satisfy his requirements and where the speculator can furnish the necessary risk captial so vital in the maintenance of a free enterprise system.

Before I discuss the public and regulation at greater length, I want to tell you a little more about us—not necessarily as an organization, but as individuals. We are the Customer's Men and Bond Salesmen of yesterday. Our formal title is now REGISTERED REPRESENTATIVES. Our Chicago group is called STOCK BROKERS' ASSOCIATES. The New York group calls itself CUSTOMERS' BROKERS. I think the term Customer's Men is still the most descriptive. When I use this term I refer to all the Registered Representatives who deal either largely or partly in speculative securities, chiefly Common Stocks, listed or unlisted. It is the risk-bearing segment of the market that we are most concerned with. Most of us have been in the business now for a long, long time. The average experience in our office, which I believe is more or less typical, is well over 20 years. Probably fully half have had college training. The men who have survived the pitiless pressure in the years of the long depression, in eliminating the unfit have had to understand our business, and what it is all about. The test of survival has been the ability to serve, even the minimum needs of the public, faithfully and intelligently—the only way to get and keep the confidence and faith of your customer.

The Customer's Man

One of the things our organization prides itself on, is our constant effort to keep the Customer's Man's I. Q. at its highest where it concerns our business. A few years ago the New York Stock Exchange inaugurated "entrance exams," so to speak, before they would qualify new men as Registered Representatives. Men of previous experience were exempt. Our organization conducted a series of lectures and held classes on these very examinations. After all, we wanted to see what we were supposed to know. I think you gentlemen would be surprised at the scope of these examinations. They cover matters of corporation finance, accounting and law; in addition to the endless detailed knowledge necessary in the proper handling of an order, requiring an exact knowledge of the mechanical operation of our business.

In addition to educational background, probably the greatest asset a Customer's Man can have is experience. This may sound trite, but it is particularly applicable to our profession. An understanding of Stock Market history obtained only from living through that history is probably just as important as the ability to analyze securities from a straight statistical viewpoint. Stocks do not live in a vacuum by themselves. They live and have their being and value as part of a general market picture. That is why I stress background and experience as so important in qualifying a man to best serve the public's investment needs.

In addition to market experience, the Customer's Man must have experience with the public. He must have a knowledge and understanding of the public's temperament. He must have a knowledge of public psychology. He must understand the human characteristics which vary so widely among different groups and different individuals. He often feels like the man who, when he read the College Ad for a course in "ACCOUNTING FOR WOMEN" wrote them and said "Don't you know there is no accounting for women." Well it may not be quite that bad—to say there is no accounting for the Public, but certainly it requires a long period of training and experience to know and understand the public and how to satisfy its needs and desires. This is, of course, true in every field of endeavor where the public is concerned, but probably more true where it is a question of money. You know what they say—the closest thing to a man's heart is his pocketbook.

Who Is "Wall Street"?

In considering the public's relation to our business there is too often the notion of Wall Street vs. the Public and we hear much about the mysterious group "they." There is some vague idea on the part of the public at large that "they" run everything. "They" are supposedly the small select group sitting around the highly polished mahogany table amidst luxurious surroundings in some secluded Wall Street office and "they" make all the decisions which determine which stocks go up and which go down and which shall prosper and which shall fail. You hear it every day. Well, what are "they" going to do to the market today? "They" are buying or "they" are selling. Well, let me tell you who "they" are. "They" may be sitting around a Director's table but they are sitting around thousands of Director's tables from Wall Street to Main Street, in every city and town where corporations exist and formulate their policies. "They" are also the individual business men, the professional men, the managers, the laborers, the storekeepers, in fact, anyone and everyone with money to invest and seeking such investment in the securities markets. True, large syndicates may employ millions of dollars in the securities market, but, and this may be difficult to believe, although undoubtedly true, the many millions of investors with their few thousands of dollars up to 100 or 200 thousand dollars employed in securities investments wield a combined financial power over the course and trend of security prices far greater than all the Wall Street groups put together. This mysterious all powerful "they" is the American Public and "they" are the real power behind the financial throne—which is as it should be.

Understanding the Public

This all powerful American public is a rather heterogeneous lot. There are many groups and types with different needs, viewpoints and temperaments. Their problems vary from the careful conservative treatment necessary for the "widows and orphans" group to the restraining influence we must often exercise over the more reckless type of frankly speculative but inexperienced trader. In between there is the vast bulk of professional and business men seeking both income and capital appreciation through the careful use of surplus funds in the securities markets.

An understanding of the problems of each group is necessary. Only with such an understanding can we perform what I believe is one of our most important functions and that is to determine just how much risk a customer can afford and can by temperament carry, and just how such risk is inherent in the securities which he may own or may be considering for purchase. I do not mean the ability to forecast price trends. I mean the ability to understand and gauge the risk. And only an experienced and capable Customer's Man is equipped by training and background to serve best the American Public in handling its securities problems. The banker can't do it. The attorney can't do it.

I have tried in this brief and possibly somewhat elementary survey to give you a general idea of how the relationship of the broker and the public develops and the factors entering into this relationship. We now come to the third and final topic of my discussion, namely, Regulation.

The Scope of Regulation

The principle of regulation of human activity is recognized in all forms of organized society. Regulation is necessary to maintain order, public safety and health. The alternative to such regulation is chaos. The regulation of markets may, I suppose, be classified under the maintenance of order or public safety, but is probably best placed in the general welfare category. Now, "general Welfare" is a dangerously broad term and the regulation of markets covers a broad territory. We must constantly guard against regulating ourselves out of the fundamental rights, in a free enterprise capitalistic system, to own, buy or sell property without restraint in the normal course of business practice.

It is generally agreed, I believe, that the Securities and Exchange Act has been interpreted and enforced by the SEC with a high degree of understanding as to the functions and problems of the securities markets. I believe it not to presumptuous to say that no industry ever had any higher standard of ethics or stricter self-regulation, either before or since Federal regulations came upon the scene, than the stock brokerage industry. The strictness of the self-regulation in our own business is second to none. We do business in a goldfish bowl. We are accountable for every order received and every transaction that takes place. And practically all our business is done by word of mouth with no written instructions or long, drawn out and expensive contracts, despite the huge sums of money often involved.

All regulations that apply to our business—Federal, State and self-regulation, has the same worth-while objective—protection of the public and, I cannot make this next statement too strong, the best protection the public can have is an Intelligent Customer's Man. The relationship of faith, trust and confidence which must exist between broker and customer places all formal legalistic rules, laws and regulations in the background. A capable, conscientious Customer's Man has the trust and confidence of his clientele. They will seek his opinions and advice and will seldom, for instance, wade thru a 50-page prospectus to judge the merit of a new security offering. The broker serves his own interests when he serves his customer's interest and they both know it. We cannot, like the physician, bury our mistakes. They often live on year after year to plague us.

State Regulation and the S.E.C. have done a marvelous job in eliminating that parasitic, illegitimate poacher on our business—the bucket shop. However, in every boom period its counterpart crops up in one form or another. It is pretty near due for a revival now. Let us all be on guard and on the lookout. Let me asure you, gentlemen, that the most effective means of squelching the shady dealer in securities, often the modern counterpart of the old-fashioned bucket shop, or the peddler of fake stocks, in one guise or another, is to work more closely with those of us who are among the first to hear of such goings on. Our customers are sooner or later approached. The method and line is easily recognized by those of us who have seen it before. Ordinarily we just warn our customers away. Let me cite a recent example.

Some time ago I received a number of telephone calls from customers inquiring about a certain Canadian oil stock which had suddenly become very active in the Unlisted Market. I checked with our Statistical Department both in Chicago and New York and found no information of any kind available. The stock had moved up from about 25¢ a share and was at that time selling around 95¢. In the absence of any information I warned my customers to stay away from the stock. During the height of the activity and interest in the stock I received a telephone call from a party entirely unknown to me who said, "I understand that you are interested in such-and-such an Oil Company." I asked where he got the information and he answered "From one of your customers." But he would not tell me the name and then he asked me to attend a meeting where I could learn all about this company. He said that he had just returned from their properties and had made an extensive investigation and study of the company. I said, "If you know so much about the company possibly you could give me some information on the telephone" and I asked "How many shares does the company have outstanding?" He said, "I don't have that information available." I then asked, "How many producing wells does the company have and what has been the company's approximate recent production?" He said, "I don't have that information available."

This merely confirmed my original suspicion. The stock is now selling under 10¢ per share.

In a case like this the pitiless glare of publicity—an S.E.C. statement of the cold facts, for instance, could easily spoil this little racket.

This type of public fleecing is difficult to control thru regulation. Where is the public's best protection? It is not in the law or the regulation. It is in the Intelligent Customer's Man.

Cooperation Better Than Legal Trappings

I believe that an understanding cooperation between Federal and State Commissions and all the important segments of our industry working to gether towards a common objective can accomplish more than all the legal trappings ever concocted.

Let us not be like the motorist who, when he wrecked his car by running into a lamp post, explained to the officer "there are so many safety stickers on my windshield I can't see where I'm going." Let us understand where we are going and let us not obstruct our own path in getting there.

We believe in AMERICAN UNLIMITED, a constantly expanding higher standard of living for all. Such an economy is a changing one and a changing economy is one involving the ever present risks of change. Risks require men with courage, foresight and capital who are willing to speculate on these risks. The right and opportunity to speculate is a foundation stone in the building of a financially strong nation where really safe and sound investments can be developed. Let us all dedicate ourselves to this constructive and worthwhile task.

Lapham, Philips Partner

Gerald G. Bernheimer has been admitted to partnership in Lapham, Philips & Co., 40 Exchange Place, New York City. Harry Lapham is senior partner in the firm, Charles Philips and S. Sherman Philips having retired.

Mr. Bernheimer was previously a principal of D. F. Bernheimer & Co.

F. J. VandeWater Resumes Inv. Business With Amott, Baker Co.

Frank J. VandeWater, who for four years has been associated with the Bank of Millbrook, is resigning his position as Assistant Cashier to return to the investment securities field in which he was active for many years.

Mr. VandeWater first entered banking through association with the Guaranty Trust Company of New York City. Subsequently, he became engaged in the investment business and in 1933 joined the investment banking firm of Amott, Baker & Co. He now returns to the investment securities business and gain joins Amott, Baker & Co. as their Hudson Valley representative.

Among other activities, Mr. VandeWater is on the governing board of the Poughkeepsie Chapter of the American Institute of Banking, is a member of the finance committee of Dutchess County Council of Boy Scouts, and is Village Clerk of the Village of Millbrook. He plans to retain his residence in Millbrook and will conduct his business from this point.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of Robert G. Johnson to Anthony J. Bailey will be considered by the Exchange on November 29th.

The name of Samuel S. Goldberg, partner in Sutro Bros. & Co., was changed to Samuel S. Grant, effective November 13th, 1945.

Benjamin Dibblee Dead

Benjamin H. Dibblee, former San Francisco investment banker, was found dead in a blind at the Joyce Island Duck Club near Fairfield, Calif. He had apparently been stricken with a heart attack while he was hunting from the blind.

Mr. Dibblee was graduated from Harvard University in 1899. Later he joined E. H. Rollins & Sons, Inc., opening their San Francisco office. He was Vice-President and member of the Executive Committee of the firm when he retired in the late 1920's. He was a former State Chairman of the Investment Bankers Association and served on the governing board of the national organization.

New Claybaugh Partnership

Partners of Blair F. Claybaugh & Co., 72 Wall Street, New York City, are Blair F. Claybaugh and Robert L. Free, general partners. Mr. Claybaugh, a member of the Philadelphia Stock Exchange, has recently been on war duty. Mr. Free makes his headquarters in the firm's Harrisburg, Pa., office.

Buckley Brothers New York Office in Larger Quarters

Buckley Brothers, members of the New York, Philadelphia, and Los Angeles Stock Exchanges, announce the removal of their New York office to 44 Wall Street. The telephone number remains the same.

With Johnson in Maine

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ME.—George C. Weeks has become affiliated with R. H. Johnson & Co.

Proposals on Collective Bargaining

(Continued from page 2464)

accepted or compromised if either party acting in good faith concludes that acceptance or compromise be improper or prejudicial to the interest of the employer, employees, the union, or the public.

The object of collective bargaining is voluntary agreement. Temperateness of approach will aid in the attainment of this objective.

There is a duty on the parties to bargain sincerely in good faith and to discuss freely and fully their respective claims, demands and refusals.

Good faith means regard for relevant facts and intent that agreement reached shall be observed.

The voluntary and just settlement in collective bargaining of issues in dispute is impossible under conditions of force regardless of its source or nature. Voluntary negotiations or free collective bargaining is not possible except under conditions of law and order and the absence of force. Management and Labor are but a part of the general public. The public has the right to insist that Management and Labor at all times practice collective bargaining with full regard for protection of individuals and property against unlawful acts.

Industrial disputes can be minimized by full and genuine acceptance by both parties of collective bargaining as above described in every instance where workers freely choose to organize to bargain collectively on questions of wages, hours and working conditions.

The Committee on Collective Bargaining is charged also with consideration of the extent to which industrial disputes can be minimized by provisions incorporated in collective bargaining agreements by:

"Adherence by both parties to a policy of responsibility for living up to the letter and spirit of all collective bargaining agreements and effective measures to carry it out."

Collective bargaining agreements should be reduced to writing and signed by the parties. The agreements constitute the terms and conditions which govern the wages, hours and working conditions of employees included in the appropriate unit, and which must be observed by the management forces and employees and their representatives for the period of the contract, and extensions thereof.

A profound understanding of mutual rights and obligations of both parties under the agreement is essential to the successful administration of a collective bargaining agreement. It is the responsibility of labor unions and employers to educate their members and representatives as to the terms and conditions of the agreement and the respective rights and duties of the parties under the agreement. Appropriate methods should be employed to assure that the full content of agreements be made known or available to the members of the union and employer groups.

It is of fundamental importance that contract commitments made be observed without qualification by employers, employees and labor organizations. Both parties to agreement must impress upon their associates and members and officers the need for careful observance of both the letter and the spirit of collective bargaining agreements. Employers, employees and unions should not provoke one another into any action in violation of the labor agreement.

In order to provide effective measures to carry out the letter and spirit of the labor agreement, it is recommended that each agreement or contract provide for appropriate guarantees, such as the posting by each party of performance bonds to guarantee complete and effective compliance with provisions of the agreement prohibiting strikes, lockouts or boycots.

For years, in the public interest, legislation and governmental regulations have controlled the activities and defined the responsibilities appropriately defined to assure equality of status before the law.

Both employers and labor organization should be equally amenable to the Nat'l Labor Relations Act and other laws. Equity requires that both parties to a labor agreement be equally answerable as entities in judicial proceedings for conduct in violation of contracts or legal requirements.

The Committee is likewise charged with consideration of the extent to which industrial disputes can be minimized by:

"Consideration of action needed by unions to control their members for conduct in violation of agreement and action needed by Management to control their officials and supervisory force who engage in violation of an agreement."

The customary provisions incorporated in collective bargaining agreements which permit Management to discipline any employees (including officials of the union who are employees) subject to their right to appeal through the grievance machinery of the agreement for any violation of its provisions are desirable and necessary for the proper administration of the agreement and the efficient conduct of the enterprise.

It is necessary and desirable for labor unions and officials thereof to make clear to their members that these rights of Management will be respected and supported in all cases where the facts justify the action. Management and unions must require that their respective officials refrain from encouraging or engaging in contract violation. The parties must establish and enforce such regulations as may be necessary within their respective jurisdictions to insure absolute, unqualified adherence to the contract commitment made.

Labor's Report

The proposed report of labor representatives on the Committee on Collective Bargaining has not yet been made public, but is understood to be as follows:

Industrial disputes have been and will continue to be minimized by full and genuine acceptance by Labor and Management of collective bargaining in every instance where workers choose to organize to bargain collectively on questions of wage, hours and working conditions.

Collective bargaining imposes upon the parties a serious duty to bargain in sincerity and genuine good faith on all matters covering wages, hours and working conditions. Collective bargaining requires that the parties involved deal with each other with an open and fair mind and with a conscientious and sincere endeavor to understand each others' problems and by agreement to stabilize employment relations and eliminate industrial disputes.

The perfunctory acceptance of collective bargaining or inflexible attitude in negotiations, or refusal to recognize self-evident facts does not establish the good faith necessary for collective bargaining. There must be common willingness among the parties to discuss freely and fully their respective claims, demands and refusals, and to justify their positions on reason. Full and genuine collective bargaining may result in honest disagreement.

Full and genuine acceptance of collective bargaining embraces a recognition of the first right of labor unions to function. Union security, protected by the collective bargaining agreement, strengthens the process of collective bargaining. Developing experience in collective bargaining, as above described, should encourage the parties by mutual consent to extend the subject matter of collective bargaining and to include in collective bargaining agreements those matters which they agree would be mutually advantageous.

Collective bargaining agreements should be reduced to writing and signed by the parties. The agreements constitute the terms and conditions which govern the wages, hours and working conditions of employees included in the appropriate unit, and which must be observed by the Management forces and employees and their representatives for the period of the contract.

A profound understanding of mutual rights and obligations of both parties thereunder are essential to the successful administration of a collective bargining agreement. It is the responsibility of labor unions and employers to educate their members and representatives as to the terms and conditions of the agreement and of the respective rights and duties of the parties under the agreement. Appropriate methods should be employed to assure that the full contents of the agreement should be made known or available to members of the union and the employer group.

It is of fundamental importance that contract commitments be observed without qualification by employers, employees and labor organizations. They must impress upon their associates and members and officers the need for careful observation of both the letter and the spirit of collective bargaining agreements. Employers, employees and unions should not provoke one another into any action in violation of such agreements.

The customary provisions incorporated in collective bargaining agreements which permit Management to discipline an employee, subject to his rights to appeal through the grievance machinery of the agreement, for any violations of the agreement itself, are desirable and necessary for the proper administration of the agreement.

Both parties have an obligation to take disciplinary action when their respective officials, members, or personnel engage in activities in violation of the collective bargaining agreements.

The collective bargaining agreement can be successfully administered only where both parties maintain their firm determination to respect their mutual rights and obligations. The maximum success of this endeavor depends primarily upon the self-imposed voluntary discipline of the parties to the agreement.

Bonus to Staff of Chemical Bank & Trust Co.

Percy H. Johnston, Chairman of the Chemical Bank & Trust Company of New York City, announces that the board of directors approved on Nov. 21 the payment on Dec. 10th, of a bonus on annual salaries to all officers and employees, amounting to 10% on the first $5,000, with an additional 7% on the next $5,000, and an additional 4% on all salaries above $10,000. The Chemical Bank has made a practice of paying a Christmas bonus since 1870.

Necessity for Foreign Investment

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levels reached in the years before the war. American exports will face new and greater obstacles in various foreign markets unless bold measures are taken soon to forestall or to minimize them.

It is not necessary to elaborate upon the extent to which governments directed economic activity during the war period. It was a problem of mobilizing the resources of the world for a single purpose, with little regard to normal trade processes. Direction was given by control over shipping space, import and export licenses, allocation and rationing machinery, exchange controls and the like. The mobilization job was done, and done well, not so much by the operation of economic forces as by the planning and direction of men working together in many countries towards a single objective. The interests of individual nations were virtually submerged in the common cause.

But now the war is over. The joint effort is finished. And many nations find themselves in a difficult economic condition. Their domestic economies are more or less disorganized. Their capital is severely depleted. They have few assets which can be used to buy raw materials or capital goods abroad. They are not able to produce in sufficient quantity for the home market, let alone for export trade. Their fiscal burdens are heavy and their currencies are insecure. Under these dire circumstances they have no choice but to continue or to increase the control of their economies by governments. They must conserve carefully their foreign exchange, allocating its use to items for which there is the greatest need. They must carefully control both imports and exports. They must seek to make trade arrangements where barter deals can be effected without disturbing their balance of payments. Under such circumstances, there is little service which the private trader can perform, and therefore government bulk buying is the result. Those of you who have an interest in foreign trade know all too well how little scope there is for private enterprise to function today in the international field.

This pattern of trade restriction and trade barriers is not the result of free choice by the various nations. It is no devilish plot to shut the United States out of world trade, nor even to pursue the same sort of economic nationalism which was evident in the prewar years. It is merely the result of compelling necessity. In the face of tremendous requirements and limited resources, a nation has no other course than that of rationing and allocation. And the international arrangements made by such nations tend of necessity to take the form of bilateral trading, clearing agreements, trade preferences, and special contractual arrangements. Few steps have been taken outside the United States toward the demobilization of the governmental forms into which international trade has been cast. In fact, there is a marked trend evident in many countries in the direction of consolidating and expanding the trade controls introduced in wartime. New bilateral arrangements are being rapidly negotiated by various European countries. New import-control plans have been announced by a number of Latin American governments. The British Government has asked for a five-year extension of war powers. And a number of countries are moving into the post-war period with higher duties on imports than they had in 1939.

Pattern of Trade Restrictions

The trend is not merely in the direction of the maintenance of individual national controls, but of the development of international economic blocs. Pairs of countries enter into exclusive arrangements. Groups of countries try so to balance their trade or payment arrangements as to allow free exchange transfers to member countries. Inevitably, the three great trading powers are driven to act as the focal point for such groups, so that there are in various stages of formation a ruble bloc, a sterling bloc, and possibly even a dollar bloc, with trade within each tending to be carefully controlled with a view to internal balance, and trade among them kept to a balance, which, of course, means that it will work towards a minimum.

From the point of view of the United States, this must be a matter of grave concern. Nor can many other countries view the prospect with other than alarm. These controls are designed to restrict or divert imports from their natural channels. In the various bilateral and bloc arrangements, they are intended to concentrate the exchange of goods within the framework of national plans and to reduce the dependence of participating countries on the outside world. In particular, they must strive to reduce their dependence upon countries like the United States, whose goods are in great demand but which import with considerable reluctance. The volume of world trade will certainly be greatly reduced as a result of these innumerable artificial barriers and obstacles, and the participation of the United States will be even more sharply limited. In such a world, the private traders of the United States will find themselves thwarted and ineffective, and our own Government will have to participate more and more in deals and other arrangements with foreign countries. And government operation in foreign trade is hardly the best way to encourage free enterprise at home. It will be a world in which the plans of different countries are bound to come into conflict, and there is every likelihood that individual nations will bring to bear against each other the whole gamut of economic and political pressures to achieve their economic objectives. And, finally, such a restricted world will find its economic recovery sadly retarded, and political instability and economic distress are all too closely related.

These are hard and unpleasant facts to face. They follow automatically from certain fundamental economic conditions in the world today. We alone can check the trend. We alone can break these rising barriers to international trade. But we can do it only by dealing with the basic cause—the lack of balance in so many countries between requirements and resources. This circumstance must dictate the shape which American economic foreign policy should take. On this basis, a program must be devised capable of arresting and turning the present dangerous trend toward governmental control and governmental participation in international trade in peacetime.

It is obvious that very little can be done in the short run to change the requirements which these countries have. But a great deal can be done to bring their resources for payment into line. Estimates place the foreign demand for American products in the next few years, if local currencies could be readily converted into dollar exchange, in the neighborhood of $14 billion per year, approximately the volume of exports achieved under Lend-Lease. By contrast, the present pattern of imports into the United States might reach $6 billion worth of

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Necessity for Foreign Investment

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foreign goods at high levels of employment. It should be evident that under such circumstances foreign governments could not permit private importers to scramble freely for available dollars but would find it necessary to reserve most if not all of the supply for imports having some form of priority. To the extent, however, that the United States increases its imports of foreign products and to the extent that foreign countries are able to obtain dollars on long-term credit, the need to maintain exchange and other controls will be reduced.

Role of Foreign Loans

The above estimates are not estimates of any ultimate relationship between exports and imports, but reflect in large measure postwar reconstruction requirements. This particular problem is clearly a matter of short-run lack of balance between import requirements and available exports in these war-disturbed areas. For the next several years, therefore, foreign loans may be regarded in large part as representing the provision of working capital for these countries as they get their economies back into productive condition. Such a program of lending would be futile if it were to pour dollars over or behind trade barriers. It must move hand in hand with a reversal of the trend. If the United States wishes to ask foreign countries to discard area preferences, abandon controls over trade, and return to the conduct of trade on principles reflecting the most economical allocation of resources, it must insure that a sufficient volume of long-term credit is made available to keep their balance of payments in line. Conversely, unless trade is freed of its shackles, many of these so-called loans will unquestionably prove to be defaults, rather than healthy extensions of credit.

Although I have characterized these loans as working capital, that may be somewhat misleading. Actually, a substantial part of the imbalance in the next several years is due to the necessity for these areas to obtain capital goods. There is a hard core of requirements for the urgent necessities of consumption which will tend to use up the presently available foreign exchange. To the extent that additional foreign purchasing power is made available to these countries, they will use it for reconstruction and development purposes. Of course, wise capital investment will lead to new productive industries or increased efficiencies. These in turn will give rise to exportable goods. If trade channels are open these goods can move, and will tend to generate their own supplies of foreign exchange for debt service.

The relationship between credit and trade barriers in the mind of the United States Government has already been indicated in Article VII of the Master Lend-Lease Agreement. In these agreements, the United States and other countries agreed to take action "directed to the expansion by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers." More recently, there have been exchanges of notes between this Government and a number of other governments more or less simultaneously with the making of arrangements for credit extensions in connection with winding up Lend-Lease, in which the governments have agreed mutually to refrain from any further raising of trade barriers, and to seek ways and means of reducing them.

The logic underlying this is very simple; namely, that with trade subject to a series of artificial barriers, there is no hope either that trade will expand or that service of loans will be facilitated. But in a world where barriers are reduced or eliminated, it is possible to foresee a marked expansion in trade, and the payment of debt service should be a much less difficult problem. Thus, it would be true that a small loan in a restricted world might be a poorer one from the security point of view than a larger loan with trade free to flow as economic forces might dictate. For this reason, discussion of financial policy and commercial policy must go on side by side with foreign countries.

It is, of course, very important, that the extension of credit must not in itself add seriously to the problems of international adjustments. The fundamental requirement for any creditor nation is that it must accept imports. It is obvious that we cannot argue for the reduction of tariffs and trade barriers on the part of other countries unless we are prepared to take similar steps ourselves. The impact of this problem upon our economy need not be great if the loans are for substantially long terms, and if we are prepared to continue to maintain our foreign investment position. In the absence of extraordinary political disturbances, there is no reason to suppose that American investors will wish to liquidate foreign investments yielding satisfactory annual returns. While individual loans would be repaid, or refunded, and while individual lenders must be given an opportunity to liquidate their holdings, a general reduction in total foreign investment by this country need not be contemplated. It is only necessary, therefore, for American imports to increase gradually to provide interest and dividend payments on an increasing stock of foreign investments. This may in fact be an inevitable process if some of our pessimistic prophets are right, who point out the tremendous drain on our natural resources caused by the war. They forecast impending shortages in many raw materials which we have never worried about before, and draw the conclusion that we will need to import in steadily increasing quantities.

Risk of Foreign Investments

However, I would not be frank if I did not point out that there is a real risk in undertaking a program of foreign investment. It is a risk which must be incurred if we wish to stimulate world recovery and free foreign trade from its restrictions. The risk is the risk of failure in achieving this objective. Nor must our expectations be too high. We cannot build a perfect world, but perhaps we can make it tolerable. The ground is being carefully laid to assure success if possible. The United States is taking the lead in developing with other nations a program of commercial policy directed at freeing trade from its hindrances. The International Monetary Fund is intended to prevent short-term capital movements and temporary imbalances in trade from affecting exchange rates. The International Bank for Reconstruction and Development will provide a means for marshalling the support of governments for extensive foreign investment of capital where it is most needed. American interests will be directly served by the Export-Import Bank.

However, once the present emergency is over and the proper environment has been created, the primary responsibility should fall on private investors for seeking out and financing productive opportunities abroad. Perhaps I have talked too much about government lending. However, the discussion has actually been most relevant to the problem of private lending. In a world of trade restrictions and exchange controls, private international financing cannot be expected to play a very large part. Once it is established that interference is permitted under the rules of the game, there are too many ways in which government policies and programs may interfere with the payment process. However, if international agreement can be reached, directed towards freeing the channels of trade, then private lending can take its proper place—and that should be a large place. Capital would be expected to flow from an area where it is plentiful, such as the United States, to other areas where it can be put to highly productive work. Undoubtedly, the return on new investment in the United States will be smaller than in many other countries, where capital has been destroyed or where capital has never been used in ways long familiar in the United States. Highways, railroad, telephone and telegraph facilities, power plants, and other less basic capital improvements are still greatly needed in wide areas of the world. The export of capital to replace lost facilities of proved merit and the introduction of ways of doing things long known to the more progressive countries offer a bright prospect for a profitable return on invested capital, provided the proper general environment can be established.

Foreign Loans Can Be Profitable

Let us ignore for a moment the generally unstable political and economic condition which has frequently characterized undeveloped countries and has constituted a real obstacle to the flow of American capital into otherwise attractive foreign investments. That is a risk usually reflected in the rate of return. In general, large capital exports from the United States will provide a means of increasing productivity in foreign countries. The United States will benefit from the process initially by the export of capital goods, and ultimately by increased trade with these economies. As the standard of living rises with the increased output per worker, he will become better able to buy American goods. American investors in turn have found a most profitable way to put their savings to work.

But we must put first things first. The world is far from this happy picture of the free flow of capital and of goods among nations. And private investment cannot be expected to take the initial risk. Private investors can make financial policy but they cannot make commercial policy. The initial task is one for the governments of the world, and that can only be done if this country takes the lead. At the moment, there are many governments who agree that economic barriers are an abomination, but they are helpless in the face of their economic requirements. The world cannot be changed by any grand gesture. It will require time and patience and ingenuity and wisdom. But the future is being made in the present. We are striving to draw the world together politically, and we must do the same thing economically. Political cooperation is difficult in a world of economic warfare. Full employment is difficult in a world where trade channels are blocked. We must place international economic relationships on a new basis. Our foreign loans can be investments in prosperity and peace.

Government Financing of Reconstruction and Foreign Trade

(Continued from page 2453)

". . . Economic collaboration cannot be dissociated from objectives which assume internal order and economic stability throughout a peace-loving world.

"Our ultimate goal must be economic peace. In striving for economic peace and security we need to accept the termination of hostilities as merely the signal for the final and concerted assault on the forces of disruption and disorder. One of the greatest dangers confronting the postwar world—especially those countries which will have suffered severe dislocations in trade—is that of mass unemployment. We carry a heavy responsibility in attacking this potential source of social unrest. We need not fear it. We must accept the challenge of plenty; an economy of scarcity or limited production cannot even be considered.

"We must envision full use of these facilities and full employment of our man-power. We must not repeat the mistake of Versailles, of stressing territorial and political adjustments, and making little provision for the basis of sound trade and economic reconstruction. Second only to the need for immediate relief to the released peoples of Europe, there will be the urgent need for the earliest possible resumption of maximum effective international trade. In the field of commercial policy, in particular, the adoption by the major nations and by the United States of common attitudes and common programs can set the standard and pattern to which most of the other countries will find it advantageous to adjust their economies and measures of trade control. In order to accomplish these things we must devise broad-gauged financial measures, and bold programs of investment for the rebuilding of ravaged areas and the development of the resources of less advanced regions. Within that larger framework most problems of immediate trade balances between particular pairs of nations will find satisfactory means of offset or adjustments."

We believe that current operations of the Export-Import Bank are definitely of the type which I have just described. However, even with its expanded lending authority the Bank must concentrate on the immediate essentials of reconstruction; until the fundamenals of economic life are restored it doesn't do much good to discuss vast new programs of development. Food, which means agriculture, comes first, clothing, which means raw cotton in many cases; heat and power, which mean coal and transportation in all forms, form the bulk of the immediate needs of Europe and Asia. Fortunately, we are in a position to supply most of these essentials in a reasonably short time. Likewise, the types of equipment desired are not being sought eagerly by our own people. For example, the average American wants a new automobile but he is not particularly interested in a new locomotive or a harbor tug.

As a result of these circumstances the direct impact of the current credit program on our own price and supply situation is moderate and in fact is acting as a stabilizing factor in the railroad equipment and water transportation equipment industries.

When transportation is restored and when private trade channels are again fully open the impact of foreign demand may be quite different, but by the same token our own reconversion and our own production and supply situation may also be materially different from what it is today. As each country rebuilds, it likewise attains the ability to furnish the needs of its neighbor, so the situation is constantly changing even if the overall picture appears to change very slowly.

The equipment, the raw materials and the credit which we are now supplying and which we alone can supply, can and, I believe, will have an effect far beyond any normal economic or statistical expectation. Likewise, if we do not continue these activities for an appreciable period, the extent of the deterioration and disintegration will be far greater than anything we have yet witnessed.

Naturally, the Export-Import Bank must take a great many factors into consideration before a loan contract is signed, but through its relationships to the Departments of Government so satisfactorily coordinated by the National Advisory Council, and by the representation of the Secretary of State on the Bank's board, the action of the Bank represents the collective judgment of our Government. Therefore the stability of the borrowing government, its commercial policy and many other matters are considered before a loan contract is actually signed. The borrowing nation usually has a number of equally important matters to discuss with us. I can assure you that there is nothing casual about these negotiations.

There are three provisions in our contracts which are troublesome. The provision which refers to American shipping obviously is objectionable to any maritime nation which is struggling to restore its trade and to husband its dollar resources. The Executive Committee for Foreign Economic Policy is reviewing this situation and we can hope for a satisfactory solution which will meet the difficult requirements of recognizing the legitimate interests of the borrowing nations and protecting our own essential position in ocean shipping.

The second provision which causes considerable discussion is one relating to furnishing information which permits our Government to be currently informed about all major factors relating to the economic and financial position of the borrowing nation. In fact, it is exactly the information which most Treasuries and Central Banks have exchanged for years and it is likewise the type of information which is required of all signatories of the Bretton Woods Agreements. When the Bretton Woods Agreements are operative we will, of course, waive this provision, but until then it is essential to have access to this information.

The third provision which requires some explanation relates to registration with the Securities Exchange Commission if we so request. The purpose is obvious. It is the policy of the Bank to sell the securities in its portfolio when the market will take them. Naturally, we don't know when that will be, but we do not wish to be limited to private sales if the market develops as we hope.

There is a related reason which is worth mentioning. After the last war we engaged in emergency financing not unlike some phases of our Government's current operations. For reasons which have never been clear, we neither converted these obligations into marketable form, nor did we use these securities when our own situation was deteriorating rapidly in 1929 and 1930. All of that seems like a long time ago; we can charge it off to international education, but it is well to point out that our position in 1919 was not unlike our position today and that 1929 was only ten years after 1919.

No one hopes more sincerely than I that private financing will be possible quickly, as you know the Export-Import Bank handles only business which cannot be handled by private sources. Naturally, we are in touch with the market; it is evidencing encouraging signs, but it is not ready as yet to handle the type or volume of credit which the urgency of the situation requires.

I would like to assure our friends in the investment banking community that in my opinion there will be more opportunities for constructive international financing offered than at any time in the history of the world. The emergency financing which the Export-Import Bank is handling merely makes the other financing possible. With equal conviction, I can assure you that the situation will not permit us to wait until the private market is ready.

There is perhaps one more question about our emergency financing which would be worth mentioning. How do we decide the priority of negotiations? The answer is that we cannot, and do not. As soon as a loan contract is agreed to by the borrowing government and cleared by the interested departments of our Government, we sign it and make it immediately operative. By the very nature of things, the situations which present the fewest complications can be handled more quickly than those involving very intricate interrelated problems. But the essential preliminary work on the more complicated problems goes on without interruption while the final form of another simpler agreement is being determined.

So much for the emergency or reconstruction aspects of our work. Foreign Trade is the other half of the subject which has been assigned to me. While all the emergency credits directly produce a movement of goods and services, no one can consider them as the normal manner of handling our international business.

What then is the normal method? Before attempting to answer that question it is necessary to explore a very important area for conjecture, which must have an important bearing on our approach to international trade.

How or under what system will trade and investment be handled? Here is certainly an area for controversy, but one which must be entered if we are to touch even the fringes of postwar possibilities. Roughly—and very roughly—it appears probable that all the nations in this hemisphere will continue to follow the individual enterprise, capital investment system, but with far greater emphasis on mixed capital industrial developments than in the recent past. This trend expresses not only the line of least resistance but also the definite economic policies stated at Rio and Mexico City, and reiterated many times since then. There is likewise every reason to believe that the British Commonwealths and what remains of the democratic capitalistic bloc of Europe, especially those nations with overseas possessions, will follow this system with one very marked difference. In the past, one rarely found private European or British capital joining with private American capital, and let us say, Burmese capital to develop a new industry in Burma. In my opinion, mixed enterprises of this character will be extremely important in the postwar development of industry and commerce in the English-speaking or democratic capitalistic areas. It is in this field that our investment bankers can be most effective.

On the other hand, there is no reason to expect that the U.S.S.R will adopt this pattern. Direct equity investment in Russian industrial enterprise by foreign corporations or individuals is such a remote possibility that it can be discarded. Nevertheless, there are many ways in which greatly expanded trade with the U.S.S.R. can be conducted. Future deliveries of raw materials for current use or stockpiling offer extremely fruitful possibilities. This method of conducting international trade and finance is viewed with mixed emotions by certain groups in this country, but we might point out to them that while the U.S.S.R. approach is possibly unorthodox, it is nevertheless fundamentally sound, for the exchange of raw materials for producers' and consumers' goods has been going on in one form or another since the dawn of history.

This difference in method is indeed worth emphasizing because the areas ravaged by war, as they seek to reorganize their international trade and financial relations, and likewise the areas which, almost for the first time, are attempting to establish such relations will naturally be strongly influenced by the two major methods then in operation. For the sake of brevity, we can call those methods state trading, and private capital trading. One group of "going concerns" will be operating under the first method, another group under the second; the two groups will likewise be doing business with each other. It would appear likely that the areas without going systems—and there will be vast stretches of such areas, inhabited by many millions of people—will attempt to organize their own systems along lines which will offer the greatest immediate, as well as long range possibilities. The choice will not be made because the systems are necessarily competitive with each other; in fact, the thought can be advanced seriously that the systems are only competitive in terms of how to accomplish the most for the men and women who live and work under the two systems. There is actually no more reason for advocating uniform economic systems than for uniform language, uniform political systems, and uniform religion. Nevertheless, the inhabitants of an area whose system has been destroyed just as completely as its industrial plants and its means of transportation, will naturally seek a system which will offer the speediest solution to the most pressing problems.

The methods by which we have established markets for our goods are not the methods utilized by state trading. Our appeal to the individual taste—a taste which perhaps our merchants have created and stimulated—is not very effective when we can only discuss markets and prices with the representative of a government purchasing mission. Such markets, except for certain types of products, are too uncertain to justify the continued and sustained sales and service efforts which have so marked our recent development. We should certainly not ignore these more restricted markets; they should be developed to the maximum, just as we should utilize to the full the products which these nations can furnish us.

Nevertheless, it appears only logical that our business men and our trade will necessarily not follow the flag, but will certainly seek out the areas where our efforts and our investment can be the most productive and profitable. All other things being equal, these areas will be those which use approximately the same systems under which they are accustomed to operate.

It would appear to follow then than the performance of our private capital trading system and of our Government will have a marked effect on the character and type of other international trade and financial systems. In fact, our performance in the postwar period may set the pattern in vast areas of the world for a long time to come. For if the world finds peace and means to maintain it, economic changes should be less violent; they should be changes from within, not changes imposed by the violent aggression of an ambitious enemy from without the gates.

It seems very clear that the world as a whole will have to rely for at least a period on the industrial capacity of the United Nations and the transportation equipment of the United Nations, but the financial participation in the trade and industrial development of the entire world will be largely determined by our own activities, by our needs for raw materials, and for finished products, by our desires for services which we can purchase from the citizens of other nations and by the manner and amount of our investment in the development of other countries.

The answer to the last of these questions presents the greatest difficulties, but likewise offers the greatest opportunities. Our private capital trading system must meet this challenge if it hopes to serve the developments of the future.

I believe that it must be obvious to all of us, as it is obvious to the citizens of the other United Nations, that the character and volume of world trade will be more influenced by our national policies and activities than by any other single set of factors. If we pursue vigorous constructive trade policies, the course of world trade activity will be vigorous and constructive; if we drift, the course of world trade will be faltering and makeshift; and if we should toss aside the opportunity which will again be offered us, we would fully deserve the domestic chaos and depression which would surely follow such stupidity.

I shall make one final assumption, and this assumption amounts to a conviction, namely, that this nation eagerly and vigorously wishes to carry out the responsibilities and to develop the opportunities for peaceful leadership which are presented by our great part in the victory of the United Nations.

If we determine that this will be our course, and I am sure that we shall do so, we must organize to make such a program effective. There is little possibility of fulfillment if we just let nature take its course. We didn't win the war that way and we won't develop peaceful leadership in peace that way.

Finland Seeks Ten-Year Loan

(Continued from page 2453)

of Supply, and, as secretary of the mission, Mr. Smedslund.

Says Finland Good Credit Risk

"Finland is a good credit risk for the amount and character of the loan it is seeking here," Mr. Tuomioja told the writer. Pointing to the fact that Finland had serviced its war debt to the United States Treasury throughout the recent conflict as well as to the fact that in London Finnish securities are now selling at above parity, the Finnish banker expressed confidence in Finland's economic ability to "come back" rather quickly, with American help, notwithstanding the heavy reparations which must be paid to the USSR.

Although it is obvious that an American loan made to a country while that country is paying reparations is equivalent to assistance in the payment of the reparations, Mr. Tuomioja said: "There is no connection between the loan and reparations. If we can get a credit here we cannot by that means finance reparations. With the credit we have to import foodstuffs, raw materials for our industries, chemicals, fuel, coke, etc. These we will use in our industries other than those used for the reparations to the USSR.

"As for our economic situation, a pre-essential to economic stability is political stability internally and externally. This we have achieved, and our relations with Russia have improved happily. Marshal Stalin says he wants us to be Russia's good neighbor. As you may know, while the total amount of the reparations Finland must pay remains at the original figure of $300,000,000—and it is denominated in United States dollars—the period of payment, originally fixed at five years, has been prolonged by two years. The agreement is that we pay Russia specified commodities and other things to the just-mentioned total, the goods being valued at something above 1938 prices. As the world price level currently rises, admittedly the reparations burden on Finland tends to increase, but so too do values in other sectors of our economy.

"The reparations started September 19, 1944. During the first year we paid $50,000,000. With the prolongation of the payment period to seven years, the remaining $250,000,000 have to be paid only at the rate of $35,000,000 a year, valued at 1938 prices. After allowing for the increase in prices since 1938 in the articles involved in the Russian reparations agreement, the $35,000,000 becomes something less than $50,000,000,—say, $47,500,000 today. Now how can we pay this?

Counts on Export Surplus

"To pay the reparations and at the same time restore our productive capacity to its maximum potential at the earliest possible date will take substantial outside assistance," Mr. Tuomioja continued. "Just now our economy is in a vicious circle. Our present exporting capacity is about $250,000,000, as compared with $170,000,000 before the war. Partly this improvement is merely the reflection of a 40-50% increase in the prices of the things we sell. For example, Britain is today paying us for pulp 100% more than it paid us before the war. Secondly, there has been an actual increase in our productive capacity during the war.

"When we get what we need from the outside world we can rapidly get our production to its full stride. We cannot do it overnight, but we figure we can do it in two years. From the $250,000,000 of possible exports, we shall need to pay for essential imports—and "essential" does not include luxuries, such as we imported before the war — leaving according to our estimates a surplus of $80,000,000. That amount can be applied to the reparations to Russia and to the repayment of borrowings such as we are now seeking.

"To restore our productive capacity as rapidly as feasible will take $65,000,000 in 1946 and $45,000,000 in 1947. We are not looking for a long-term loan. One of ten years will be enough. However, during the first two years while we are building up our economy we shall not be in a position to amortize a loan. After two years we can begin to do so, on a graduated scale, speeding up when reparations end.

"If we have a surplus of about $80,000,000 and use for current reparations payments, at *current* prices, about $50,000,000 during these six years; there will be left $30,000,000 or a bit more to service the loan and for other purposes."

Once Paid Off Whole Debt

"As proof that we can handle a $110,000,000 loan," said Mr. Tuomioja, "is the fact that during the 1930s Finland paid off its whole foreign debt of $200,000,000, incurred during the 1920s in the United States, United Kingdom and Sweden. This was done in spite of very great investment by Finns within Finland. In the 1930s we enjoyed a very high standard of living and made many luxury imports.

"Finland's war-debt payments to the United States have always been paid as per agreement. While Finland was at war with the USSR and with the UK, it was never at war with the United States.

"As an example of the leverage a foreign loan would give us, $20 worth of imported coal would enable us to produce $150 of woodpulp. Another case: Just before I left Finland the Arabia concern, the greatest chinaware manufacturer in all Europe, asked me as head of the central bank to make available to it 150,000 Swedish kroner to buy raw materials in that country. Out of these materials Arabia could make goods with an export value of 750,000 Swedish kroner. But I was unable to accede to the request because the Bank could not spare that much foreign exchange. So, once we get the wheels running, it will be comparatively easy for us to fulfill our obligations. The $110,000,000 would be enough for us.

"Of course, there would be a temptation to try to improve our standard of living, but as long as we have reparations and a foreign debt, we cannot do that."

Has Bilateral Agreements

Mr. Tuomioja stated that Finland at present has bilateral trade agreements with the United Kingdom, Denmark, Norway, and Belgium. Of course, there is also an agreement with the USSR, from which Finland will get some sorely needed coal. Since many United Kingdom trade agreements fix a rate of exchange for the two currencies involved, Mr. Tuomioja was asked about Finland's attitude on this and related points. He replied: "Where foreign trade is on a compensation basis, the rate of exchange is unimportant. Finland has been seeking to establish for the finnmark a rate that can be sustained. Before last June the rate was 49.35 finnmarks per U.S. dollar. In view of the inflation that had occurred during the war, the Government changed the rate in June to 86.30 per dollar. This proved to be unrealistic. After I came to the Bank of Finland in late July we changed the rate to 120.80 per dollar. We were not able to calculate exactly a rate we could maintain, and in mid-October changed it again to 136.00 per dollar. This rate we should have no trouble at all in maintaining if we get the loan from the United States.

"With the inflation in Finland there has been a decline in worker efficiency, due to lack of enough food to give the people the requisite strength. There is little or nothing to buy with the money. The best way to build up efficiency is to bring more goods into the country. Currently rations are at 1,200 calories for light work and 1,700 for heavy work, or about half of the normal requirement. Among several radical measures taken to combat inflation in Finland is an agreement between employers and employes to freeze wages and prices. Also, the State budget will achieve a balance in early 1946. There are plans to call in outstanding currency notes and replace them with others. Doubtless considerable amounts of old notes have been taken out of the country by the Germans.

"Finland will be anxious to join the Bretton Woods Fund and Bank as well as other international bodies. Finland has very little gold, only about $3,000,000, and that is all in the United States. The negotiations for unfreezing Finland's assets here are going very well.

"Confidence of the Finnish people in their currency does not depend on the gold or silver the

(Continued on page 2494)

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.

WEDNESDAY, NOV. 28

PACIFIC TELEPHONE & TELEGRAPH CO. on Nov. 9 filed a registration statement for $75,000,000 40-year 2¾% debentures due Dec. 1, 1985.

Underwriting—The names will be furnished by amendment. The company proposes to offer the bonds for sale at competitive bidding and will receive bids at Room 2315, 195 Broadway, New York, before 11:30 a.m. on Dec. 10, 1945.

BUFFALO NIAGARA ELECTRIC CORP. has filed a registration statement for $56,929,000 first mortgage bonds due Nov. 1, 1975. The interest rate will be fixed by the successful bidder and filed by amendment.

Address—Electric Building, 535 Washington Street, Buffalo, N. Y.

Business—Public utility. A subsidiary of Niagara Hudson Power Corp.

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

Proceeds—The net proceeds, with other funds of the company, will be applied to the redemption of $56,929,000 principal amount of outstanding bonds which, with premiums, will entail $60,338,115.

Underwriters—The bonds will be sold at competitive bidding, and the names of underwriters will be filed by amendment.

Registration Statement No. 2-5997. Form S-1. (11-9-45).

SIOUX CITY GAS & ELECTRIC CO. has filed a registration statement for $8,000,000 first mortgage and collateral trust bonds series due 1975; 38,000 shares of cumulative preferred stock, par $100, and 153,006 shares of common stock, par $12.50. The interest and dividend rate on preferred will be filed by amendment.

Address—515 Fifth Street, Sioux City, Iowa.

Business—Public utility.

Offering—The prices to the public will be filed by amendment. The securities will be offered for sale under the competitive bidding rule of the Securities and Exchange Commission. The offering of common stock includes 34,068 shares which are outstanding and owned by Iowa Public Service Co., controlled by Sioux City.

Proceeds—The proceeds will be used to redeem outstanding bonds and old preferred stock, etc.

Underwriters—The names will be filed by amendment.

Registration Statement No. 2-5998. Form S-1. (11-9-45).

THE PANTASOTE CO. has filed a registration statement for 100,000 shares of common stock, par $1. The shares are issued and outstanding and are being sold by certain stockholders.

Address—26 Jefferson Street, Passaic, N. J.

Business—Manufacture and sale of artificial leather.

Offering—The price to the public is $5.75 per share.

Proceeds—The proceeds go to the selling stockholders.

Underwriters—Van Alstyne, Noel & Co., heads the underwriting group.

Registration Statement No. 2-5999. Form S-2. (11-9-45).

SATURDAY, DEC. 1

MANUFACTURERS CREDIT CORP. has filed a registration statement for 40,000 shares 6% preferred stock, $25 par, and 40,000 shares of common stock, $1 par, and 40,000 common stock purchase warrants and 40,000 shares of common reserved for issuance upon exercise of warrants.

Address—1737 H Street, N. W., Washington D. C.

Business—The company was incorporated under the laws of the State of Maryland on June 28, 1945, and intends generally to engage in the business of commercial financing, and to specialize in the financing of responsible manufacturers, distributors, etc., through the purchase of their open accounts, notes and trade acceptances receivable, or through the making of time-payment loans adequately secured.

Offering—The offering price to the public will be $30 per unit, a unit consisting of one share of preferred and one share of common stock.

Proceeds—The net proceeds estimated at $1,040,000 will be added to the general funds of the company. The company has agreed that for each unit sold by an underwriter it will issue to the underwriter a common stock purchase warrant entitling the holder to purchase at or before 3 p.m. Dec. 31, 1950, one share of common stock at the price of $1 per share.

Underwriters—Walter F. Tellier, doing business under the firm name of Tellier & Co., New York, is named principal underwriter.

Registration Statement No. 2-600. Form S-12. (11-13-45).

CABOT YELLOWKNIFE GOLD MINES, LTD., has filed a registration statement for 1,000,000 shares of common stock, par $1.

Address—9 Toronto Street, Toronto, Can.

Business—Mining.

Offering—The price to the public is 30 cents per share.

Proceeds—The net proceeds will be available for exploration and development work.

Underwriters—John William Langs is named principal underwriter.

Registration Statement No. 2-6001. Form S-11. (11-13-45).

MONDAY, DEC. 3

MAINE PUBLIC SERVICE CO has filed a registration statement for $2,200,000 first mortgage and collateral trust bonds due Oct. 1, 1975. The interest rate will be filed by amendment.

Address—144 East State Street, Presque Isle, Maine.

Business—Public utility.

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

Proceeds—The sale of the $2,200,000 of bonds is part of a general plan of refinancing of the company and its subsidiary, under which the subsidiary will simultaneously sell to a financial institution, at private sale, $600,000 principal amount of Canadian dollar bonds designated as its first mortgage bonds, 3¾% series due 1975. The plan involves, in addition, the retirement by Maine Public Service of all its outstanding bonds and the payment by the subsidiary of its present indebtedness to the parent company.

Underwriters—The bonds are to be offered for sale at competitive bidding and the names of the underwriters will be filed by amendment.

Registration Statement No. 2-6002. Form S-1. (11-14-45).

WASHINGTON GAS LIGHT CO. has filed a registration statement for 40,000 shares of $4.25 cumulative preferred stock, without par value.

Address—1100 H Street, N. W. Washington, D. C.

Business—Public utility.

Offering—The company is offering 40,000 shares of the new preferred stock to the holders of its outstanding 40,000 shares of $5 cumulative preferred stock on a share for share basis plus a cash payment to be filed by amendment. The company proposes to redeem any unexchanged stock.

Purpose—To exchange preferred stock.

Underwriters—Alex. Brown & Sons; Auchincloss, Parker & Redpath; Johnston, Lemon & Co.; Folger, Nolan & Co., Inc.; Goodwyn & Olds; Mackall & Coe; Ferris, Exnicios & Co., Inc.; Robert C. Jones & Co., and Robinson, Rohrbaugh & Lukens.

Registration Statement No. 2-6003. Form S-1. (11-14-45).

TUESDAY, DEC. 4

INSURANCE CO. OF NORTH AMERICA has filed a registration statement for 300,000 shares of capital stock, par $10.

Address—1600 Arch Street, Philadelphia, Pa.

Business—Insurance.

Offering—The company is offering to its stockholders of record Nov. 30, 1945, subscription warrants to subscribe at $40 per share on the basis of one new share for each four shares held.

Proceeds—Of the proceeds, $10 per share, a maximum of $3,000,000, will be allocated to capital stock account and $30 per share or $9,000,000 will be allocated to surplus. The purpose of the financing is to provide the company with additional funds. From the proceeds received and credited to surplus, together with a further amount from surplus, the company proposes to subscribe for additional shares of stock of the Philadelphia Fire and Marine Insurance Co., a totally-held subsidiary, in an amount sufficient to increase its capital from $1,000,000 to $5,000,000 and its surplus from approximately $4,000,000 to approximately $20,000,000.

Registration Statement No. 2-6004. Form A-2. (11-15-45).

MARY LEE CANDIES, INC., has filed a registration statement for 79,228 shares of common stock, par $1. The shares are issued and outstanding and are being sold by certain stockholders.

Address—3140 Cass Avenue, Detroit, Mich.

Business—Candies and nut meats and operation of tearooms and fountains.

Offering—The price to the public is $7.87½ per share.

Proceeds—Go to the selling stockholders.

Underwriters—The group is headed by Herrick, Waddell & Co., Inc., New York.

Registration Statement No. 2-6005. Form S-2. (11-15-45).

HOWARD STORES CORP. has filed a registration statement for 31,525 shares of cumulative preferred stock, par $100, and 75,000 shares of common stock, par $1. The common stock is being sold by certain stockholders.

Address—170 Tillary Street, Brooklyn, N. Y.

Business—Operates a chain of 38 retail men's and boys' ready-to-wear clothing stores and the manufacture of substantially all of the clothing so distributed.

Offering—The company is offering the holders of its 31,525 shares of outstanding 5¼% cumulative preferred stock the opportunity to exchange their shares of old preferred for the new preferred stock on a share-for-share basis plus cash payment. The initial public offering prices will be filed by amendment.

Proceeds—The unexchanged shares of new preferred will be sold to underwriters and the proceeds, together with other funds, will be applied to the redemption about January, 1946, at $106 per share and accrued dividends of such shares of old preferred stock as are not exchanged. The proceeds from sale of the common stock will go to the selling stockholders.

Underwriters—A. G. Becker & Co., Inc., heads the underwriting group.

Registration Statement No. 2-6006. Form S-1. (11-15-45).

WEDNESDAY, DEC. 5

ALLEGHANY CORP. has filed a registration statement for 700,000 shares of common stock, par $1. The shares are issued and outstanding and are being sold by certain stockholders. These stockholders are Allan P. Kirby, 600,000 shares; Walter W. Foskett, 50,000, and Eunice M. Oakes, 50,000 shares.

Address—704-5 Equitable Building, Wilmington, Del.

Business—Investment of its funds in securities.

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

Proceeds—The proceeds will go to the selling stockholders.

Underwriters—The underwriting group is headed by Otis & Co.

Registration Statement No. 2-6007. Form S-1. (11-16-45).

HAMMERMILL PAPER CO. has filed a registration statement for $5,000,000 20-year 3% sinking fund debentures due Dec. 1, 1965, and 15,000 shares of cumulative preferred stock. The dividend rate will be filed by amendment.

Address—Erie, Penna.

Business — Fine business and writing papers.

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

Proceeds—The net proceeds will be used for the purchase and installation of additional equipment and paper making facilities.

Underwriters—A. G. Becker & Co., Inc., heads the underwriting group.

Registration Statement No. 2-6008. Form A-2. (11-16-45).

NATIONAL LINEN SERVICE CORP. has filed a registration statement for 30,000 shares of 4½% cumulative convertible preferred stock par $100 per share.

Address—445 Highland Avenue, N. E. Atlanta, Ga.

Business—Linen service business.

Offering—The company is offering to holders of its $5 cumulative preferred stock and $7 cumulative preferred the opportunity to exchange their shares for the new shares on a share for share basis, plus a cash payment. The price to the public is $103 per share.

Proceeds—The proceeds will be applied to the redemption of all outstanding $5 and $7 cumulative preferred stock which is not exchanged for the new preferred, and to the partpayment of bank loans.

Underwriters—Clement A. Evans & Co., Inc., Atlanta, Ga. heads the group.

Registration Statement No. 2-6009. Form S-1. (11-16-45).

SATURDAY, DEC. 8

SOUTHERN ADVANCE BAG & PAPER CO., INC., has filed a registration statement for 25,000 shares of 4½% cumulative preferred stock, par $100.

Address — 38 Newbury Street, Boston, Mass.

Business—Paper bags, wrapping paper, etc.

Offering—The company is offering 20,202 shares of the new preferred in exchange to the holders of the outstanding 20,202 shares of 7% and 6% cumulative preferred stocks on the basis of one share of new for each share of 7% preferred and one share of new preferred and $7.50 in cash for each share of 6% preferred. In addition, holders making the exchange will receive a cash payment. The underwriters will purchase any shares of new preferred not issued in the exchange and the shares of 4½% preferred not required for exchange.

Proceeds—The funds will be utilized to retire any of the 7,780 shares of 7% preferred and 12,422 shares of 6% preferred not presented for exchange at the retirement prices of $102.50 and $110 per share, respectively, plus accrued dividends. Any balance of proceeds will be added to working capital.

Underwriters—E. H. Rollins & Sons, Inc., heads the underwriting group.

Registration Statement No. 2-6010. Form A-2. (11-19-45).

S. D. WARREN CO. has filed a registration statement for 30,000 shares $4.50 cumulative preferred stock, no par value.

Address—Boston, Mass.

Business—Manufacture of paper.

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

Proceeds—The company has entered into contracts for the private sale, at the time the preferred stock is issued, of $2,500,000 first closed mortgage 20-year 3¼% sinking fund bonds due Dec. 1, 1965. A total of $4,140,000 of the combined proceeds from the preferred stock and bond sale will be used to redeem the company's presently $4,000,000 first closed mortgage 15-year 4% sinking fund bonds due Nov. 1, 1959. The balance of the proceeds will be added to the general funds of the company. The company has also made arrangements, to replace $800,000 3% unsecured serial notes due 1946-1949 with $1,120,000 of 2¾% unsecured serial notes due 1946-1952, which, after payment of premium on retirement of the 3% notes, will further increase its general funds by about $300,000. The company intends to apply a portion of its general funds for additions and improvements.

Underwriters—First Boston Corporation heads the underwriting group.

Registration Statement No. 2-6011. Form A-2. (11-19-45).

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.

ALASKA AIRLINES, INC. on Oct. 31 filed a registration statement for common stock to net $2,000,000 to the company. The number of shares will be filed by amendment.

Details—See issue of Nov. 8.

Offering—To be filed by amendment.

Underwriters—To be filed by amendment.

AMERICAN BANTAM CAR CO. on Oct. 18 filed a registration statement for 83,547 shares of prior preferred stock, par $10, and 375,971 shares of common, par $1.

Details—See issue of Oct. 25.

Offering—Under an exchange offer the holders of convertible preference stock will be offered the privilege of exchanging convertible preference for common on the basis of 4½ shares of common for each share of convertible preference under Option A. Under Option B they may exchange convertible preference for prior preferred and common stock on the basis of one share of prior preferred and two shares of common for each share of convertible preference.

Underwriters—None mentioned.

AMPAL-AMERICAN PALESTINE TRADING CORP. on Oct. 3 filed a registration statement for 400,000 shares of 4% cumulative preferred non-voting shares.

Details—See issue of Oct. 11.

Offering—The price to the public is $5.50 per share.

Underwriters—The shares will be sold through the efforts of the directors and employees of the corporation.

BARIUM STEEL CORP. on Sept. 28 filed a registration statement for 166,063 shares of common stock, par $1.

Details—See issue of Oct. 4.

Offering—Holders of common stock of record Nov. 1 were given the right to subscribe to the new common shares at $3 per share, at the rate of one new share for each five shares held. Rights expire Nov. 19 at 3 p.m. (EST). There are no underwriters, but corporation reserves the right to sell any unsubscribed shares at a price which will net the corporation at least $3 per share.

BURRILLVILLE RACING ASSOCIATION on Aug. 28 filed a registration statement for $1,000,000 6% 20-year debentures due Sept. 1, 1965, and 10,000 shares class A stock (no par).

Details—See issue of Sept. 6.

Offering—The public offering price for a unit consisting of $500 of debentures and five shares of stock is $500 with the underwriter receiving a commission of $25

Underwriters—Barrett & Co., Providence, R. I., underwriters.

CAMDEN FORGE CO. on Oct. 29 filed a registration statement for 177,318 shares of common stock, par $1. The shares registered are outstanding shares owned by Union Securities Corp., and constitute all of the outstanding common shares except 12 owned by directors.

Details—See issue of Nov. 1.

Underwriters—Names will be filed by amendment, to be selected by Union Securities Corp.

CROSLEY MOTORS, INC., on Oct. 22 filed a registration statement for 235,099 shares of common stock (no par).

Details—See issue of Oct. 25.

Offering — Present shareholders of the Crosley Corp. as of record Nov. 6 and former stockholders of Crosley Corp. who sold their shares to Aviation Corp. are given the right to subscribe for shares of Crosley Motors for the same number of shares as those held in Crosley Corp. at $6 per share. Rights expire Nov. 27. The subscription rights are exclusive of a certain group who have already subscribed for the stock. Any stock not subscribed pursuant to rights may be disposed of by the board of directors.

Underwriters—No underwriting agreement has been entered into.

EUREKA CORP., LTD., on Sept. 28 filed a registration statement for 2,595,000 shares of common, par $1.

Details—See issue of Oct. 4.

Offering—Toronto Mines Finance, Ltd., has entered into a firm commitment to purchase 480,000 shares at $1.23 per share, and has an option on 1,920,000 shares at the same price. The offering is to be made among the shareholders of Ventures, Ltd., Frobisher, Ltd., and La Luz Mines, Ltd. (Canadian companies) at $1.25 per share, and to Eureka stockholders. Price is expressed in terms of Canadian money. Shares not so acquired will be offered generally to the public. Should the option not be exercised by Toronto Mines Finance, Ltd., the company itself will make the offering, as aforesaid. The remaining 195,000 shares are to be purchased by the company geologist, officials and employees.

FLEMING-HALL TOBACCO CO., INC., on Oct. 31 filed a registration statement for 150,000 shares 6% cumulative preferred stock, par $10, and 150,000 shares of common, par $1.

Details—See issue of Nov. 8.

Offering—The stock will be offered in units consisting of one share of preferred and one share of common at $15 per unit.

Underwriters—Floyd D. Cerf Co. heads the group.

GENERAL INSTRUMENT CORP. on Oct. 25 filed a registration statement for 60,000 shares cumulative convertible preferred, $20 par, and 260,000 shares of common, par $1. The dividend rate on the preferred will be filed by amendment. The common registered includes 100,000 shares reserved for issuance upon conversion of the preferred. The 160,000 shares of common stock is issued and outstanding and being sold by certain stockholders.

Details—See issue of Nov. 1.

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

Underwriters—Burr & Co. heads the underwriting group.

GENERAL SECURITIES CORP. on Sept. 28 filed a registration statement for 200,000 shares of common stock, par $5.

Details—See issue of Oct. 4.

Offering—The price to the public is $7.50 per share.

Underwriters—General Finance Co., Atlanta, Ga., is fiscal agent.

(This List is Incomplete This Week)

Finland Seeks Ten-Year Loan

(Continued from page 2493)

Government may hold. In fact, as to silver, we do not use it. Our paper currency is in denominations as low as 5 finnmarks. Smaller money is made of iron, bronze, and copper."

What Reparations Take

Under the reparations agreement with Russia Finland is to deliver machinery, complete lumber processing plant equipment, cranes and conveyors, narrow gauge railway material, electrical machinery, turbines and certain special machines to the value of approximately $100,000,000. New ships, barges, floating docks and dock equipment account for about $60,000,000 of the reparation payments, to which must be added almost $15,000,000 for the value of existing vessels that are to be handed over. Forest products to the value of $100,000,000 are included in the agreement, and also $25,000,000 worth of copper wire and cables.

Despite what Mr. Tuomioja told the "Chronicle," it is known that Washington economists have had the opinion that any help to Finland from this country would involve transference, temporarily at least, of part of the reparations burden on the United States. It will be recalled that only recently Secretary of State Byrnes took the stand that there can be no question of Italy paying reparations to Russia, since Italy will need help from the United States and could not pay back that help as well as pay reparations. Perhaps a distinction will be drawn in Finland's case, in the light of the Finnish contention, outlined above, that the country has the economic strength to repay a loan as well as to pay reparations.

Export-Import Loan to Finland Already Outstanding

On the books of the Export-Import Bank the Finnish-American Trading Corporation is shown as owing $23,870,000, out of $26,211,000 disbursed under the two loan agreements of December 1939 and March 1940. Had not the Export-Import Bank extended the terms, the record would show these two loans in default. If the record is to continue to be kept "clear," some provision as to those credits must be made in the course of any new arrangement which may be reached with Finland.

Congressmen Disillusioned on British Loan

(Continued from page 2452)

Indeed, Congressmen who have visited Britain during recent months were told there that the British regard "something to take the place of Lend-Lease" as their due, and not an American benevolence. It is this attitude which has not been going down well in Congress.

Bretton Woods Selling Point

Another thing that irritates some Representatives is the failure of other countries thus far to ratify the Bretton Woods Agreements, the while several such countries have sought, or are known to want, special loans from Washington. In part, Bretton Woods was sold to Congress on the grounds that it, plus the expansion of the Export-Import Bank to a $3.5 billion institution, would take care of all pressing needs. Now, before the BW Agreement is even ratified, we see foreign countries seeking direct help here. This puts a leader like Repr. Jesse Wolcott of Michigan—ranking Republican on the House Banking and Currency Committee and, as a member of this country's delegation at the monetary conference, a leading sponsor of the Fund and Bank in Congress—on the spot among his fellows.

When Bretton Woods was before the House for action, Mr. Wolcott told that body: "If we participate in this Fund, if we participate in the International Bank, if we increase the capital of the Export-Import Bank of Washington to $2,200,000,000, there will be no justification for the Treasury directly loaning to any foreign country one single dollar. . . . So long as the assets of the International Bank and the Export-Import Bank of Washington hold out, there is no justification for the Treasury making any direct loans. They may very conveniently refer all requests for loans to the International Bank, wherein the risk is spread out among 44 nations, or to the Export-Import Bank of Washington, in which I think we should have a great deal of faith and confidence."

Reflecting the view of Mr. Jesse Jones, as reported in last week's "Chronicle," that the British want to get the loan in the bag without doing more than discuss with us at some later date the commercial policy in which many Americans are interested, Mr. Wolcott, who was a member of the Colmer Committee group which visited Europe, Russia and the Near East last summer and which on November 12 published a report to Congress, gave the "Chronicle" the following statement.

"The benefit to the United States from Bretton Woods is only indirect and somewhat remote. Any benefit therefrom to this country is wholly dependent upon the cooperation of the other participating countries in effectuating Bretton Woods' purposes. Such purposes include stabilization of currencies and international trading on multilateral, as opposed to bilateral lines. If the United Kingdom insists upon nullifying the intent and purpose of Bretton Woods by insisting upon trade on a bilateral basis, then we can write off any benefits to us from Bretton Woods. Likewise, if Britain depreciates the pound sterling, the step will have a detrimental effect upon the stability of most European currencies and will make it more difficult for us to keep the dollar in a position where it can be utilized as a stabilizing anchor.

"In short, the success or failure of Bretton Woods as a stabilizing influence in the monetary and economic spheres depends largely on what attitude the United Kingdom takes. Before we give any consideration to the granting of a substantial credit to Britain directly out of the Federal Treasury, that country should make very clear its position in the respects just mentioned.

Other Countries, Please Note

"Not only Britain, but other countries should keep in mind that the making of foreign loans is not indispensable to the welfare of the United States for the maintenance of its economy. We would like to trade with the world, but, although an expansion of our exports above prewar levels is desirable, it should be made clear that our economy does not rest predominantly on foreign markets for our products. Ninety-three percent of our production is sold at home and we cannot afford to lose sight of this fact in chasing prosperity through loan-financed exports that will increase our sales abroad by a few percent. Full employment in America, contrary to the advice some have been giving us, is not dependent upon our lending and investing heavily abroad so much as it is upon our strengthening our domestic economy and fully utilizing the vast reservoir of domestic purchasing power through increasing our output of goods.

"If we do extend aid to foreign countries," Mr. Wolcott continued, "it should be predicated on a clear and simultaneous understanding on matters we consider important, which is necessary if there is going to be any stability in the world's trade. We passed Bretton Woods to help others, rather than ourselves and other countries should not now use our altruistic action in this respect to bludgeon us piecemeal into concessions. As was stated in the recent report of the House Special Committee on Postwar Economic Policy and Planning, a report issued by the full committee and not just by those who went abroad this year, there should be an integration of American loan policy. And the report continues:

" 'As a first instance, it is necessary to protect against the granting of large-scale loans by the Export-Import Bank or any other governmental department or agency for long-range reconstruction before the nations requesting loans have shown a willingness to make available and to utilize fully the credits, resources, and stabilizing influences of the International Monetary Fund and the International Bank for Reconstruction and Development referred to the United Nations under the Bretton Woods agreements. The committee recommends that the funds of the Export-Import Bank should not be further increased beyond the present $3,500,000,000 already authorized until the Bretton Woods agreements have gone into effect.

" 'The committee suggests that since the advantages afforded by United States loans and other settlements are our best bargaining asset in securing political and economic concessions in the interest of world stability, there should be a total integration of economic policy to this end.' "

Britain's Loan

As has become clear, Britain has been using ratification of the Bretton Woods Agreements as a means of bringing pressure on the United States in the matter of the loan now under discussion, and it may be assumed that once the loan is in the bag, Britain will find something else to use for bargaining purposes when the international trade conference is held sometime next year. If agreement on a loan to Britain is not in sight before very long, Britain will not ratify Bretton Woods. Actually, high Treasury officials are hopeful that Britain will ratify within about three weeks, and that thereafter many other countries will follow suite. The British approval, incidentally, will not take the same form as did that of Congress. Britain is expected to approve Bretton Woods by executive action, following a debate by Parliament. In the end, Parliament is expected to leave the matter to the discretion of H. M. Government.

The Bretton Woods Agreements call for ratification by 65% of the voting power of the members before the end of 1945. Unlike the London Silver Agreement of 1933, the Agreements cannot be postponed by an exchange of notes among the signatories. According to Repr. Wolcott, the matter would have to come before Congress again, since the Dec. 31, 1945 deadline was one of the things Congress had in mind when it approved the agreements last summer. And, he adds, if the matter came to a vote in Congress today, the attitude of that body might be quite different from what it then was. Naturally, the supporters of Bretton Woods in Washington are anxious to have the program adopted before the end of the year. Then they can address themselves to the job of selling the country on a generous loan to Britain. The selling job has already commenced, utilizing the experience gained at Bretton Woods.

Washington wags are saying that Bretton Woods was sold to the American people as "the as good as gold standard" and must be sold to the British as "the direct opposite of the gold standard"; while the Anglo-American financial deal will have to be sold to the British as a "gift from America" and to the American public as a "loan."

"Have Lend-Gift But Get Quid Pro Quo": Col. McCormick

(Continued from first page)

in a study for the National Institute of Economic and Social Research, a British scientific organization, and has been confirmed by other investigations.

The London "Economist," in a series of articles published last year, sought to determine the reason for the inferior status of the ordinary citizen in Britain. For just as living standards in Britain and America are as one is to two, so production per worker in the countries is in similar proportion.

American superiority is the result of equipment. According to Carl Snyder, a noted statistician, the industries have been thus supplied by devoting between 5 and 6% of the national income each year to this purpose. The use of so small a part of our total income has made possible a persistent rise, averaging 3% per annum, in our product per capita.

In England only 3% of the national income per year has been invested in new capital assets. The advance in production per worker has averaged no more than 1½% a year. The increase in the size of each worker's income has been at a correspondingly slower rate.

It is obvious that if we dissipate our national income, by whatever means, our productivity and living standards must suffer.

Last fall a committee of Lancashire textile men came to America to see if they could learn anything about how their line of business was conducted here, feeling certain that they could not. They were shocked.

According to the report issued after their return home, output here in this—the leading British industry—far exceeds their standards. Production per worker, they found, was from 1⅓ to 10 times as great as in Britain.

The main reasons for American superiority were given in the report as follows: "The use of high-speed and automatic machinery wherever possible; the use of up-to-date plants; the application of scientific methods to the utilization of labor, which permits a relatively large number of units or machines to be supervised by the machine operatives; the policy of concentrating on machines in terms of output."

Coal is Britain's second greatest industry and in 1938 gave employment to 780,000 men. Output here also lags far behind American standards. The Reid report issued in London in April told of this. British mines are under-mechanized and have especially antiquated underground haulage systems. There is one underground haulage worker for each five tons of coal produced in England and one for each 50 tons in America.

Two high ranking authorities last week told about the coal industry in Britain today. Dr. Charles J. Potter, Solid Fuels Administrator of the Department of the Interior, stated in an address before the Academy of Political Science in New York: "Europe's desperate need for warmth, production, transportation and employment hinges upon the supply of coal. . . . Britain is able to keep her industrial machine operating at a pre-war level only by severely rationing fuel. She has no coal for export. She has not kept pace with technological advances in mining, and has increased miners' wages from an average of $11 per week before the war to $25 per week. Thus Britain's coal has become the most costly to mine in the world."

And the other high authority, John L. Lewis, told the Labor-Management Conference in Washington: "American miners produce six tons of coal a man to one ton a man in Britain. While American miners' wages are three times as high as those of the British, prices to the consumer were less than one-third those charged for British coal. The reason lies in Britain's failure to modernize. That has placed the British Empire at an economic disadvantage in the post-war world."

Because Britain's coal mining methods are so bad, and return of the Ruhr to full output is going so slowly, suffering in Europe will be no worse than it is going to be because the United States is now shipping two million tons a month all the way across the ocean. The two million tons constitutes the top capacity of American ports to load coal.

In steel—another high ranking industry—it is the same story. Rostas found production per worker here to be twice what it is in Britain.

The British Government has insisted upon such low depreciation rates as to keep obsolete machinery in use. The owners have sought to overcome these handicaps by agreements in restraint of trade. From these conditions, British industry is in a vicious downward spiral.

This is not a condition that we can remedy.

If we can accept the thesis of the "Economist," that the amount of capital applied to an industry determines the productivity and living standards, then the Labor Party can deliver only by adding to the supply of capital equipment of its industries. How can the new rulers of Britain bring this result about?

Either by borrowing or by saving. Canada used the first and has welcomed the investment of large amounts of American and British capital there, raising productivity and living standards to a high level. That method is not available to Britain while the Labor Party threatens to take over, first, the Bank of England, then the mines, electric power, iron and steel, and transport. New capital will not flow to a country which has confiscation as a national policy, and Exchange Control which may act as a bar to the recovery of the principal.

The other means of adding to capital equipment is by saving. This means that the country consumes less than it produces, using the surplus to invest in capital goods.

If the British were willing to keep consumption at a low level, work hard, and be content to wait some years for the reconstruction of their homes and public buildings, they could modernize their factories and mines in a fairly short time. Only the event will tell how British Labor will react to its new situation.

It would help England for us to send a delegation of energetic Americans to teach the English workmen how to work. That would be better than to strain our own workmen to still greater efforts to keep English workmen in semi-idleness.

Great Britain has certain economic policies injurious to us, but quite within her rights, however much they violate the Doctrine of United Nations.

There is the pound bloc—an agreement among the members of the Empire (except Canada) and Sweden, Norway, Denmark, Holland, France, Portugal, and Egypt, to trade with each other only in pounds; to deposit any other currencies they receive in the Bank of England, and to discourage trade outside of their number.

Again there is the Empire preference in which the constituent members of the Empire give tariff preference to each other. On top of this the totalitarian Government of New Zealand denies import licenses to Americans while granting them to British exporters.

As I say, *these arrangements are entirely within the rights of* the contracting parties, but they are disadvantageous to us and we have a perfectly good right to require their abolishment or modification in consideration of any gifts or loans to the Empire.

We believe there should be other conditions imposed in consideration of gifts or loans.

The people of the Northwest Territory, followers of Lincoln, at least, cannot support slavery in any form. The British are in India, Burma, Malaya, and Java only because the Americans defeated the Japanese, who had defeated all their other enemies.

We cannot escape responsibility for evils being perpetrated on helpless people by the British, Dutch and French using American Lend-Lease weapons to force natives to work in the rubber plantations for $3.29 a month—11 cents a day. We must insist that these outrages stop at once.

We have still another demand to make upon Great Britain, both in the name of humanity and of national security. It is to evacuate all of her possessions in this hemisphere.

Canada has finally achieved her independence. The small colonies in and near the Caribbean Sea are not strong enough to do so. They are of no economic value to the Empire, although politically they support a number of place holders.

They should be set free just as Cuba was set free. They have been used in the past as bases to attack us, and upon occasion, at need, could so be used again perhaps to launch atom bombs.

There are people here, no doubt, who will be indignant at such a suggestion, but I have not forgotten the Fort Dearborn massacre and I have learned of the massacres in Java.

Have Lend-Gift if you will, but get Quid Pro Quo for America.

Schedule of Nationalization

(Continued from first page)

and the establishment of a National Investment Board. After all, the Bank of England had been already for all practical purposes under Government control; as Mr. Churchill remarked in a speech in August, its nationalization raised no new principles. The coal industry, by all but universal consent, needed badly some form of drastic reorganization, even in some quarters which are far from being Socialist the idea of its nationalization has caused no resentment. As for the proposed regulation of the flow of investment, it was already under strict control for years before the war. The program of the Socialist Government for the fifteen months of the Parliamentary session of 1945-46 was considered very moderate by all but the extreme Right-wing Conservatives, and the Stock Exchange responded to these feelings by staging a recovery after the slump that followed the Labour victory.

Within two months it was discovered, however, that the program of nationalization included in the King's Speech was only a modest beginning of a much more ambitious program. On a single day on Nov. 1st the Government anounced its plans to nationalize Civil Aviation and Imperial Telecommunications. The announcement took the Opposition so completely by surprise that hardly a voice was raised in the House of Commons in protest against the proposed measures.

It is now know that the full schedule of nationalizations for the session 1945-46 includes, in addition to the items mentioned above, also the nationalization of transport, of electricity and of gas. And the reasons why no further items are included in that ambitious program lies in the delay caused by the drafting of so many complicated bills. The experts of the House of Commons engaged in that highly specialized task are working overtime, but cannot do more than is humanly possible. This is the reason why, apart from the relatively simple Bank of England Bill, the Government has not yet been able to introduce any other Nationalization Bill, and is marking time by keeping Parliament occupied with minor Bills inherited from the Coalition Government. Once this drafting difficulty is overcome (possibly through an increase of the number of experts) the Nationalization Bills will be tabled in close succession.

The most difficult among the nationalization schemes is that of the iron and steel industry, including the engineering industry. Advance plans are well on their way, but the Bill is not expected to reach Parliament until the session 1946-47. The nationalization of several other industries is also planned. Indeed, so far the only industries which the Government declared to intend to leave in private ownership are textiles and insurance; even the latter will be partly nationalized through the impending social security measures.

It is the Government's intention to lay the foundations of the Socialist State, not by violent revolution as in Russia, but hardly less effectively. The next four years will witness the nationalization of most major industries. It is true, possibly the next general election may bring back the Conservatives. But by that time the program of nationalizations will have been carried out, and a Conservative Government would find it extremely difficult to unscramble the eggs. It would not be easy, for instance, to restore the coal mines into private ownership, after they have been merged into regional units in which the former individual concerns would entirely lose their identity.

R. P. Baruch Again Active at H. Hentz

Robert Parkes Baruch, a partner of H. Hentz & Co., 60 Broad Street, New York City, members of the New York Stock Exchange, has returned from service in the Navy as a Lieutenant Commander U. S. N. R. and is again actively participating in the business of the firm.

W. E. Hutton & Co. to Admit B. D. Williams

W. E. Hutton & Co., 14 Wall Street, New York City, members of the New York Stock Exchange and other exchanges, will admit Benjamin D. Williams to partnership in the firm on December 1st. On the same date Robert C. L. Timpson, limited partner, will become a general partner. Mr. Williams was a partner in the firm in the past.

Moore & Schley to Admit

Thomas J. Gorman will acquire the Exchange membership of Henry A. Cohn and will become a partner in Moore & Schley, 100 Broadway, New York City, members of the New York Stock Exchange, as of November 2nd.

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John Godley Opens

ALBANY, N. Y.—John L. Godley is engaging in an investment business from offices at 18 Clarendon Road.