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Investment Bankers Association Convention Issue

DEC 13 1946

In 2 Sections—Section 1

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 164 Number 4550 New York, N. Y., Thursday, December 12, 1946 Price 60 Cents a Copy

Markets in De-Rooseveltization

By MELCHIOR PALYI

Commenting on Republican victory, Dr. Palyi points out confusion in economic situation which requires correction. Sees further inflationary forces in increasing money supply combined with increased velocity of its circulation. Contends we will have more confusion but not recession. Looks for continuation of bottlenecks in labor and materials and concludes crux of Republican policy is to control inflation at its source and to stop debt-monetization. Urges a budgetary surplus of $10 billions to reduce national debt.

My New Dealish elevator man was jubilant two days after the election. "You see," he said, "the stock market crashed. That shows you cannot expect anything from the Republicans that the Democrats couldn't do." That, indeed, is the problem: What can the Republicans do? Does their victory presage any change in the deeper trends which govern our economic destiny? Or will Congress be stymied by the mess it inherits, and by the pressures and inhibitions operating within its own political bosoms? Will the de-Rooseveltization be blessed with prosperity without deteriorating into an inflationary boom? Or cursed by a depression?

Dr. Melchior Palyi

Our ideological foundation, so called, could not undergo a profound change, in spite of the fact that the Republicans have won the battle under the flag of free enterprise and freedom from regimentation, in spite of the damage their propaganda against communism, bureaucratism, etc., has in-

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Free versus Fixed Exchanges

With Special Reference to Bretton Woods Monetary Fund

By RENE LEON

Foreign exchange expert, discussing free foreign exchange as opposed to exchanges fixed by International Monetary Fund, predicts an early breakdown of the Fund. Says Fund is attempting to straddle two antithetical monetary regimes, i.e., the gold standard and managed currency, each of which must eliminate the other. Holds fixity of exchanges is not conducive to stability in the economy, whereas fluctuating exchanges are correctives of imbalance. Contends international control of exchange rates is obnoxious price-fixing, and will undermine our domestic economy.

Rene Leon

The Bretton Woods Monetary Fund offers us a new version of the International Gold Standard which possesses few of the original system's virtues though many new vices, as it is here proposed to demonstrate. That the Fund will break down, and break down quickly, that its very existence will but postpone progress in international procedure and further embitter international relations, the author has no doubt whatsoever. His conviction is based on the fact that the Bretton Woods Monetary Fund at-

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Pictures taken at IBA Convention and of new Association officers on pages 3032 to 3042 incl. Addresses and Committee reports start on page 3043.

Investment Bankers Association of America Holds 35th Annual Convention

Meet at Palm Beach, Fla., Dec. 1 to 6, inclusive. Elect Edward Hopkinson, Jr., Of Drexel & Co., as President. Hear Committee reports and addresses by retiring President Charles S. Garland, James J. Caffrey, SEC Chairman, and others.

The 35th Annual Meeting of the Investment Bankers Association of America was held at the Palm Beach Biltmore Hotel, Palm Beach, Fla., from Dec. 1 to Dec. 6. The officers formally elected at the meeting were Edward Hopkinson, Jr., partner, Drexel & Co., Philadelphia, as President, who succeeded Charles S. Garland of Alex. Brown & Sons, Baltimore; and Robert W. Baird of Wisconsin Company, Milwaukee; Julien H. Collins, Julien Collins & Co., Chicago; Hal H. Dewar of Dewar, Robertson & Pancoast, San Antonio; Albert H. Gordon of Kidder, Peabody & Co., New York City; and Carey S. Hill of Hill, Richards & Co., Los Angeles, Cal., as Vice-Presidents.

E. Hopkinson, Jr.

The principal speakers at the Convention were James J. Caffrey, newly elected Chairman of the Securities and Exchange Commission, Emilio G. Collado, Executive Director of the International Bank for Reconstruction and Development, and Morris M. Townsend, Director, Banking and Investment Section, U. S. Savings Bond Division, Treasury Department. The full text of their addresses, together with the addresses of the retiring President, Charles S. Garland, and the newly elected President, Edward Hopkinson, Jr., and the reports of most of the standing Committees are found in this issue, beginning with page 3043.

The new governors of the Association, who were elected by their respective regional groups to serve three-year terms beginning at the close of the Convention, are: California, B. P. Lester, Lester & Co., Los Angeles; Canadian, W. T. K. Collier, Collier, Norris & Quinlan, Limited, Montreal; Central States, Wm. McCormick Blair, William Blair & Company, Chicago; George L. Martin, Martin, Burns & Corbett Inc., Chicago; Mississippi Valley, Walter W. Ainsworth, Metropolitan St. Louis Company, St. Louis; New England, Thomas Whiteside, Chace, Whiteside & Warren, Incorporated, Boston; New York, John C. Maxwell, Tucker, Anthony & Co., New York; Edward K. Van Horne, Stone & Webster Securities Corporation, New York; Pacific Northwest, Herman L. Lind, Camp & Co., Portland; Rocky Mountain, Aaron W. Pleasants,

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The Economic Outlook

By SUMNER H. SLICHTER*
Lamont University Professor, Harvard University

Reviewing principal facts relating to business situation, Dr. Slichter concludes prospects for profits depend upon industrial peace and that adjustments in the price structure are due. Holds immediate outlook for industrial peace is good, and drop in prices next year will not reduce output. Takes optimistic view of future production and employment and advocates: (1) holding down prices of finished goods, particularly goods out-of-line with general price level; (2) refusal of wage increases that require price increases; (3) getting trade unions to aid in promoting labor efficiency; (4) negotiating long-term contracts with unions; (5) discouragement of credit expansion; and (6) end of Federal deficits.

I

These remarks will fall into three parts. First, I wish to point out some of the most significant facts in the present business situation. Second, I wish to ask what business trends are indicated by these facts. Third, I wish to discuss what may be done by business, labor, and government to promote the stability of the economy in the immediate future.

Prof. S. H. Slichter

Fifteen principal facts in the present business situation impress me as particularly significant for the immediate future.

1. The balance between production, prices, and incomes is considerably less favorable to the maintenance of prevailing prices than it was last spring. The income of individuals after taxes during the latter half of 1946 will be about 10% above the first quarter. Industrial production in October was 13.7% above the first quarter. Thus there has been a moderate gain in the supply of goods relative to incomes. In addition there has been a rise of 12.3% in the index of wholesale prices between the first quarter and October. This is one of the most rapid gains in prices in the history of the country. With production greater in relation to incomes and with prices substantially higher than last spring, it is obvious that the upward pressure on prices is considerably less than in the first quarter.

2. Prices are slightly high relative to production and incomes when one uses the prewar relationships between the three as a yardstick. Incomes after taxes at the present time are running about 108% above the annual rate in 1940. In October, 1946, about 52 million persons were employed in private industry as compared with 42.3 million in 1940. No comprehensive information is available on the change in the average work week. If manufacturing be accepted as a rough measure of the change in hours, the average work week in October, 1946, was about 5% longer than during the year 1940. If output per manhour was 10% more in October than in 1940 (less than the usual rate of increase), physical output of private industry would be 43.2% greater than in 1940. With incomes after taxes 108% above 1940 and the rate of spending the same as in 1940, one would expect the price level to be about 45% above 1940. As a matter of fact, it was 49% above 1940.

3. Prices are high relative to costs. During the last year there has been a strong upward pres-

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*An address by Prof. Slichter before the American Pharmaceutical Manufacturers' Association, New York City, Dec. 11, 1946.

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Design for Our Federal Tax System

By ROSWELL MAGILL
Former Under Secretary of the Treasury

Former Government official maintains good tax laws are needed to promote business activity required to support enormously expanded Federal budget. Pleads for reduction in expenditure, demonstrating how individual income tax rate is directly correlated therewith. Advocates reduction in corporate rate, with some credit for dividends paid. Recommends elimination of "nuisance taxes," but retention of excised levies confined to a few productive sources.

We are surrounded these days by too many things that we don't know about and that we can't control. The atom bomb, our relations to Russia; or close at home, the solution of the labor turmoil, price control, the form and extent of military preparedness — all are subjects that the man in the street knows little about. If he is conscientious, he feels he ought to know about at least some of them, but he hardly knows where to begin to learn; and meanwhile his personal problems press for solution. Where is he to live? What can he eat? How is he going to buy it?

It is a great temptation to leave the big problems to the specialists, and to hope that they will give the people leadership. Unfortunately, ability to lead the people and ability to comprehend the atom bomb are not likely to reside in the same man. Congressmen and scientific experts on atomic energy are two quite different breeds of cats. Under these circumstances, we the people, can reasonably ask the scientist to pause in his devastating experiments long enough to give us in simple terms a statement of what he has accomplished, what its potentialities are, and what we can do to control them. We can reasonably ask the Secretary of War or the Chief of the General Staff to give us specific statements on how much of an army he thinks we need, how he thinks we ought to get it, what training it will be given, where it will be used. We can reasonably expect the President and Secretary of the Treasury to tell us specifically what budget expenditures are necessary and why; what the budget outlook is, if national income declines from its present peak, and what permanent tax structure we must look forward to.

American citizens sit as a jury on these matters. Like a jury, we don't know much about the case at the start, but we will listen to the evidence; we will try not to be obfuscated by the lawyer's gyrations; and, in the end, we will come to a pretty sensible conclusion that the community will abide by. I am a witness in this proceeding, with the ordinary faults of a witness and more besides, for I shall not merely digest some facts for you, but indulge in some speculation as to the future. I may even state some opinions.

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Holland's Present International Economic Outlook

By DR. W. T. F. SLEE

Economist asserts although Holland's export trade recently has shown surprising strength even topping prewar figures, her balancing of payments may not occur until 1950. She is incurring potential hardships by the present necessity of buying imports at inflated prices with borrowed money. He holds that if the imminent export drive by Holland, as well as other countries, fails, the safety of their dollar debts will be in danger.

(1) Exports Jump in Third Quarter

Holland's drive to rebuild its foreign trade is showing results. October figures, just released, show exports of over 110 million guilders, as against an average prewar monthly figure of approximately 85 million guilders (approximately 1,000 million guilders annually).

William Slee

The plight of the war-torn countries is that exports are essential for their recovery, but that first imports (raw material, machinery) are necessary to get their production apparatus going.

However, with the worldwide scarcity of certain raw materials, and insufficient technical equipment of export industries, export trade had to overcome very serious difficulties.

Besides, the energy supply (coal) was, and is, a most serious bottleneck for production in general, all over Europe.

Recently, the Ministry of Energy could declare that strongly improved Dutch coal production, coupled with imports from the Ruhr and the U.S.A., had fully liquidated the bottleneck in energy supply.

Just how much the British embargo on Ruhr coal and the coal strike in this country will affect

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Will He Love Us in May As He Does in December?

By JOHN DUTTON

If new policy of harmony, understanding and cooperation between SEC and securities industry is to prevail, there should be more permanency in the SEC chairmanship and its executive personnel. Intelligent investors cannot be created by sticking their noses into unintelligible prospectuses, or by squawks that "free riding" does not give them enough stuff. Best protection for investor is education and sound advice.

James J. Caffrey, the new Chairman of the Securities & Exchange Commission, has some encouraging things to say about the attitude of the Commission during his forthcoming administration. A new policy of harmony, understanding, and cooperation is to prevail between the members of the SEC and the securities industry. After thirteen years the Commission is going to take a few snips in its girdle and unbend a little. Well, it's all to the good. Possibly that's why we have elections every so often. Bureaucrats and politicians number among their other virtues an ability to read the

(Continued under "Securities Salesman's Corner" on page 3102)

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Money Management And Credit Control

By ALLAN SPROUL*

President, Federal Reserve Bank of New York

Stating primary job of Reserve Banks is overall credit administration to serve demands of sustained high production, high income, and high employment, while preserving public faith in our currency and credit, Mr. Sproul contends gold standard, in terms of currency convertible into gold, is not likely to return. Stresses need of international monetary management and defends work of Federal Reserve System in financing war at low interest rates and in supporting government security markets. Holds quantitative as well as qualitative credit controls must be maintained and concludes "so far as inflation is concerned, ours is essentially a holding operation." Sees inflation remedy in more efficient production.

Having been given freedom of choice—an important freedom which those who are interested in other freedoms sometimes neglect—I have decided to talk with you tonight about money management and credit control. This is not an easy subject for popular presentation, but it is the most important subject which confronts me as a central banker and, in these critical days, I feel that I would not be justified in taking up your time with lesser matters. Before I embark on this discussion, however, I should make two statements and one confession.

Allan Sproul

My first statement is that while my talk must include observations on the management of the public debt, I cannot and do not speak for the Secretary of the Treasury. He speaks for himself. My second statement is that I cannot and do not speak for the Federal Reserve System. The Federal System as created by the Congress of the United States is, in fact, a Federal system. There is the Board of Governors at Washington having broad powers of policy-making, supervision, and coordination. There is the Federal Open Market Committee composed of the members of the Board of Governors and representatives of the Federal Reserve Banks, which has specific authority over the open market operations of the banks. There are the twelve Federal Reserve Banks and their boards of directors, which have been given certain statutory powers and which have certain powers of advice and counsel growing out of those statutory powers. This is a Federal system; it is at one and the same time national and regional; some powers have been given to the central agency, some to the constituent parts, some to a combination of the two, and some have been reserved, as usual, to the people, including the Federal Advisory Council. I cannot speak for such a system; certainly not with regard to the future. I can try to interpret policy once it has been fixed by the appropriate body within the System but, if I go beyond that, I am merely giving you my personal views. I can only speak as one individual who participates in the work of the System.

My confession is that I do not relish these speaking jobs and like to avoid them when I can do so without dodging my responsibilities. Central bankers have long been known as members of the silent service. We have preferred, traditionally, to let our acts speak for us and not to try to explain them. This approach has its advantages—many of our actions are difficult to explain. It also has its disadvantages, the chief one perhaps being that in a country such as ours you are likely to go out of business if you do not explain what you are doing in the public domain. At any rate, I followed tradition in May and resisted the blandishments of the program chairman for your an-

(Continued on Page 3082)

*An address by Mr. Sproul before the 18th Mid-Year Trust and Banking Conference, New Jersey Bankers Association, Asbury Park, N. J., Dec. 6, 1946.

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BUSINESS BUZZ

"The Boss Has Just Been Made A U. N. Delegate!"

Washington and You

(Views of those behind the scene in the Nation's Capitol)

Hallelujah Republicans who have been preaching a 20% income tax cut right across the board are being gently hushed. With the camp meeting hysteria of the campaign subsiding, GOP steersmen are regretting that 20% pledge. They now know such a slash can't be voted without skidding them into a fiscal inferno. So don't count on a one-fifth shrinkage in your contributions to the Federal till. They'll be whittled down—but not to that extent.

* * *

Increasing the exemptions of individual incomes from the income tax will receive serious study. It wouldn't be surprising if Congress raised the exemption plateaus to $2,500 for married couples and $1,500 for individuals. That would generate lots of happiness, wouldn't punish the Treasury too severely.

* * *

White flag waving by John L. Lewis won't deter legislative engineers at the throttle of the anti-strike legislation crusade. Congress will certainly enact laws making unions and union leaders accountable to government and the people. End of the coal strike will not soften the impact of such legislation on Lewis type leaders, will merely mean less speed and greater deliberation — probably greater wisdom also—in Congressional action.

* * *

Industry-wide collective bargaining will be eyed and may be abolished by the incoming Congress. Return to the old system of only contracts between the union and individual employers is one way of breaking union monopoly. It could be achieved by a simple amendment to the National Labor Relations Act. Watch developments in that direction.

* * *

Anti-monopoly cry against business and industry will rise with consideration of labor control bills. Already Senator O'Mahoney, Democrat of Wyoming and conductor of the unproductive TNEC investigation, is penning a resolution reviving that probe. The affable ex-publisher would like to resume the fishing party which netted him no big game fish—or suckers—during the TNEC talkfest. But the Senator should know one thing—Republicans in control of Congress won't be so generous with fishing tackle as were O'Mahoney's Democratic colleagues.

* * *

Budget balancing specialists are now diluting their prescriptions with the uncertainties of two big ifs. They talk of limiting outgo to income if the national economy hasn't been thrown out of gear by the coal strike and if the anticipated industrial slump fails to snowball next year. Privately, many of them will tell discreet ears they expect reductions in normal Federal expenditures to be more than offset by employment shrinkage and subsequent Federal expenditures for work relief along about the third quarter of 1947.

* * *

More facts for investors is the slogan of a legislative drive for which the Securities and Exchange Commission is doing spadework. The agency is drafting proposed amendments to the SEC Act.

(Continued on page 3102)

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NYSE Studying Proposal to Revise Schedule of Commissions on Transactions in Securities

Acting on suggestion of some of its member firms, Exchange is drawing up a tentative first draft of a new schedule it proposes first to discuss with Securities and Exchange Commission and then, possibly, present to membership for a vote. Commissions are rigidly set by Constitution of the Exchange and an amendment will be necessary to effect a change. Firms want added revenue to meet higher costs of doing business.

The New York Stock Exchange, acting on the suggestion of some of its member firms, is seriously considering the possibility of revising its schedule of commissions on the purchase and sale of securities listed on the Big Board.

Feeling the pinch of increased costs of doing business, due primarily to the higher wages which must now be paid as compared with 1942 when the present schedule went into effect, a number of houses affiliated with the Exchange have asked for a revision of the rates to provide increases in revenue large enough to cover these heavier expenses.

The matter at the moment is in the hands of the staff of the Exchange and it won't go before the Board of Governors for further consideration until a tentative draft incorporating the essentials which the firms wanted included can be drawn up.

Minimum commissions which member firms can charge are rigidly set now by Article 15 of the Constitution of the Exchange and before the rates can be changed the Constitution, it is pointed out, must be amended. What is contemplated, it is understood, is not a general upward revision of all the rates. Many rates will undoubtedly be kept down, it is thought now. The desire, it is pointed out, is to set the various rates at levels which, in the aggregate, can bring the brokerage houses the added revenue they need.

Before the Board of Governors puts the question up to the membership to vote, too, it plans to discuss the entire issue with the Philadelphia main office of the Trading and Exchange Division of the Securities and Exchange Commission because, under the powers delegated to it by the Act of 1934, the SEC has jurisdiction over the commissions which the brokers can charge. The Board feels that it would not want to go very far ahead with the proposition without first having some kind of an understanding with the SEC.

Gale Johnston to Head St. Louis Bank

The election of Gale F. Johnston to become President of the Mercantile Commerce Bank and Trust Co., St. Louis, Mo., on Feb. 1, 1947, and his resignation as Second Vice-President of the Metropolitan Life Insurance Company was announced by Leroy A. Lincoln, President of the Metropolitan.

The successor to Mr. Johnston, in charge of Group insurance sales for the Metropolitan, will be announced shortly, Mr. Lincoln said.

Gale F. Johnston

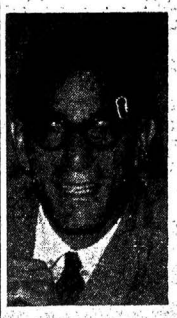
Prior to coming to New York, Mr. Johnston was in Washington in 1941 with the U.S. Treasury, and as Field Director established the State organizations and sales plans for the Defense Savings program. For 16 prior years he was with the Metropolitan in St. Louis.

Observations . . . .

By A. WILFRED MAY

The Government Versus the Underprivileged Consumer

In its apparent determination to cling to regulation of consumer credit—one of the government's few remaining outposts of control—the Federal Reserve authorities are embracing immediate as well as long-term fallacies.



A. Wilfred May

Continuation of the Regulation W-type of restriction, which was justified in wartime as an integral part of the nation's overall anti-inflationary campaign, is not only rendered useless by the ending of our armament economy, but will be affirmatively injurious to our present full employment and production efforts.

The total volume of consumption depends both on the amount of goods available, and on the prices consumers are willing and *able* to pay. With our productive capacity for peacetime usage now practically unlimited, consumers' effective purchasing power becomes again the most important factor determining the nation's volume of industrial activity.

Such effective buying power directed to the automobile industry, certainly constitutes the mainspring of our further reconversion progress. With its current attainment of high output, that industry will very soon be confronted with the very crucial problem of making the motor car consumable by our mass population. Whether the contentions of the Administration's own economists concerning the vital *gap* between production volume, and buying power, is or is not generally valid, it seems indisputable that at least the rise in automobile prices has been outstripping the public's ability to pay for them. Between 1940 and 1946 the prices of Chevrolet and Plymouth cars have already risen 38-40%, while disposable per capita income (adjusted for the cost of living) has increased by only 9%. Even allowing for statistical error, it cannot be denied that the present prices of consumer goods are very high in relation to purchasing power.

Moreover, the evidence of surprising paucity of consumers' savings and liquid assets, as adduced by the Reserve Board itself, renders highly inconsistent its deflationary consumer-credit efforts. It will be recalled that the Board's field survey of Liquid Asset Holdings of September, 1945, led it to conclude that despite the widespread assumption of wartime income inflation, the net residue of spendable savings remaining in the hands of the public was far below expectations. And in line therewith, the leading article in the Board's "Bulletin" of November, 1946, under the caption "Slackened Growth In Liquid Assets," shows that "as a consequence of the reduced government deficit and increased private spending, current liquid savings by individuals and businesses have been much smaller than during the war." Further it cites "reduced consumer savings while the rise in consumer expenditures for goods and services, many of which had not been available during the war, exceeded the increase in consumer incomes. Growth in individual holdings of government securities ceased."

Aggravation of the Production-Consumption Gap

The afore-mentioned "economic" obstacles to *cash* buyers' support of the all-important automobile market additionally are greatly aggravated by the continued administrative tightening of instalment credit terms by the government in comparison with their prewar status. Although the Board removed its wartime restrictions on consumer credit, effective December 1, automobile terms along with eleven other major classes of durable goods "constituting the great dollar bulk or credit," are still kept under wartime regulations. As a

(Continued on page 3104)

NYSE Members Christmas Bonuses to Employees

Members of the New York Stock Exchange were advised on Dec. 10, by Edward C. Gray, Director of the Department of Member Firms that

"With reference to Rule 436 of the Board of Governors, relative to permissible bases of compensation, the Exchange has determined that members and member firms need not report to, or obtain the approval of, the Exchange in connection with Christmas or year end bonuses or adjusting payments to their own employees.

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Every Thursday (general news and advertising issue) and every Monday (complete statistical issue—market quotation records, corporation news, bank clearings, state and city news, etc.)

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Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $26.00 per year; in Dominion of Canada, $29.00 per year. Other Countries, $33.00 per year.

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Central Hanover Bank Announces Appointm'ts

At a meeting of the Executive Committee of the Board of Trustees of Central Hanover Bank and Trust Company held on Dec. 10 the following appointments were approved:

At the Main office, Donald W. Baker, Henry R. Juliand, Michael T. Meehan, William H. Miller, Frederick J. Millett, Max Nides, James Richardson and J. Cornell Schenck, Assistant Secretaries; James S. Duncan and George F. Mohrmann, Assistant Treasurers; Adolph Garnjost and Edward J. Jungerman, Assistant Auditors; and John H. Andren, Assistant Manager of the Foreign Department.

At the Branch offices, William M. Elliott, Edward T. Matthews, James J. Murray, Jr., William F. Rathjens and Henry F. Skelton, Assistant Treasurers; and William R. Augustine, Assistant Secretary.

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OMAHA, NEB.—August M. Borchert and Jay H. Wooldridge are with B. C. Christopher & Co., Grain Exchange Building.

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A National Labor Relations Policy

By HON. JOSEPH H. BALL*
U. S. Senator from Minnesota

Liberal Republican Senator sees new national labor policy forthcoming, but warns legislation is no adequate remedy for industrial strife. Lays down as principles: (1) all disputes should be settled when possible by free collective bargaining; (2) government has right to intervene when public interest is paramount; and (3) an implimenting equality and responsibility by all groups under the law. Decries overriding economic power given to unions and lack of protection to individual worker and minority groups. Calls for thorough overhauling of National Labor Relations Act.

We can proceed today on the premise that the 80th Congress will make some substantial changes in our national labor relations policy. The great majority of the American people believe there is something radically wrong in our present policy and that changes are needed, even though there may not be complete agreement on what those changes should be.

Senator Jos. H. Ball

However, it cannot be emphasized strongly enough that legislation changing our national labor relations policy will be no immediate panacea or cure-all for our difficulties to day in this field. The labor relations picture in the United States, whether it is stable and harmonious or chaotic and war-like, is the sum total of hundreds of thousands of individual negotiations, agreements and disputes between individual employers and unions representing their employees, taking place within the framework of national policy.

We can change national policy with reasonable speed, but it will take months and probably years for that change to reflect itself in these hundreds of thousands of individual relationships. One mistake we made in recent years in Congress was to deal with symptoms of basic defects in our policy rather than getting at the causes of these symptoms. We have legislated for immediate crises rather than trying to change the policy which had brought about those crises. I hope we can avoid that mistake in the 80th Congress. I shall do what I can to prevent the Congress from being stampeded into adopting hastily drawn and inadequately considered legislation to deal with some immediate crisis such as the coal shutdown. Such attempts in the long run will create more problems than they solve.

Our national policy today is the result of some 15 or 20 years of development during which the trend has been to increase steadily the economic power of unions and to decrease almost to the vanishing point their legal duties and responsibilities. The development

(Cotninued on page 3088)

*An address by Sen. Ball before the 51st Congress of Industry conducted by the National Association of Manufacturers, New York City, Dec. 6, 1946.

SEC Will Not Seek Control of Unlisted Issuer Corporations With More Than $3,000,000 Assets

In press conference at Palm Beach, SEC Chairman Caffrey says he will not urge extension of regulations governing proxies and profits and trading provisions of insiders for corporations of $3 million capital and over. Will seek wider powers over investment advisory concerns. Predicts "red herring" prospectus question will be soon settled.

In a press conference at Palm Beach, Fla., on Dec. 4, where he addressed the IBA Convention, James J. Caffrey, Chairman of the Securities and Exchange Commission told reporters that the program for improvement in security marketing procedures was now undergoing study and that the Commission would propose some new legislation to Congress. He stated, however, that he did not propose to renew the recommendation made at the last session for extension to corporations having 300 or more shareholders and assets of more than $3,000,000 of the regulations regarding proxies, and publication of profits and trading position of directors or insiders. He announced the Commission has now under consideration a formal rule which would permit a wider circulation of the trial "red herring" prospectuses. He also announced that a recommendation would be made to Congress to widen the Commission's control over investment advisory services, but did not specify the exact nature of the control desired.

James J. Caffrey

Mr. Caffrey stated that one of the major problems of SEC—the fulfillment of the capitalization and organization of public utility holding companies, as required by Congress—is nearing completion and that substantial progress wil be reported during the coming year or pending disintegration programs.

Regarding the stock market break in September, Mr. Caffrey said his agency has almost completed its current study, and would soon issue a report on the causes and the problems involved.

As to the location of SEC headquarters, Mr. Caffrey "guessed" that the Commission would move its headquarters from Philadelphia back to Washington either late next spring or early summer. The offices were transferred to Philadelphia temporarily during the war. Mr. Caffrey favored a return to Washington in order to facilitate the SEC's relationship with other government agencies.

Arthur Tresch With Smith, Barney & Co.

CHICAGO, ILL.—Arthur Tresch has become associated with Smith, Barney & Co., 105 West Adams Street, members of the New York and Chicago Stock Exchanges. Mr. Tresch was previously a partner in Arthur Tresch and Co.

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Our Grave Inflationary Danger

By BERNARD W. DEMPSEY, S.J.*
Regent, St. Louis University, School of Commerce and Finance

Asserting terrific pressure within our price structure is due to oversupply of money and not to goods shortage, Father Dempsey points to eight-fold increase in our money and four-fold increase in bank deposits in last 25 years—far out of proportion to population, productivity or trade growth. Sees present increase in average velocity of money circulation as further inflation danger. Contends prevention of further inflation by higher interest rates or by requiring banks to carry 100% reserves are undesirable or unacceptable. Lays prewar inflationary policy to Keynes' ideas, which, he says, are unsuited to U. S., and expresses belief problem of reversal of inflationary trend will not be handled properly.

What I have to say to you may be very simply summarized:

1. We have in the United States today a grave inflationary problem.
2. This problem is wholly unnecessary and is the result of misguided policies that could have been avoided.
3. There is little reason to hope that this explosive problem will be handled with the care it deserves.

I.

Inflation is a process that can appear in the economy of a nation in many ways and is therefore difficult to define. Inflation affects the whole inter-relation of money, goods, and prices. The price structure is complex. And it is therefore not simple to define inflation in a way that is both technically accurate and at the same time adequate to cover all these possibilities and to include all possible factors. For those who are interested, I might say in passing, Dana Skinner's book "Seven Kinds of Inflation" treats of all these variations and is at once readable and sound.

Rev. B. W. Dempsey

But though a valid definition of inflation of general application may not be simple, in a concrete instance inflation may be easily described and recognized. When the forces at work in an economy are alike gross and powerful, the refinement and niceties of economic science become superfluous. Simple formulas may then suffice for particular cases, though the use of such formulas would be dangerous in others.

In the popular mind cause and effect are frequently confused when inflation is associated with a rise in prices. In the great historic inflations in Germany, Russia, and Austria, no one but students imputed these inflations to the increase in the money supply. The high prices were attributed to shortages, or else speculators were blamed. Such views may be merely inadequate or they may be quite wrong. To say that prices have not risen and that therefore we have avoided inflation may be the complete opposite of the truth. It has been well stated that "high prices cause inflation in the same way that wet streets cause rain." To say that the evil effects of inflation have been postponed or disguised or diverted and that, therefore, inflation does not exist, is like telling men who have successfully worked all night to keep a swollen river in bounds that it did not rain in the first place.

*An address by Father Dempsey at the Luncheon Meeting of the Missouri Press Association, Nov. 15, 1946.

Why Commodity Prices Rise

Speaking generally, prices rise for two reasons. First, a certain commodity or class of commodities may be in short supply. Buyers bid against each other for this limited supply and the goods are sold to the highest bidder. In such a case the total sum of money spent on this commodity may not increase; it simply buys less goods per dollar. Second, a certain commodity or class of commodities may be plentiful; the volume may

(Continued on page 3105)

Germany—Poor-House or Power-House

By JAMES P. WARBURG*

Prominent banker, asserting peace and world-wide prosperity are indivisible, contends we have a vital interest in future of Germany because that country is laboratory for building an enduring peace based upon Great Power cooperation. Holds Germany is hub of European economy and therefore, a major factor in promoting continental prosperity. Says Germany, besides having only surplus coal production in Europe, is still the largest single compact mass of skilled labor and expert technology in Europe, and this is a major factor in its productive capacity. Foresees no permanent peace without restoration of German economy. Describes conditions in occupied Germany and concludes there should be two plans—one a short-range and one a long-range agreement on Germany's future.

We are here today to discuss the problem of Germany. This problem is not some remote academic question of interest only to students of foreign affairs. You and I are here to talk about it because we know that it directly affects our own future and that of our children.

James P. Warburg

We know that upon a solution of the German problem may depend not only our own future happiness and prosperity, but our national safety, and even the continued life of civilized man upon this planet.

Peace And Prosperity Indivisible

In this shrunken world, not only peace but prosperity is indivisible. Just as today war anywhere in the world means the likelihood of war everywhere in the world, so poverty, oppression and unrest anywhere in the world today threaten the happiness and tranquility of all people everywhere.

Thus, what happens in Germany may or may not interest us very much so far as any sympathy for the German people is concerned, but what happens in Germany is of profound and vital interest to us for a different reason—because it will affect not only the German people but the whole human race, including ourselves.

I support this with three contentions:

First: Modern Germany came into being in 1871 as the result of three wars of aggression, deliberately and successfully waged by Prussia under the leadership of Bismarck. This was in the time of our grandfathers. Within our own memory, this modern Germany—born as a warrior nation—has shared the responsibility for bringing on one world catastrophe, and has been almost solely responsible for bringing on a second.

A German warrior nation must never be allowed to disturb the world's peace again. That is one reason why we have a vital interest in Germany's future. We have the duty to see to it that there is no German warrior nation, dedicated to the doctrine that might makes right.

Second: We have a vital interest in the future of Germany, because Germany is the chief testing

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*Text of an address by Mr. Warburg before the Foreign Policy Association, New York City, Dec. 7, 1943.

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Public Utility Securities

Cities Service

Cities Service Company has made steady progress during the past two years in streamlining its major utility sub-holding company systems—Cities Service Power & Light and Federal Light & Traction. Power & Light disposed of its outlying properties, retaining Ohio Public Service and Toledo Edison together with it 64% interest in Federal Light & Traction. Meanwhile the latter also disposed of a substantial part of its interests, finally merging the remaining four subsidiaries into Public Service Company of Mexico. Power & Light was dissolved Aug. 30 and Federal will be dissolved in the near future, it is expected, thus placing the holdings of the three operating stocks (with some other assets) directly in the Treasury of Cities Service Company.

The top company recently submitted its own recapitalization and integration plan to the SEC. It will eventually divest itself of the major utility investments, probably by sale to the public. Arkansas Natural Gas Corp., as remaining sub-holding company, will also perfect a plan to comply with the Utility Act presumably by arranging to dispose of its retail gas subsidiary, Arkansas-Louisiana Gas Co. Thus Cities Service will eventually be principally in the oil and natural gas business, with no utility investments except for several small retail gas companies, which it will seek to retain on an exempt basis. Three of these, serving Kansas City and adjacent areas, are to be merged; the other two operate in Canada and New York State.

Following are the main outlines of the recapitalization plan: Cities Service Company's own funded debt was reduced June 1 to around $100,000,000 through application of accumulated cash to retirement of $35,000,000 5s of 1950. Since that date the top company is understood to have replenished its Treasury position by calling in loans to subsidiaries; on Oct. 31 cash assets amounted to over $88,000,000 compared with current liabilities of $15,000,000. Immediately upon the plan becoming effective, the remaining $40,578,000 5s of 1950 will be redeemed reducing funded debt to slightly under $60,000,000. This remaining debt will be retired later from the sale of the major utility holdings.

While the old debt is to be retired, the company expects to issue $108,361,950 new Sinking Fund Debenture 3s due 1997. This will not be a refunding operation or a public offering, but the bonds will be issued in exchange for the present preferred stocks with their dividend arrears, the face value of bonds per share being as follows (including arrears):

Preferred Stock	$184.50
BB Preference Stock	187.50
B Preference Stock	18.75

Since the debentures will bear interest from Jan. 1, 1947, no dividends will be considered to accrue after that date.

The new bond issue will later be reduced to about $83,000,000, using left-over cash (estimated at $25,000,000) from the sale of utility interests after the remaining $60,000,000 old 5s have been paid off. It will be further decreased $1,500,000 anually by a sinking fund. While any of the old bonds remain outstanding the new bonds will be subordinate.

The Plan must be authorized and approved by the SEC, by a Federal Court and by at least 60% of the preferred and preference stocks. The company may employ bankers or other agents to solicit exchanges of preferred stocks for the new bonds.

Accompanying the description of the Plan is an income statement for Cities Service Company (parent company only) for the 12 months ended Oct. 31, 1946, adjusted to a pro forma basis. Actual net income for this period was $9,108,660 (compared with $6,741,879 for the calendar year 1945), or $5,585,340 after annual preferred dividend accruals. The first adjustment under the Plan should increase net income to $9,222,335, the Company estimates; and the final steps under the Plan after sale of the utility stocks, should further increase the amount to $12,268,050 (all available for the common stock). Thus the final pro forma share earnings for the common stock would eventually be increased to about $3.33, as compared with actual parent company earnings of only 88c a share in 1945. These results are, of course, based on the assumption that $85,000,000 can be obtained from the sale of the utility properties.

This substantial estimated gain is obtainable because (a) 1946 parent company earnings are above last year's, (b) only about $790,000 in portfolio income will be lost through sale of the utility properties, and (c) over $4,000,000 in fixed charges and $3,500,000 in preferred dividend requirements will be saved.

It is unfortunate that the Plan did not contain a pro forma consolidated income statement which would reveal the effects of the Plan on consolidated share earnings (the usual method of reporting them). In 1945 such earnings were $3.12 a share.

Trading Markets in Common Stocks

*Bates Manufacturing Co.	Liberty Aircraft Products
Bausch & Lomb Optical Co.	Rockwell Manufacturing Co.
*Crowell-Collier	*Tennessee Gas & Transmission
*Foremost Dairies	U. S. Potash

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Meyer to Plead For World Bank Issues

WASHINGTON, Dec. 12—Eugene Meyer's address before Life Insurance Association of America group in New York tomorrow will constitute another step in World Bank's campaign to stir investment interests into activity on behalf of its securities. The Bank's financing cannot succeed with investment public apathetic or suspicious. In practically every state insurance companies are legally barred from investing in World Bank securities.

Eugene Meyer

His associates at the Bank report Mr. Meyer as yesterday reiterating his public explanation of his resignation as due to the conclusion that now is the time to select the Bank's permanent head. He stated that he had some difficulty in persuading his wife that he should resign. On the other hand some friends of Mr. Meyer outside the Bank have been saying that Mr. Meyer's family were worried about his health and prevailed upon him to resign.

While both considerations doubtless were present the impression persists in Washington circles that Mr. Meyer found organization and policy problems tougher than he had anticipated.

Justin Jacobs Mgr. of Luckhurst Co. Dept.

Luckhurst & Co., Inc., 40 Exchange Place, New York City, announce that Justin Jacobs, certified public accountant, is now Manager of their Investment Research Department.

Herrick, Waddell Co. Adds

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—Burwell N. Kilbourn has become associated with Herrick, Waddell & Co., Inc., whose main office is at 55 Liberty Street, New York City. In the past Mr. Kilbourn was with United Funds Management Corp. Prior thereto he was Omaha manager for Boettcher-Newton & Co. and conducted his own investment business in Omaha.

John A. Rodgers, Jr. With Sills, Minton & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John A. Rodgers, Jr., has become associated with Sills, Minton & Co., Incorporated, 209 South La Salle Street, members of the Chicago Stock Exchange. Mr. Rodgers was previously with A. C. Allyn & Co. and Bond & Goodwin, Inc.

Philip Dorner Dead

Philip H. Dorner, associated with Wm. R. Staats Co., Los Angeles, for 25 years, died of a heart attack at the age of 50.

Will the GOP Congress Fulfill War Commitments to Our People?

By HON. HOWARD BUFFETT
Member House of Representatives from Nebraska

Republican member of House Banking Committee maintains that radical reduction in Federal expenditures is indispensable to fulfillment of our sacred obligations to war victims and bondholders. Noting that half of current $40 billion budget is devoted to armament expenses and "foreign handouts," he urges: (1) prompt cessation of direct and indirect outlays for foreign lending; and (2) reduction of military expenses to legitimate peacetime figure.

Will the Republican Congressional majority move courageously to get America's finances in order?

World War II saddled two permanent and gigantic economic burdens on the backs of the American people. One is our duty to the widows, orphans, dependents, and wounded of World War II.

Or will the Republicans, cowed by the propaganda from internationalists, militarists, and left-wingers, conduct a sham battle against continued deterioration of the dollar?

Howard Buffett

The next 12 months in Congress will supply the answer.

World War II saddled two permanent and gigantic economic burdens on the backs of the American people. One is our duty to the widows, orphans, dependents, and wounded of World War II.

On Oct. 31, 2,022,082 persons were already receiving World War II monthly pension or compensation checks. The list is permanent and steadily growing. It does not include those receiving temporary GI benefits.

Total expenditures for veterans are now costing about $6 billion annually. That is much more than the entire cost of the Federal government for any one year in the Twenties.

Our Colossal Debt

The second new burden is the colossal Federal debt. On Nov. 15, 1946, the debt was $262 billion. The annual interest cost of this debt is about $5 billion. Since 1930, a period of sixteen years, the Federal government has only been able to pay its interest charges by additional borrowings.

These obligations to war victims and war bond holders can be met three ways: (1) They can be repudiated outright. (2) They can be largely repudiated by payment in steadily deteriorating dollars. (3) They can be paid in 1946 purchasing-power dollars.

Obviously only one honorable course is open. It is to pay these debts in dollars with a purchasing power at least equal to the present level.

That will be the hard way. It will be unpopular. It will mean

(Continued on page 3118)

Changes in Wage Trends

By LEO WOLMAN*
Professor Economics, Columbia University

Maintaining reasonable cost of doing business is everybody's concern and that it encompasses the present wage problem, Dr. Wolman contends there has been too much "messing around" regarding transcendent importance of higher wage rates. Holds wages have been rising at an unusual rate for a long time, much in excess of increased cost of living, and that this has resulted in increasing costs and prices. Cites Railroad Retirement Act as raising railroad payroll 20% and contends continuous and steady wage increases are adding strains and stresses to the economic system that will eventually "bring us into trouble."

Good peaceful, workable labor relations are not the type of thing we get by wishing for them. You have got to work for it and you can only achieve them by procuring, somehow or other, understanding as to the problem and the assumption of responsibility by the common run of people throughout the country for the decisions you take.

Prof. Leo Wolman

And so I find it very hard to understand from time to time, as I read things which every one of us reads and talk to people about things that every one of us talks about, to see that there is no concern about what seems to me to be the fundamental problem of present times, of present labor relations, and that is costs. It used to be believed, you know, when we lived in a simpler society and in a society in which the thinking was simpler anyhow than it is today, that if things got more and more costly, if doing business was a more and more costly enterprise, that there resulted from that a series of well-definable, well-defined, clear evils which we wanted to avoid. But now, pretty nearly every one of us does not seem to be concerned about costs at all. They say, what we want is harmony, what we want is peace, and nobody worries about costs.

A Reasonable Cost of Doing Business

It seems to me to be my judgment that it is awfully hard to get harmony and peace unless you turn your mind back to a very simple kind of thing—though not easy to achieve—namely, a reasonable cost of doing business. And a reasonable cost of doing business is a goal which is everybody's concern.

Well, then, when we talk about this problem of a reasonable cost of doing business, we are talking in reality about the wage problem in its larger aspects, and the problem that affects everybody. And we must remember in this con-

(Continued on page 3103)

*Text of an address delivered by Dr. Wolman before the 51st Congress of Industry conducted by the National Association of Manufacturers, New York City, Dec. 6, 1946.

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"Hard" and "Soft" Currencies

By PAUL EINZIG

British commentator calls attention to unwarranted optimism regarding volume of British exports, due to failure to take account of currencies in which exports are paid. Points out exports have been going to Sterling Area or to countries with "soft" or inconvertible currencies, and not into "hard" currency countries, such as U. S. Says U. S. loan, despite large exports, is being rapidly used up, and British export drive is merely depriving people of needed home-produced goods.

The attitude of the British Government towards foreign trade figures underwent a sudden and thorough change in recent weeks.

Paul Einzig

For months official spokesmen commented on the figures of exports in terms of glowing optimism. They pointed out the increase of the value and volume of exports far beyond anticipation, and presented this as a great achievement. They foreshadowed a drastic reduction of the adverse trade balance, as a result of which it would be possible to use the proceeds of the American loan very sparingly.

More recently this optimism gave way to a more cautious tone in official circles. And the latest pronouncements on the subject by Mr. Dalton and Sir Stafford Cripps were decidedly pessimistic. It is not as if export figures had deteriorated in the meantime. The global figures justified optimism in November to the same extent as they did in June. But in the meantime British official circles came to realize that it is not the global figures that really matter but their analysis according to countries of destination.

The government realized that even if Britain succeeded in eliminating her trade deficit, this in itself would not save her from running short of dollars and other hard currencies in a very short time. For an export surplus to Sterling Area countries does not produce any dollars. An export surplus to countries holding Sterling balances merely results in a reduction of those balances. An export surplus to countries with weak inconvertible currencies, such as France, merely increase frozen claims on those countries. And an export surplus to occupied countries such as Germany produces absolutely nothing—it is a deal loss.

Until recently the government chose to bury its head in the sand in face of these obvious facts. Nothing was said about the inclusion of supplies sent to British troops abroad, or to UNRRA into the impressive grant totals of exports. There was no indication of the extent to which Britain received the proceeds of exports in Sterling or in inconvertible weak currencies; or of the extent to which these proceeds disappeared in the bottomless pit of war balance repayments; or even of the extent to which exports were given away for nothing to exenemies or others.

The foolishness of giving rise to unwarranted optimism was forcefully brought home to the government partly by the campaign in favor of slackening the export drive which deprives the home consumer of much-needed goods, and partly by the pace at which the dollar loan has to be drawn upon to meet the deficit in hard currencies.

It should have been easy to foresee that the official optimism about the trade balance was bound to strengthen agitation in favor of allowing the long-suffering British consumer to buy more British manufactures he had to do without for years. It was argued that since the deficit is much smaller than it was expected to be, why not draw more extensively on the dollar loan in-

(Continued on page 3111)

Opponents of Incorporation on NYSE Say They May Organize to Fight Proponents of Issue

By EDMOUR GERMAIN

Concerned over tactics of proponents, the opponents are now known to be seriously considering desirability of forming a committee to make views of what they believe to be majority opinion more vocal. Proponents' committee is very confident Board of Governors and members of Exchange will vote overwhelmingly in favor of permissive incorporation. In face of mounting controversy over subject, Board again postpones its decision on question for another month. Opponents declare arguments of proponents presented in pamphlets which they are distributing are an insult to intelligence of members.

Members of the New York Stock Exchange who are opposed to permissive incorporation are weighing the desirability of banding themselves into a committee to resist the efforts of the 26-man committee which was formed by the proponents of the proposition this fall when the Board of Governors, because of the storm of controversy which the issue aroused, suddenly showed signs of indecision on the matter.

For permissive incorporation to be adopted, the Board of Governors would first have to approve of an amendment to the constitution permitting incorporation, then the question would have to go before the entire membership of the Exchange for a final vote and, as the opponents are aware of the terrific pressure which the proponents, through their committee, are currently bringing upon the board and upon the general membership, but especially upon the board, they are wondering whether or not they, too, should organize to give more effective expression to what they believe to be the majority view on the issue.

The opposition has been questioning the necessity for a concerted drive on its part to counteract the various moves of the proponents and it still hasn't made up its mind as to just what it ought to do. It feels that the case for permissive incorporation which the Ames' committee of the proponents has been working up is already boomeranging against its advocates. The opposition wonders, in fact, whether it wouldn't be dignifying the program of the proponents too much to reply to the allegations being made by them.

It is the opposition's view that the proponents in the five educational pamphlets which they have distributed so far to the 4,300 allied members of the Exchange, including the partners, have "talked down" to the individual broker and so been instrumental more in stirring up resentment

(Continued on page 3111)

Calkins Elected Director of AFGL

Howard W. Calkins, Vice-President of Albert Frank-Guenther Law, Inc., 131 Cedar Street, New York City, advertising agency, has been elected a director of the company. Mr. Calkins was a reporter and special writer on the staff of the New York "Times" for seven years prior to the war and during the war served as a Lieutenant Commander in the Navy.

SCHENLEY DISTILLERS CORPORATION

NOTE—*From time to time, in this space, there will appear an advertisement which we hope will be of interest to our fellow Americans. This is number 149 of a series.*

SCHENLEY DISTILLERS CORP.

Candor

By MARK MERIT

We were understandably proud to listen to an address by Charles F. Brannan, Assistant Secretary of Agriculture, before the Distillers, Rectifiers and Importers luncheon at the Waldorf-Astoria, in New York, on November 11th, just prior to the opening of the 31st National Hotel Exhibition at the Grand Central Palace. Mr. Brannan said in part:

"*I wonder how many Americans realize the important role that high-protein feeds (by-products of distilling) have played in the tremendous increase in meat production during World War II; beef, veal, lamb, mutton and pork production . . . I want to say very plainly that the distillers' aid in helping provide high-protein feed concentrates is not something that the Department of Agriculture regards lightly. The truth is that the Department is quite proud of the fact that it not only urged, but aided, the distilling industry to go into this program. Even though the fighting phase of the war ended more than a year ago, the demand for meat is still extremely great and the need for ample feed supplies is therefore also correspondingly large.*"

We were impressed when Mr. Brannan stated . . . "*It is highly important, therefore, that the true facts of the contribution of every industry to our national well being should be widely known. This seems to be particularly so of the distilling industry. There are few industries . . . perhaps none . . . about which misunderstanding is more complete or more widespread. Despite the fine efforts of the distilleries to acquaint the nation with the facts of their wartime contribution, the great majority of the people, I am sure, still think of distilleries almost exclusively in terms of beverage alcohol—in terms of liquor.*"

Mr. Brannan also made the significant statement that, "*The contemplated increase in grain available to distilleries would result in a very substantial increase in the quantity of distillers' dried grain available for feeding to live stock. The forecast for the year which began October 1st is for 500,000 tons as compared with 330,000 tons last year and a 1938-1942 average of only 244,000 tons.*"

Definition of "candor", Funk & Wagnalls: "Openness; frankness; impartiality; fairness." Thank you, Mr. Brannan.

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Dealer-Broker Investment Recommendations and Literature

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

Amott-Baker Realty Bond Price Averages — monthly bulletin — Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Aviation Bulletin—Latest developments—John H. Lewis & Co., 14 Wall Street, New York 5, N. Y.

Charts—Weekly charts of the 65 industrial, railroad and utility stocks in the Dow-Jones Averages, showing daily high, low, closing and volume of each stock for the period from Jan. 1 to Nov. 30, 1946. Additional weekly supplements to keep the booklet up to date—F. W. Stephens Company, 15 William Street, New York 5, N. Y.

Fire Insurance Earnings Cycle—Brochure—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Guide to the Perplexed—a challenge to the barrage of pessimistic statements—bulletin with a list of suggested stocks for income and capital appreciation—Strauss Bros., 32 Broadway, New York 4, N. Y.

Holding Company Equities — Study of relative positions of equities actively traded—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available is a memorandum on the significance of the recent **Freight Rate Increases.**

Investment Opportunities in the Gas Industry — Study — Fred W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

Manufacturing Drug Industry—Review of conditions—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

New York City Banks and an out of Line Bank Stock—Analysis—Kalb, Voorhis & Co., 15 Broadway, New York 5, N. Y.

Railroad Stocks—Current comment—Delafield & Delafield, 14 Wall Street, New York 5, N. Y.

Time for Caution on Preferreds—Special memorandum — Arthur Wiesenberger & Co., 61 Broadway, New York 6, N. Y.

Abbott Laboratories — Memorandum—Penington, Colket & Co., 70 Pine Street, New York 5, N. Y.

Also available is an analysis of **Burdine's Inc.; Heyden Chemical Corp.;** and **Sun Chemical Company.**

Admiral Corporation — Brief memorandum—Dempsey & Company, 135 South La Salle Street, Chicago 3, Ill.

Argo Oil Corporation—Descriptive circular—Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

Also available are circulars on **Tennessee Products** and **Wellman Engineering.**

Aspinook Corporation—Circular—Ward & Co., 120 Broadway, New York 5, N. Y.

Also available are memoranda on **W. L. Douglas Shoe Co.; Hartford Empire; Lanova Corp.; Mohawk Rubber;** and **Taylor Wharton Iron & Steel; Barcalo; Haloid; Purolator Products; Upson Corp.; Alabama Mills; Diebold, Inc.**

Automatic Fire Alarm—memorandum — Mitchell & Company, 120 Broadway, New York 5, N. Y. Also available is a memorandum on **Standard Screw.**

Boston & Maine Railroad — Circular — Walter J. Connolly & Co., 24 Federal Street, Boston 10, Mass.

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

Central Public Utility 5½s of '52 and Consolidated Electric and Gas Pfd. — Comprehensive study and analysis in brochure form—Fred W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

Chicago North Shore & Milwaukee Railway Co.—Brief memorandum on outlook—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

Cities Service Company — Analysis of situation in recapitalization — Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Also available is a study of rail developments in view of the freight rate increase, and an appraisal of values of **New England Public Service Co.**

Collins Radio Company—circular—Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

Delaware Lackawanna & Western — Lackawanna RR NJ Division First Mortgage "A" 4s—memorandum indicating attractive yield—in the current issue of **"Railroad and Other Quotations"**—B. W. Pizzini & Co., Inc., 25 Broad Street, New York 4, N. Y.

A. DePinna Co.—memorandum Herrick, Waddell & Co., Inc., 55 Liberty Street, New York 5, N. Y.

Gruen Watch Company—memorandum — Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Bird & Son, Inc.** and **Northern Indiana Public Service Co.**

Gulf, Mobile & Ohio Railroad—Analysis—R. H. Johnson & Co., 64 Wall Street, New York 5, N. Y.

Harrison Wholesale Company—Memorandum—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

Hydraulic Press Manufacturing Co.—Detailed Analysis—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Also available are analyses of **Long Bell Lumber Co.,** and **Miller Manufacturing Co.**

International Cellucotton Products Co. — Analysis — New York Hanseatic Corporation — 120 Broadway, New York 5, N. Y.

Maryland Casualty Company—Analysis of situation—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

Metal & Thermit Corporation—Memorandum—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Northern Indiana Public Service Co.** and **Merchants Distilling Corp.**

Mohawk Liqueur Corp.—Brief memorandum — Bennett, Spanier & Co., 105 South La Salle Street, Chicago 3, Ill.

Northern Indiana Public Service Company—Detailed study of situation—Bear, Stearns & Co., 1 Wall Street, New York 5, N. Y.

Northern Indiana Public Service Co.—study—Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

Nunn-Bush Shoe Company — memorandum—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Osgood Company — circular—Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

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

Public Service Company of Indiana, Inc. — analysis—First Boston Corporation, 100 Broadway, New York 5, N. Y.

Ralston Steel Car Co. — Circular — Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Rockwell Manufacturing Co.—Analysis—Steiner, Rouse & Co., 25 Broad Street, New York 4, N. Y.

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

Seaboard Airline — Analysis — Vilas & Hickey, 49 Wall Street, New York, 5, N. Y.

Also available is a memorandum on **Southern Railway.**

Showers Brothers Co.—Analysis—Caswell & Co., 120 South La Salle Street, Chicago 3, Ill.

Simplicity Pattern Co. — Late data—Aetna Securities Corporation, 37 Wall Street, New York 5, N. Y.

Also available to dealers and institutions are special letters on **District Theatres Corp.; Dumont Electric Corp.; Princess Vogue Shops; Henke & Pillot, Inc.; Electronic Corp. of America; The F. R. Corporation; Hungerford Plastics; Loew Drug Company; Stratford Pen Corp.; Metal Forming Corp.; Le Roi Co.; York Corrugating Co.**

West Indies Sugar Corporation—Detailed study—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Spencer Shoe Corporation — Analysis—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Victor Dykes Now With Russell, Berg & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Victor Dykes has become associated with Russell, Berg & Co., 75 Federal Street. In the past he was with The Fidelity Co. and was an officer of Cromwell & Cabot, Inc.

Bailey & Selland Add Three

(Special to THE FINANCIAL CHRONICLE)

FRESNO, CALIF.—William M. Donleavey, Harvey H. Shields, Jr. and Ora A. Turner have joined the staff of Bailey & Selland, 1157 Fulton Street. Mr. Donleavey was previously with the First California Company. Mr. Shields was with First California Co.

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Illinois Brevities

What interest Chicago business and industry people had left over from the coal strike last week was given wholeheartedly to such events as the most successful International Livestock Exposition in 47 years, record pre-Christmas sales despite the dimout, an appeal to Chicagoans by an Alaskan publisher to help break Seattle's 40-year shipping "monopoly," and the beginning of two huge sales by the War Assets Administration.

End of the coal miners' walkout came just in time to stave off a crippling congestion of freight treminals here, and to prevent serious industrial shutdowns. Manufacturers were reaching the last of their raw materials reserves. Compared to other sections, however, the Chicago area came through the strike in good shape.

More than 430,000 persons saw the 47th livestock exposition here, and both entries and prices paid for the champion animals approached or set records. The grand champion steer, a 1,380-pounder named Royal Jupiter, was purchased by the Firestone Tire & Rubber Co. for $14,490, highest price ever paid at the show.

The appeal to Chicago business was made by Peter Wood, publisher of the Alaska "New Letter," before the Export Managers Club. He said West Coast maritime strikes have had a devastating effect on Alaskan morale and economy. The WAA started two large-scale retail efforts, one a sale of 2,800 Dodge plant machine tools that cost the government $25,000,000, and the other a sale of $20,000,000 of surplus commodities over-the-counter to veterans.

* * *

Walter R. Scott's election as President of the National Association of Commodity Exchanges and Allied Trades, Inc., was announced in Chicago. Mr. Scott, Executive Vice-President of the Board of Trade of Kansas City, Mo., was chosen after the membership meeting last week.

* * *

The Chicago Corp. further diversified its field of direct investments by acquiring a substantial interest in a new Pacific steamship line, the Pacific Far East Lines, now operating between San Francisco, the Philippines, Marianas, Korea and Japan. The company, incorporated last July, now has 18 dry cargo and refrigerator ships in service.

Pacific Far East has a capitalization of $2,700,000, with $1,950,000 invested by the Chicago Corp., which owns the complete senior preferred issue of $1,700,000, and 25% each of the $250,000 common stock issue and a $750,000 junior preferred issue.

* * *

In dismissing a petition for an injunction against the Board of Trade to prevent it from putting certain new regulation into effect, Federal Judge Shaw said "This court is not going to hold up the Board of Trade, the biggest grain market in the world, because of the grievance of one man." A temporary restraining order previously had been obtained that closed the Board of Trade two hours. It was obtained by Robert Buckley, partner in Buckley & Co., grain commission firm.

* * *

Inland Steel Co. announced it had sold $50,000,000 of 2.68% Series G bonds, dated Nov. 1, 1946, and maturing Nov. 1, 1976. The total was placed by Kuhn, Loeb & Co. with eight insurance firms at 100% plus accrued interest.

* * *

Swift International Co., Ltd., disclosed that Argentina had approved an increase in its capital stock from 1,500,000 to 3,000,000 shares. The Argentine government specified that none of the proceeds be used to acquire any other packing interests there.

* * *

Several important speakers here last month commented on financial and comercial trends. J. W. DeLind, Jr., President of Borg-Warner International Corp., said credit losses on export shipments to Europe are less than 0.5% of sales. Joseph P. Kennedy, now owner of the Merchandise Mart, told the National Association of Bedding Manufacturers that businessmen should stop talking in terms of a depression.

John K. Langum, Vice-President of the Federal Reserve Bank of Chicago, predicted stability on interest rates on government securities before the mid-continent trust conference of the American Bankers Association.

Owen L. Coon, Chairman of General Finance Corp., said finance companies must take aggressive steps to meet the growing competition of banks. He addressed the American Finance Conference's convention. Dr. W. H. Zinn, head of the Argonne National Laboratory, said atomic energy power plants would not be developed for industrial use before five or 10 years. W. D. Lynch, Vice-President of the National Folding Box Co. and retiring Packaging Institute President, discussed a rise of more than 20% in packaging costs.

* * *

Two main competitors were striving to acquire the $91,000,000 Republic Steel Corp. plant from the government. They were Republic, present lessor, and Philip D. Fitzgerald and his Chicago syndicate, both of whom have increased their original offers for the South Chicago plant.

* * *

Illinois Bell Telephone Co. asked the Illinois Commerce Commission for increased rates for Chicago and other communities. The proposed increases in Chicago range up to $1.50 for main business service and 50 cents for residences. Although operating costs have risen $66,000,000 or 80% since 1940, the company said, revenues have increased less than $58,000,000 or 59%.

Problems Facing Industry

By C. E. WILSON*
President, General Motors Corporation

Leading industrial executive lists problems as: (1) business interruptions from strikes; (2) materials shortages; (3) increased working capital needs; (4) obtaining increased fixed capital requirements; (5) keping costs and prices in balance; and (6) high taxes required by huge Federal budget. Attacks monopoly of trades unions and wants collective bargaining on an industrial basis prohibited. Denies aim to destroy labor unions and lays down principles of new labor legislation. Ascribes present strike situation to labor lawlessness permitted by Administration.

My subject today, "The Problems Industry Faces in the Months ahead," is a big one. Some of these problems would have existed if there had been no World War. They have been accentuated and complicated by the War. Among these major problems are:

C. E. Wilson

1. Organized unemployment and restricted production resulting from the policies of rival union bosses and labor dictators, and the unsound economic policies of unions as expressed by most union spokesmen.

2. Material shortages resulting from the war, and the lack of capacity production since the war, principally due to strikes and union activity.

3. Increased working capital requirements resulting from unbalanced inventories which have resulted from the uncertainty and irregularity of supply, and the increased price level.

4. Increased fixed capital required due to the higher cost of tools, plants and facilities, and an important increase in fixed overhead expenses due to such higher costs.

5. The difficulty of keeping costs and prices in balance, and threatened further inflation.

6. The exceedingly high national debt resulting from the war, and the failure to balance the budget in the decade before the war, together with the continuing huge Federal budget and the excessively high Federal taxes which these conditions impose.

While I have listed these six problems facing industry, the first, the labor problem, and the last, the fiscal problem, are basic, and the others largely result from these two.

In the coal strike just ended, we had an example of organized unemployment and interference with production—a form of industrial civil war that almost proved disastrous for the whole nation.

Americans do not like monopolies or dictators of any kind. They do not like them in government and politics, in finance and

(Continued on page 3107)

*An address by Mr. Wilson before the 53rd Annual Meeting of Illinois Manufacturers Association, Chicago, Ill., Dec. 10, 1946.

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Real Estate Securities

Though conservative opinion on Wall Street is not wholly bullish on all classes of securities, there are some analysts who believe that the prospect for profit-making in real estate issues, as in some other selective fields that might be mentioned, though probably not as good as they would like to see it, yet is encouraging and full of promise nevertheless.

There are two developments in the real estate field which are giving strong support to the market, it is held. The first and, according to some, the most important of these developments, reflecting as it does the inevitable aftermath of the war, is the large-scale termination by the various government agencies of leases on valuable office space, covering in some instances as much as seven floors, in the largest and best commercial buildings in New York and elsewhere, but especially in New York. The second development, though not as definite as the first still very clear-cut and real to many, is the confidently expected lifting of OPA ceilings on hotel rooms by the first of the year and on rents on dwellings of all sorts, including apartments, by next summer to a point about 10% above present levels.

The termination of the leases by the government agencies, of course, is and will continue to make much needed office space in the preferred commercial locations available to the nation's leading financial and mercantile establishments which, now in the throes of completing the job of converting their processes from a wartime to a peacetime economy, want to expand their administrative and sales organizations, even carrying certain departments in some instances to new areas, so as to be in a strategic position to exploit all the trade possibilities that may be open to them in the coming years.

Thus, much at least of the space which the government agencies acquired, say in New York, at the low rentals of 1942 period, averaging around $1.50 per square foot but in some cases as low as $1.40 or $1.25, will now command around $3 per square foot. Earnings of commercial buildings, under such conditions, it is generally felt, can hardly fail to show increases or, at least to maintain a considerable degree of stability. Private industry, it is estimated, can readily absorb at once at least 50% of the space now occupied by the government agencies. Even should the government agencies vacate all their quarters and 50% of the space remained unused, decreased costs of maintenance, it is thought, would still work to bolster profit levels. However, it has been observed that the government agencies are not vacating all the space they have been using. It is recognized, too, that as much as a 5% vacancy is actually desirable in both hotels and office buildings to permit temporary transfer of quarters in the event of necessary repairs and, especially in the case of the commercial structures, to allow for the normal expansion in the amount of space which present tenants may desire who are engaged in successful enterprises.

Because the building industry is organized on rather a small scale and thus at least seemingly impotent to deal with the enormity of the problem posed by the present housing shortage with the gusto some people in the population would like and also because of high construction costs and the difficulty of obtaining materials—though materials are now beginning to trickle into the market—new apartment houses won't be going up immediately, at least not to any appreciable extent, it is thought. Present apartment houses will therefore not be faced with the competition which the new buildings might conceivably give them for some time and the effect of a 10% rise in OPA ceilings on apartment rentals, it is pointed out, can have the effect only of immediately increasing the financial returns on the present structures. Of course, it is recognized that there is a very definite limit to the extent to which tenants can occupy high-rental quarters. The market for $200-a-month apartments, for instance, is known to be not too large. Even a 10% relief in OPA ceilings on apartment rentals, however, it is believed, will probably stimulate some new apartment house construction.

It could happen—just as it has happened before—that the construction of new apartment buildings will come just at the time when the demand for added space will be starting to taper off. Demand for apartments and dwelling space in general, it is said, resembles the action of an accordion, swelling out in good times as families, now enjoying larger incomes than formerly, move into larger and more pretentious quarters and or as sons and daughters, giving expression to a desire commonly observed of wanting to live at such times separately from their families, obtain quarters of their own and shrinking in bad times as families find that the smaller and less pretentious places are more attractive and livable than they thought possible before and as sons and daughters decide the old homestead isn't such a bad place in which to live after all. Such facts as these, of course, only tend to spread confusion in the real estate market and can weaken the securities market supporting it, as experience has shown, just when it needs a prop and a very justifiable one.

One fact which tends to make commercial buildings more attractive than apartment houses to the investor in the face of the situation presented by the OPA is that it is believed to be easier to raise rents in the commercial buildings than in the apartment houses. Business houses will usually prefer to pay the higher rentals that can now be arranged by mutual agreement between the parties concerned than be exposed to the possible necessity of finding other quarters elsewhere. In the apartment houses, however, tenants have a way of making it exceedingly unpleasant if not difficult for the landlord who raises his rents. The average landlord knows how easy it is for a tenant to spill his venom upon him for the slightest cause.

Besides, it is felt in some quarters, the likelihood is slim in New York State at least, because of the political aspirations of Governor Dewey, that legal restrictions affecting rentals on dwellings and apartments will be completely lifted. Consequently, until the national election in 1948 it is believed by some, not too much relief in the direction of lifting ceilings on apartment rentals can be expected.

According to some observers, the 10% rise expected in OPA ceilings on hotel rooms will at least cover the added costs to the hotel industry occasioned by the 20% increase in wages granted to the hotel help a few months ago.

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NSTA Notes

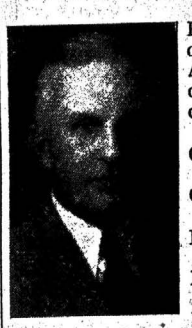
NSTA NATIONAL COMMITTEE TO MEET

There will be a meeting of the National Committee of the National Security Traders Association at the Palmer House, Chicago, Wednesday Jan. 29, starting with luncheon at 12:30 p.m.

A group will leave Chicago Wednesday evening Jan. 29 for Kansas City to attend the Winter dinner of the Bond Traders Club of Kansas City on Thursday evening, Jan. 30; leaving Kansas City that night for Minneapolis to attend the Twin City Bond Traders Club's dinner on Jan. 31.

More complete details on the tri-city meeting will be announced later.

THE BOND CLUB OF LOUISVILLE



William O. Alden

The passing away of John D. Faison, Bankers Bond Co., President of the Bond Club of Louisville, left the Club without a President. After due deliberation by the Board of Governors of the Bond Club, the following have been elected or reelected to serve as officers of the Club:

William O. Alden, President; O'Neal, Alden & Co.

Henry Christman, Jr., Vice-President; James C. Willson & Co.

Albert C. Brocar, Jr., Secretary; J. J. B. Hilliard & Son.

Alexander Hamilton, Treasurer; Stein Bros & Boyce.

National Committeemen are; Berwyn T. Moore, Berwyn T. Moore & Co., and Mrs. Ora M. Ferguson, Merrill Lynch, Pierce, Fenner & Beane.

BOND TRADERS CLUB OF CHICAGO

The Bond Traders Club of Chicago announces their annual Mid-winter Dinner scheduled for Tuesday, Jan. 28, 1947. This will be for members and guests. In co-operation the Bond Traders Club of Kansas City will hold their annual Dinner Thursday, Jan. 30 and the Twin City Bond Traders Club will hold their annual Dinner Friday, Jan. 31.

SECURITY TRADERS ASSOCIATION OF NEW YORK

Michael J. Heaney, of Joseph McManus & Co., was elected President of the Security Traders Association of New York, Inc. at the annual meeting held at the Produce Exchange Luncheon Club.

Other officers elected for the coming year are: Louis A. Gibbs, of Laird, Bissell & Meeds, First Vice-President; Frank A. Pavis, of Charles E. Quincey & Co., Second Vice-President; T. Geoffrey Horsfield, of Wm. J. Mericka & Co., Inc., Secretary, and Wellington Hunter, of Hunter & Co., Treasurer.

Pictures taken at the meeting will appear in the "Financial Chronicle" of Dec. 19.

Michael J. Heaney

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SEC Issues New Rule on Red Herring Prospectus

Permits unlimited circulation of "red herrings" as soon as registration is filed, on condition that it is explicitly stated there is no offer to sell, or offer to buy, or solicitation to sell or buy, or to dispose of securities in question. New rule to be effective during a six months' trial period.

The Securities and Exchange Commission has announced the adoption of Rule 131 pursuant to the provisions of the Securities Act of 1933, particularly Sections 2(3) and 19(a), to facilitate the dissemination of information in Securities Act registration statements before such registration statements become effective. It provides that sending or giving to any person, before a registration statement becomes effective, a copy of the proposed form of prospectus filed as a part of such registration statement, shall not in itself constitute an "offer to sell," "offer for sale," "attempt or offer to dispose of," or "solicitation of an offer to buy" within the meaning of Section 2(3) of the Act, if the proposed form of prospectus contains substantially the information required by the Act and the rules and regulations thereunder to be included in a prospectus for registered securities, or substantially that information with certain exceptions. The copy must also contain the required legend.

The rule by its terms is to be effective for a trial period of six months from December, 1946, during which time its operation will be closely studied by the Commission to determine whether it should be continued, modified, or rescinded.

The Commission has adopted this rule after intensive study and after discussion with and receipt of comments from many interested persons, including underwriters, dealers and attorneys.

Under Rule 131(a) herein announced, a copy of a proposed form of prospectus containing the necessary legend may be sent or given to any person as soon as the registration statement is filed, if it contains substantially the information required by the Act and the rules and regulations thereunder to be included in a prospectus for registered securities, or contains substantially that information except for the omission of information with respect to the offering price, underwriting discounts or commissions, discounts or commissions to dealers, amount of proceeds, conversion rates, call prices, or other matters dependent upon the offering price.

Section 8(a) of the Act, in outlining the conditions under which the Commission may accelerate the effectiveness of a registration statement, requires the Commission to consider whether adequate information respecting the issuer has been available to the public. The Commission, in considering requests for acceleration of the effective date of registration statements, will consider whether adequate dissemination has been made of copies of the proposed form of prospectus, as permitted by the Rule. The determination of what constitutes adequate dissemination must, of course, remain a question of fact in each case after consideration of all pertinent factors. It would, however, involve as a minimum the distribution, a reasonable time in advance of the anticipated effective date, of copies of such proposed form of prospectus to all underwriters and dealers who may be invited to participate in the distribution of the security. However, the granting of acceleration will not be conditioned upon the distribution of such copies in any state where their distribution would be illegal. In this connection, any registrant or underwriter may, before distributing such copies, obtain from the Commission's staff an opinion whether the proposed distribution of copies would be deemed adequate.

The Commission will continue its policy, enunciated in Securities Act Release No. 3061, of refusing acceleration where materially inaccurate or inadequate red herrings (copies of proposed form of prospectus) have been circulated until corrected information has been communicated to those persons receiving the red herring.

Two related proposed rules which were circulated for comment at the same time and concerning which the Commission has not yet taken action, are: (1) a rule providing that a summary of information in a registration statement, which summary is used under specified conditions before the registration statement becomes effective, shall not constitute an offer to sell a security within the meaning of the Act; and (2) a rule providing that a statutory prospectus may consist of a red herring prospectus which is attached to and made part of a supplemental document containing such additional information as is necessary to correct inaccuracies and inadequacies in the red herring, so that both together contain the information required by Section 10 of the Act. This latter proposal also provides that any person to whom the red herring was given before the registration statement became effective need be sent or given only the supplemental document in certain situations. Both of these proposals are still being considered but require more study and further discussion with the industry before action can be taken with respect to them.

As was recently announced in Securities Act Release No. 3171, the Commission is also considering proposals for the simplification of the registration forms under the Securities Act of 1933.

The text of the Commission's formal action is as follows:

Acting pursuant to the Securities Act of 1933, particularly Sections 2 (3) and 19 (a) thereof, the Securities and Exchange Commission, deeming such action necessary and appropriate in the public interest and for the protection of investors and necessary to carry out the provisions of the Act, hereby adopts Rule 131. The Commission finds that the Rule is primarily in the nature of an Interpretation of certain provisions of Section 2 (3) of the Act; that it relieves restriction; that notice and public procedure pursuant to Sections 4 (a) and (b) of the Administrative procedure Act are unnecessary; and that the Rule may be declared effective immediately pursuant to Section 4 (c) of that Act. Rule 131 shall provide as follows:

Rule 131. Definition, for certain purposes, of "Offer to Sell," "Offer for Sale," "Attempt or Offer to Dispose of," and

(Continued on page 3111)

Writing Its Way Around the World

APPROXIMATELY 125 million Scripto Pencils ago—the year was 1923—the first wood-encased mechanical pencil—a Scripto—was placed on the market at a price within the reach of everyone.

Today, Scripto, Inc. is the world's largest manufacturer of mechanical pencils. From headquarters in Atlanta, Scripto pencils are sold throughout the United States and in 61 foreign trade areas.

An important part of Scripto operations is the replacement lead and eraser business. Scripto was also the first to develop a full line of refill colored leads. A separate division, Adgif, was created in 1931 to handle Scripto pencils for premium and advertising use.

During war years, Scripto's mechanical "know-how" was put to use in the manufacture of booster fuses and intricate bomb parts. Five Army-Navy "E" awards testify that Scripto performed its task well, meanwhile continuing production of mechanical pencils at the government's request.

Under progressive leadership, Scripto, Inc. is translating postwar plans into action . . . working toward further development of domestic and overseas business . . . constantly creating new products. With its newly enlarged plant geared to all-out production, Scripto looks ahead to even greater success in meeting the demand for popular-priced, high-quality writing instruments.

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Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Bank Stocks

An interesting item of news last week was the announcement by Public National Bank & Trust Co., New York, of an increase in the annual dividend rate from $1.65 to $2.00. Public has long been an ultra conservative dividend payer, and this action undoubtedly will be welcomed by the bank's numerous stockholders and well-wishers.

Public has an outstanding record of growth since the dark days of 1932-33, under the guidance of alert and able management. A review of this growth may be of interest.

	Capital ($000)	Surplus and Undivided Profits ($000)	Book-Value $	Deposits ($000)	Total Net Oper. Earnings ($000)	Dividends ($000)
Dec. 31, 1932	8,250	4,407	38.35	90,600	*—2,840	660
Dec. 31, 1933	8,250	4,682	39.18	96,337	812	536
Dec. 31, 1934	8,250	5,148	40.60	125,648	961	495
Dec. 31, 1935	8,250	5,453	41.52	138,313	799	495
Dec. 31, 1936	5,775	9,008	44.80	158,157	1,225	495
Dec. 31, 1937	7,000	8,950	39.87	159,990	1,213	600
Dec. 31, 1938	7,000	9,356	40.89	156,388	1,006	600
Dec. 31, 1939	7,000	9,910	42.28	157,361	1,155	600
Dec. 31, 1940	7,000	10,545	43.86	170,135	1,235	600
Dec. 31, 1941	7,000	11,060	45.15	187,299	1,315	800
Dec. 31, 1942	7,000	11,599	46.50	243,399	1,139	600
Dec. 31, 1943	7,000	12,321	48.30	325,344	1,322	600
Dec. 31, 1944	7,000	13,508	51.27	415,525	1,787	600
Dec. 31, 1945	9,625	17,267	48.89	545,499	2,094	660
Sept. 30, 1946	9,625	18,555	51.24	538,964	----	----

*After charge-offs.

Several capital changes have been made during the period under review. In 1936 capital was reduced from $8,250,000 to $5,775,000 through a change of par value from $25.00 to $17.50, and surplus was thereby increased. In 1937 capital was increased through a 20% stock dividend and the sale of 4,000 shares of new stock. The next change was on Feb. 1, 1945 when capital was increased from $7,000,000 to $7,700,000 by a 10% stock dividend. In December, 1945 a further increase was made through the sale of 110,000 shares at $45 per share. The par value remains at $17.50.

The book-values listed have not been adjusted to reflect the 10% and 20% stock dividends of 1945 and 1937 respectively, but are based on 330,000 shares in 1932-1936, 400,000 shares in 1937 to 1944, and 550,000 subsequently.

Over the period from Dec. 31, 1932 to Sept. 30, 1946 total capitalization has increased from $12,657,000 to $28,180,000, a growth of $15,523,000 or 122.5%; book value per share has grown from $38.35 to $51.24, a gain of $12.89 or 33.6% before adjustment for stock dividends, but of $29.29 or 76.4%, after adjustment; deposits expanded from $90,600,000 to $538,964,000, a rise of $448,364,000 or nearly 500%.

Earnings have shown a steady expansion. In 1932 there were heavy write-offs; prior to these charges total net earnings amounted to $940,000. From 1933 to 1945, both years included, total net earnings aggregated $16,063,000 and total dividends, $7,681,000; $8,382,000 or 52.2% were retained to build up surplus and book-value. Recoveries and security profits have been excluded from reported net earnings and have been used to write-down the cost of securities and for reserves.

It may be of interest to compare Public's record with that of 15 of New York City's leading commercial banks as a group. Earnings and dividends are for years 1933 to 1945, and other figures from Dec. 31, 1932 to Sept. 30, 1946.

	Public	15 Banks
Increase in total capitalization	122.5%	29.9%
Increase in surplus and undivided profits	321.0%	57.5%
Increase in deposits	495.0%	211.0%
*Aggregate net earnings	$16,063,000	$1,384,637,000
Aggregate dividends	7,681,000	882,583,000
Dividends covered	2.10 times	1.57 times

*Excluding recoveries and security profits so far as determinable.

With regard to comparative growth of earnings, it seems more rational to start from the year 1936, for by that time the banks had written off substantially all their "depression" losses, and in fact were by then actually realizing some recoveries. In 1936 Public's net earnings, exclusive of security profits and recoveries, aggregated $1,225,000 and in 1945, $2,094,000; an increase in the annual earning rate of $769,000 or 62.5%. Aggregate figures for the 15 banks, on as nearly the same basis as determinable, were $113,646,000 in 1936 and $127,686,000 in 1945, the increase in annual earning rate being $14,040,000 or approximately 12.5%.

It is very clear from this record that Public's rate of growth has been far greater than that of the group as a whole.

The 15 banks considered are: Bank of Manhattan, Bankers Trust, Bank of New York, Central Hanover, Chase National, Chemical, Corn Exchange, First National, Guaranty Trust, Irving Trust, Manufacturers Trust, National City, New York Trust, Public National and U. S. Trust.

Royal Bank of Scotland

Incorporated by Royal Charter 1727

HEAD OFFICE—Edinburgh

Branches throughout Scotland

LONDON OFFICES:

3 Bishopsgate, E. C. 2
8 West Smithfield, E. C. 1
49 Charing Cross, S. W. 1
Burlington Gardens, W. 1
64 New Bond Street, W. 1

TOTAL ASSETS

£115,681,681

Associated Banks:

Williams Deacon's Bank, Ltd.
Glyn Mills & Co.

Christiana Securities Company

Revised Circular on Request

This Stock Presents Interesting Tax Loss and Arbitrage Possibilities Against E. I. du Pont

Laird, Bissell & Meeds

Members New York Stock Exchange
120 BROADWAY, NEW YORK 5, N. Y.
Telephone: BArclay 7-3500
Bell Teletype—NY 1-1248-49

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Must Revise Labor Laws, Says Sen. Ball

Commenting on the calling off of the coal strike by John L. Lewis, Senator Joseph Ball (R.) of Minn. told the "Chronicle's" correspondent: "I am very happy that Lewis has backed down, but I do not think that this has changed in any respect the situation as to the need for legislation to head off a recurrence of what we have just come through. I think we are in a position where the national interest demands a thorough overhaul of our labor laws. Mr. Lewis has given us a March 31 deadline, so to speak, and I doubt that Congress can complete the legislative overhaul by then. But there are some things Congress can handle by that date, including mediation, secondary boycotts, unionization of foremen, union breach of contract, and welfare funds. To handle the problem posed by Lewis will take longer."

Senator Jos. H. Ball

Halsey, Stuart Offers N. Y. Central Equips.

Halsey, Stuart & Co., Inc. and associates won the award Dec. 11 of $20,000,000 New York Central RR. equipment trust of 1947 2% equipment trust certificates, and are publicly offering a portion of them, subject to Interstate Commerce Commission approval, at prices to yield from 1.20% to 2.25%, according to maturity. The certificates mature annually Jan. 1, 1948 to 1957, inclusive, and are being issued under the Philadelphia plan.

The New York Central RR. will unconditionally guarantee the certificates as to par value and dividends by endorsement. They will be issued to provide for approximately 75% of the cost of new standard-gauge equipment, estimated to cost $27,261,000.

Associated with Halsey, Stuart & Co., Inc. in the offering are: Equipment Securities Corp.; Hallgarten & Co.; Harris & Co. (Inc.); Hornblower & Weeks; Otis & Co. (Inc.); Phelps, Fenn & Co.; R. W. Pressprich & Co.; Ed H. Rollins & Sons, Inc.; L. F. Rothschild & Co.; Gregory & Son, Inc.; The Illinois Co.; First of Michigan Corp.; Hayden, Miller & Co.; The Milwaukee Co.; Wm. E. Pollock & Co., Inc.; Julien Collins & Co.; Kebbon, McCormick & Co.; Mullaney, Ross & Co.; The First Cleveland Corp.; Mason, Moran & Co.; McMaster Hutchinson & Co.; Alfred O'Gara & Co.; F. S. Yantis & Co., Inc.; and Thomas & Co.

H. O. Peet Adds Lockridge

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Lee L. Lockridge has become associated with H. O. Peet & Co., 23 West 10th Street, members of the New York Stock Exchange. Mr. Lockridge was previously with McDonald & Co. and Prescott, Wright, Snider Co.

Municipal News and Notes

The sharp success which attended the re-offering of the $23,200,000 City of Baltimore bonds served to invigorate the entire market for tax-exempts, thereby reducing in considerable measure the apathy that has been the chief characteristic of this field of investment for many weeks. An important factor in the favorable reception accorded the undertaking, of course, was that it was offered to investors on terms which were considered generous, particularly when compared with those available on a great many of the city's outstanding bonds.

Regardless of the circumstances, the fact is that the municipal fraternity received a "lift" of considerable import by reason of the degree of success achieved by the underwriting syndicate.

The latter, by the way, was headed by the Chase National Bank of New York and, included as principal members, the Bankers Trust Co., First National Bank of New York, National City Bank of New York, Chemical Bank & Trust Co., Smith, Barney & Co., Lehman Bros., Blyth & Co., Harriman Ripley & Co. and Kidder, Peabody & Co. This group paid a price of 100.1399 for the bonds, to bear 1¼%, 1½% and 1¾% coupons, the net interest cost to the city being 1.527%. The bonds mature serially from 1950 to 1976, incl.

An equally strong syndicate, headed by the First National Bank of Chicago, also competed for the loan, specifying terms based on a net interest cost of 1.554%. The Baltimore financing, incidentally, was additionally significant in that it constituted one of the largest new capital offerings to appear on the market in recent months and one of the first of the substantial debt issues authorized by the voters at the November elections.

Another development in the past week that contributed to improved sentiment among municipal dealers was the enforced cancellation by the City of Boston of a major part of the $2,955,000 bonds awarded in the latter part of November. The city was obliged to rescind sale of the block of $1,500,000 1½% parking facilities bonds, scheduled to mature from 1947-1966, as the attorneys declined to certify their legality "because of technical objection to the manner in which the loan had been passed."

The cancellation was not entirely unwelcome as the original offering had proven to be a slow mover and, to that extent, had been a source of depression to the market in general. This, of course, was just one of several recent flotations in that category.

Elsewhere in these pages (starting on page 3043) will be found the addresses and most of the committee reports made during the course of the recent convention of the Investment Bankers Association in Florida. Included in the reports is that of the Municipal Securities Committee and it may be of interest to comment here on at least one section of this document. We have reference to the committee's comments pertaining to the "unusual situation recently developed in Texas in regard to the State's so-called Tax Revision Bonds." We quote from this part of the report, as follows:

"For some years past, Texas has remitted to certain local units part or all of the State general fund tax. It is reported that in some instances this State ad valorem tax remission represents all or the greater portion of funds for the payment of principal and interest of bonds of the local units.

"The State tax levy for the 1946-47 fiscal year does not include any general fund tax levy, which means that there will be no funds available from the current levy for remission to the various eligible areas. It is interesting to note that this is the first year for the past approximate 100 years, that a general fund tax has not been levied.

"We understand that there are 23 areas entitled to receive aid from the State through the medium of donated State ad valorem taxes, which remission of taxes is authorized by various special acts of the legislature, all in accordance with the constitution of the State under various articles permitting the use of State aid for promoting the general welfare and prosperity of the State. . . .

"The situation has created considerable confusion relative to early maturities of both principal and interest of bonds of the various units affected. It would certainly seem that the State will make every effort to avoid any default or delay on the bonds payable from the remission of State taxes. We understand that when the legislature meets in January, an effort will promptly be made to correct this unfortunate situation by requesting the appropriation of surplus funds to cover this year's tax remissions. Furthermore, it is believed that practically all of the units eligible to receive tax funds by remission have varying amounts of excess funds on hand and that most of such units can meet bond principal and interest requirements from such surplus funds for a reasonable period of time."

ADVERTISEMENT

Notice of the Sale of Bonds

Sealed proposals will be received in the office of the Clerk of the Board of Education of Washington Township Local School District, Stark County, Ohio, F. M. Sutton, R. F. D. No. 1, Alliance, Ohio, until twelve o'clock noon, December 20, 1946, for the purchase of bonds of said school district in the aggregate amount of Two Hundred Thousand ($200,000.00) Dollars, dated January 15, 1947 and bearing interest at not to exceed 6% per annum, payable semi-annually and issued for the purpose of constructing a fireproof elementary school building, and under authority of the Laws of Ohio and of Sections 2293-1 et. seq. of the General Code of Ohio, and under and in accordance with a Resolution of the Board of Education of said school district to issue said bonds, which Resolution was duly passed by the Board on the 13th of November, 1946.

Said bonds are of the denominations and mature respectively as follows. All bonds shall be dated January 15, 1947 and there shall be issued two hundred (200) bonds of One Thousand ($1,000.00) Dollars each, with interest payable semi-annually on the 15th day of January and of July in each year. Said bonds shall mature in semi-annual installments according to the following schedule: Five bonds of One Thousand ($1,000.00) Dollars each shall mature March 1, 1948 and five bonds of One Thousand ($1,000.00) Dollars each shall mature September 1, 1948. A similar number of bonds shall mature on each anniversary of said dates; a total of Ten Thousand ($10,000.00) Dollars in bonds shall mature in each year for a period of twenty (20) years.

Anyone desiring to do so may present a bid or bids for said bonds bearing a definite rate of interest different than specified in the advertisement, providing, however, that where a fractional interest rate is bid, such fractions shall be one-fourth (¼) of one percent (1%), or multiples thereof. Said bonds will be sold to the highest bidder at the time and place above mentioned at not less than par and accrued interest. Bids may be made upon all or any number of bonds in this issue. All bids must state the number of bonds bid for and the gross amount of bid and accrued interest to date of delivery. All bids must be accompanied by a certified check drawn in favor of the Board of Education of Washington Township Local School District in the sum of $2,000.00. The Board of Education of said school district reserves the privilege to reject any and all bids.

Bids should be sealed and endorsed "Bids for Washington Township School Bonds".

By order of the Board of Education of Washington Township Local School District, Stark County, Ohio.

F. M. SUTTON, Clerk
R. F. D. No. 1
Alliance, Ohio

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NAM'S Program for Prosperity

Its Committee on Committees, under chairmanship of Robert R. Wason, retiring President of the Association, issues a condensed draft of findings of its policy during the year. Holds future can yield prosperity and progress, and advocates high wages to workers, low prices to consumers, and fair return to investors. Recommends unbiased, fairly-administered labor laws.

In a release issued at the adjournment of its Annual Convention in New York City on Dec. 7, the National Association of Manufacturers announced in condensed form the findings of its policy committees during year and the viewpoints submitted by spokesmen at the meetings, Dec. 4-6, inclusive. This draft, condensed by a Committee on Committees under chairmanship of Robert R. Wason, retiring President of the Association, and constituting a program for 1947, is as follows:

Robert R. Wason

Today we should not doubt that our future can yield prosperity and progress. Both are available now.

Every American now knows that the frontiers of America are as unlimited as the minds of men and that they are virtually unexplored. Industrial research that produced countless new weapons to win the war is available to improve human welfare when permitted to do so. There is no need for depression in America.

Hope is abroad in America. The American people are demonstrating that they intend to recover the freedoms lost in depression and war.

The industrial plant created during the war has not yet expressed its full capacity in production of goods nor its full power to reduce prices and improve the American standard of living.

Some control of prices has been removed. Other controls will hamper the American economy.

There is a jam of unspent money, of unbought goods, of unbuilt homes, of enterprises retarded, of inventions to be made. No one can measure the energies of millions of Americans, thwarted and expressing only fractions of the abilities they possess, waiting for government restrictions to end.

The incentive of profit and the justification of savings to create capital need understanding by every American.

The wages and salary payments in 1945 to workers in American corporations were 12 times as large as the dividend payments to the millions of corporate stockholders whose investment makes high wages possible.

The presence of profit is the workers' only guarantee of employment and wages. Profitable enterprise is as important to workers as it is to owners, despite efforts to persuade workers to the contrary.

There can be no prospect of sustained and productive full employment unless there is prospect of return for investors who supply the tools of production to produce what customers want at prices they are willing to pay.

The NAM, servant of the men and women who buy their products, believes in

1. High wages to workers;
2. Low prices to consumers;
3. Fair returns to investors.

To accomplish these ends, the NAM advocates certain actions, each one designed to restore freedom in America and thereby bring about a higher standard of living, a stronger national defense and the welfare of our children and their children.

To restore equality of management with labor before the law in America, to protect labor, to reduce strikes and to increase production, the following labor program is recommended. It is intended to free collective bargaining from the abuses which now destroy its benefits.

1. Monopolistic practices in restraint of trade are inherently contrary to the public interest and should be prohibited to labor unions as well as to employers. It is just as contrary to the public interest for a union or unions representing the employees of two or more employers to take joint wage action or engage in other monopolistic practices as it is for two or more employers to take joint price action or engage in other monopolistic practices.

2. The union as well as the employer should be obligated, by law, to bargain collectively in good faith, provided that a majority of the employees in the appropriate unit wish to be represented by the union.

3. The union as well as the employer should be obligated, by law, to adhere to the terms of collective bargaining agreements. Collective bargaining agreements should provide that disputes arising over the meaning or interpretation of a provision should be settled by peaceful procedures.

4. If a legitimate difference of opinion over wages, hours or working conditions cannot be reconciled through collective bargaining or mediation, employees should be free to strike where such strike is not in violation of an existing agreement. However, the protection of law should be extended to strikers only when the majority of employees in the bargaining unit, by secret ballot under impartial supervision, have voted for a strike in preference to acceptance of the latest offer of the employer. Employees and employers should be protected in their right to express their respective positions.

5. No strike should have the protection of law if it involves issues which do not relate to wages, hours or working conditions, or demands which the employer is powerless to grant. Such issues and demands are involved in jurisdictional strikes, sympathy strikes, strikes against the government, strikes to force employers to ignore or violate the law, strikes to force recognition of an uncertified union, strikes to enforce featherbedding or other work - restrictive demands, or secondary boycotts.

6. No individual should be deprived of his right to work at an available job, nor should anybody be permitted to harm or injure the employee, or his family, or

(Continued on page 3110)

New Issues

$23,200,000

City of Baltimore, Maryland

1½%, 1¼% and 1¾% Bonds

Interest Exempt from present Federal Income Taxes

Legal Investment for Savings Banks and Trust Funds in New York and certain other States

AMOUNTS, MATURITIES AND YIELDS

(Accrued interest to be added)

$10,000,000

1½% Highway Bonds

Dated August 15, 1946 Due $1,000,000 ea. yr. Aug. 15, 1950-59 incl.

(Semi-annual interest February 15 and August 15)

1950	.85%	1953	1.10%	1957	1.30%
1951	.95	1954	1.15	1958	1.35
1952	1.05	1955	1.20	1959	1.40
		1956	1.25		

$5,000,000

1½% Sewer and Airport Bonds

Dated January 1, 1947 Due {$380,000 ea. yr. Sept. 1, 1952-61 incl. / $ 80,000 ea. yr. Sept. 1, 1962-76 incl.

(Semi-annual interest March 1 and September 1)

1952	1.05%	1957	1.30%	1962-63	1.50%
1953	1.10	1958	1.35	1964-65	1.55
1954	1.15	1959	1.40	1966-67	1.60
1955	1.20	1960-61	1.45	1968-69	1.65
1956	1.25			1970-76	1.70

$5,000,000

1¼% Paving and Bridge Bonds

Dated January 1, 1947 Due $1,000,000 ea. yr. Sept. 1, 1952-56 incl.

(Semi-annual interest March 1 and September 1)

1952	1.05%	1954	1.15%	1955	1.20%
1953	1.10			1956	1.25

$3,200,000

1¾% Water Bonds

Dated August 15, 1946 Due $800,000 ea. yr. Aug. 15, 1970-73 incl.

(Semi-annual interest February 15 and August 15)

Price 100, and accrued interest

The above Bonds are offered when, as and if issued and received by us and subject to approval of legality by Messrs. Wood, Hoffman, King & Dawson, Attorneys, New York, N. Y.

The Chase National Bank	Bankers Trust Company	First National Bank	The National City Bank of New York	Chemical Bank & Trust Company
Smith, Barney & Co.	Lehman Brothers	Blyth & Co., Inc.	Harriman Ripley & Co. Incorporated	Kidder, Peabody & Co.
Harris Trust and Savings Bank Organized as N.W. Harris & Co. 1882. Incorporated 1907	Stone & Webster Securities Corporation		Phelps, Fenn & Co.	The Northern Trust Company
Alex. Brown & Sons Baltimore	Salomon Bros. & Hutzler	Mercantile Trust Company of Baltimore		First National Bank of Portland Portland, Ore.
Mercantile-Commerce Bank & Trust Company	R. W. Pressprich & Co.	Estabrook & Co.	W. E. Hutton & Co.	B. J. Van Ingen & Co. Inc. Lee Higginson Corp.
Kean, Taylor & Co.	Bacon, Stevenson & Co.	Braun, Bosworth & Co. Incorporated	Equitable Securities Corporation	C. F. Childs and Company, Inc.
Baker, Watts & Co. Baltimore	Laurence M. Marks & Co.	Stein Bros. & Boyce Baltimore	Trust Company of Georgia	R. L. Day & Co. W. H. Morton & Co., Inc.
First of Michigan Corporation		Union Trust Company Baltimore	Harvey Fisk & Sons	John Nuveen & Co.
Mackey, Dunn & Co. Incorporated	R. D. White & Co.	R. S. Dickson & Co. Incorporated	Stern Brothers & Co. Kansas City	Mackubin, Legg & Co. Owen Daly & Co. Baltimore

New York, December 6, 1946.

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Proposed Remedies for Defects In Corporate Taxation

By JOHN L. CONNOLLY*
General Counsel, Minnesota Mining and Manufacturing Company

Mr. Connolly outlines proposals as: (1) repeal of corporate income tax; (2) taxing corporations as partnerships; (3) exemption of dividends from taxation; (4) adopting British system whereby corporate taxes are paid on behalf of stockholders; and (5) permitting corporations to deduct from taxes dividends paid shareholders. Concludes there should be modification instead of elimination of corporate taxation, and that Congress should give corporations merely relief from inequitable taxation.

There have been many plans proposed for ideal and permanent solution of the problems of corporate taxation, and the principal ones will now be mentioned and considered.

1. Repeal of the Corporate Income Tax.

This plan has a serious defect in that it affords an opportunity to pile up profits in the corporation and avoid any tax whatsoever on the profits until distribution.

John L. Connolly

It would undoubtedly, for this reason, stimulate the incorporation of all business.

It would permit investors in corporate stocks eventually to sell them and pay only a capital gains tax on accumulated profits realized. Furthermore, it is well known that assets earning large increments of earned corporate profit can be passed from one generation to another without even the payment of the capital gains tax. It is possible under existing estate and gift tax provisions to leap frog a generation or two. Of course the capital gains provisions could conceivably be amended to eliminate these advantages but in many situations there would be postponement of the tax to deal with. It is hard to appraise the specific harmful economic results from putting a premium in the form of tax-savings upon the concentration of reinvested earnings by withholding taxation at the corporate level. But it is not difficult to imagine some general repercussions in our society that would be produced by such a development.

Such a plan would necessitate the levying of more and burdensome taxes upon other sources of income, particularly upon individual earnings.

Placing a penalty tax on undistributed earnings has not proven to be, and never will prove to be a satisfactory method of forcing out corporate earnings in the form of dividends so that they may be taxed to the individuals.

After all, a corporation, while a fictional concept, is recognized as an entity, and carries many advantages in business operations. It is a reservoir in which is initially gathered a very large portion of the national income. In 1941, 264,628 corporations reported a total net income of $18.1 billion and 204,278 reported a net loss of $1.7 billion. At this level it is convenient and realistic for Congress to impose a toll; not, however, the complete exaction in respect of corporate earnings, but a portion of it. A corporation has a definite identity, and a real tax-paying capacity that is separate and distinct from its stockholders.

It will be remembered that in 1936 the Treasury recommended, and the House passed, a measure repealing the corporate income tax, and substituted a tax applying only to undistributed profits. When the bill finally passed, it provided both a corporate income tax and an undistributed profits tax and made dividends subject to individual normal as well as surtax. This plan proved very unpopular and came to an end in 1939.

2. Taxation of a corporation in the same manner as a partnership.

This plan partially proceeds upon a false assumption that the constructive receipt of earnings by a corporation is an equivalent of an actual pro rata receipt of those earnings by the stockholders. It does not take sufficiently into account the fact that while the stockholders have a beneficial interest in the retained earnings, the distribution or retention of the same is an act of managerial judgment. The dividend policy is determined by its board of directors. The corporate earnings do not measure the tax paying capacity of the stockholders. Under this proposed plan, there would be allocated to each stockholder his proportionate share of the corporate earnings, for the taxable year, whether or not distributed to him. He would then include such share in his gross income, and pay personal income taxes on it.

We are here met with many major difficulties. The individual taxpayer may not have sufficient funds with which to pay his personal income tax on that part of the corporate earnings which have not been distributed. It might come about that if no cash dividends were paid, many a stockholder would be hard put to pay his income taxes. He might have no alternative but to sell some of his stock in order to pay a tax on income that he never actually received, or ever would receive. Another difficulty would be in the administration of this law. Consider the result where a change was made in the corporate return. This would necessitate the amendment of each stockholder's return. Consider also, the problem of the stockholders that sold their stock during the taxable year.

If the predicament of distressed stockholders was considered a matter of paramount consideration, a fairly complete distribution of corporate earnings would result, which might nullify the attempts of management to operate the business in a manner most conducive to the best business results. The pressure thus exerted by the stockholders upon management to declare dividends would force the financing of expansion from outside sources rather than from reasonable accumulation of surplus earnings.

Optional taxation of *small* corporations in the same manner as partnership seems to be receiving favorable attention by some tax authorities, and it may be said that it has something to recommend it. But the difficulty of classification of corporations as "small" and "large" and administrative troubles are yet to be satisfactorily worked out.

3. Relieving stockholders of all taxes on corporate dividends.

If needed revenues were to be obtained, this plan would necessarily involve destructively high corporate rates.

If a very high rate were not imposed, the public would not accept a total exemption of corporate dividends.

The rate selected would undoubtedly operate as a detriment to the small stockholders, in view of the accepted principle of graduation of rates based on ability to pay.

4. Adopt the British system for taxing corporate profits.

Under the system in force in England the tax paid by the corporation is considered as having been paid on behalf of the stockholders. A British stockholder in computing his tax liability includes in his income not only the net amount of the dividends distributed to him, but also the tax paid on his behalf by the corporation. There the corporate rate is 50% (as is also the starting individual rate) and the stockholder reports $2.00 for each $1.00 of dividends that he receives. The stockholder then is allowed to deduct from his tax the amount of the tax paid on the dividends by the corporation. This system in its workings results in a great many refund claims.

Substituting a 38% corporate rate, if the corporate profits were $100.00 and a $62.00 dividend declared as a cash dividend, the stockholder would include $100.00 in his gross income, and be allowed a tax credit of $38.00.

This system has long been used in Great Britain, and seems to have worked satisfactorily for the British. It must be remembered that the individual normal tax rate and the corporate rate are both 50%.

But even an individual starting rate of 38% in this country would be too high. Probably a starting rate of 20%, to compare with a similar corporate rate would be as high as would prove acceptable. It is fairly demonstrable that the British system would produce so many inequities and administrative difficulties, including tax refunds, in this country, that its adoption is highly improbable.

If such a plan was adopted in this country, and you assume complete distribution, it would entirely eliminate the corporate tax except on that portion of the income paid to exempt institutions.

5. Permit corporations in computing income tax to deduct dividends paid.

This would eliminate the corporate tax if we assume complete distribution of earnings. But it would amount to an undistributed profits tax for those corporations not distributing their entire earnings. This would impose hardships on a great many small corporations that would be required to retain their earnings for growth purposes.

6. Dividends received by individuals should be exempt from tax at the basic rate for the combined normal and surtax in lowest bracket.

This would not entirely eliminate the corporate tax upon that part of the income distributed under present rates, but it would alleviate some of the present inequities. The method by which this could be accomplished could be by deducting from the tax computed upon the individuals entire income plus dividends the combined normal and surtax starting rate times the amount of dividends, or by eliminating dividends from the starting rates such as was in effect prior to 1936. Under the first method and at the present rates the credit would be 19% of the dividends received and reported, but if this credit exceeded the total tax computed no refund would be allowed. Under this method there are other adjustments that would have to be made but they are not insurmountable.

Conclusions

It is my conclusion that—

1. We should not eliminate the corporate tax.
2. We should not permit corporations to deduct dividends in computing net income for income tax purposes.
3. We should not adopt the system in effect in Great Britain at this time, but if the corporate and the starting rate or rates for individuals are brought closer together this system or some modification of it should be adopted.
4. Politically Congress will not eliminate the corporate tax, but Congress must provide some relief from the present inequitable tax on corporate earnings.
5. The best we can hope for in the immediate future is the exemption of dividends from the combined normal and surtax starting rates.

*Abstracted from an address by Mr. Connolly before the Annual Symposium of the Tax Institute, New York City, Dec. 6, 1946. The complete edited text will subsequently be published in a volume issued by the Institute.

Kuhn, Loeb & Co. Offers Westinghouse Pfd.

A nationwide group of 131 underwriters, headed by Kuhn, Loeb & Co., is offering today to the public a new issue of $50,000,000 of Westinghouse Electric Corp. 3.80% cumulative preferred stock, series B. The stock, represented by 500,000 shares of $100 par value, is priced at $100.50 a share.

This offering constitutes the second major step in a comprehensive postwar financing program by Westinghouse to provide funds for plant expansion and rearrangement, and for increased working capital requirements to meet anticipated peacetime production loads. In September, this year, the company marketed $30,000,000 of 2⅝% debentures, due Sept. 1, 1971.

Specifically, net proceeds from the sale of the new preferred stock will be applied to the prepayment of $50,000,000 principal amount of outstanding bank loans. Last May the company borrowed $80,000,000 through bank loans. Subject to market and general business conditions, it is the present expectation of the management to issue and sell in 1947 additional shares of its common stock to provide funds for use in connection with the expansion program, including the retirement of the remaining $30,000,000 of bank loans.

Westinghouse's expansion program, begun in 1945, involves a total estimated expenditure of approximately $132,000,000, of which about $95,000,000 represents the cost of new facilities and equipment, and the balance the cost of rearrangements and related expenses. Up to Sept. 30, 1946 approximately $49,000,000 have been expended in this connection and it is expected that the greater part of the remaining $83,000,000 will be expended by the end of 1947.

Upon completion of the current offering of preferred stock, outstanding debt and capitalization of Westinghouse Electric will consist of $20,000,000 of 2⅛% debentures, due Nov. 1, 1951; $30,000,000 of 2⅝% debentures, due Sept. 1, 1971; $30,000,000 of 1½% bank loans, due April 30, 1948; 79,974 shares of 3½% cumulative preferred stock, series A; 500,000 shares of 3.80% cumulative preferred stock, series B, and 13,016,342 shares of common stock with a par value of $12.50 a share.

This advertisement is not, and is under no circumstances to be construed as, an offering of these shares for sale or as a solicitation of an offer to buy any of such securities. The offering is made only by the Prospectus.

24,300 Shares

Minneapolis-Honeywell Regulator Company

3.20% Convertible Preference Stock, Series A

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Price $105 per share and accrued dividends

Copies of the Prospectus may be obtained in any State from only such of the undersigned as may lawfully offer these Securities in such State.

UNION SECURITIES CORPORATION

December 12, 1946.

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"Corporations Should Be Taxed as Such"

By MATTHEW WOLL*
Second Vice-President, American Federation of Labor

Labor leader supports taxation of corporations on ground they are accorded special privileges and shareholders buy stocks on basis of existing taxes and do not lose. Denies corporation tax constitutes double taxation or that elimination of corporate taxes will result in lower prices or higher wages. Says volume of production together with technological and managerial improvement will benefit corporations and encourage business enterprise more than lower taxes. Holds corporation profits are higher despite taxes.

To the question, "Should corporations be taxed as such?"—my reply is an emphatic affirmative. Corporations have no right in equity to expect exemption from payment of their fair share of the taxes.

Matthew Woll

For corporations are, after all, legal persons. As separate persons, distinguished from their shareholders, corporations enjoy many privileges and benefits. It is only most just and fair that the corporations should, in return, pay taxes in exchange for the many privileges they enjoy.

Shareholders, who might benefit from the removal of corporation taxes, likewise have no just reason to expect such benefits. They benefit enormously from the institution of the corporation. Their liablity is limited—their facilities for profit-making and operation are immensely expanded through the corporation. They have no right to expect that it should escape taxation.

Furthermore, most shareholders bought their holdings on the basis of a tax structure as it now exists, including a substantial tax on corporate profits. If corporation taxes were to be abolished, these stock owners would suddenly and without any effort on their part, be the beneficiaries of a considerable increase in stock values. There is no basis in equity for giving them this windfall.

* * *

Some argue that the corporation tax constitutes double taxation; others say that the elimination of the tax will result in lower prices and/or higher wages, This, in effect, is an admission that corporations are now passing on the income tax to their customers in the form of higher prices or as lower wages to their employees. If they are doing this, the double taxation argument has no validity, since corporate profits after taxes would be the same as they would have been without a corporation tax.

Actually, of course, there is considerable difference among both businessmen and students of taxation, as to the impact of corporation taxes. However, organized labor has in the past supported the view that the net income tax is the most equitable and economic tax, as applied to both individuals and corporations. These taxes, together with inheritance taxes, are correctly referred to as taxes which people are fortunate to pay, because they are applied only on the basis of ability to pay.

Now, between direct and indirect taxation, workers can make only one choice. If they were to believe that all taxes were shifted to the consumer, there would be no point in even considering the type of taxes to levy. However, workers do understand that under our competitive enterprise system, the taxed producer who tries to shift his tax by raising the price of his products, may be soon forced back into line when underbid by untaxed competitors eager for business. Workers quite naturally prefer, therefore, direct taxes on incomes of individuals and corporations, because they apply directly to those making a net profit. . . .

Our State and local governments are faced with steadily rising costs and expanded demands for their services. These can no longer be paid for by taxation on real property, and those states and localities that depend solely upon real estate taxes are now in serious difficulties.

It is not unreasonable to expect that a part of the burden of State and local government should be borne by corporations that do business within their boundaries. This State and local taxation should, of course, be at a considerably lower rate than the Federal corporation taxes, but certainly should be at a level that permits the State and local governmental units to provide adequate services.

From the Southern and Western states we have often heard the complaint that corporate enterprises are draining away their natural resources without returning an adequate share of the proceeds. Corporation taxes afford one means of redressing that situation. They can help make it possible for the Federal Government to return, by means of supplemental aid, funds for health, education and welfare, to the areas whose wealth has been drawn upon.

Complete removal of such corporation taxes would leave the Southern and Western states subject to the complete and merciless exploitation of their resources, while Northern capital would enjoy a veritable shareholders' holiday, unjustly, unfairly and unworthily benefiting from the fruits of such vicious exploitation. . . .

Those who advocate the abolition of taxation on corporations as such, argue that it will permit lower prices, higher wages and greater dividends, all of which, it is argued, will contribute to the health and prosperity of the economy and result in adequate tax revenue from non-corporate sources.

I would suggest that lower costs, higher wages and higher profits, are all much more dependent upon volume production and technological and managerial improvement than they are on tax policy.

A few figures will illustrate what I mean. In 1939, all corporations in the United States earned a total of $5 billion, 460 million dollars in profits before Federal taxes. After Federal taxes had been deducted, they had a total of $4 billion 228 million—which was divided into $3 billion, 806 million for dividends and $422 million for business savings.

In 1943, the total profits, before Federal taxes, amounted to $23 billion, 671 million. After taxes, this came to $9 billion, 842 million, which was divided into $4 billion, 348 million for dividends and $5 billion, 494 million for business savings.

Thus, in spite of enormously greater taxation, corporations still managed to accumulate more than twice as much in profits after taxation in 1943 than they had in 1939. In spite of enormously high wartime taxes, they put away for corporate reserves and expansion more money in 1943 than they had accumulated in 1939 as profits before taxes.

These figures, which I submit, prove conclusively that high taxation is no bar to the accumulation of high profits and high reserves for reinvestment. . . .

It cannot be said too often that the basis of low prices is high production. America's genius at mass production has made a seeming paradox come true. It has long been the boast of our businessmen that they could pay higher wages and produce better goods at lower prices.

Thus, it has not been true in the past that increases in wages have resulted in automatic increases in prices. On the contrary, while American wages are far above those of any other industrial nation, American products have declined in price over the years.

What is true of wages is equally true of taxes as a factor in cost. Relatively high taxes, when spread over a large mass production, need not add materially to the price of the product. When businessmen cry, as they have in the past year, that they cannot continue the traditional policy of ever-lower prices with increased wages and a fair contribution to the operation of the local, State and national community, they are either making a specious plea—or admitting that they have lost their faith in the American genius for mass production.

I have shown—in the figures that I quoted above—that high corporate taxation need not be any barrier to the accumulation of reserves for reinvestment. There is no likelihood that peactime corporate taxes will be at all as high as the wartime taxes and the chances of accumulation of sufficient reserves, therefore, seem as probable as they were in wartime.

However, this a problem over which I refuse to lose much sleep. The ability of our economy to finance expansion and new investment is intact. If what is hurt by the continuation of corporation taxes is the ability of corporations to finance their expansions out of their own funds, I say that there is no great loss. Internal financing will certainly tend to promote ever-greater concentration of power in the hands of a few corporations and of the men who manage them. Forcing them to go to the community to seek funds for expansion is one way of helping diversify control and of making it possible for new enterprises to enter the field.

Moreover, one of the largest loopholes in our income tax laws has been that which allows the individual to avoid taxes upon personal income when the corporation in which he owns stock reinvests its earnings instead of distributing them. This makes many in the top brackets of the income tax largely tax-free and enables them to get indefnitely rich for an indefinite period. Up to this time, however, I have heard no suggestion from those advocating repeal of corporation profits taxes that an individual's equity in a corporation's retained earnings should be taxed as income.

*Abstract of a talk by Mr. Woll before the Annual Symposium of the Tax Institute, New York City, Dec. 6, 1946. The complete edited text will subsequently be published in a volume issued by the Institute.

This is under no circumstances to be construed as an offering of these securities for sale, or as an offer to buy, or as a solicitation of an offer to buy, any of such securities. The offer is made only by means of the Prospectus.

Not a New Issue

December 9, 1946

399,860 Shares

Gulf Oil Corporation

Capital Stock

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Price $63 per share

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Closed Shop Condemned

NAM panel participants advocate union members' discretion in dues-paying.

The right to stop paying union dues is the only veto power left to the labor union member to express his disapproval of bad leadership and the way in which the officers of his union autocratically administer its affairs, Clarence B. Randall, Vice-President of Inland Steel Co., declared today.

Mr. Randall, a national Vice-President of the National Association of Manufacturers spoke as a member of a labor relations panel answering questions from the floor at the Congress of American Industry in New York City Dec. 5.

Clarence B. Randall

Senator Joseph H. Ball, Raymond S. Smethurst, NAM counsel, and Mr. Randall formed the panel, with Warren Whitney, Vice-President of James B. Clow & Sons, acting as moderator.

In answer to a question addressed to Senator Ball asking if he would include in his condemnation of the closed shop the compulsory payment of contributions by workers, the Senator said:

"There is a vast difference between paying union dues, and paying to some kind of a trust fund. It is entirely different from making a man stay in a union as a condition of working. And he will take care of the bad leadership in the union by dropping out if he doesn't like it, and pretty soon that union won't have a majority for bargaining purposes."

To the question of the legality of the amendments prohibiting closed shops in three states in the last elections, and the appeal to the Supreme Court in this regard, Senator Ball said:

"I think the appeal is based on the grounds that the Federal Government has assumed jurisidiction, has legalized the closed shop, and that therefore the states are without authority to act in that field." But he added, "If outlawing yellow dog contracts is constitutional, then outlawing the closed shop contract is clearly constitutional."

Mr. Smethurst, in answer to the question, "What should the functions of international union organizations be," said:

"In general, the field of activity would be quite similar to that of legitimate trade associations. Anything an international labor union does which is a concerted effort to impose a uniform cost-fixing item which is reflected in the price just as much affects competition as other activities by trade associations, if they are not prohibited by law."

Our Economic Operations in Austria

By HERBERT M. BRATTER

"Chronicle" correspondent describes financial and economic problems confronting American civilian and military officials in Vienna. Sound economic condition seen as basis for Austria's future independence and democracy.

VIENNA, AUSTRIA—In view of the fact that Austria is on the Russian-American politico-economic front line and in the belief that it will be of interest to American readers to know the problems and organization of American officials in Vienna concerned with financial and economic matters, the "Chronicle" correspondent has prepared the following notes on the State Department and Army setup here.

Herbert M. Bratter

The work confronting an American Mission in an occupied area is different in many respects from that carried on by the usual Embassies and Legations. The economic experts attached to such a mission find that a considerable amount of time and effort is spent in consultation or advisory work with the occupying forces. In Vienna, for instance, the economists attend quadripartite meetings which are long and frequently arduous and also meetings of the Financial Division of Military Government. They participate with the military authorities in consultation with Austrian governmental agencies and they also deal directly with these same bodies. Austrian financial, economic and Foreign Office officials approach the economists both with respect to policy matters affecting their relationships with the U. S., and also with regard to the more general Council and Ministry problems.

When the Austrian Government wishes to request assistance from the U. S. government, as in the case of the loan application to the Export-Import Bank, their application is forwarded through the U. S. Legation. Various inquiries with regard to international organizations, conferences planned from Washington, etc., naturally come to the American diplomatic mission.

Obviously a series of reports and studies on economic matters go through these channels in much the same way as they would in more normal times. It is sometimes stated that the American representatives in Vienna deal with five governments rather than the one, and are charged with transmitting information and interpreting policy in respect to all four. Various complications arise from this situation to tax the resources of the personnel in times of crisis, and which make it impossible to handle most matters in a purely routine fashion even in more quiet times.

On the State Department's economic staff here at this writing are: Mr. Sidney Mellon who was brought here from the Department in Washington to work on economic and political matters;

Mrs. Eleanor Lansing Dulles, financial expert, author of "The French Franc" and other well-known books, who also came here last year from the Department in Washington. Mrs. Dulles was on the American staff at Bretton Woods in 1944 and subsequently wrote a Foreign Policy Association bulletin in support of that program;

Mr. Carlisle McIver, a Treasury Department economist who was at the Potsdam conference and who is especially interested in transport matters;

Mr. Fred Bunting, a former economics professor from the University of North Carolina; and Miss Ruth Heller, a commercial specialist who lived in Austria before the war and about the excellence of whose recent reports from Vienna the writer heard in Washington.

The Army's Financial Task in Austria: Its Organization for Carrying Them Out

As the American Army sees it, the United States is committed to the establishment of an independent and democratic Austria. Part of that task is the establishment of a sound basis for Austrian economic life. This in turn involves a concern with the establishment of sound financial conditions in Austria. American participation in the supervision of Austrian governmental activity therefore involves a far-reaching concern with the currency of Austria; its governmental budgets; its finan-

(Continued on page 3109)

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December 10, 1946

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Price $7 per share

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December 6, 1946.

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Taxation, No Check to Monopoly

By ALFRED G. BUEHLER*

Professor of Public Finance, University of Pennsylvania

Prof. Buehler maintains taxation is not a sufficiently selective tool for rooting out socially undesirable monopolies, but holds taxation should not encourage monopoly by discouraging competition. Advocates preferential taxation for small business.

Excess-profits taxes, antichain-store taxes, protective tariffs, taxes on holding companies, and preferential tax treatment of small business are frequently proposed as curbs upon monopoly. The excess-profits tax presents great practical difficulties of administration and compliance, however, and many inequalities in its burdens. We have not yet devised suitable techniques for the valuation of business investments or for the measurement of normal rates of return on such investments in various industries and among individual establishments. The resort to base period earnings and individualized definitions of excess profits through such devices as Section 722 are indicative of the problems encountered. The point is, we do not know how to measure excess profits.

Dr. Alfred G. Buehler

Moreover, not all monopolies enjoy excessive profits, and successful small concerns may, for a time, obtain high rates of return if they survive the hazards of promotion and development. Hence an excess-profits tax is likely to penalize small enterprises and to reward monopolistic concerns which are favorably situated and escape with little or no excess-profits tax.

The antichain-store taxes are partly political and partly economic in their origins. They do not appear to have been effective in curbing the chain stores. They tend to raise prices for consumers who patronize the chains. They are not suitable for the regulation of chain store methods of competition.

Tariffs to nurture monopolies are economically indefensible unless there are clear social advantages to be gained. In general, consumers, labor, and industry would gain from the elimination of uneconomic tariffs that benefit monopolies.

The taxes on holding companies — intercorporate dividends and consolidated returns—are not justified unless all holding companies are socially undesirable. Even then, should not other regulatory measures be applied to eliminate holding companies completely?

If taxation is moderate and equitable, the exemption of small business will not be necessary. However, if the corporate income tax rate is high, as it now is, preferential rates should be provided for the smaller income corporations.

The loss carry-forward should be extended to seven years. This would equalize the taxation of concerns with fluctuating and stable incomes and remove one type of tax discrimination that frequently prevails to the disadvantage of small business.

In conclusion, taxation is not a sufficiently selective tool for rooting out socially undesirable monopolies. Regulation by the Federal Trade Commission, other regulatory bodies, and the courts, imperfect as it is, is more promising in checking socially detrimental monopolies. On the other hand, taxation should not encourage monopoly or discourage competition. Tariffs that foster uneconomic monopolies should be withdrawn and discriminations in taxation against small business should be removed.

*Abstracted from a talk by Prof. Buehler at the Annual Symposium of the Tax Institute, New York City, Dec. 6, 1946. The complete edited text will subsequently be published in a volume issued by the Institute.

Cincinnati Municipal Bond Dealers Elect

CINCINNATI, OHIO — Clifford H. Diehl of the Provident Savings Bank & Trust Company was elected Chairman, and Gordon Reis, Jr., of Seasongood & Mayer, was elected Secretary-Treasurer of the Municipal Bond Dealers Group of Cincinnati at the annual meeting held Nov. 21, 1946.

The following were elected to serve on the Board of Directors: Gordon Graham, of Middendorf & Company; Harry O'Brien, of Katz and O'Brien; Clair S. Hall, of Clair S. Hall & Company.

Henry C. Dick Dies

Henry C. Dick, Vice-President of Frederic H. Hatch & Co., 63 Wall Street, New York City, died at his home at the age of 61. Mr. Dick had been with the Hatch firm for over 30 years as a bond specialist. Previously he had managed his own bond trading firm in Wall Street for 10 years.

Public More Conscious Of Tax Burden

The public is more conscious of the continued burden of taxation which has become a deterrent to investment, risk taking, saving and productive activity, A. E. Arscott, C.B.E., President of the Canadian Bank of Commerce, said on Dec. 10 at the annual meeting of stockholders. Taxes, he emphasized, fall upon the public, whether they are levied on goods, services or earnings. The natural incentive of the worker to put forth extra effort to achieve maximum production tends to diminish when heavily graduated income taxes allow a relatively lower net return for the extra work, he continued, and consequently production suffers. In like fashion, very high taxes have the effect of discouraging venture capital necessary for the development of those assets which have a relatively high rate of depletion, he added. Mr. Arscott urged that consideration be given to turnover or selective sales taxes to allow a modification of direct income taxes which have a hampering effect on business and production in general.

In discussing production and wages, Mr. Arscott pointed out that because of the interdependence of all branches of industry a disturbance or dislocation in any one part of the economy causes a wave of disorganization throughout the entire system. "I think it timely to point out," he said, "that changes in rates of pay for certain groups do little more than give these groups greater command over the available supply than those groups not included in pay increases. And an overall increase, assuming the same rate of production, ultimately completes the cycle with everyone back in his relative position."

S. M. Wedd, Vice-President and General Manager of the bank, presented a balance sheet for the fiscal year ended Oct. 31 which indicated a satisfactory growth in the business of the bank and reported that the number of customers is now over a million and a half.

Grimm Co. Adds Mellgren, Eddy and Waldron to Staff

Grimm & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, have announced the association with them of Eric G. Mellgren and Noel Eddy as registered representatives, and D. Kingsley Waldron as a member of their Trading Department.

Mr. Mellgren was formerly a partner of W. J. Banigan & Co. and was associated with that firm for the past 20 years. A native of Sweden, he was educated in Sweden, Germany and England, where he received his business and financial training.

Mr. Waldron was also associated with W. J. Banigan & Co. in their Trading Department. Prior to entering war work he was a trader for about 12 years with Gruntal & Co., Lehman Brothers, and A. G. Becker & Co., Inc.

Mr. Eddy, lately of Cohu & Torrey, has been in the security business here and in Canada for several years. A U. S. Marine veteran of World War I, he was hospitalized in the late war following injuries received as one of the volunteers who manned the boats for the British at Dunkerque.

Henry B. Gersten to Be Partner in Hettleman

Henry B. Gersten on Jan. 2 will be admitted to partnership in Hettleman & Co., 1 Wall Street, New York City, members of the New York Stock Exchange. Mr. Gersten is manager of the firm's arbitrage department.

Henry B. Gersten

Geyer & Co. Holds Annual Cocktail Party

Geyer & Co., Inc., 67 Wall Street, New York City, held a cocktail party at the Roof Garden of the Downtown Athletic Club on Dec. 10. It was a most enjoyable "repeat" of the party held last year.

Abraham & Co. to Admit

Alexander Abraham, member of the New York Stock Exchange, will be admitted to partnership in the Stock Exchange firm of Abraham & Co., 120 Broadway, New York City, on Jan. 1, 1947.

This advertisement is not, and is under no circumstances to be construed as, an offering of these securities for sale or as a solicitation of an offer to buy any of such securities. The offer is made only by the Prospectus.

NEW ISSUE

500,000 Shares

Westinghouse Electric Corporation

3.80% Cumulative Preferred Stock, Series B

Par Value $100 Per Share

OFFERING PRICE $100.50 PER SHARE

(Plus accrued dividends)

Copies of the Prospectus may be obtained in any State only from such of the several underwriters named in the Prospectus and others as may lawfully offer these securities in such State.

Kuhn, Loeb & Co.

December 12, 1946.

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Does Tax System Discourage Business?

By W. L. HEARNE*
Tax Supervisor, United States Steel Corporation

Contending present tax structure puts our competitive economy in great danger, industrial tax expert points out present corporation taxes add to cost of production which cannot always be reflected in prices. Holds that by reducing profits and not compensating for business losses, business taxes retard investment and employment.

There are two ways in which taxes discourage business enterprise. Neither one of them is so obvious as to command immediate and widespread recognition and acceptance. But that only makes it all the more important that they be discriminatingly discerned and appraised. The first one has to do with the effect of taxes upon corporations, and the other one has to do with the effect of taxes upon individuals. With the latter it would superficially seem that we are not concerned here, since this Forum is supposed to be about business enterprise. Nevertheless it is a fact that all businesses are, in the last analysis, initiated, financed and managed by individuals for the ultimate purpose of satisfying customers—who in the last analysis are also individuals. This is truth that cannot be neglected.

Let's look at corporate taxes as they exist today. There are a lot of corporations and they are paying many kind of taxes to Federal, State and local governments. We do not have time to go into all of them and their ramifying effects upon business enterprise, nor is it necessary to do so because the big tax burden now and in prospect is the Federal tax on income. That tax may or may not be a cost of production as distinguished from a cost which affects production. We could spend a lot of time fighting over whether or not it is a cost of production — that is whether it is a tax that is passed on to customers, or whether it is a tax that is levied on the owners —and sticks. My own opinion is that in the long run it tends mostly to be passed on to customers. But regardless of whether or not the corporate income tax is a cost of production there isn't a cost of earning an income through the corporate form. That is the thing which makes it a deterrent to business enterprise whether it is passed on to customers as an increase in price, or whether it sticks as a decrease of the income available to owners. This is why:

Assuming it is a cost of production, we have to remember that no producer is the boss of his customers. The line of authority runs the other way. It is the customer who is king. Producers cannot put prices up simply because they have costs to cover and expect customers to buy just as much at the higher price. Price increases deter customers from buying. Mounting costs require mounting prices to cover them. Taxes are costs which make no contribution to production, through the sale of which the cost can be recovered. The presence of such costs pushing against customer resistance means quite simply that it is harder for business to make ends meet, or in terms of today's topic, it is a discouragement to business enterprise.

Or take it the other way around: Suppose that the income tax reduces the income available to the owners of corporations. There is only one answer here, too. The only reason that corporations are organized is in the hope of profit. Anything which says to those who organize corporations "If you should make a profit a large slice of it will be taken in taxes, while if you make a loss that is your hard luck" can have no other consequence than to restrain people from organizing and conducting corporate enterprise. This is so simple that I wonder why it is sometimes challenged. Those who do contend that substantial taxation of profits where and when they appear does not diminish the incentives of enterprise must answer this simple question: If taxing profits does not discourage people from initiating or conducting business enterprise, then why not tax them 100%?

I said that the effect of taxes on enterprise is not superficially obvious. One reason for this is that ever since corporate rates above 20% have been in effect, there has been a large backlog of demand resulting from the war and the reduced level of production of consumers durable goods during the war. As a result there are a lot of corporations in existence representing an investment in tools and facilities to produce such goods. The money has been sunk in the tools—in the bricks and the mortar, etc. There is no possibility of having the investment undone—that is, of the investors not having spent their money and of the tools never having been made. The investors are "stuck" with the tools. This means that existing corporations have to do the best they can with the situation in which they find themselves. They have to make whatever profits they can, under the circumstances whatever they are, and they have to endure whatever losses they encounter, minimizing them in whatever fashion they can. They even have to make new investments in the face of a tax-curtailed profit prospect in order not to become competitively obsolete. To become competitively obsolete presents a loss prospect which is worse than the small profit prospect. This kind of enforced enterprise is like taking medicine, which you wouldn't take if you weren't sick.

All these circumstances make it possible for people to say, and I think with substantially complete truth, that existing corporations are not deterred by existing taxes from doing whatever is competitively necessary and financially possible to maintain and expand their markets—in short, to conduct business enterprise, at least to today's date. But that doesn't prove that taxes do not discourage business enterprise. It only proves the short-sightedness of the ones who assert that doctrine.

No business institution can claim to be everlasting. Business in America is the continual process of new firms starting; of new firms successfully growing; of old firms falling behind in the competitive race and going out of the picture; of little firms becoming big, and big and little firms going bust. In short, business enterprise in America is a population of business enerprises in all stages of birth, youth, growth, middle-age, old-age, and decrepitude. For the population to remain healthy and productive we must have birth and growth. That is where the tax cost works its hidden effect. The income tax cost mounts up with great rapidity once an enterprise passes its "break-even" point on the way up. A few percentage points increased in volume can breed a hundred-or-more-fold increase in the tax cost. The tax is levied on the source not only of dividends to owners but on the internal source of re-investment funds for growth. The tax has the effect of a concentrated squeeze on the element of growth. If 38% of the yearly net earnings are taken in taxes, then there is a maximum of 58% left to provide both the dividend incentive for conducting business, and the source of growth through re-investment. These two together also constitute the most of what any business enterprise has to offer when it is seeking to persuade the public to invest additional savings. Shrink it and the prospect of securing new money for tools also shrinks.

No, we can't conclude that taxes do not discourage enterprise just by looking at the behavior of enterprises already in existence. That is to easy. What we have to consider are the things that might have happened but didn't. They are not there to be counted. They are the enterprises which never got started because they died in the minds of the men who were considering them. They are the growths in small enterprises which were not undertaken because owners and managers did not think the return for risk worthwhile or because there was not enough money left after taxes to finance the expansion deemed necessary to build a competitively sound enterprise.

*Abstracted from an address by Mr. Hearne, presented at the Annual Tax Institute Symposium, New York City, Dec. 6, 1946. The complete edited text will subsequently be published in a volume issued by the Institute.

$20,000,000
(of which $16,000,000 par value amount are being publicly offered at the yields shown below)

New York Central Railroad
Equipment Trust of 1947

2% Equipment Trust Certificates
(Philadelphia Plan)

To mature $2,000,000 on each January 1, 1948 to 1957, inclusive

To be unconditionally guaranteed as to payment of par value and dividends by endorsement by The New York Central Railroad Company

These Certificates are to be issued under an Agreement to be dated as of January 1, 1947, which will provide for the issuance of $20,000,000 par value amount of certificates to be secured by new standard-gauge railroad equipment to cost not less than $27,261,000.

MATURITIES AND YIELDS
(Accrued dividends to be added)

1948	1.20%	1951	1.70%	1955	2.15%
1949	1.40	1952	1.80	1956	2.20
1950	1.55	1953	1.95	1957	2.25
		1954	2.05		

Issuance and sale of these Certificates are subject to authorization by the Interstate Commerce Commission. The Offering Circular may be obtained in any State in which this announcement is circulated from only such of the undersigned and other dealers as may lawfully offer these securities in such State.

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JULIEN COLLINS & COMPANY — KEBBON, McCORMICK & CO.

MULLANEY, ROSS & COMPANY — THE FIRST CLEVELAND CORPORATION

MASON, MORAN & CO. — McMASTER HUTCHINSON & CO. — ALFRED O'GARA & CO.

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To be dated January 1, 1947. Par value and semi-annual dividends (January 1 and July 1) payable in New York City. Definitive Certificates, with dividend warrants attached, in the denomination of $1,000, registerable as to par value. Not redeemable prior to maturity. These Certificates are offered when, as and if received by us. It is expected that Certificates in temporary or definitive form will be ready for delivery at the office of Halsey, Stuart & Co. Inc., 35 Wall St., New York 5, N. Y. on or about January 6, 1947. The information contained herein has been carefully compiled from sources considered reliable and, while not guaranteed as to completeness or accuracy, we believe it to be correct as of this date.

December 12, 1946.

Earl Bunting Pres. Of Nat'l Ass'n of Mfrs.

Earl Bunting, President of the O'Sullivan Rubber Corporation of Winchester, Va., has been elected President of the National Association of Manufacturers for 1947, it was announced at a dinner meeting of the NAM board of directors, held in connection with the 51st annual Congress of American Industry at the Waldorf-Astoria.

Earl Bunting

Mr. Bunting succeeds Robert R. Wason, President of Manning, Maxwell & Moore, Inc., of New York.

Mr. Bunting brings to his new task of heading the NAM more than 30 years of business experience.

He was born in Berryville, Ill., on July 29, 1893, and was educated in public and private schools.

From 1913 to 1915, he was a partner in the firm of Bunting & Block, architects and engineers, LeGrande, Ore. For the next 15 years—until 1930—he was Vice-President and director of Schwab Brothers Printing and Lithographing Company of Portland.

In 1922, he formed the firm of Earl Bunting & Associates, industrial engineers and marketing consultants, of Portland, which was succeeded in 1931 by the firm of Bunting, Durkee & Leake, of Portland and Washington, D. C.

In 1934 he organized Earl Bunting & Co., industrial engineers, of Washington, and in subsequent years served as consulting director and officer of numerous concerns in various lines of manufacturing activity, including the Fleitman Textile Corp., and its associated companies, the Ware Valley Manufacturing Co., and E-Z Mills.

While retaining his partnership in the Washington firm, he became a director of the O'Sullivan Corp. in 1938 and its President in 1941. He also is a director of the Victor Products Corp., and the Torvic Laboratories, Inc., both of Hagerstown, Md., and of the O'Sullivan Building, Inc., of Baltimore.

He has been a director of NAM for one year.

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"Double Taxation" of Corporate Profits

By RICHARD GOODE*
Economist, Division of Tax Research, U. S. Treasury

Treasury tax expert, basing his remarks on recent report made by him, interprets "double taxation" as "relative over-or under-taxation," points out problems involved in equalizing taxes on corporations and individuals. Sees need for thorough-going analysis of effects of corporate income tax on wealth and income distribution, on consumption and savings, on incentives and investment, and on employment and national income. Denies relative overtaxation of corporate profits is as heavy as is generally claimed.

For a number of reasons I believe that the use of the term "double taxation" is unfortunate. In the first place, the emotional content of the words "double taxation" is enough to condemn the present system in the minds of most people without further hearing. It may be that the present method of taxing corporate profits should be fundamentally revised, but the issue should be argued out fully and carefully and not decided on the basis of colorful phrases. In the second place, the real problem seems to me not to be "double taxation" in the sense of simultaneous imposition of two taxes but how the taxation of corporate profits and stockholders compares with taxation of other kinds of income and other income recipients. Under the present system, the corporate tax strikes profits distributed to stockholders not subject to individual income tax, either because of low-income or tax-exempt status, although other income going to the same income recipients is not taxed. In this case dividends are taxed more heavily than other kinds of income even though there is no double taxation in the literal sense. On the other hand, profits retained in corporations controlled by high-income stockholders may bear a smaller current tax than other income under the control of the same individuals. It seems to me that discussion would be advanced by substituting for "double taxation" such colorless terms as "relative overtaxation" or "relative undertaxation." Instead of talking about removal of "double taxation," it seems better to speak of equalizing taxes on corporate profits and other kinds of income. Whether one finds a specific proposal acceptable may well depend on whether one is more concerned with eliminating "double taxation" in the literal sense or with equalizing taxes on different kinds of income.

Several charges have been brought against the present so-called "double taxation" of corporate profits or, as I should prefer to say, the present relative overtaxation of corporate profits. The first charge is that the present system is inequitable. The first principle of equity in taxation is often held to be to tax all natural persons with the same income at the same rate. By this standard it is indeed true that stockholders are often overtaxed. At other times, however, many stockholders are at least temporarily undertaxed. The rule of equal taxation of equal income is subject to modification in accordance with the principle of reasonable classification. It may be argued in support of the present system that differences in taxation of stockholders and other income recipients are a reasonable reflection of genuine differences between stockholders and others. Within the limits of this paper, I cannot pretend to dispose of this issue. A complete discussion of it would, in my opinion, require a thorough-going analysis of the corporate income tax and its far-reaching effects on the distribution of income and wealth, on consumption and saving, on incentives and investment, and on employment and national income.

A second charge against the present corporate tax system is that it reduces the incentive to invest and thus reduces national income or slows its growth. In large part, I believe, this criticism is actually a complaint against income taxes in general rather than against the corporate income tax in particular. If, however, corporate profits are taxed more heavily than other kinds of income, the corporate tax may be especially harmful to investment. In connection with investment incentives it should be noted that the present "double taxation" or "relative overtaxation" of distributed corporate profits is greatest in the case of low-income stockholders and least in the case of high-income stockholders. This is true because the progressive rates of the individual income tax partly offset the effect of the corporate tax on the distributed part of profits. In the case of profits distributed to high-income stockholders who are subject to high individual tax rates, the tax collector would get a much bigger cut at the individual level if he did not get so much at the corporate level. For example, only 30% out of each dollar of the corporate tax on profits distributed to a stockholder subject to a 70% marginal individual rate is net revenue to the Treasury or net additional tax on the stockholder's equity. But, 81 cents out of each dollar of corporate tax is net additional tax in the case of profits distributed to a stockholder subject to only a 19% individual rate.

Two other charges against the present method of taxing corporations, which seem to me somewhat less important than those already mentioned, also stem from the present so-called "double taxation" or "relative overtaxation" of distributed profits. The present tax system is held to favor debt financing as compared with equity financing and to discourage the corporate form of doing business.

I shall not attempt to evaluate these charges nor even to state the counter-arguments in favor of the present corporate tax. I do want to say that I think that none of the arguments on either side can be accepted uncritically and that, in my opinion, a great deal more analysis needs to be done on the questions raised. For present purposes it is enough to point out that the validity of the case against the present corporate tax depends in large measure on the actual extent of "double taxation" or "relative overtaxation" of corporate profits as compared with other kinds of income.

The present relative overtaxation of corporate profits is neither so extensive nor so heavy as might be supposed on the basis of superficial examination. Unfortunately, however, it does not seem possible at the present stage of economic analysis to set definite limits to the actual extent of existing relative overtaxation of corporate profits. This is true mainly because we do not know with any degree of certainty who actually pays the present corporate tax. If the tax is passed forward to consumers in the form of higher prices or backward to workers in the form of lower wages, as many believe, stockholders may not be taxed more heavily than other income recipients. To the extent that the corporate tax is shifted forward in higher prices, it is no more a "double tax" on stockholders than, say, the excises on alcoholic beverages are double taxes on stockholders in distilleries, breweries, and wineries. If and to the extent that the corporate tax is shifted, it becomes in effect a broad consumption tax and must be so appraised.

Economic and business opinion is divided on the critical issue of shifting. Indeed, the division of opinion goes so deep that sometimes the same individual or group advances arguments that seem conflicting because of inconsistent treatment of the subject of incidence. Without going fully into the subject, I wish only to raise the question of shifting of the corporate tax as a possible limitation on the validity of the criticisms against the tax and as a point that may be pertinent to the appraisal of the various proposals for modifying the present system.

Even if the corporate tax is not shifted to commodity prices or wages, present stockholders may in many cases largely escape the tax. The basis for this assertion is the familiar theory of tax capitalization and amortization. If present stockholders bought their shares with the expectation that the corporate tax would continue, they probably took the tax into account in deciding how much to pay for stocks. Probably stock prices decreased or did not rise as much as they otherwise would have. Present stockholders in many cases may have bought their shares at prices and yields that at least in part discounted the tax. To the extent that they did so, the corporate tax was transformed into a one-time levy on the previous owners of stock, and its unexpected repeal or reduction would give present stockholders windfall gains. It is, of course, impossible to appraise this possibility in quantitative terms.

Furthermore, the effect of the corporate tax has probably not been confined to stock prices but probably has spread to all kinds of earning assets. As stocks became a less attractive investment after imposition or increase of the corporate tax, some potential investors probably attempted to shift to bonds and other assets. The result was doubtless that the prices of bonds and other assets were bid up to some extent, while the fall of the price of stocks was somewhat cushioned. If this happened, the corporate tax was the cause of a general decrease in yields of all kinds of earning assets rather than merely a tax on the yield of stocks.

*Abstracted from a paper read by Mr. Goode before the Annual Tax Symposium of the Tax Institute, New York City, Dec. 6, 1946. The complete edited text will subsequently be published in a volume issued by the Institute.

Lawyer Partner in Kahn Co.

SAN FRANCISCO, CALIF.—James V. Lawyer is now a partner in Sidney P. Kahn & Co., 586 California Street, members of the San Francisco Stock Exchange.

Now Sole Proprietorship

SHERMAN, TEXAS—O. J. Colwick, Jr. is now sole proprietor of Colwick & Son, 127 East Wall Street.

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these securities. The offering is made only by the Prospectus.

NEW ISSUE

150,000 Shares

St. Regis Paper Company

First Preferred Stock, 4.40% Series A
($100 par value)

Total issue 200,000 shares

Price $100
Plus accrued dividend from date of issue

Copies of the Prospectus may be obtained in any State in which this announcement is circulated from only such of the Underwriters, including the undersigned, as may legally offer these shares in compliance with the securities laws of such States.

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Paine, Webber, Jackson & Curtis

December 12, 1946.

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Investment Bankers Association of America Holds 35th Annual Convention

(Continued from first page)

The International Trust Company, Denver; Western Pennsylvania, Milton G. Hulme, Glover & MacGregor, Inc., Pittsburgh.

Membership Grows

The Membership Committee of the Association, headed by James M. Dain, as Chairman, reported, as of Aug. 31, total members of all classes as 701, compared with 659 a year previous. This compares with the all time high of 812 members on June 8, 1937. The classification of the membership for the past two fiscal years was as follows:

As of Aug. 31, 1946	
Class I	40
Class II	54
Class A	94
Class B	266
Class C	247
	701
Registered branch offices	771

As of Aug. 31, 1945	
Class A	87
Class B	281
Class C	274
Inactive	17
	659
Registered branch offices	683

During the fiscal year ending on Aug. 31, last, the Membership Committee recommended and the Board of Governors approved 62 applicants for membership. The loss of 20 members, of which 11 were Inactive, resulted in a net gain of 42 members. Of the 17 Inactive members on Sept. 1, 1945, six of them returned to regular membership during the year. The remaining 11 had not resumed business within one year after the cessation of hostilities. Some of them resigned and the memberships of the others, after due notice, were cancelled. Each of these 11 former Inactive members may apply for reinstatement until August, 1947.

Association Has Surplus

The Finance Committee, under the Chairmanship of Irvin L. Porter, reported a prosperous condition of the Association's treasury. During the last fiscal year, which closed on Aug. 31, the Association's operations showed surplus figures of $60,700 compared with a surplus of $26,300 for the 1945 fiscal year and $6 200 for the 1944 fiscal year. This substantial surplus for the past year is the largest the Association has ever had and it was due principally to changes made in the dues classification schedules which resulted in an increase of annual dues of $77,000 over those of the previous fiscal year.

Training Program in Operation

Julien H. Collins, on behalf of the Education Committee, reported that the IBA Training Program, instituted 2½ years ago, was now in full operation and successful classes were being conducted in 18 cities, largely with cooperation of universities and colleges. More than 1,200 students are now enrolled in the association's courses and 450 students already have received certificates for completion of a standard 126-hour course. The booklet on "Fundamentals of Investment Banking" published by the Association, is now being mailed to subscribers. The committee feels that the set of 12 volumes of these booklets when completed, will constitute the most comprehensive and authoritative document dealing with the many phases of the investment banking business. Member houses located in cities which do not have the advantage of organized courses will find these booklets especially useful.

Stand-By Commitment Question

One of the problems with which the Convention was concerned was the method of handling "stand-by" commitments of underwriters. A special Committee, of which Eugene P. Barry of Shields & Company was Chairman, that had been appointed for the purpose of studying the present method of handling stand-by commitments, with a view to attempting to develop a new procedure that would reduce the time of the stand-by and at the same time permit the underwriters to discharge some of their commitments, reported on various plans to this end, with the following conclusion:

"Of the various plans which have been studied for improving the present method of handling stand-bys the one that appears to be the most practical would give the underwriters permission to buy rights aggressively during the period of the stand-by, exercise these rights and from time to time, prior to the expiration of the rights, sell the security being underwritten at a price that would be in line with the prevailing market. It is believed that if the underwriters are permitted to sell to investors at the going market rate and to cover such sales through the purchase of rights, a substantial reduction in the amount of the risk to the underwriters would be effected. Stockholders who are unable to exercise their rights would have a better opportunity to realize on them by the means of sale of the rights and the possibility of a large block of unsubscribed securities demoralizing the market after the expiration of the subscription date would be greatly reduced. This plan differs from the present method of handling rights in that normally the underwriters will merely stabilize the stock or the rights, or both, and will not aggressively buy rights for the purpose of exercising rights and making a distribution of the security underwritten prior to the expiration date. To make such a plan practical, it might be necessary to change the present method of compensation so that the underwriters would have income sufficient to justify the purchase of the rights and the sale of the underwritten security at a price higher than the subscription price and to pay normal dealers' discounts. One method of accomplishing this would be to have a flat sum for financial services that would not vary with the amount of stock taken up by the stockholders. Then the underwriters would have the right to apply as much of the gross fee obtained to merchandising the unsubscribed securities as was necessary. The committee has discussed this operation in detail with the staff of the SEC and they have said they see no objection in principle to adopting the program suggested above. However, it would have to be borne in mind that the purchase of the rights must be done on such a basis that it would not constitute any mark-up in price, as this would involve complications and possible violation of Section 9A, 1934 Act.

"Another plan that your committee has considered was proposed by the Bankers Trust Company and White & Case. The plan involves the use of a contingent warrant. Mr. John Millikin of Bankers Trust and Mr. Glover Johnson of White & Case are here and will explain the operation of this plan. They are prepared to answer any questions. If this plan obtains SEC approval, it is estimated that a reduction in the period of the stand-by commitment may be effected.

"Although this committee believes the first plan suggested is practical and will receive SEC and legal approval, it suggests that the matter be submitted to counsel for further study before a final report is rendered."

Committee Chairmen

The following are listed as Chairmen of the standing committees for the coming year:

Conference — John Clifford Folger, Folger, Nolan, Incorporated, Washington.

Education — Julien H. Collins, Julien Collins & Company, Chicago.

Federal Legislation—Walter A. Schmidt, Schmidt, Poole & Co., Philadelphia.

Federal Taxation—Amyas Ames, Kidder, Peabody & Co., New York.

Finance—Irvin L. Porter, The First National Bank of Chicago.

Foreign Investment — Harold Stanley, Morgan Stanley & Co., New York.

Foreign Investment Sub-Committee—A. Northey Jones, Morgan Stanley & Co., New York.

Government Securities — Delmont K. Pfeffer, National City Bank of New York.

Group Chairmen's—Mark C. Elworthy, Elworthy & Co., San Francisco.

Industrial Securities—Frank A. Willard, Reynolds & Co., New York.

Membership — James M. Dain, J. M. Dain & Company, Minneapolis.

Municipal Securities—George L. Martin, Martin, Burns & Corbett Inc., Chicago.

Public Service Securities—Edward H. York, Jr., Drexel & Co., Philadelphia.

Railroad Securities — Percy M. Stewart, Kuhn, Loeb & Co., New York.

Small Business—John F. Fennelly, Glore, Forgan & Co., Chicago.

State Legislation — Robert S. Mead, Stone & Webster Securities Corporation, Chicago.

Stock Exchange Relations — Clifford Hemphill, Hemphill, Noyes & Co., New York.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of the late Frank C. Roberts to John C. Maxwell will be considered by the Exchange on Dec. 19. Mr. Maxwell will continue as a partner in Tucker, Anthony & Co.

Transfer of the Exchange membership of the late William W. Vaughan to William N. Vaughan will be considered on Dec. 19. Mr. Vaughan will act as an individual floor broker.

William E. Nulty retired from partnership in Francis I. du Pont & Co. on Nov. 30.

Sidney W. Moss withdrew from partnership in Garvin, Bantel & Co. on Nov. 30.

Edward Roesler, partner in Laidlaw & Co., died on Nov. 29. His interest in the firm will cease as of Dec. 31.

Winthrop to Admit Davis

Robert Winthrop & Co., 20 Exchange Place, New York City, members of the New York Stock Exchange, will admit Henry G. Davis to partnership on Jan. 1.

Spencer Trask to Admit

Spencer Trask & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit Allan C. Eustis, Jr. to partnership on Jan. 1.

This announcement is neither an offer to sell, nor a solicitation of offers to buy, any of these shares. The offering is made only by the Prospectus.

150,000 SHARES

Velvet Freeze, Incorporated

Common Stock
($1.00 Par Value)

Price $7.50 Per Share

Copies of the Prospectus may be obtained from only such of the undersigned as may legally offer these shares in compliance with the securities laws of the respective States.

SCHERCK, RICHTER COMPANY STRAUS & BLOSSER

December 6, 1946

This announcement is neither an offer to sell, nor a solicitation of offers to buy, any of these securities. The offering is made only by the Prospectus.

New Issue

Sunshine Park Racing Association, Inc.

60,000 Shares 25¢ Non-Cumulative Preferred Stock
($4.80 Par Value)

120,000 Shares Common Stock
(10¢ Par Value)

Price: $5.00 Per Unit
Consisting of One Share of Preferred Stock and Two Shares of Common Stock

Copies of the Prospectus may be obtained from the undersigned only by persons to whom the undersigned may legally offer these securities under applicable securities laws.

John K. Walters & Co., Inc.
812 West Street, Wilmington, Delaware

John H. Valentine Co.
50 Broadway, New York 4, N. Y., BO 9-3893

December 6, 1946

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"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The improved technical position of the market brought about in some measure by the position purchases of dealers, as well as investment accumulation by institutions, along with the ending of the coal strike, resulted in an up trend in government security prices. . . . Although there are some adjustments that still have to be made, it is indicated by the market's action that they will not be of major importance and have been rather fully discounted. . . . The temporary money squeeze seems to be passing and when the financing of the 15th is out of the way, the money markets will be in for a "breather," which should enable the commercial banks to regain their equilibrium. . . . This does not mean that these institutions have not been in the market, because they have, and as a result of their buying the bank eligibles have been showing a much better tone. . . .

There has been and still is considerable shifting of holdings among the deposit banks, with a decided move into the longer-term, higher coupon obligations going on. . . . The shorter maturities of the 2s are being sold, (largely to the big city institutions) and the proceeds are going in the 2s of 1952/54, the 2¼s of 1956/59 or the 2½s due Sept. 15, 1967/72. . . .

The June and December 2s of 1952/54 have come in for some good buying and would no doubt have moved up more, if it were not for selling by non-bank investors, which has tended to keep prices on the stable side. . . . The 2¼s due 1956/59 are still very well liked by most of the commercial banks, with the smaller out-of-town institutions the largest buyers. . . .

However, since the yield on the 2½% due 1956/58 has been somewhat better than that available in the 2¼s of 1956/59, this has resulted in buying of the 2½s instead of the 2¼s by the larger institutions that are not too much concerned with premiums. . . .

LONG ELIGIBLES IMPORTANT

The longest eligible, the 2½% due Sept. 15, 1967/72, has come in for some good investment buying in moderate amounts. . . . This has been done principally by the commercial banks with savings deposits, although there are reports to the effect that the large city banks accumulated these bonds during periods of price weakness. . . .

The 2½s due Sept. 15, 1967/72 are being watched very carefully by practically all of the commercial banks, because they have a real interest in this issue and will continue to acquire it whenever they have the opportunity and the price is considered favorable. . . .

Higher operating expenses as well as the desire to put more of their assets into the longer-term obligations, have recently made the banks quite conscious of the importance of the longest eligible taxable issue in their scheme of things. . . . It is not expected that there will be any concerted rush to pick up the 2½s due Sept. 15, 1967/72, because the banks are not yet in great need of additional income. . . . Although they may have to take on this issue from time to time, in small amounts, in an advancing market, it will be in a period of declining prices that the big buying will take place. . . . This seems to pretty much put a floor under prices of this issue. . . . As to what level this might be is purely a matter of guesswork. . . .

Nevertheless, the opinion seems to be that whenever these bonds can be bought under 105, they will be accumulated in very large amounts. . . .

PARTIAL EXEMPTS DEPRESSED

The uncertainty created by all the talk as well as the many proposals for cutting taxes following the November elections, slowed the buying of the partially exempts and this in turn stopped the upward trend in prices of these obligations. . . . After a period of consolidation during which some new lows for the year were made, interest has again come into these bonds, which has resulted in a much better tone for these issues. . . . It is reported that the demand for the partially exempts is sizable and comes from institutions both in and outside of the metropolitan area. . . .

The felling now seems to be that revisions in taxes, when they do come next year, will not be as great as had been talked of, and are quite likely not to include important changes in corporate levies. . . . Even allowing for some minor relief in corporate taxes, the yield on the partially exempts compared with similar maturities of taxable issues would still be favorable at present levels. . . .

Also if there is to be an upward trend in prices of taxable obligations near the end of this year or the early part of next year, as is believed by many in the financial district, then the partially exempts can be expected to follow such a move. . . . Moreover, the longer maturities of the partially exempts fit well into the plans of some of the commercial banks, to extend maturities in order to maintain income. . . .

THIN MARKET

Buying has been spotty and not too substantial in the restricted bonds, but nevertheless sufficient to improve prices, partly because of the thinness of the market for these obligations. . . . The small insurance companies and savings banks have been putting funds to work in the longest ineligible 2½s as well as the other restricted issues. . . .

They have likewise been sellers of some of the eligible bonds, particularly the longer 2s and 2¼s of 1956/59. . . .

The large insurance companies and savings banks have not yet come into the market in an important way. . . . They are still holding off with the hope that there will be an offering of long-term bonds to ultimate investors early in the new year. . . . Meetings between the monetary authorities and the heads of these concerns are scheduled for the early part of January. . . . Because of the arranged get-together, it is indicated that the large units in the savings and insurance fields are quite likely to refrain from any sizable buying until after these conferences. . . .

It is reported that these same ultimate investors have tried in the past, but without too much success, to convince the monetary authorities of the need for more issues of restricted bonds at 100 to yield 2½%. . . .

This announcement is not an offer to sell or a solicitation of an offer to buy these securities. The offering is made only by the Prospectus.

$30,000,000

Philadelphia Electric Company

First and Refunding Mortgage Bonds,
2¾% Series due 1981

Dated December 1, 1946 Due December 1, 1981

Price 101.35% and accrued interest

The Prospectus may be obtained in any State in which this announcement is circulated from only such of the undersigned and other dealers as may lawfully offer these securities in such State.

HALSEY, STUART & CO. INC.

OTIS & CO. (INCORPORATED) PHELPS, FENN & CO. R. W. PRESSPRICH & CO.

BURR & COMPANY, INC. HAYDEN, STONE & CO. DEMPSEY & COMPANY

GREGORY & SON INCORPORATED MULLANEY, ROSS & COMPANY SWISS AMERICAN CORPORATION

December 11, 1946

$3,600,000

Of which $1,800,000 principal amount are being publicly offered at yields shown below

Gulf, Mobile and Ohio Railroad Company

Equipment Trust, Series D

2% Serial Equipment Trust Certificates

(Philadelphia Plan)

To mature $300,000 on each January 1, 1948 to 1959, inclusive

To be unconditionally guaranteed as to payment of principal and dividends by endorsement by Gulf, Mobile and Ohio Railroad Company.

These Certificates are to be issued under an Agreement to be dated as of January 1, 1947, which will provide for the issuance of $3,600,000 principal amount of Certificates to be secured by new standard-gauge railroad equipment estimated to cost approximately $4,592,410.

MATURITIES AND YIELDS

1948	1.15%	1952	1.75%	1956	2.125%
1949	1.35	1953	1.90	1957	2.15
1950	1.50	1954	2.00	1958	2.25
1951	1.625	1955	2.10	1959	2.30

Issuance and sale of these Certificates are subject to authorization by the Interstate Commerce Commission. The Offering Circular may be obtained in any State in which this announcement is circulated from only such of the undersigned and other dealers as may lawfully offer these securities in such State.

HALSEY, STUART & CO. INC.

HARRIS, HALL & COMPANY (INCORPORATED) OTIS & CO. (INCORPORATED) JULIEN COLLINS & COMPANY

THE MILWAUKEE COMPANY FIRST OF MICHIGAN CORPORATION

THE FIRST CLEVELAND CORPORATION McMASTER HUTCHINSON & CO.

MASON, MORAN & CO. MULLANEY, ROSS & COMPANY ALFRED O'GARA & CO.

WM. E. POLLOCK & CO., INC. THOMAS & COMPANY F. S. YANTIS & CO. INCORPORATED

To be dated January 1, 1947. Principal amount and semi-annual dividends (January 1 and July 1) payable in Chicago. Definitive Certificates in the denomination of $1,000, registerable as to principal amount. Not redeemable prior to maturity. These Certificates are offered when, as and if received by us. It is expected that Certificates in temporary or definitive form will be ready for delivery at the office of Halsey, Stuart & Co. Inc., 123 South La Salle Street, Chicago 90, Illinois on or about January 3, 1947. The information contained herein has been carefully compiled from sources considered reliable and, while not guaranteed as to completeness or accuracy, we believe it to be correct as of this date.

December 11, 1946

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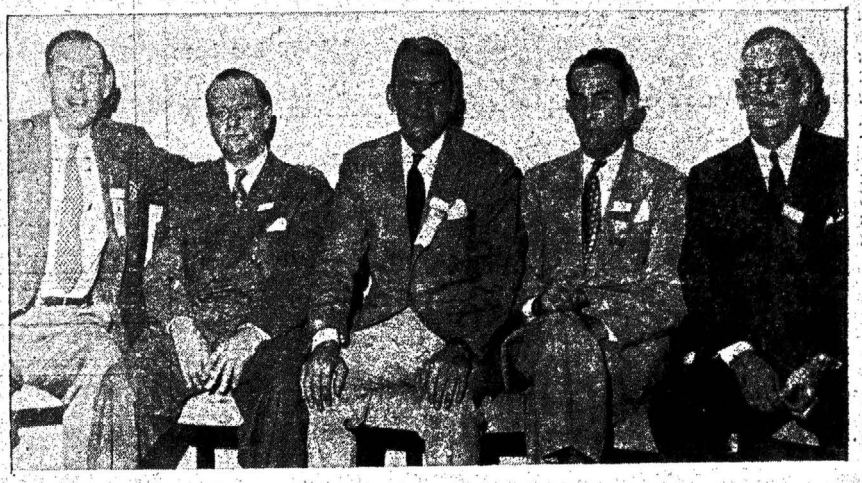
IBA Convention—December 1-6, 1946

Charles S. Garland, *Alex. Brown & Sons,* Baltimore; Edward Hopkinson, Jr., *Drexel & Co.,* Philadelphia.

R. H. Johnson, *R. H. Johnson & Co.;* Wallace M. McCurdy, *Thayer, Baker & Co.,* Philadelphia—Presentation of the New Orleans Cup.

Julien H. Collins, *Julien H. Collins & Co.,* Chicago; Hal H. Dewar, *Dewar, Robertson & Pancoast,* San Antonio; Carey S. Hill, *Hill, Richards & Co.,* Los Angeles; Robert W. Baird, *Wisconsin Co.,* Milwaukee.



George B. Wendt, *First National Bank of Chicago;* H. Laird Smith, *Equitable Securities Corp.,* Nashville; Wm. R. Hendrix, *Equitable Securities Corp.,* Nashville; Ralph Owen, *Equitable Securities Corp.,* Nashville; John J. Rust, *Equitable Securities Corp.,* New York City.

Brownlee O. Currey, *Equitable Securities Corp.,* Nashville; Mrs. Wm. M. Rex, New York City; Elwood Smith, *Harriman Ripley & Co.,* New York City; Wm. M. Rex, *Clark Dodge & Co.,* New York City; Mrs. Marvin Faulman, Miami, Fla.

Fred D. Stone, Jr., *John Nuveen & Co.,* Chicago; Joseph L. Morris, *Robinson-Humphrey & Co.,* Atlanta, Ga.; Roland H. Boardman, *R. H. Johnson & Co.,* Boston; R. H. Johnson, *R. H. Johnson & Co.,* New York.

John F. Linen, *Chase National Bank of New York.*

Charles S. Parker, Jr., *Continental Bank & Trust Co.,* New York; Stewart A. Dunn, *C. J. Devine & Co.,* New York; Frank T. Kennedy, *C. J. Devine & Co.,* New York.

H. Wilson Arnold, *Weil & Arnold,* New Orleans; H. Russell Barrow, *Barrow, Leary & Co.,* Shreveport, La.

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J. Creighton Riepe, *Alex. Brown & Sons*, Baltimore; Emil C. Williams, *Chemical Bank & Trust Co.*, New York; Hazen S. Arnold, *Braun, Bosworth & Co.*, Toledo; Francis Moulton, *R. H. Moulton & Co.*, Los Angeles; David M. Wood, *Wood, Hoffman, King & Dawson*, New York; Walter A. Schmidt, *Schmidt, Poole & Co.*, Philadelphia.

Walter W. Craigie, *F. W. Craigie & Co.*, Richmond; J. Marvin Moreland, *Rotan, Mosle & Moreland*, Galveston, Tex.; Darnall Wallace, *Coffin & Burr, Incorporated*, New York; F. D. Farrell, *City National Bank & Trust Co.*, Kansas City, Mo.; Harold J. Schluter, *First National Bank of Chicago*, New York; Edward M. McLaughlin, *Paine, Webber, Jackson & Curtis*, New York.

Albert J. T. Woll, *E. M. Newton & Co.*, Boston, Mass.; Mr. & Mrs. William M. Cahn, Jr., *Henry Herrman & Co.*, New York; Hilton Hornaday, *Financial Editor, Buffalo Evening News.*

J. Murray Atkins, *R. S. Dickson & Co., Inc.*, Charlotte, N. C.; Mrs. J. Murray Atkins; John T. Wall, *R. S. Dickson & Co., Inc.*, Charlotte, N. C.; Jonathan G. Gullick, *Interstate Securities Corp.*, Charlotte, N. C.

William J. Price, 3rd, *Alex. Brown & Sons*, Baltimore, Md.; Mrs. Shirley C. Morgan; Shirley C. Morgan, *Frank B. Cahn & Co.*, Baltimore, Md.; Mrs. William J. Price, 3rd.

Emmett F. Connely, *First of Michigan Corp.*, Detroit Mich.; Shirley C. Morgan, *Frank B. Cahn & Co.*, Baltimore, Md.; Mrs. Thomas G. Schaedle; Thomas G. Schaedle, *Briggs, Schaedle & Co., Inc.*, New York.

Albert T. Armitage, *Coffin & Burr, Inc.*, Boston; delivering Public Service Securities Report to Convention.

John McG. Dalenz, *Calvin Bullock*, New York; Mrs. Howard Finney, Jr.; Howard Finney, Jr., *Bear, Stearns & Co.*, New York.

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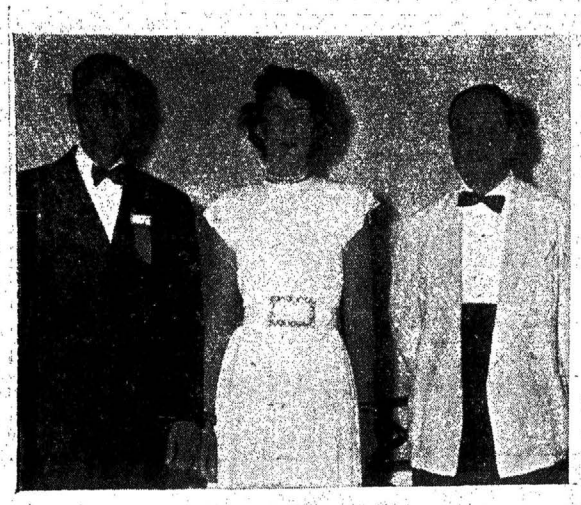


Mr. & Mrs. Thomas Beckett, Jr., *First Southwest Company*, Dallas; Hugh D. Carter, Jr., *Courts & Co.*, Atlanta, Ga.

William T. K. Collier, *Collier, Norris & Quinlan*, Montreal; Hal F. Dewar, *Dewar, Robertson & Pancoast*, San Antonio, Tex.

Charles S. Garland, *Alex. Brown & Sons*, Baltimore, *Retiring President of Investment Bankers Association of America*; Murray Hanson, *General Counsel, IBA*, Washington, D. C.

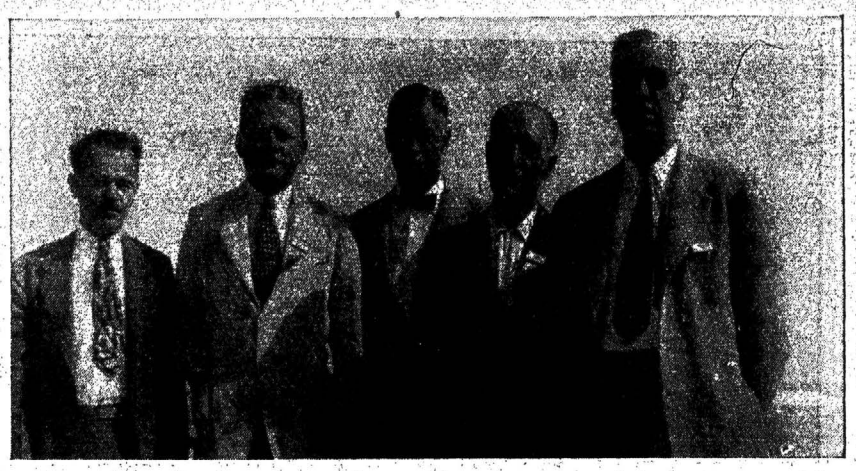
Edmond M. Hanrahan, *Securities & Exchange Commission*, Philadelphia; Mrs. Robert Stevenson, 3rd; Edward Hopkinson, Jr., *Drexel & Co.*, Philadelphia.

Mr. & Mrs. David F. Lawrence, *Boettcher & Co.*, Denver.

Herman A. Feldman, *Geyer & Co., Inc.*, New York; Mrs. George Geyer; Mrs. Herman A. Feldman; George Geyer, *Geyer & Co., Inc.*, New York.

James K. Miller, *Dominion Securities Corp.*, New York; Earl Pryor, *Milwaukee Co.*, Milwaukee, Wis.; Clarence L. Finger, *Milwaukee Co.*, St. Paul, Minn.

Warren D. William, *Ryan, Sutherland & Co.*, Toledo; Mrs. Warren D. Williams; Mr. and Mrs. C. Edgar Honnold, Oklahoma City, Okla.; William Urell, *Bar Brothers & Co.*, New York City.



Robert L. Thayer, *Lehman Bros.*, New York; Paul L. Mullaney, *Mullaney, Ross & Co.*, Chicago; Mark L. Baxter, *Parker Corporation*, Chicago; Frank D. Farrell, *City National Bank & Trust Co.*, Kansas City, Mo.; Francis F. Patton, *A. G. Becker & Co.*, Chicago.

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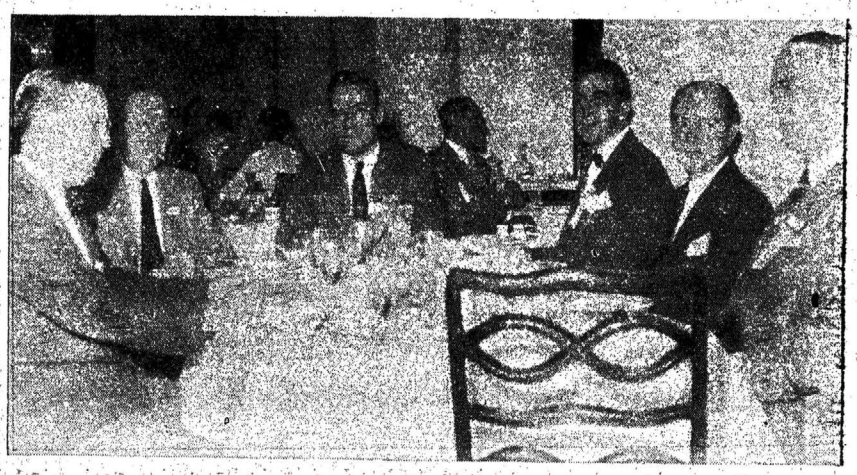
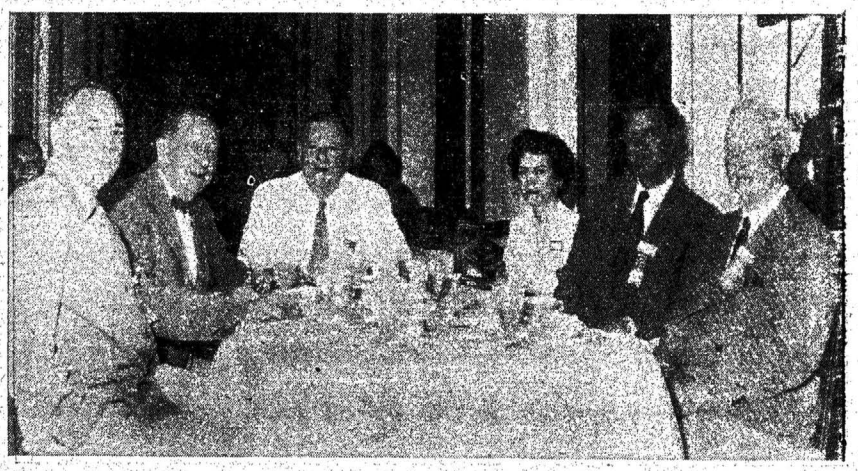
Industrial Securities Committee at Breakfast Meeting—Mark C. Elworthy, *Elworthy & Co.*, San Francisco; Clement A. Evans, *Clement A. Evans & Co.*, Atlanta; Benjamin J. Buttenwieser, *Kuhn, Loeb & Co.*, New York, *Committee Chairman*; Leroy A. Wilbur, *Stein Bros. & Boyce*, Baltimore; Henry M. Bateman, *Bateman, Eichler & Co.*, Los Angeles.



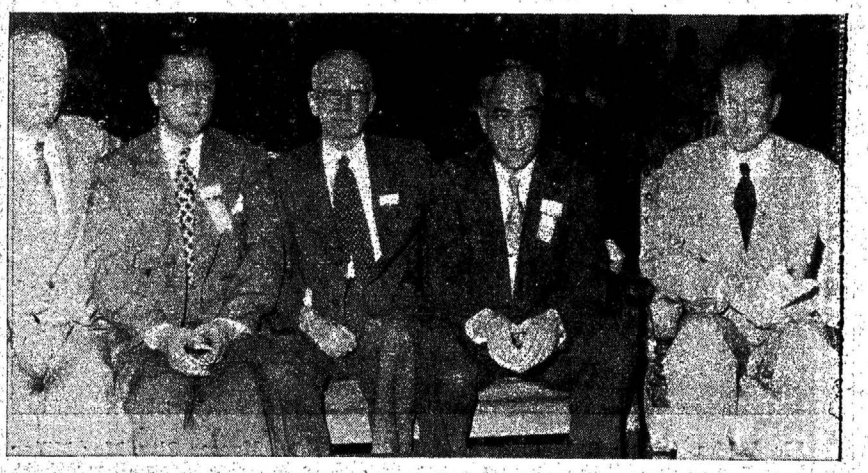
Stock Exchange Relations Committee at Breakfast Meeting—Samuel D. Lunt, *Hamlin & Lunt*, Buffalo, N. Y.; Richard A. Kebbon, *Kebbon, McCormick & Co.*, Chicago; Richard de la Chapelle, *Shields & Company*, New York; *Committee Chairman*; Edward C. Anderson, *Scott & Stringfellow*, Richmond, Va.; Joseph H. King, *Union Securities Corporation*, New York; Albert W. Tweedy, *H. C. Wainwright & Co.*, Boston.

Kenneth Drummond, *Calvin Bullock*, St. Louis, Mo.; James F. Quigg, *Paine, Webber, Jackson & Curtis*, Chicago; James C. Warren, *A. M. Kidder & Co.*, New York; Richard C. Noel, *Van Alstyne, Noel & Co.*, New York; Benjamin A. Walter, *Bingham, Walter & Hurry*, Los Angeles; James Sheldon Riley, *Bingham, Walter & Hurry*, Los Angeles.



Membership Committee at Breakfast Meeting—J. Russell Postlethwaite, *First California Company*, San Francisco; Alden H. Little, *Executive Secretary and Treasurer of IBA*; D. Dean McCormick, *Kebbon, McCormick & Co.*, Chicago; Mary R. Lincoln, *Assistant Secretary, IBA*; Gerald P. Peters, *Peters, Writer & Christensen, Inc.*, Denver; Clifford Hemphill, *Hemphill, Noyes & Co.*, New York.

Robert L. Thayer, *Lehman Bros.*, New York; Carl T. Naumburg, *Stern, Lauer & Co.*, New York; Herman L. Lind, *Camp & Co.*, Portland, Oregon; Conrad H. Liebenfrost, *Stern, Lauer & Co.*, New York.



Karl D. Pettit, *K. D. Pettit & Co.*, New York; Frank O. Maxwell, *Maxwell, Marshall & Co.*, Los Angeles; S. K. Cunningham, *S. K. Cunningham & Co., Inc.*, Pittsburgh, Pa.; Wilbur R. Wittich, *Maxwell, Marshall & Co.*, New York City; Karl D. Pettit, Jr., *Knickerbocker Shares, Inc.*, New York.

Sigmund Stern, *Stern Brothers & Co.*, Kansas City, Mo.; John A. Prescott, *Prescott, Wright, Snider Co.*, Kansas City, Mo.

Federal Legislation Committee at Breakfast Meeting.

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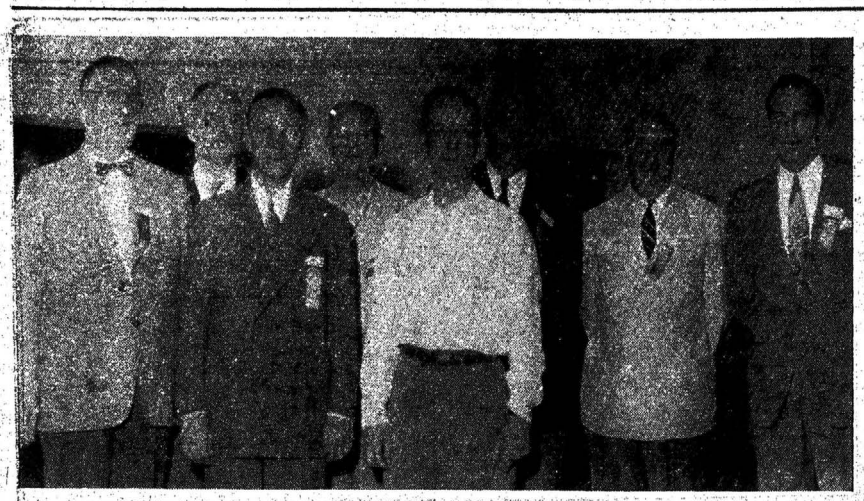

Front—Rucker Agee, *Sterne, Agee & Leach,* Birmingham; George LeVind, *Blyth & Co., Inc.,* New York.

Rear—John J. Rust, *Equitable Securities Corp.,* New York; David J. Lewis, *Paine, Webber, Jackson & Curtis,* New York; Reginal M. Schmidt, *Blyth & Co., Inc.,* New York; Mahlon O. Bradley, *Paine, Webber, Jackson & Curtis,* Chicago; Nathan S. Sharp, *R. S. Dickson & Co., Inc.,* Chicago; Sidney J. Mohr, Jr., *Thornton, Mohr & Co.,* Montgomery, Ala.

Albert J. T. Woll, *E. M. Newton & Co.,* Boston, Mass.; Dudley C. Smith, *Municipal Secretary, IBA (Investment Bankers Association),* Chicago; George L. Martin, *Chairman, Municipal Securities Committee, Martin, Burns & Corbett,* Chicago.

Hardin H. Hawes, *Harris Trust & Savings Bank,* Chicago; D. T. Richardson, *Milton R. Underwood & Co.,* Houston.

Edward H. Hilliard, *J. J. B. Hilliard & Son,* Louisville, Ky.; Preston Delano, *Comptroller of the Currency,* Washington, D. C.

John J. McKeon, *Charles W. Scranton & Co.,* New Haven; H. V. B. Gallager, *Yarnall & Co.,* Philadelphia; F. Edward Bosson, *Putnam & Co.,* Hartford, Conn.

Mr. & Mrs. Adolph E. Weltner, *A. E. Weltner & Co.,* Kansas City, Mo.; Miller H. Pontius, *F. Eberstadt & Co.,* New York; Mr. & Mrs. Maurice H. Sandberg, *A. E. Weltner & Co.,* New York City.

William M. Alley, *A. E. Ames & Co., Inc.,* New York; C. J. Fullerton, *A. E. Ames & Co., Inc.,* New York; Mrs. William M. Alley; A. G. Curry, *A. E. Ames & Co., Inc.,* New York.

Malon C. Courts, *Courts & Co.,* Atlanta; Gerald P. Peters, *Peters, Writer & Christensen, Inc.,* Denver; Richard W. Clarke, *Richard W. Clarke & Co.,* New York; Mrs. Joseph M. Scribner, Pittsburgh; Mrs. Walter A. Schmidt, Philadelphia; Walter A. Schmidt, *Schmidt, Poole & Co.,* Philadelphia; Frederick T. Seving, *Butcher & Sherrerd,* Philadelphia.

Samuel K. Phillips, *Samuel K. Phillips & Co.,* Philadelphia; Edward J. Phillips, *Samuel K. Phillips & Co.,* Philadelphia.

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Elvin K. Popper, *I. M. Simon & Co.*, St. Louis; Max S. Muench, *Stix & Co.*, St. Louis; Bert H. Horning, *Stifel, Nicolaus & Co., Inc.*, St. Louis; Alden H. Little, *Executive Secretary and Treasurer Emeritus, IBA;* Festus J. Krebs, *Metropolitan St. Louis Co.*, St. Louis.

Bert H. Horning, *Stifel, Nicolaus & Co., Inc.*, St. Louis; Charles S. Werner, *Wertheim & Co.*, New York; Mrs. Jean Honaker, Palm Peach; Douglas R. Hansel, *Wertheim & Co.*, New York; Mrs. & Mr. Mel M. Taylor, *Semple, Jacobs & Co.*, St. Louis.

Mr. and Mrs. Anthony E. Tomasic, *Thomas & Co.*, Pittsburgh.

Thomas Whiteside, *Chace, Whiteside & Warren*, Boston; Alden H. Little.

Joseph A. Rushton, *Goodbody & Co.*, Chicago; Leonard J. Paidar, *Goodbody & Co.*, Chicago.

Mrs. Thomas R. Furlong, Chicago; Mathew J. Hickey, Jr., *Hickey & Co.*, Chicago; Mrs. Mathew J. Hickey.

Mr. and Mrs. Samuel L. Varnedoe, *Varnedoe, Chisholm & Co.*, Savannah; Mr. and Mrs. Frank A. Chisholm, *Varnedoe, Chisholm & Co.*, Savannah.

Dickinson C. Harper, *Wm. P. Harper & Son & Co.*, Seattle; Sherman Ellsworth, *Wm. P. Harper & Son & Co.*, Seattle; Herman L. Lind, *Camp & Co.*, Portland, Oreg.

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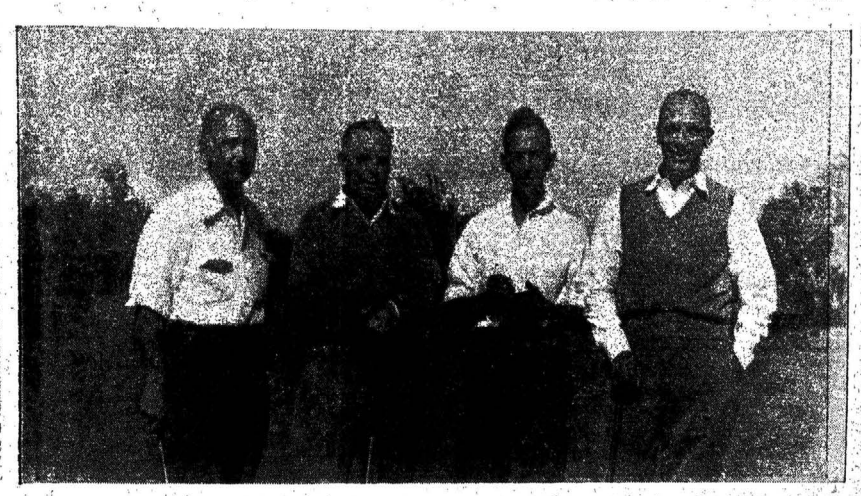
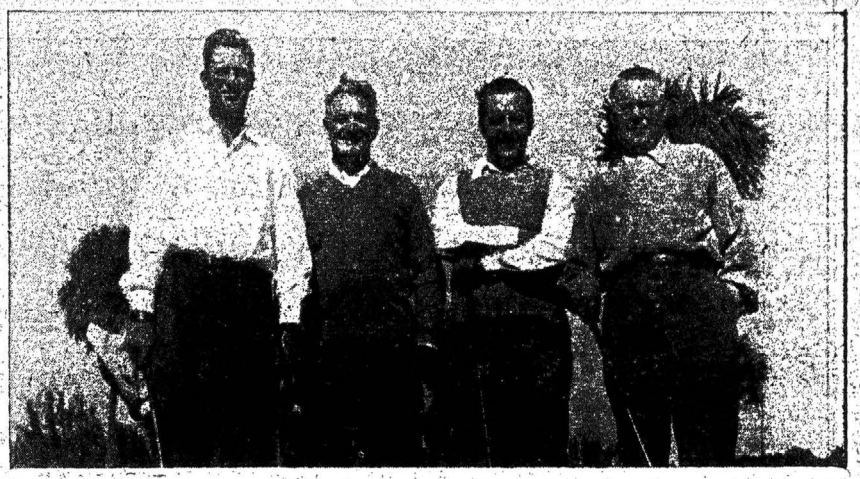


Anthony E. Tomasic, *Thomas & Co.*, Pittsburgh; W. H. Hammond, *Braun, Bosworth & Co.*, Chicago; C. F. Hemenway, *Illinois Co. of Chicago;* Robert Ledyard, *J. C. Bradford & Co.*, Nashville, Tenn.

Louis J. Cross, *Paul H. Davis & Co.*, Chicago; Milton S Trost, *Stein Bros. & Boyce*, Louisville, Ky.; V. Theodore Low, *Bear, Stearns & Co.*, New York; Ralph W. Davis, *Paul H. Davis & Co.*, Chicago.

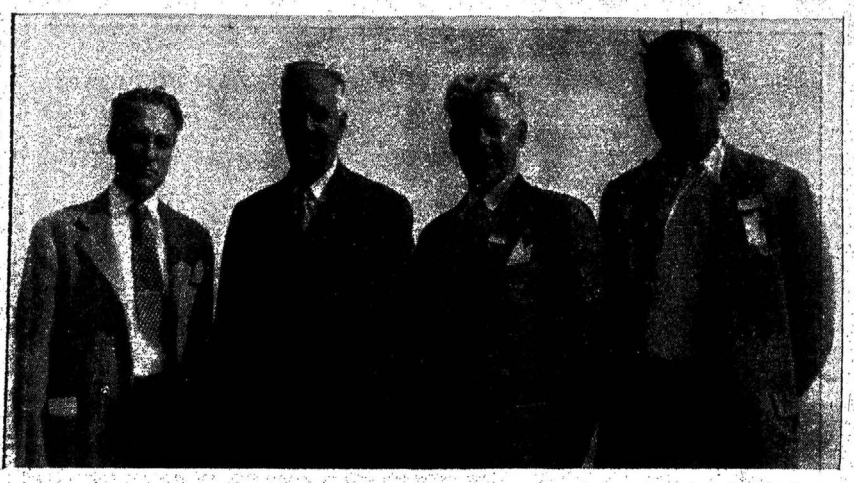
T. George Van Hart, *Salomon Bros. & Hutzler*, New York City; T. A. Von Glahn, *Salomon Bros. & Hutzler*, New York; J. P. Donnally, *Peoples National Bank*, Charlottesville, Va.; C. F. Cassell, *C. F. Cassell & Co.*, Charlottesville, Va.



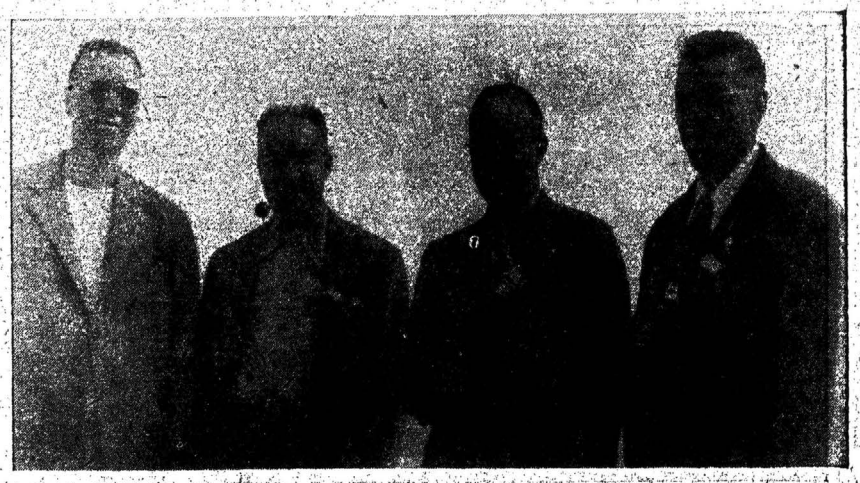
Gerald P. Peters, *Peters, Writer & Christensen. Inc.*, Denver; A. E. Weltner, *A. E. Weltner & Co.*, Kansas City, Mo. Maurice H. Sandberg, *A. E. Weltner & Co., Inc.*, New York City; M. F. Roberts, *Sidlo, Simons, Roberts & Co.*, Denver.

Mr. and Mrs. George W. Elkins, Jr., *Elkins, Morris & Co.*, Philadelphia; Edgar J. Loftus, *R. S. Dickson & Co., Inc.*

Edward A. Stephenson, *Chase National Bank, Chicago;* Robert L. Hatcher, *Chase National Bank*, New York; Emil C. Williams, *Chemical Bank & Trust Co.*, New York.



Leston B. Nay, *First Securities Company*, Chicago; Mahlon O. Bradley, *Paine, Webber, Jackson & Curtis*, Chicago; Robert G. Mead, *Stone & Webster Securities Corp.*, Chicago; Edward E. Anderson, *Discount Corporation of New York*, New York.



William H. Gregory, Jr., *Bonner & Gregory*, New York; Monroe V. Poole, *George B. Gibbons & Co.*, New York; Sanders Shanks, Jr., *The Bond Buyer*, New York; F. Vincent Reilly, *Commercial & Financial Chronicle*, New York.

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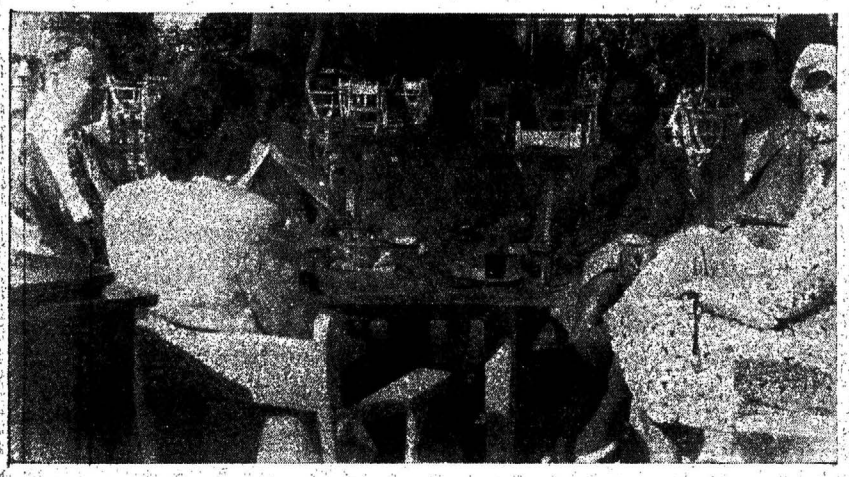
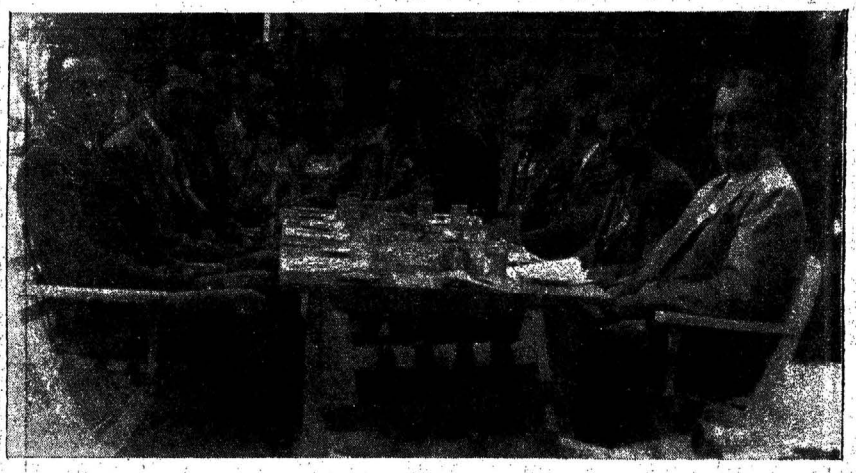


Mrs. Joseph W. Sener, Baltimore, Md.; Fred R. Tuerk, *Cruttenden & Co.*, Chicago; Joseph W. Sener, *Mackubin, Legg & Co.*, Baltimore; Mrs. C. Gerard Morgan, Jr., Baltimore; C. Gerard Morgan, Jr., *Mackubin, Legg & Co.*, Baltimore, Md.; Mrs. William H. Gregory, Jr.; William H. Gregory, *Bonner & Gregory*, New York; Walter H. Pohlhaus, *Mackubin, Legg & Co.*, Baltimore; Mrs. Walter H. Pohlhaus.



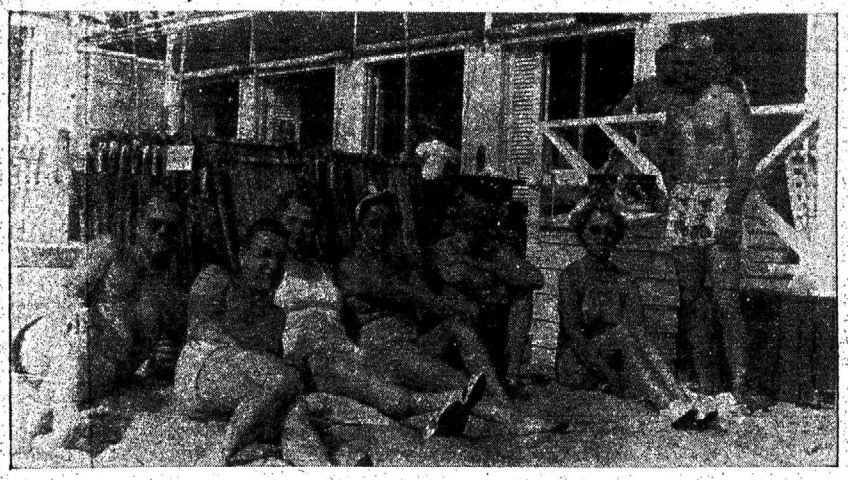
J. Murray Atkins, *R. S. Dickson & Co.*, Charlotte; John P. Labouisse, *Howard, Labouisse, Friedrichs & Co.*; New Orleans; Robert C. Webster, *Webster & Gibson*, Nashville; James E. Roddy, *Scharff & Jones*, New Orleans; Carr Payne, *Cumberland Securities Corp.*, Nashville; W. Russell Barrow, *Barrow, Leary & Co.*, Shreveport, La.; Errol E. Buckner, *National Bank of Commerce*, New Orleans, La.; Gilbert Hattier, Jr., *White, Hattier & Sanford*, New Orleans; George H. Nusloch, *Nusloch, Baudean & Smith*, New Orleans.

Mrs. J. Emerson Thors, New York; Mrs. Herman B. Joseph, Cleveland; Mrs. George Geyer, New York; Mrs. Herman A. Feldman, New York.

T. George Van Hart, *Salomon Bros. & Hutzler*, New York; William N. Beebe, *Stillman, Maynard & Co.*, New York; Mrs. Edward E. Bartlett.

Charles H. Loomis, *First National Bank of St. Paul*; Jack Talbot, *Northwestern National Bank*, Minneapolis; G. James Caldwell, *Caldwell, Phillips Co.*, St. Paul; I. D. Owen, *Allison-Williams Co.*, Minneapolis.

Mr. & Mrs. Wm. K. Barclay, Jr., *Stein Bros. & Boyce*, Philadelphia; Ernest O. Dorbritz, *Moore, Leonard & Lynch*, Pittsburgh; James L. Harrison, *National City Bank*, New York; R. A. Metzger, *Union Central Life Insurance Co.*, Cincinnati.



Alfred S. Wiltberger, *Blyth & Co.*, Chicago; Dwight W. Chapman, *American Trust Co.*, San Francisco; Mrs. George W. Davis; Mrs. Dwight W. Chapman; Arthur W. Schlichting, *Bankers Trust Co.*, New York; Mrs. Frank Werden; George W. Davis, *Davis, Skaggs & Co.*, San Francisco.

Clement A. Evans, *Clement A. Evans & Co.*, Atlanta; Mrs. Edward Nelson, New York; Myron F. Ratcliffe, *Lehman Bros.*, New York; Mrs. Wayne Martin, Atlanta, Ga.

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J. W. Means, *Trust Co. of Georgia,* Atlanta; Clement A. Evans, *Clement A. Evans & Co.,* Atlanta; Waldo W. Mallory, *Clement A. Evans & Co.,* Atlanta.

Richard W. Courts, *Courts & Co.,* Atlanta, Ga.; giving Federal Taxation Report.

H. I. Prankard, *Lord, Abbett & Co.,* New York; A. R. Hughes, *Lord, Abbett & Co.,* Chicago.

Carl S. Wittmer, Jr., *Buckley Brothers,* Hagerstown, Md.; J. Carey Thompson, Jr., *Buckley Brothers,* New York.

Jim Daisy Officers and Initiates

Officers of Jim Daisy—Thomas R. Furlon, *Chicago Tribune, Aere Perrinnius;* William A. Happ, *St. Louis Globe Democrat, Grand Androecium;* William L. Ayers, *Finance Magazine, Lyric Censor;* C. Norman Stabler, *New York Herald Tribune, Elephantian Anther.*

Jim Daisy Initiates.

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INVESTMENT BANKERS ASSOCIATION OF AMERICA

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Robert W. Baird

PRESIDENT

E. Hopkinson, Jr.

Vice-President

Julien H. Collins

Vice-President

H. H. Dewar

Exec. Sec. & Treas.

Alden H. Little

Vice-President

Carey S. Hill

Vice-President

ALBERT H. GORDON

GOVERNORS

Walter W. Ainsworth

Edward C. Anderson

Albert T. Armitage

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Carry-Over Problems of Coming Year

By EDWARD HOPKINSON, JR.*
President, Investment Bankers Association of America
Partner, Drexel & Co., Philadelphia

In inaugural address, newly elected IBA President urges Association take active interest in public affairs as well as matters relating to investment. Advocates early balancing of Federal Budget, but warns government expenditures will remain heavy. Sees high level of profitable business activity essential to support National Budget and expresses confidence in fruitful cooperation with SEC, and continued progress in the investment mechanism.

I am appreciative of the confidence you have shown in me in electing me to this office. It is a great honor and privilege to be your President in the exciting times in which we find ourselves and which surely lie ahead of us. I shall do my best to justify your confidence and contribute what I can to the work to which the Investment Bankers Association is committed.

E. Hopkinson, Jr.

Retiring President Garland's address, in opening this Convention, in describing the activities of the past year, has also charted the carry-over problems of the coming year.

I believe, of course, that the Association must continue to take an active interest in public affairs affecting our whole economy, as well as those matters which relate more directly to the mechanics of our own business. Secretary of the Treasury Snyder and his staff have made it possible for the representatives of the Association to get a first-hand knowledge of the problems they are facing, and have made possible friendly and informal discussions of matters having to do with debt policies and taxes. Our standing committees having to do with these subjects will, no doubt, have an opportunity to continue to be helpful along these lines.

I can fully share the enthusiasm for a reduction in taxes, and I certainly hope that the Federal Budget may be so arranged as to permit a modest start in this direction, effective for the year 1947. Nevertheless, we cannot overlook the fact that the Federal Budget has now shown a deficit for sixteen consecutive years. We must not complacently permit it to drift into a dangerous state of chronic unbalance.

If tax reduction can be reconciled with a balanced budget that is certainly a desirable objective, as neither industry nor private individuals can indefinitely function to the best advantage with a tax-gatherer collecting such a high percentage of the income dollar. It destroys the incentive and the possibility of saving, and, particularly, makes it impossible for the small business of today to grow into the great business of tomorrow. Tax reduction to the extent possible should not be a hit or miss affair, but should be carefully considered with relation to its overall effect on our whole economy.

To support our budget there must be a high level of profitable business activity. Work stoppages and interruptions of production make more difficult, and less likely, the possibility of any substantial reduction in taxes for 1947. This must be driven home to the consciousness of all our citizens. After all, any spectacular reduction of our Federal expenditures for 1947 just is not in the wood. The interest on the public debt cannot be expected to be lower in 1947 than it was in 1946, and it may well be higher if the Treasury adopts a policy of funding some of the present short-term 7/8's into longer term bonds, so as to get away gradually from the far too high percentage of short-term obligations. Some cut may, of course, be possible in military expenditures, but how far can that be carried in the present unsettled state of world affairs? We certainly cannot afford a balanced budget that is achieved at the cost of national security, nor do we want a tax cut that is to be paid for at the cost of either an unbalanced budget or the endangering of our national security, or both. Also, it cannot be lost sight of that, with rising prices, the cost of Government-bought supplies and salaries is also moving upward. Certainly the number of Federal employees in the many activities which are in process of being discontinued will be reduced, but will not the aggregate expenditure to adequately compensate a smaller group of remaining employees, to some extent offset the salaries of those no longer needed? Very definitely one must recognize that the present rates of compensation do not furnish many of our Federal employees a decent living, nor an incentive to continue in Government service for our more ambitious young men and women. If we are to have competent and efficient administration of the proper functions of Government, we must recognize this and deal more generously with our public servants. In my opinion, it all adds up to the fact that the level of Government expenditures, for the near future, is almost bound to continue at a high level, and tax reductions must come, in large part, from the greater yield of a high level of production at profitable levels, and thereby make possible a tax yield adequate to support the budget at lower rates of taxes.

Relations with SEC

As to the mechanics of operating our own business: there we come into close contact with the Securities and Exchange Commission, which has been so ably represented at this Convention by its distinguished Chairman, Mr. Caffrey, and his colleague, Mr. Hanrahan. I hope they have felt that they were sincerely welcome at our sessions, and that they have appreciated the seriousness of purpose with which our members in attendance here have put aside, for the moment, their own private business concerns and devoted themselves to consider the problems of our country and of our business and of investors as a whole. I believe that the opportunity we have had to meet with the Commissioners and the staff, for the past several years, has been able to bring about a better understanding of our mutual problems. Our problems are mutual in nearly every respect. Experience has shown some of the weaknesses and bottlenecks in the present law and the procedures which have been developed thereunder. Any step to facilitate making information available to investors at an earlier date will be progress in the right direction. I have no doubt that the Commission itself will be able to correct some of the further difficulties by appropriate changes in regulations; others, as stated by Chairman Caffrey, may require legislative sanction. Your Federal Legislation Committee, with the able assistance of Murray Hanson, our General Counsel, has already been at work studying this phase of the situation, and I hope will produce some constructive suggestions which may not be unacceptable to SEC. It will certainly be our endeavor to widen the area of agreement with them as to the best way to proceed, and

(Continued on page 3046)

*Inaugural address of Mr. Hopkinson at the 35th Annual Convention of the Investment Bankers Association of America, Palm Beach, Fla., Dec. 6, 1946.

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Past Year and Future Outlook of IBA

BY CHARLES S. GARLAND*
Retiring President, Investment Bankers Association of America
Partner, Alex. Brown & Sons, Baltimore

In reporting to IBA Convention the Association's activities and the problems ahead, Mr. Garland stresses progress in cooperation with other similar organizations and government agencies, particularly with SEC. Discusses problem of "free riding" and "red herring" prospectuses and concludes that there exists between SEC and IBA a feeling of mutual understanding and respect from which great good-will results. Lauds IBA Educational Program and forecasts heavy industrial financing in the next several years. Looks to new Congress to restore confidence in private enterprise.

I should like first to make a summary report on your Association's activities and then to say just a word about the outlook for our business for the coming year, and finally comment on a few matters, one of which, in my judgment, transcends in importance even our immediate business problems.

Charles S. Garland

The past year has been one of transition for the Investment Bankers Association, for during that period it has undergone certain fundamental changes. We have broadened or expanded our aims and purposes. We have opened our Washington office and our Chief Executive Officer, Murray Hanson, together with our Educational Director, Robert W. Clark, Jr., have been effectively engaged in their work there since last January. Alden Little, Arthur Davis, Dudley Smith, Bob Stevenson and Mary Lincoln have carried on their respective activities in Chicago with their well-known loyalty and efficiency. Thus, as we go into 1947, we have a staff from which we can confidently expect a high level of performance in the new as well as the old phases of the Association's activities.

During the year, your Board of Governors has met twice. A Winter Meeting was held at Absecon, N. J., on Jan. 25, 26 and 27 and a Spring Meeting at Bretton Woods, New Hampshire, from June 13 to June 16. Both meetings were well attended and productive of much serious and thoughtful discussion, all of which greatly aided the officers and staff of the Association in carrying on their work.

With the relaxation of war-time restrictions on travel and meetings, it seemed appropriate that Murray Hanson and I, during the first half of the year, should visit the IBA groups throughout the country to discuss common problems, to become better acquainted and to clarify our objectives. Our itinerary included 28 cities in which 60 meetings were held. In addition, we were given the pleasure of visiting personally the offices of approximately 360 firms. I believe these meetings were mutually beneficial—they certainly were helpful to us.

We found our members sobered by the war experience. We found them seriously determined to continue an unselfish and assertive participation in national and international affairs above and beyond the immediate concerns of our industry. I think it essential that we never lose sight of the vital importance of continuing such participation.

Cooperation With Other Organizations

It has been and is my firm conviction that the IBA should cooperate in every way possible with other organizations, both in our own field and in related fields, so that we may better accomplish our individual and common objectives, and at the same time eliminate unnecessary and costly duplication of effort. To this end, the officers and committees of the Association have worked very closely with their opposite numbers of the NASD on every problem of mutual concern during the past year. We have also enjoyed a close working relationship with the New York Stock Exchange and the Association of Stock Exchange Firms.

We have been ably represented at the three meetings of the National Post War Conference which have been held this year. This, to my mind, is a unique undertaking in that in brings together 24 different organizations drawn from business, banking, agriculture, transportation, labor, foreign trade, the veterans' groups and industry. At each of these meetings the points of view of all these varied groups are brought to bear on currently vital problems and, although all discussions are off-the-record and do not result in definitive recommendations or actions, nevertheless they serve an exceedingly useful purpose in bringing about greater understanding among these various segments of our economy.

We have likewise had occasion to work during the past year with the American Bankers Association, The Association of Casualty and Surety Executives, the National Association of Investment Companies and The Life Insurance Association of America. In connection with our study of the "free riding" problem last spring, we found that all these organizations had an interest quite similar to our own in that a few of the employees of some of their members were engaging in free riding practices reminiscent of the late 1920's. After we informally brought this situation to their attention, each of these organizations gladly enlisted the cooperation of their membership in meeting the phase of the problem affecting them.

I know also that Murray Hanson and Bob Clark are taking every opportunity to familiarize themselves with the personnel and objectives of the many associations in Washington, such as the United States Chamber of Commerce, the National Association of Manufacturers, the Air Transport Association, the Committee for Economic Development and others, so that we may be mutually helpful when the occasion presents itself.

In addition to cooperating with other private organizations, your officers and committees have worked equally closely with several departments and agencies of the government.

On Sept. 18, at Secretary Snyder's request, and as a part of his program of receiving the views of various segments of the financial community on such Treasury problems as debt management and taxes, we had a most interesting, and I believe, helpful, full-day session with the Secretary and the members of his staff, at which there was a completely frank but friendly exchange of views on these vitally important matters. The Treasury people thought so well of the meeting that they have subsequently called back several individual members of our group for further discussion and elaboration of their views and recommendations and additional meetings are scheduled in the near future.

We have likewise had several discussions with members of the Federal Reserve Board on the question of margin restrictions and related matters.

In the past year, at the request of the International Bank, we have named two committees to advise

(Continued on page 3062)

*Presidential address by Mr. Garland at 35th Annual Convention of the Investment Bankers Association, Palm Beach, Fla., Dec. 2, 1946.

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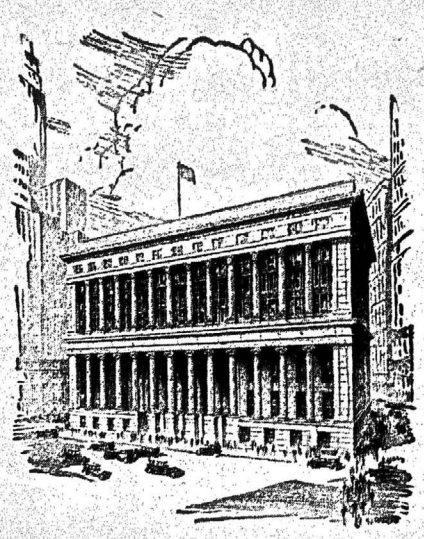

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Basic Problems in Investment Process

By JAMES J. CAFFREY*
Chairman, Securities and Exchange Commission

SEC head tells investment bankers of threats to established investment banking mechanism through "private placements" and other means of by-passing system of direct public investment. Sees antidote in investment banking strengthening confidence of issuers, of public and of investor. Pledges SEC to expedite its processes so as to help and not to hinder informed investment. Urges investment bankers not to be mere peddlers of securities, but to assume a continuing obligation to their customers. Wants level of securities salesmanship raised and proposes a joint study by SEC and investment bankers to revise securities laws.

We, of the Commission, are glad to be with you today. We thank you for your gracious hospitality and for this opportunity to meet informally with you. We want to get to know better those who share our common problems, to to learn their points of view and exchange ideas with them.

James J. Caffrey

Investment banking is integrally related to the development of the investment process as a whole. It is bound to be affected by any movement affecting the investment process. It is, therefore, a business in which a high premium ought to be put on basic thinking. Today I want to talk about some problems which I conceive to be basic.

The investment banker, in the peformance of his function, stands between enterprise and the public pools of capital. His business needs not only securities to sell, but a large class of investors willing to devote their savings to enterprise. Any factors which affect this vital condition also affect you.

*An address by Mr. Caffrey before 35th Annual Convention of Investment Bankers Association of America, Palm Beach, Fla., Dec. 4, 1946.

Investment Banking Mechanism

The investment banking mechanism as it exists today is a fairly modern thing. The syndicate and selling group as presently organized with their accent on rapid distribution rather than on leisurely risk-taking, are recently developed characteristics. They evolved in response to changing conditions. Vast amounts of capital have been necessary to finance the accelerated expansion of our economy; issues tend in good times to stumble over each other to catch markets; markets are traditionally ephemeral things; and some of you have experienced the unhappy consequences of being caught with large unsold allotments. What we have seen is an evolution of a complex method delicately adjusted to meet the mechanical needs as they appeared. The development has been largely a development in technique. However, I am going to try to show why it is just as important to foster also the development of the investment banker's role as servant of the investor.

In the short period since the early '30s that has accounted for the latest developments in your business you have had demonstrated to you some of the factors which may constitute significant threats to its present methods. When you analyze them you will see that they all touch the vital predicate of your business which I mentioned before—the ability to satisfy a wide-spread public demand for direct investment in enterprise.

By-Passing Public Direct Investment

For example, you all remember the days in the middle and late '30s when so-called "private placements" came into public prominence. It was a time of real fear in the investment banking fraternity. The growth of a system in which insurance companies and banks swallowed up increasing percentages of available investment was nothing to be complacent about. You gentlemen complained—and complained hard. Unfortunately and, I think, time has proved erroneously, some of your hardest complaints were against the SEC and its basic laws

Not alone private placements, but other means of by-passing the direct call on investors' savings constitute possible competition with the investment banker's distribution function. The degree to which corporations can finance additions from internal savings and the use of bank credits are other examples.

There are several common features in these examples. One of the most significant is that they are not, by any means, necessarily "depression babies." Private placements, bank credits, and internal savings are live factors in any stage of the business cycle. True, they are not as obvious when new financing is plentiful and is matched by active demand; but it is true too that they do not spring into being with depressions.

Depressions, of course, affect all of us. They have instant and marked effects on your business. One of the symptoms of a depression is the freezing of capital pools. Somehow indecisions and lethargy seem to overtake us. There seems to be a desire to play safe, to shrink away from direct investment in enterprise. Good job-making projects wither for lack of capital, and capital, hiding in safety, hungers for good return. At such times criticism of the investment banking fraternity tends to run high; and it seems an inevitable tendency, notwithstanding the political complexion of the time, to meet depressions by supplanting the investment banker and by using government capital to help keep employment up.

Antidote to Adverse Factors

Whether adverse factors to the investment banking business are or are not depression symptoms, they can be met by one good antidote—strengthening the confidence of issuers, of the public, of the man in the street with savings to invest, in your functions. Your industry has many fair-weather friends. It is comfortable to know that a seasoned corporation seeking a refunding to take

(Continued on page 3058)

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(Continued on page 3072)

Hopkinson Discusses IBA's Carry-Over Tasks In the Coming Year

(Continued from page 3043)

narrow, to the greatest extent possible, any area of disagreement; and we welcome the opportunity to cooperate with SEC in a fresh re-study of what can and should be done.

The comprehensive review of the progress of the implementation and proposed procedures of the International Bank which its Executive Director, Mr. Collado, gave us at our Tuesday morning session was most timely. It will give our membership the material to consider the problems and opportunities of foreign finance at a time when we must consider our own problems of employment and production with relation to world affairs.

I assure you of my great interest in the work and program of the Education Committee. I feel particularly fortunate that Julien Collins has agreed to continue as its Chairman for another year, with John Fennelly and Nathan McClure as Vice Chairmen. This will preserve continuity in the preparation of "Fundamentals of Investment Banking" until its completion.

In closing I can only re-echo to you the concluding sentence of Mr. Garland's address, wherein he warned us that we must not become so engrossed in our own personal businesses that we lose sight of our important duties as citizens.

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(Twenty-Fourth of a Series)

JEAN DE LARGENTAYE

French Executive Director of the Fund

Jean de Largentaye has been French executive director of the Fund since the resignation of Mr. Pierre Mendes-France on July 4, 1946. Previously Mr. de Largentaye had been serving as French temporary alternate executive director of the Fund, having been a member of the French delegations at the Bretton Woods Conference of 1944 and the Savannah meeting of Fund and and Bank governors in March 1946.

J. de Largentaye

Mr. de Largentaye was born in Brittany in November 1903. He is a graduate of the Ecole Polytechnique and has a master's degree in law.

From 1925 to 1930 de Largentaye was engineer for l'Air Liquide, Inc., spending three years in the plants of that firm in Spain. Admitted in 1931 in the services of the Inspection General des Finances, he served in the Ministry of Finance until 1939, from 1936 in the Treasury Division.

In August 1939 he was drafted in the artillery with the grade of lieutenant and later, in 1940, was assigned to the Purchasing Mission in Spain by the Ministry of Armament.

In April 1940 de Largentaye was appointed Financial Attache of the French Embassy in Spain and the French Legation in Portugal. In April 1943 he resigned and proceeded to Algiers, where he was entrusted with the Research Service of the Commissariat for Finance. Upon the transfer of the Provisional Government to Paris at the end of August 1944, he was placed in charge of the services of the Commissariat for Finance which were maintained in Algiers. In December 1944 he was reinstated as Financial Attache in Madrid and Lisbon.

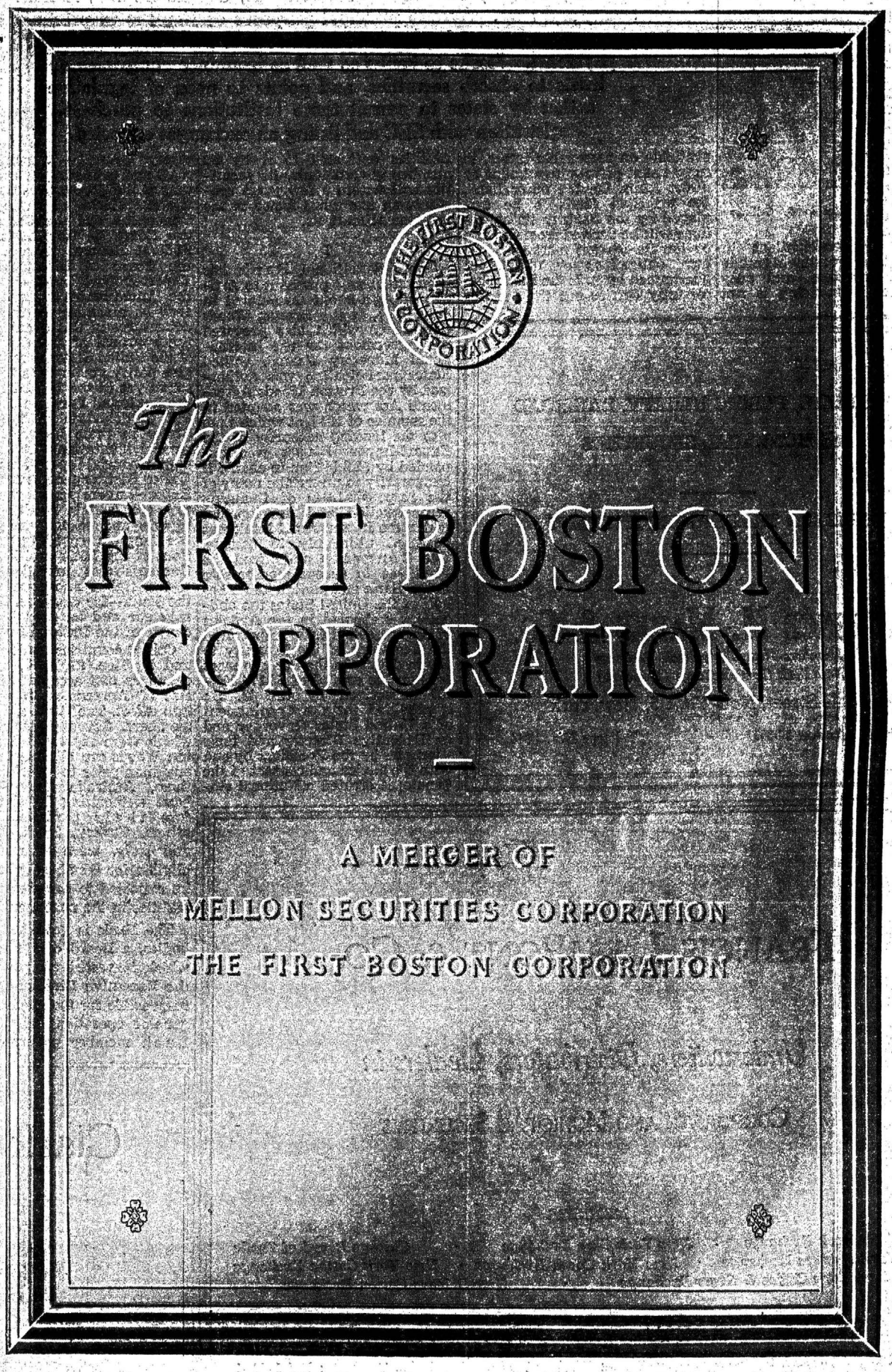
Before the war de Largentaye made a French translation of the "General Theory of Employment, Interest and Money" of John Maynard Keynes which was published in Paris. He also wrote various articles on economic and financial subjects for the "Revue d'Alger."

British Exchg. Control Bill

The statement that Britain's balance-of-payments deficit in the year ending next July is likely to be "substantially less" than anticipated was made on Nov. 26 by the Chancellor of the Exchequer, Hugh Dalton, at which time, moving the second reading of the exchange-control bill, he said that, despite this improved position, Britain must still watch closely her supplied of "hard currencies."

"He defined hard currencies as American and Canadian dollars. Argentine pesos and Swedish crowns, omitting Swiss francs, which are generally regarded as the 'hardest' of all currencies.

"Mr. Dalton could not predict when Britain could afford to allow the free capital movements. He described exchange control as an 'indispensable weapon for safeguarding our balance of payments,' saying it would enable Britain to play her full part in carrying out the objectives of the International Monetary Fund."



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The International Bank and Its Securities

By EMILIO G. COLLADO*
United States Director, International Bank

World Bank official explains organization and purposes of the institution and points out its restrictive provisions on lending will result in carefully considered loans of a productive character designed to increase levels of world economic activity. Says requests for loans have been received from Chile, Denmark, France, Poland, the Netherlands, Czechoslovakia, Luxembourg and Iran. Asserts principal purposes of Bank is to promote long-range balanced growth of international trade and balance of payments. Looks to banks as well as insurance companies and trusts to absorb securities, and points to need of legislative action by states to permit these institutions to purchase. Registration with SEC and listing on exchanges expected.

It is particularly fitting to discuss the International Bank for Reconstruction and Development with the members of the Investment Bankers Association since the Bank has been designed to play a direct and important role in the investment machinery of the world. On the one hand it is a principal purpose of the Bank to promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors, and only when private financing is not available on reasonable terms, to supplement private investment by direct loans. On the other hand, the principal funds to be employed by the Bank in its operations will be derived from the sale on the investment markets of its own obligations or obligations guaranteed by it. If the Bank successfully carries out the responsibilities entrusted to it by its member governments, its securities will within a few years constitute an important factor in the investment markets.

Emilio G. Collado

I

The International Bank has been established pursuant to Articles of Agreement formulated in July, 1944, at the Bretton Woods Conference which also prepared the Agreement for the International Monetary Fund. United States participation was authorized by the Bretton Woods Agreements Act which was adopted in the summer of 1945, at which time also the lending authority of the Export-Import Bank was expanded by $2.8 billion to enable it temporarily to undertake many of the responsibilities of financing reconstruction and development which the International Bank was designed ultimately to assume. The Congress authorized the President to accept membership in the Bank and undertake on behalf of the United States the obligations embodied in the Articles of Agreement; it fully empowered the Secretary of the Treasury to pay in dollars to the Bank to meet calls on the capital of $3,175,000,000 subscribed by the U. S.; it provided for the appointment of a United States Governor and an Executive Director and their alternates by the President by and with the advice and consent of the Senate; it created a National Advisory Council — known as the NAC and consisting of the Secretary of the Treasury as Chairman, the Secretaries of State and of Commerce, and the Chairmen of the Board of Governors of the Federal Reserve System and of the Board of Directors of the Export-Import Bank—to act for the United States in those matters such as assenting to the sale of debentures in this country where the approval of the Government of the United States is required, to give policy guidance to the representatives of the United States in the Bank and Fund, to coordinate the participation of the United States in these international financial institutions with the foreign financial operations of the United States agencies such as the Export-Import Bank, the Treasury, etc., and to render periodic reports and recommendations to the Congress regarding the operations of the Bank and Fund. The Congress also provided certain status, rights, and immunities to the Bank—for example, the Bank may sue and be sued in district courts of the United States.

Other countries followed suit and by Dec. 27, 1945, sufficient countries had accepted the Articles of Agreement to put them into effect. The Bank now has 38 members. Seven other nations which were represented at Bretton Woods are eligible to join at any time prior to Dec. 31; two of them, Australia and Colombia, have authorizing legislation before their parliaments. Four others, Turkey, Syria, Lebanon, and Italy, were recently made eligible for membership and may be expected to complete the formalities in the next month or so.

The Bank is governed by two bodies, a Board of Governors in which is vested all powers, and the Executive Directors who are responsible for the conduct of the general operations of the Bank. Each member government appoints a Governor and Alternate Governor and most countries have followed the practice of the United States of appointing the same persons to both the Bank and Fund. The United States Governor is the Secretary of the Treasury, Mr. John Snyder, and his alternate is the Under Secretary of State for Economic Affairs, Mr. Will Clayton. Other countries have generally appointed their Ministers of Finance or the heads of their central banks.

The Board of Governors met initially in Savannah last March, provided organizational and administrative procedures and regulations, delegated fully operating authority to the Executive Directors, and elected seven elective Executive Directors. The Governors held their first regular annual meeting at Washington in September.

There are twelve Executive Directors, one representing each of the five largest subscribing nations and seven elected by the Governors for the other member nations. Among the Executive Directors are many who have served in high posts in public and private financial institutions. The Executive Directors act as a board under the chairmanship of a President whom they have elected and a week since May 7 at the offices of the Bank in Washington. Voting in both the Board of Governors and the Executive Directors is based on the subscriptions of individual countries.

The President, under the direction and control of the Executive Directors, is the chief executive officer of the Bank. In June Mr. Eugene Meyer was elected President, and he has brought together a carefully selected staff including Mr. Harold D. Smith, former Director of the Budget, as Vice President; Mr. Chester McLain of a prominent New York law firm, as General Counsel; Mr. Charles Pineo, formerly of the Royal Bank of Canada, as Loan Director; Mr. Crena de Iongh, formerly head of one of the largest Dutch banks, as Treasurer; Mr. Leonard Rist, formerly of Morgan & Co., Paris, as Director of Research; and Mr. Morton Mendels, a Canadian lawyer, as Secretary.

The Bank has organized; it has called up capital; it has received and is considering certain loan applications; it is considering the

(Continued on page 3070)

*An address by Mr. Collado before Convention of Investment Bankers Association, Palm Beach, Fla., Dec. 3, 1946.

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Selling Savings Bonds for Good Public Relations

By MORRIS M. TOWNSEND*
Director, Banking and Investment Section Savings Bond Division,
U. S. Treasury

As an argument for assisting sale of U. S. Savings Bonds, Mr. Townsend points out both the effect of savings bonds holdings in promoting sound public debt management and the value of savings bond sales in improving public relations of investment bankers. Says enough bonds are not being sold to small business and professional men, and recommends creation of an IBA Savings Bond Committee. Sees in widespread holdings of savings bonds a defense against demagogues who will propose scaling down or repudiating public debt.

The Treasury Department is deeply grateful to the Investment Bankers Association and its members for the help you gave in financing the most costly of all wars, in 1941-45.

Morris M. Townsend

This is not merely graceful and belated praise. In the early days of war finance I worked directly with investment men in the Second Federal Reserve District and I know what investment bankers, brokers and security dealers did there; they sold more than $6 billions worth of bonds to individuals in the New York area alone. That is a sample of what you contributed nationally to the financing of victory.

I want to take this opportunity to thank "Chuck" Garland, Cliff Folger, Alden Little and members of the IBA staff—and I might add a host of others. I want to pay particular tribute to Perry Hall of Morgan Stanley & Co. for his organizing ability and for the foundation he and his associates laid for banking participation up through the Second War Loan drive. Many of the ideas advanced by Perry Hall and his assistant, Larry Payson, now Vice President of the Bankers Trust Co. of New York, were later used throughout the nation. Proper public credit has never been given to this splendid team for their devoted and brainy work. We do so now.

You did your best during the war and your best was splendid. I am here to ask you to continue. The war has not ended for the United States Treasury. I hardly need remind you that the Treasury's problem is your problem in a very personal sense, for upon the proper management of our 260 billion dollar national debt depends the course of private finance in this country for years to come.

It will be a long time—longer than any of us here will live—before we get that public debt down to the painless proportions of 1930, when it was $16 billion. We must adjust our thinking to the hard fact; whether we like it or not the public debt exists. Every decision concerning the management can and will affect your bread and butter, your business, your family, your children and grandchildren.

Importance of Public Debt Management

We have here a responsibility we cannot evade, an opportunity we cannot ignore. It is my belief that the financially trained minds of this country have to choose now between two courses. We can take an active interest in this problem and lend every possible aid to wise management of the debt or we can say: "I have my own business to look after—let someone else worry about the public's business."

Gentlemen, the public debt is your business. Shrug that off and you'll have no one but yourselves to blame if the financial ship of state goes on the rocks. We are not going to have fair weather forever and you know it.

In the over-all management of the public debt the sale of United States Savings Bonds to individuals plays an important part. We have been selling them since March, 1935. The amount outstanding is now almost $50 billion, of which around $43 billions is held by individuals. We have been selling E, F and G Bonds so far in 1946 at the rate of almost $8 billions a year and sales have exceeded redemptions of these bonds to date by more than a billion and a quarter. The experts predicted that sales wouldn't equal redemptions and wouldn't exceed six to seven billions. The United States Savings Bonds Division of the Treasury is very much a going concern. Yet our sales promotion budget is only $2,600,000 for the fiscal year and we're operating with one-quarter our 1945 staff—just 411 paid employees in the 48 States and Washington. I might point out that spending $2.6 million dollars to sell $8 billions worth of bonds is a sales promotion cost of only $.36 on the thousand dollars.

Sale of E Bonds

Now how do we stand on E Bonds? Over $30 billions worth, cash value today, are in the hands of the people. Since January first, despite all you've heard and read about E Bond redemptions, that E Bond account has shrunk only 1.6% in the first ten months of 1946. The redemption rate has been declining since last April. The predicted tidal wave of redemptions never came. E Bond redemptions have exceeded sales, yes, but to lose only 1.6% of what amounts to a demand deposit of over $30 billions in ten months of this inflationary year is nothing to worry about. Most Americans seem to have more financial sense than they get credit for. The others have cashed in. But we are not selling enough E Bonds today.

Selling more in Savings Bonds than we redeemed hasn't increased the public debt. Actually the Treasury will have retired $23 billions of matured debt since March, when the Dec. 15 payments are made, out of $48 billions that came due this year. As you know, this has been paid out of cash balances created by the oversubscription of the Victory Loan — and part of that was from sales of Savings Bonds. We have simply retired $23 billions of debt with money we didn't need.

The maturing securities we've been able to retire were mostly short-term obligations held by commercial banks. Anyone who understands the workings of bank credit knows that this has cut down potential bank credit by at least four dollars for every dollar of United States securities thus taken out of the banking system. That means we have cut away at least $80 billions; you and I know that borrowing on Governments can be pyramided far past the four-to-one ratio.

I want to add right here that the bankers of the nation saw this danger early and worked with the Treasury to forestall it. The American Bankers Association has been on our side from the first and has given the Treasury cooperation that would have warmed the heart of Andrew Mellow himself.

It has been the oft-stated policy of the present Secretary of the Treasury and his predecessor, Chief Justice Vinson, to pay down the debt as fast as was possible and practical. That Victory Loan cash balance has now been reduced to a minimum working balance and from now on we must rely upon surplus receipts for funds to reduce the debt.

The Federal Budget

You have read the predictions that Federal cash income this fiscal year will likely exceed cash outgo by $3 to $4 billions, which means that the Federal budget is better than balanced, actually. Whether it ends the fiscal year that way is up to Congress, not the Treasury. And so is the reduction

(Continued on page 3072)

*An address by Mr. Townsend before the 35th Annual Convention of the Investment Bankers Association of America, Palm Beach, Fla., Dec. 5, 1946.

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Industrial Securities Committee Foresees Heavy Financing

Says postwar capital demands by industry require new investment outlets. Sees need of revision of laws restricting bank and insurance company purchases of equity securities. Wants tax laws revised and capital gains taxes eliminated so corporations and individuals can build up savings for providing industrial capital. Lauds SEC revision of "red herring" prospectus requirements.

The IBA Committee on Industrial Securities, of which Benjamin J. Buttenwieser of Kuhn, Loeb & Co., is Chairman, reported to the Convention that prospects for heavy industrial financing are good and that every effort should be made both by the bankers themselves and the government regulating agencies to aid and foster a wider market for industrial securities. The text of the Committee's Report follows:

B. J. Buttenweiser

In rendering its report for the first year following World War II, your Committee considers that it might be fruitful to review some of the reports of its recent predecessor committees. A perusal of these reports seems to add one more attestation—if such be necessary—of the validity of the Biblical observation that "Your sons and your daughters shall prophesy, and your young men shall see visions, and your old men shall dream dreams."

Your Committee would not have the temerity to attempt to appraise the ages of their predecessor Committee members from the excerpts which follow from their reports, but leave it instead to the auditors of this report to determine into which of the Biblical categories the respective authors would fit. Moreover, the purpose of this review of prior reports is that one can often formulate a better judgment of what one can reasonably expect to transpire by delving into the history which may have caused or at least substantially influenced the events themselves.

Obviously, the most besetting problem facing industry in America and the world over today is the transition from a war time to a peace time economy with all the far-reaching tentacles and implications of that problem. This was a problem of which industry and the government were well aware during the war, and even under the pressure of war-time production urgency, industry and your Industrial Securities Committee focused considerable attention on this subject to the end that this transition could be effected as promptly, as efficiently and as economically as possible and with a minimum of sociological disturbance. The magnitude of this conversion situation can well be appraised from the following excerpt from the 1943 report of the Industrial Securities Commit ee:

"It will be seen that the government now owns about 25% of the nation's total industrial facilities and, furthermore, its properties are considered to be the very latest in design and the most modernly equipped. However, the tabulation below shows that the relative importance of the government's investments varies considerably with different industries:

Industry	Approx. Government Investment via Defense Plant Corp. Amount (in millions)	No. of Plants	% of Industry under U. S. ownership (approx.)
Aviation (aircraft engines, parts and accessories)	$2,700	534	90
Aviation gasoline	152	35	40
Aluminum and its products	780	84	over 50
Iron and steel products	1,000	164	10
Machine tools and other metal working equipment	153	116	50
Magesium and it products	430	40	92
Synthetic rubber	633	60	100

Even as the indicated importance of the government's investments in the above-noted industries varies considerably, so, too, has the transfer of these plants from government to private ownership varied appreciably, but it is reasonable to say that, in the over-all, this important aspect of postwar conversion is taking place at a satisfactory pace and these plants are finding their way, as they should, into the realm of private enterprise.

Concomitant with such postwar acquisitions by private enterprise, comes the demand for new capital to finance these purchases. Here, too, your 1943 Committee was singularly foresighted in pointing out what these demands might be, although, because of current developments, which it was almost beyond the power of finite minds to conjure up, some of their estimates would appear, temporarily at least, to have missed their mark. We quote the following from their 1943 report:

"Postwar Capital Demands by Industry

"Well known authorities seem to agree that under certain conditions industrial expansion in the postwar period might be as great as any the United States has ever before experienced. While it is not possible to calculate what the dollar amount of new capital requirements might be, since any estimate is at best a guess until we have definite knowledge of when the war might end, it is not difficult to envisage demands for the first few years aggregating between $10 and $15 billion. New capital will be required for—

1. New construction for the manufacturing of products perfected during the war and for new plant additions to handle starved consumer demands, both domestic and foreign, for standard products;
2. The purchase in whole or in part of the plant facilities built by the government;
3. Retooling and replacement of worn out machinery with new up-to-date machines;
4. Building up inventories which will either be very low or in some cases non-existent;
5. Building up of working capital positions for those industrial corporations which have been seriously disturbed by the effects of the war and by the high taxation rate which has made impossible the building up of sufficient cash reserves to take care of the after-the-war conversion period.

"In addition, there will be a heavy foreign demand for our goods (both capital and consumers) after the war which may well involve the question of long-term credits. The development of a framework for such credits will call for complete cooperation between industry, government and finance if the unfortunate experiences which followed the last war are to be avoided. No one questions the fact that investment bankers can and should play an important role in this field. Unless we come into agreement on a workable plan now, at the end of the war we may find ourselves totally unprepared on procedure, in which event it is not unlikely that the extension of such credit will become a function of government."

Your 1945 Committee likewise—and, we think, properly—devoted considerable of its attention to the postwar capital demands of industry, as is attested to by the following excerpt from its report:

"Throughout the War period the United States Government acted as the primary banker for industry and as its chief source of new capital funds. War loan bonds were sold to the public and out of the proceeds large amounts were used to build industrial plants and to make loans to industry. Government has carried virtually all of the risk. The necessity for this during War need not be debated here. But with the coming of peace the function of raising funds to supply the capital needs of industry should revert to the investment markets."

That the investment banking industry has not been remiss in its duty of purveying such postwar capital is irrefutably established by the following outline of the

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Reports Railroad Credit Losing Ground

IBA Railroad Securities Committee under chairmanship of Fairman R. Dick, notes reversal of investment attitude in current year, and states decline in prices of railroad equities may be termed a collapse. Holds condition due to governmental restrictions on earnings. Reviews forecasts of future railroad traffic, and concludes that if sound credit conditions are to be restored, investors must be assured that rails will not again drift into lower traffic volume and inadequate rate structure.

Pointing out the recent slump in railroad securities as indication that railroad credit is losing ground, after a few years of revival, the IBA Railroad Securities Committee, headed by Fairman R. Dick of Dick & Merle-Smith, attacks the Interstate Commerce Commission's policy of restricted earning power, but expresses hope that in its forthcoming rate decision, adequate increases will be granted. The text of the report follows:

Fairman R. Dick

Your Railroad Securities Committee, in its report of November, 1944, and again in 1945, had the pleasure of recording an impressive improvement in railroad credit. Today your committee unfortunately is compelled to report the loss of much, and in some cases all of the ground gained in the last two years.

Credit has been described as the state of mind of investors and in the last six months investor confidence has received a profound shock. Railroad equities have suffered a drop in price which could correctly be termed a collapse. Income bonds and junior mortgages have declined in some cases as much as 40% and there are but a handful of roads whose bonds do not reflect a definite impairment in credit as compared with high-grade corporates in other fields.

In our reports for 1944 and 1945 three main causes for the then improvement of railroad credit were pointed out:

a. A level of net earnings that permits the building up of safety cushions in current assets and makes possible important reductions in debt and fixed charges.
b. The removal of maturity dangers by anticipatory payments or refunding operations.
c. Increasing recognition of the importance of our railroads as the very backbone of our domestic transportation.

Although the low level of net earnings today does not permit a further strengthening of the financial position of our railroads, there is as yet no significant impairment of the gains that have been made, nor can the deterioration in credit be due to a growing belief that the railroads are not vital to our economy at a time when every effort, both of government and the railroads, is directed to increasing the capacity of the railroads in order to supply the current demand for rail transportation. It is necessary to look elsewhere if we are to discover the cause of the present decline of confidence in railroad securities.

The developments which are responsible for the decline in railroad credit clearly do not lie in what might be termed the material factors affecting the railroads but in the field of governmental restrictions on earning power. The dangers of a situation developing such as exists today were pointed out in the report of this committee for 1944, as follows:

"Current pressures on the railroad rate structures are already very serious. Increases in wages, increases in the cost of materials and supplies and the suspension of the rate surcharges have already resulted in an increase of 5 points in the operating ratio in spite of substantial increases in volume. If, following the war, railroad traffic declines materially, the railroad operating ratio will show further increases, and it is possible to imagine a decline in traffic volume which will wipe out all railroad earnings. That this disaster will actually take place is by no means certain for there are strong grounds for belief that the Commission recognizes the danger in the situation. The Bureau of Transport Economics and Statistics of the Commission has prepared a study analyzing railroad earning power on the basis of 1940 volume and current rates and wages. The results show large deficits.

"There is likewise no reason to believe that the lessons of 1936, 1937 and 1938 have been forgotten. In 1936 traffic was rising, operating ratios were falling and earnings increasing. In December a surcharge in rates was canceled. In the summer of 1937 wages were increased and as a result of lower rates and higher wages the operating ratio rose 5 points. In the autumn of 1937 traffic declined. The operating ratio rose rapidly. In the first quarter of 1938 railroad earning power to all intents and purposes was obliterated.

"In the spring of 1938 the Commission met the emergency by authorizing a substantial increase in rates, which more than offset the rate decrease of 1936. Railroad earning power recovered and a new harvest of bankruptcies was avoided. Railroad credit, however, is still suffering from the shock of this experience.

"The railroads today are midway in a cycle similar to that of 1936, 1937 and 1938. The surcharge in rates has been removed, wages have been increased, operating ratios have risen 5 points. Fortunately, traffic continues to hold; in fact, it has increased. If, prior to a postwar decline in traffic, rates are raised to compensate for increased costs the situation can be saved. If, however, rates and wages remain as they are and traffic suffers a severe decline, railroad earnings can disappear in the same way they disappeared in the first quarter of 1938."

It is regrettable that the confidence expressed in our report for 1944 no longer appears to be justified. It would not be correct to state today that "there is likewise no reason to believe that the lessons of 1936, 1937 and 1938 have been forgotten." The lessons of those years show the danger of a narrow spread between revenues and expenses in the event that traffic declines. Careful study of the Commission's report in Ex Parte 162 and Ex Parte 148 reveals no mention of this fundamental and essential factor.

The report of the Commission discusses the present earnings of the railroads, all stated in dollars, with no reference to the spread between revenues and expenses. Certain advantages to the railroads in relation to cancellation of land grant rates are mentioned, and considerable space is given to evidence and arguments submitted by those in opposition to the application of the railroads, especially the opposition of the Secretary of Commerce, the Secretary of Agriculture and the Director of Economic Stabilization and the Price Administrator, as well as the opposition of various State regulatory commissions.

There is considerable discussion of the earnings of the railroads during the war years, and analysis of reported earnings for 1945 in connection with amortization of defense projects and the offsetting reduction in taxes. It is pointed out that those adjustments would increase the rate of return on investment after depreciation from 3.76% to 4.47%.

The Commission further devotes considerable space to criticizing the railroad investment account, quoting from their report to Congress for the year 1908. Criticism also is directed to the unnecessary high level of working capital. There is detailed discussion of depreciation, and especially unaccrued depreciation. These criticisms of the railroad investment account appear to indicate an in-

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Reports Rise in Utilities Equity Financing

IBA Public Service Securities Committee ascribes trend to plant expansion as well as to holding companies dissolutions and recapitalization. Cites A. T. & T. heavy financing and looks for continued public utilities debt refunding as well as large amount of new capital issues. Warns proper timing of offerings is matter of concern to investment banking industry.

The Public Service Securities Committee, headed by Duncan R. Linsley of The First Boston Corp. as Chairman, reported to the IBA 35th Annual Convention that, despite drop in volume of debt financing compared with 1945, the current and coming years will see substantial increases in utility equity financing and urges, in order to maintain an orderly market, care should be exercised by investment bankers in timing their offerings. The Committee's full report follows:

Duncan R. Linsley

We have witnessed during the current year 1946 a sharp drop in the volume of debt financing by electric and gas utility companies in the United States as compared with 1945, which was the peak year since 1936, and a very substantial increase in preferred and common stock financing, including in the latter category the sale of common stocks held in portfolio by holding companies.

Comparative figures obtained primarily from reports of the Public Utilities Division of the Securities and Exchange Commission reveal the following yearly amounts of debt financing by electric and gas utility companies during the war period in millions of dollars (000,000's omitted):

Calendar Year	Bonds	Debentures	†Notes	Total
*1946	$503	$118	$109	$730
1945	1,221	56	232	1,509
1944	1,089	27	83	1,199
1943	344	11	55	410
1942	240	16	76	332
1941	643	13	114	770
1940	759	40	24	823

*Ten months to Oct. 31. †Comprises principally borrowings from banks in the form of promissory notes or "term loans" not publicly offered.

Financing by one company — Columbia Gas & Electric Corporation in the form of $77,500,000 principal amount of 3⅛% debentures due 1971 and $20,000,000 of serial notes accounted for over 70% of the debenture and approximately 20% of the note financing undertaken during the current year. Including financing in prospect for the balance of the current year, it appears that the total of bond financing for 1946 will not exceed 50% of the total reached in 1945. In 1945 the $1,221,000,000 of bonds were sold at an average net interest cost to the issuing companies of 2.88%, the lowest of any year. The continued ease of money and rising bond prices resulted in an average bond interest cost to the issuing companies for the first six months of 1946 of approximately 2.70%.

Contrasted with the sharp reduction in the volume of senior financing has been the substantial increase in preferred and common stock financing, the aggregate amount in millions of dollars being indicated in the following table (000,000's omitted):

Calendar Year	Preferred Stock	Common Stock †New Money	Common Stock ‡Portfolio Sales	Common Stock Total Common
*1946	$219	$33	$186	$219
1945	88	10	65	75
1944	95	4	14	18
1943	16	5	13	18
1942	42	1	none	1
1941	68	4	8	12

*Ten months ended Oct. 31. †For account of the operating company. ‡For the account of the holding company.

Preferred stock financing in contemplation prior to Dec. 31 of the current year will raise the total of preferred stock financing for 1946 to approximately $285,000,000—an all time high and 300% of the next largest year to date.

The sale of common stocks of electric and gas utility companies, both for new money and for the account of the holding companies, accelerated during the first nine months of 1946, resulting in the offering of approximately 7,000,000 shares, aggregating close to $220,000,000 in dollar volume, based on the public offering prices. Of such amount, Ohio utility companies accounted for 4,500,000 shares with an aggregate offering price of over $150,000,000. These issues came to market in fairly rapid succession in the period from May to September and at one stage a virtual saturation point was reached in the distribution of public utility company common stocks. The volume of the offerings provided a real test for the equity market and presented problems which were of concern to the investment banking business, which will have distributed during the current year public utility company preferred and common stocks in an amount exceeding $500,000,000. In spite of the sharp setback experienced in the market in September and October and a volume of new offerings far in excess of any in recent history, public utility equities

(Continued on page 3068)

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1946 Treasury Finance and Securities Market

IBA Governmental Securities Committee, under chairmanship of Aubrey G. Lanston, reviews current Treasury finance and its effects on market for Federal bonds. Reports prices of long-term issues recently improved, but not buoyant. Warns continuous expansion of government bond sales to non-bank investors diverts capital from industry.

Without making any recommendations, but with a note of warning that further and large-scale sale of government securities to the public diverts needed capital from industry, the IBA Governmental Securities Committee, headed by Aubrey G. Lanston of The First Boston Corp., reviews the Treasury's financing activities since the the last Victory Loan Drive of October, 1945. The full text of the Committee's report is as follows:

A. G. Lanston

The report of your committee is largely an outline of Treasury finance and Treasury security markets during the last year. The committee makes no recommendations. It suggests that a major objective of wartime financings be reviewed in the light of the changing requirements of a peacetime economy.

The Victory Loan Drive opened Oct. 29 and closed Dec. 8, 1945. The demand for Drive securities was larger than had been expected. Total sales were $21.1 billions. The demand for the longer-term marketable securities was larger than had been expected. The Treasury sold 3 billions of the 2¼s due 1959-62 and 9.8 billions of the 2½s due 1967-72. These large purchases were against a background where:

(a) The thought was prevalent that there might be some eventual scarcity of such bonds since the unlimited wartime offerings were over, and

(b) Many people expected that the level of interest rates which might prevail following the Drive might be lower than that which had existed prior thereto.

The expectations of those who purchased the longer-term marketable issues were more than fulfilled by the subsequent market action. The 2½% bonds reached a price of 106½ on April 6, 1946. A number of things conspired to bring this about.

In October, 1945, the British Government lowered the rates of interest which its Treasury paid on short-term borrowings from the British banks. It was believed quite possible that our Treasury might emulate this action. If this were borne out, then the mechanics of our money markets, interest rate controls, etc., were such that it was believed that all longer-term interest rates would move measurably lower.

It also was generally known that in January, 1946 (immediately following the Drive) matters of this kind would be the subject of lengthy discussion and that some decision might be reached on whether or not the Treasury would endeavor to lower short-term interest rates. The first intimation of any decision came with the announcement that the refunding of the Treasury Certificates due Feb. 1, 1946, would be made via a new ⅞% Certificate, thus continuing the rate for such borrowings which had been established earlier in the war. Conflicting reports and analyses continued, however, with respect to whether any decision had been made that might indicate lower rates for any prospective long-term Treasury loans.

A further consideration was the changing position of the Federal Budget. In the President's Budget Message of Jan. 14, 1946, the figures showed a contemplated retirement of 7.1 billions in the Treasury's outstanding debt by the close of the fiscal year ending June 30, 1947. If the Treasury contemplated debt retirement, then it seemed that the prospects of new offerings of long-term Treasury bonds were further removed than might otherwise be the case; i.e., the "scarcity" theory was, in some degree, thought to be substantiated.

The market, moreover, was gradually becoming cognizant that the debt retirement might reach a total closer to 17 or 18 billion than the 7 billions included in the Budget Message and that this debt retirement might take place during the calendar year 1946 instead of over the longer interval. This pointed up the following: it was obvious that the war loan deposits in commercial banks would be substantially reduced; as a consequence commercial banks would suffer a comparable loss in their Treasury security holdings; a decrease in their income from such sources; and for these reasons the commercial bank demand for eligible Treasury bonds might be substantial, thus indirectly increasing the normal demand for longer-term ineligible Treasury issues.

When, however, as high a price as 106½ was reached for the Treasury 2½s of 1967-72 it became obvious to buyers that they had little to lose from withholding market purchases. It also became obvious to some temporary holders of these bonds that they had very little to gain by holding out for higher prices. Consequently, only a slight increase in offerings was necessary to reverse the price trend.

It also was believed generally that many temporary holders of these long-term Treasury bonds would prefer to defer their sales until the end of the so-called "six-months period." The next popular market pastime was a series of predictions as to the size of such prospective selling. The figures ran as high as 4 or more billions which, according to some, were all to be sold in the ensuing 60 to 90 days. All of these things combined to reinforce the downturn in Treasury security prices.

Several other factors contributed as well. During the war the small group of government security dealers who handle the bulk of transactions in such securities followed a practice (which had been approved and encouraged) of limiting the changes in their daily quotations to a range of about 8/32s daily; i.e., on days when price changes might have been quoted at a greater variance than 8/32s, the individual dealers tended to shift to an "order basis." Since this was the usual case wide recessions in Treasury security prices were avoided. Had they occurred they might have retarded Treasury financings; or in periods of bad war news aroused concern throughout the country, or have given comfort or propaganda material to our enemies. This practice was still the rule during the spring of 1946—questions as to when it might be abandoned rested on opinions of the best timing with respect to the national interest. During the price decline from the 106½ peak of April "an order basis" made it difficult for those who wished to sell Treasury securities to do so as readily as some wished. Since this was well-known, buyers were encouraged to remain on the sidelines. The downturn in prices continued without a reduction in the volume of offerings. At times the volume seemed to increase.

While this was going on, some commercial banks found that they were not adequately prepared to meet the large withdrawals of war loan deposits which were coincident with the unexpectedly large debt retirements. In the wartime economy it had not been necessary for many banks to secure their war loan deposits by shorter-term Treasury securities such as certificates and bills although the open-market policies of the Federal Reserve Banks designed to meet money requirements were being largely confined to this section of the market. When some of these banks found it necessary to sell securities longer than certificates or bills in preparation for War Loan Calls they experienced some difficulty. This was not surprising because the price level of these longer Bank Eligible securities had been created by several years of continuous commercial bank purchases. Since the Treasury, as a part of those wartime policies, had generally omitted offerings to the commercial banks

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Report of Municipal Securities Committee

George L. Martin, Chairman, calls attention to four consecutive years of advancing municipal bond prices and to rise in total new municipals in year ended Oct. 31 to $1,810 million, compared with slightly more than $1,479 million in 1945. Commitee recommends callable provisions of municipal bonds be stated on bond certificates and that states pass laws upholding negotiability of bonds payable from special funds. Wants Boren Bill re-introduced and notes that the Municipal Bankruptcy Act, revised in 1946, has resulted in little loss of principal to investors.

Reporting a further rise in municipal financing with a steady lowering of yields to investors, the IBA Municipal Securities Committee, of which George L. Martin of Martin, Burns & Corbett, Inc., Chicago, is Chairman, calls attention to the still unsettled problem regarding clarification of callability of outstanding bonds and again recommends passage of the Boren Bill, which would relieve municipal bond marketing from jurisdiction of SEC. The text of the Committee report follows:

George L. Martin

During each year for four consecutive years the prices of municipal bonds reached an all-time high. Based on the "Bond Buyer's" index of yields of 20-year general obligation bonds of 20 large cities, the record highs were: 1.69% in November 1943; 1.59% in August and September 1944; 1.35% in May 1945 and 1.29% in March and April 1946. The same index reflected a yield of 1.67% as of Nov. 21 this year, a decline from the high of 0.38 points in basis.

The volume of new municipal issues during the 12-month period ending Oct. 31, 1946, including those of U. S. territories and insular possessions, totaled about $1,810,000,000. For comparison:

12-Month Period Ending Oct. 31		
Financing	1945	1946
Long-term	$840,064,124	$1,074,211,158
Short-term	639,289,469	735,666,100
	$1,479,353,593	$1,809,877,258

These volume figures were compiled from the "Bond Buyer's" record of monthly sales. Indications are that the coming year will evidence a further increase in the amount of new issues.

At the November general election in 1943 but a relatively small amount of bonds were submitted to the people and about 75% of those submitted were rejected by the voters. The following year over $251,000,000 of bond issues were submitted and about 90% of them were approved by the voters. Last year slightly over $191,000,000 were submitted for approval and the voters approved about 85%. At the general election on Nov. 5 this year slightly over $1,100,000,000 were submitted. The marked increase was mainly due to the amount of proposed issues of Soldiers' Bonus bonds in several states. About $1,000,000,000 or approximately 90% of the bonds submitted at the general election this year were approved by the voters.

We have made two Interim Reports during 1946, one on Jan. 26 and the other on June 14. Among the subjects referred in these reports were:

The U. S. Supreme Court decision of Jan. 14 this year, in the Saratoga Springs Authority case in which the Court, while holding the Authority subject to the federal excise tax on the sale of bottled mineral waters from the Saratoga Springs Reservation, reasserted in the prevailing opinion of Justices Stone, Reed, Murphy, and Burton and in the dissenting opinion of Justices Douglas and Black the doctrine of reciprocal State immunity. Justice Jackson did not participate.

The Boren Bill, H. R. 3129, which will be briefly reviewed in this report.

The Maricopa County, Arizona, case which the U. S. Supreme Court declined to review following the decision of the Circuit Court of Appeals, Ninth Circuit, holding the highway bonds of the County as callable.

The Evangeline Parish (Louisiana) School Board case in which the Circuit Court of Appeals of another Circuit, the Fifth, upheld the bondholder, stating in part:

"We agree with the court below that the existence of a constitutional or statutory right to refund bonds does not necessarily imply the right to call them for payment if they are not due. The bonds here sought to be refunded were issued in compliance with the provisions of said act of 1921. They contain a solemn covenant to pay a fixed rate of interest for a definite term. The detachable coupons bear no notice of future defeasance through prior redemption. . . .

"It was known when the act and constitutional amendment were adopted that bonds which are callable for redemption before maturity do not command a price as high as do bonds that are not callable. No optional provision for earlier maturities was inserted in the bonds in question, and the district in its sale of the bonds is presumed to have been benefited accordingly. To force the surrender of such bonds before maturity with payment of interest only to date of surrender, or to compel them to be exchanged for refunding bonds bearing a lower rate of interest, would impair the contractual obligations of the appellant in violation of the appropriate provisions of both the state and federal constitutions. . . ."

The Call Provision in a Municipal Bond

It would assure confidence among investors and be helpful to municipal credit if our states would enact legislation requiring that the bonds issued by the State and its political units shall not be subject to call or redemption prior to their fixed maturity, unless the right to exercise such call or redemption is expressly stated on the face of the bond.

The importance of such a requirement has become clearly apparent through the comparatively recent activities of certain municipal units in Arizona and in Texas in availing themselves of some legal technicality through which to force surrender of various of their outstanding bonds prior to maturity, despite the fact that the bonds were not sold as callable and were not so considered and that the municipalities received prices on that basis in the sale of their bonds. Taking advantage of some developed legal technicality for the purpose of gain at the expense of holders of one's obligation made in good faith and purchased on that basis does not reflect credit on the borrower.

Callable Municipal Bonds

With the increasing number of municipal issues containing optional features of one character or another, we directed to the attention of our members last July the importance of clearly indicating in abbreviated offering lists, individual and general, as well as in circulars, advertisements, etc., that the bond is callable, or called if that be the case.

We further recommended that

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Wants "Standby" Periods Shortened

IBA Committee on Stock Exchange Relations, whose chairman is Richard de La Chapelle, holds present period ranging up to 22 days' duration, involves unnecessary risk to underwriters and has resulted in heavy losses. Renews statement of advantages of permissive incorporation of member firms and recommends steps be taken for renewal of listing of foreign issues and recapturing prewar position in foreign field. Notes efforts of public relations department of NYSE, and discusses employee's pension plans and unionization movement.

The Stock Exchange Relations Committee of the IBA, headed by Richard de La Chapelle of Shields & Co., in its report to the 35th annual convention, discussed briefly such topics as "Standby" Offerings, Incorporation of Member Firms, Foreign Business, Stock Exchange Public Relations, Commission Charges and Employee Relationships. Regarding these and other matters the report states:

R. de LaChappelle

The question of "standby" offerings has assumed considerable importance in recent months of market weakness because of numerous losses sustained by underwriters. These standbys have been in various forms, such as offerings of common for common, preferred for preferred, convertible bonds and preferreds for common; even the offering of an entirely different stock to common shareholders (i.e., Cincinnati Gas & Electric to Columbia Gas and Electric). Investment quality has been no guaranty against loss and unsuccessful standbys have been numerous and costly.

Reviewing and examining just one classification, that of common stock offered to holders of common, on the New York Stock Exchange, we find that there were 23 such offerings during the first ten months of 1946, under the usual standby arrangements and underwriting groups.

These standbys were from 22 to 11 days in duration, the average being 17 days. The ratio of offerings ranged from one share offered for each 12 held to one share for each two held, the general average working out at about one for seven. Compensation has ranged from a minimum of 1.2% to 4.7% for an average of about 2½% based on the subscription price on the fixed standby compensation in addition to which there is generally a sliding scale of additional compensation based on the amount unsubscribed. Whereas the majority of these standby offerings were successful, nevertheless four of these offerings were not, in one case, only 38% of the stock being subscribed for. It is of interest to note that of the stocks involved, about 85% declined marketwise from original offering date to expiration date, with the margin between success and failure being uncomfortably close in several cases.

The aggregate profit on a succession of successful deals more often than not is wiped out by one unsuccessful deal. The recent weak markets bring into focus the necessity of shortening the standby period and, if possible, to otherwise lessen the risk factor to the underwriter. The present policy of issuing rights to run from 11 to 22 days is predicated upon the desire to eliminate all conceivable kinds of stockholders' complaints. The cost of guaranteeing that protection against that fractional percent of complaining stockholders has been too onerous for underwriting firms. A reduction in the time of the commitment on these offerings would result in a saving to the corporation whose securities are being underwritten and would substantially reduce the underwriting risks of security firms.

The recent Standard Brands, Inc. preferred stock offering, involving the use of the "red herring" prospectus to reduce the period of standby, may be a partial solution. This was an exchange offering to a relatively small number of holders. In this particular case, it was possible to reduce the exchange period to five days by supplying stockholders with copies of the "red herring," and a letter explaining that the price would be decided at a later date, when the formal exchange offer would take place. By reducing the period of standby without curtailing the time in which stockholders may become fully informed, the uncertainty which normally accompanies the waiting period is minimized.

One constructive step designed to facilitate stock offerings was recently evidenced by the action of the Federal Reserve Board, in permitting stockholders of a corporation to buy new issues of the corporation's securities on 50% margin. The same credit may be used by holders of stocks of utilities who buy outstanding issues of an operating company which is simplifying its corporate structure under the Public Utilities Holding Company Act.

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Federal Legislation Committee Active

Walter A. Schmidt, its chairman, reports to 35th IBA Convention new constructive legislation can now be expected. Holds progress has been made regarding dissemination of "red herring" prospectuses, "free riding" and simplification of registration statements. Twelve point legislative program evolved and approved.

In a brief statement to the Convention, Walter A. Schmidt, of Schmidt, Poole & Co., Philadelphia, the Chairman of the Federal Legislation Committee of the IBA, reported on the activities of his committee during the current year and expressed the belief that during the forthcoming session of Congress, new and constructive legislation would be enacted which would settle outstanding difficulties and disputes in the administration of the Securities and Exchange Act. The text of the report follows:

Walter A. Schmidt

The past year has been an active one for the Federal Legislation Committee. At the spring meeting of the Board of Governors, at Bretton Woods, we reported in considerable detail on our activities up to that time and a copy of that report was sent to all of you. At this time, therefore, we shall merely touch upon the highlights of our earlier report and endeavor to bring you up to date on developments in the interim.

Between Dec. 18th of last year and Jan. 25th of this, we evolved our 12 point legislative program. This was approved by the Board of Governors at its meeting at Abescon on Jan. 26th. The details of the program were explained and discussed by Chuck Garland and Murray Hanson on their nationwide tour of 28 cities in the spring.

Because of the heavy schedule of Congress on "must" legislation in connection with reconversion and its adjournment in August, it did not consider any amendments to the Federal Securities laws except the Boren Bill, on which the Municipal Securities Committee reported yesterday, but the groundwork has been laid and, particularly in view of Chairman Caffrey's comments on this subject yesterday, it would seem that we can reasonably expect long overdue action along these lines by the Congress during the coming session.

On Jan. 4th the SEC released its opinion in the Oxford case. It was considered by our committee at Absecon and later, in cooperation with the NASD, we endeavored to clarify for the membership the implications of this opinion to their current business practices and customer relationships.

On Feb. 7th the SEC issued its release on the Higgins case. This pointed up for the industry the difficulty of getting preliminary information to dealers and investors prior to the effective date of a registration statement without running afoul of the law. It also pointed up the fact that one of the principal purposes of the 1933 Act is thus being defeated. The solution of this problem is one of the basic points of our legislative program and we do not believe that it can be completely resolved without a change in the law. In the meantime, as you know, we have been cooperating with the Commission and the NASD on the Commission's "red herring" proposal in an endeavor to improve the situation which developed since the Higgins decision.

On April 16th the SEC published Securities Exchange Act of 1934 Release No. 3807, dealing with the question of "free riding" by so-called "insiders," in new issues being offered to the public and submitted to the business for comment or alternative suggestions proposed Rule X-15C2-3. We asked for comments and suggestions from all IBA members, and following discussions with members in various parts of the country a special committee met in Philadelphia on May 2nd and went over all aspects of this matter. On the afternoon of the same day the committee met with representatives of the Commission for several hours and had a frank but friendly discussion with them. The committee indicated to the representatives of the Commission that in its view, the alleged abuses found by the Commission's staff fall more within the realm of good business ethics and fair practice than in the realm of fraud; and, therefore, that the problem was one which should be handled by the NASD, through its self-regulatory facilities, rather than by the Commission acting under the fraud provisions of the 1934 Act.

The NASD had subsequent meetings with the Commission and took substantially the same position. While these talks were progressing, we had the break in the market and the problem became an academic one. I'm told that Chairman Caffrey said yesterday at a press conference here that this proposal is a "dead" one at the present time.

On June 20th the SEC released its proposal to "Safeguard Investors in Unregistered Securities." This proposed amendment to the 1934 Act would, in substance, with certain exceptions, subject presently unregistered corporations having at least $3,000,000 in assets and at least 300 security holders, to the registration requirements, the periodical and other reporting requirements, the "proxy" provisions, and the "insiders" trading provisions currently applicable to the issuers of listed securities and officials thereof, as provided in Sections 12, 13, 14 and 16 of the 1934 Act. This question is still under consideration by our committee and will more than likely come up for action in the next session of Congress.

On Oct. 12th the SEC proposed two new rules designed "to accomplish the broadest practical dissemination of information contained in a Securities Act registration statement between the filing date and the effective date, and at the same time to see to it that such dissemination is not used as an attempt to sell the securities during that period in violation of the Act." On this so-called "red herring" proposal we asked for written comments from all IBA members, following which a sub-committee met in New York and again in Philadelphia prior to a meeting with the SEC Commissioners and certain members of the staff.

We had a most constructive and encouraging discussion with the Commission, all of which leads us to hope and believe that within a very short time we will have a rule that will enable us to disseminate preliminary information prior to the effective date of a registration statement.

You have also doubtless seen that the Commission has very recently circulated for comment revisions in the Registration Form S-1, which is the one most commonly used under the 1933 Act. Although our committee has not as yet gone over these proposals, I am told that they are most constructive and should aid materially in reducing the size of both the registration statements and the prospectus.

At this point I want to thank the members of the Association who have served on our various sub-committees during the year. Their efforts and assistance have been most helpful, thus enabling our committee better to deal with the varied problems which have presented themselves.

I want to say also that it has been a great pleasure to have worked with Murray Hanson and under the able leadership of Chuck Garland. His stewardship has been superb and he can be assured of the constant affection and respect of our committee and the membership at large.

Federal Legislation Committee—Walter A. Schmidt, Chairman; William Bayne, Hagood Clarke, M. J. M. Cox, Brownlee O. Currey, Hal H. Dewar, Newton P. Frye, M. M. Grubbs, Carey S. Hill, Edward H. Hilliard, Edward Hopkinson, Jr., Paul W. Loudon, George L. Martin, Chapin S. Newhard, James Parker Nolan, John Redwood, Jr., Henry T. Vance, Philip K. Watson, and Lyle F. Wilson.

Foster Succeeds Schindler In Commerce Department

It was announced on Nov. 29 that President Truman had appointed to the post of Under Secretary of Commerce William Chapman Foster, a small business man with a background of wartime government experience. Mr. Foster will succeed Alfred E. Schindler, whose resignation, effective Dec. 4 the President accepted with regret. Mr. Schindler's resignation was made known by Secretary of Commerce W. Averell Harriman on Nov. 29. In leaving the government, Mr. Schindler will resume the Presidency of the Alfred Schindler Co., of St. Louis, a company specializing as business, sales, and distribution consultants, and public relations advisors. He resigned as active head of this company and of various directorships in April, 1945, when he was appointed Under Secretary in the Commerce Department. In announcing the resignation, Mr. Harriman said:

"At the time of my appointment to the post of Secretary, I persuaded Mr. Schindler to remain to aid me as I assumed my new duties, even though this involved considerable personal sacrifice on his part. However, his long-deferred business interests now oblige him to leave the government service. I am much pleased that Mr. Schindler remained as long as he did. His extensive background in general business, and his experience and knowledge of the distribution and sales fields will be greatly missed by the Department. We also shall miss his unrelenting drive to further the work of the Department, and to carry its message to business groups everywhere. He goes back to private business with our very best wishes for success."

Mr. Schindler was appointed Under Secretary of Commerce by President Roosevelt on April 10, 1945, at the request of former Secretary Henry A. Wallace. However, Mr. Roosevelt died before Mr. Schindler's confirmation, but as one of his first actions President Truman reappointed him and he was confirmed by the Senate on April 16, 1945.

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Calls for Revision and Amendment of State Securities Laws

Robt. G. Mead, reporting for the IBA State Legislation Committee, complains of "extra-legal" rulings of State Securities Administrators, and points out much of securities legislation by States is now obsolete and defective. Advocates members prepare for a survey of recommendations to be submitted to 43 legislatures meeting in 1947.

Speaking on behalf of the State Legislation Committee, Robert G. Mead, of Stone & Webster Securities Corp., Chicago, its chairman, called attention to "extra-legal" rulings by State Securities Administrators and to the need of revision and amendment of many state laws regulating security marketing, and he called on the membership to take immediate steps in preparation of data and in making recommendations to the 43 State Legislatures which are to be in session in 1947. The full text of the report made to the Convention follows:

Robert G. Mead

An interim report was filed by this committee at Bretton Woods in June of this year. With the exception of two items, there were incorporated in that report the material items of interest with respect to State Legislation and now pertinent to the committee report for the year 1946. Accordingly, a copy of that report is appended hereto and made a part of this report.

Since the date of the interim report in June, the National Association of Securities Administrators held their annual convention at the Commodore Hotel in New York. At that convention, their Committee on Warrants and Stock Purchase Options made its final report reasserting the position taken by a group of Middlewestern State Securities Administrators in a Declaration of Policy, with respect to warrants and stock purchase options. That report was unanimously approved by the convention, thereby rendering the policies originally outlined in the Declaration of Policy the expressed policy of that Association.

It is to be remembered, however, that neither this action by the National Association nor the Declaration of Policy amounts to a complete exclusion of the use of warrants or stock purchase options in all cases and under all circumstances as the terms of the Declaration itself leave each case to be considered on its own merits, based on the facts as related to the provisions of each state law.

During the year there have been numerous complaints by underwriters, dealers and many lawyers that certain of the administrators of the state securities laws of the regulatory type have made extra-legal rulings with respect to certain types of security issues or transactions, and thereby have declined to effectuate the registration of many issues, apparently on the basis of personal opinion as to the type of securities which the public should be offered. These "extra-legal" rulings appear to have been made more particularly with respect to issues or blocks of issues being offered in whole or in part by existing stockholders, and largely on the assumption or basis of being offered at a price to the public such as to constitute an inordinate profit to the stockholders. Your committee knows of nothing in any of the laws other than the provisions against fraud and deception, which undertakes to be a profit-fixing law, or which delegates to an administrator the authority to fix a limitation of his own determination on profits or spreads by persons offering their own securities for sale.

Most of the state securities laws of the regulatory type have incorporated in them certain standards as guides to the administrator in determining whether the security is or is not to be registered under the law. It is true, in many instances, these discretionary powers are broad, some of them extremely broad, but none of them, so far as we can discover, grants a discretion to the administrator for determining the registerability of a security on the basis of his personal opinion of the investment merits of the security other than as determined by the standards incorporated in the law. It is a further opinion of the committee that any decision or ruling on a basis other than that set up in the statute is without warrant of law. Your committee holds to the opinion that it is the duty of all of the administrators of these laws to meticulously adhere to the basic principles and standards established in the law and that any deviation from that basis constitutes as much a violation of the law as it would be should an issuer, underwriter or dealer undertake to offer for sale a security without compliance with the law. We trust the Board of Governors and the delegates in the Convention will be in accord with that doctrine.

It is true that, through the right to appeal to the courts for review of the act of the administrator, these rulings can be contested. Such procedure, however, consumes time—frequently far beyond any limit of time appropriate to the proper offering of the security—and is expensive. Also, there is ever present the possibility, or even probability, of a particular company or corporation thereby incurring the disfavor of an administrator or even a group of administrators who counsel together with respect to these things. For these reasons, the feasibility of contesting those rulings in courts becomes somewhat impracticable and dubious. Your committee is of the opinion, however, that notwithstanding its repeated and continuous recommendations of agreeable cooperation with the law administrators to the common objective, the business must prepare itself, in certain states, for a proper trial of the issues in the proper courts to determine whether standards set forth in the several statutes constitute the limitations of discretionary powers, or whether discretion is personal and without legally established limits.

ROBERT G. MEAD,
Chairman

Interim Report
State Legislation Committee
Bretton Woods, N. H.
June, 1946

The interim, since our last report in November, 1945, has not been an especially active legislation period. The legislatures of nine states have been or are now in regular session. In two of these nine states, amendments have been made to the securities laws, as follows:

Kentucky: By an act effective June 19, 1946, the Securities Law was amended (a) to increase the salesmen's registration fee from $5.00 to $15.00 and, (b) to provide an exempted transaction for the resale, by a registered dealer or broker, of outstanding securities acquired by such dealer or broker at a price or prices reasonably related to the current market price of such security, and sold at a price or prices reasonably related to the current market price at the time of such sale, provided certain informa-

(Continued on page 3066)

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Expects Overall 20% Tax Reduction

IBA Committee on Federal Taxation, headed by Richard P. Dunn, considers probable early passage of Rep. Knutson's proposal for a 20% overall 1947 tax reduction, to be followed later by cuts in excises and other wartime levies.

In a brief report to the 35th Annual Convention, the Federal Taxation Committee of the IBA whose Chairman is Richard P. Dunn of Auchincloss, Parker & Redpath, Washington, D. C., expressed confidence of early passage by Congress of a bill to reduce income taxes in 1947 by 20%. According to the report:

Some time ago Representative Knutson went on record as favoring a 20% tax cut straight across the board in individual rates applicable to 1947 incomes. In addition, the Republicans are committed to substantial reductions in expenditures, a balanced budget, and a downward revision in the excise taxes which were greatly increased in 1942.

As matters stand now, it appears likely that Mr. Knutson will introduce a bill in the House as soon as Congress convenes providing for a "quickie" tax bill that will bring about the 20% cut in individual rates. It is planned that the taxpayer will compute his tax as now and then deduct 20% from the total tax. It is expected that this bill will be offered without hearings and should experience no difficulty in either House and that it will be passed in February. In the Senate Finance Committee some changes might be made, although they are not expected to be important. Mr. Knutson will be the next Chairman of the House Ways and Means Committee and Senator Taft will be Chairman of the Senate Finance Committee if he wants it. It is reported here that they are substantially in agreement on the first tax bill for 1947. The objective of this 20% cut is to reduce taxes by $3,500,000,000.

There is some talk that the Senate Finance Committee may offer a return of the earned income credit which was discontinued during the war and possibly reductions in Federal excise taxes. There is also under discussion, so far as the Senate Finance Committee is concerned, the possibility of limiting individual normal and surtaxes to 50%, applicable to 1947 income, but it is regarded by many that this provision will not find its way into the first tax bill.

The next part of the Republicans' tax program will involve a number of changes, and hearings on the second tax bill should begin in March. In this second bill the following will be considered: Federal excise taxes, individual surtax rates, capital gains, earned income credit, and important administrative changes. It is difficult at this time to make a real estimate of the changes to be included in the second bill. There will be a number of hearings and a great deal of testimony from interested groups. It is planned, however, to have the bill pass so that reductions in excise taxes can go into effect on July 1, 1947.

If the Republicans are able to make substantial cuts in the budget, they expect to have a large surplus for fiscal year 1948 on which to base further general tax cuts early in 1948, the next Presidential election year.

Your Committee recommends that this Association follow these two bills closely and be prepared to make constructive suggestions with reference to tax changes when the hearings begin on the second bill. Ample time will be available and we should have a sympathetic hearing for the first time in many years.

Federal Taxation Committee—Richard P. Dunn, Chairman; James H. Lemon, Vice Chairman; Wm. Russell Barrow, Richard W. Courts, Henry H. Egly, George M. Ferris, Frank E. Gernon, H. Frederick Hagemann, Jr., Hardin H. Hawes, Nathan D. McClure, Augustus W. Phelps, Ralph W. Simonds, and Harold E. Wood.

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Basic Problems in Investment Process

(Continued from page 3045)

advantage of falling rates will probably be knocking at your door; that a few large institutions will be glad to relieve you of a major part of a prime issue; that you can get active dealer participation in a sure thing in a rising market. But the important question is how solidly you stand with the public—with the large classes of investors whom your industry is primarily designed to serve. They are the ones who form the essential backbone of your market. It is in their service that the industry is, ultimately, justified—morally and practically. You are the investor's primary direct channel to enterprise. That is why issues come to you and that is why the investor comes to you. You cannot afford to have that channel closed up, to have either issuer or investor lose confidence in you and therefore search for means of by-passing that channel. And, in that very real sense, your interests and the interests of the investor are identical.

SEC Administration

For a moment let us take a quick glance at the legislation administered by the Securities and Exchange Commission. Several things stand out clearly. You will recognize immediately that this legislation is predicated on the same bases that underlie your own business; this legislation assumes the existence of large classes of investors who wish to invest their savings in enterprise and it assumes the necessity for protecting these people and serving them well. The working of these laws has demonstrated that they are not, by any means, intended or administered to be destructive of your business. They recognize that your business is a vital part of our economy and their broad aims are to help lay a firm basis in the American economy for the growth of sound public investment. It is the intention behind these laws to help, and not to hinder, informed investment. And it is our intention at the Commission, in administering them, to follow that spirit.

In past addresses I outlined some of the projects we have undertaken at the Commission to improve the machinery for getting adequate, accurate information out to investors, for simplifying the filing of information and for expediting the registration process.

These proposals do not exhaust either the full scope of a program to inform the investor, nor can they in themselves make a reality of it. Registration statements should be prepared carefully and with an honest intention to disclose. They are processed by people who do their work efficiently and thoroughly. We have no intention of speeding up the handling of registration statements and other filings by doing the job sloppily. If the job is to be done well, no amount of efficiency engineering can get it done quickly without enough people to do it. In spite of the heavy load now being carried by the staff of the Commission primarily engaged in the processing of registration statements, and despite the fact that we have had to burden that staff with added duties as a result of wartime reorganization, our staff is doing its utmost to carry through our program of expediting processing. It is our hope that the good sense of our program will be recognized, that we will be able to increase the number of people engaged in the handling of registration statements and come nearer the fulfillment of our hopes for expedited processing.

But, in my view, a sensible program cannot be fully achieved merely by revisions in the Com-

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mission's procedure. No matter how carefully we adjust our methods, the prime responsibility is with those who prepare the material that the investor will be given and which he should read. Clear and full information is impossible unless those who prepare material for consumption by the investor honestly try to make their presentation at the same time simple and completely accurate and unless the investor reads the material given to him. It is a sad fact that not enough investors read prospectuses, that too much investment is made on the basis of the tip and hunch. We will probably never be able to get all investors to read what they should read; but we should never stop trying to serve those who want to read and to stimulate the others to use the information at their disposal.

Encouraging Investor Interest

That can be done in several ways. The first, as I have indicated, is to make an honest effort to state the facts fully, but simply and directly. The second is encourage investors to use the information. **By that I mean literally sitting down with an investor, opening the prospectus for him, explaining what it is and what it contains, and guiding him through it.** All of us, I venture to say, have had the experience of looking at financial statements which we did not completely understand. Imagine then the predicament of the investor who is frightened at the mere sight of a balance sheet or income statement. But, in that balance sheet, in the income statement, and in the other pertinent disclosures lie the grains of truth about what he is being asked to buy. The investment banking houses cannot be merely peddlers, they cannot be merely keepers of rummage shops; if, as you will agree, their professional obligations go beyond the closing of the sale and the ringing up of the cash register, then you must agree they should recognize and fulfill this obligation.

"Service Embodied in Your Profession"

To stand as the intermediary between enterprise and investors cannot, in the long run, mean only that you have the goods to sell or the customers to buy without being ever conscious of the ideal of service embodied in your profession. Ignoring that ideal may not keep customers from coming in in the rising market. But without it you build a high wall between you and the customer when a real selling job is to be done.

I can well understand the temptation of the salesmen to shoot the stuff out, to pile up the commissions. As long as the salesman is a free lance entrepreneur who merely hangs his hat in your shop, the temptation will continue to be a strong one. But neither the firm nor the salesmen should ever forget that, to the customer, the security comes with the firm's stamp on it. To profit by slurring over the importance of having the customer fully informed is to run the risk of loss of confidence and distrust; and, in the long run, is not to profit at all.

You gentlemen know as well as I how often your salesmen's volume or the success of a distribution depends on what the market did the day before. That is because so many investors have not formed, and have not been helped to form, the habit of buying a particular investment representing a particular grade and quality of earnings. Because he has no basis for independent appraisal, the investor too often buys trends instead of buying investment. That would be fine if markets went no place but up. However, markets do not do that. And, I should think, you would want to build a business which has the capacity to withstand the daily index jitters. I cannot think of a better way of doing that than by raising the general level of salesmanship to the point at which the securities seller regards it as a matter of course to see to it that his customer knows what he should know about what he is buying. And that means seeing to it that the investor uses and understands the prospectus.

Concern of Banker with Securities Laws

I think the sound and the long-range view is clear. The investment banker should be directly concerned with preserving the integrity of the standards and objectives of the securities laws and with translating them into tangible results on the firing line. That concern, further, should not stop with the Securities Act. It should extend to the others as well. Free, unmanipulated, and orderly trading markets are vital to public confidence in investment. It does a tailor little good to fit a suit perfectly if the suit falls apart soon after the customer leaves the shop. It does the investment banker just as little good to bring a sound security fairly priced to the investor and leave him to the hazards of a rigged market. The investor stays with the security. He needs, if he holds debt, a trust indenture that assures him an independent trustee performing the minimum of services necessary to preserve the security. If he has bought a utility or investment trust issue it does little good to have made original disclosure if the investor is not to be protected against certain of the clasical abuses in these fields.

Statutory Relief Needed for Unsound Conditions

We do not flatter ourselves into believing that there is perfection to the last letter of detail in our laws. About six or seven years ago representatives of your organization, of the NASD, and of many exchanges sat down together with us for a survey of our legislation. We reached broad areas of agreement on revision of certain of the provisions of the Securities Act and of the Securities Exchange Act. The views evolved by the participating bodies were boiled down to a set of specific proposals and counter-proposals. Extensive hearings before a House of Representatives committee were had. The war interrupted that program. In the intervening years certain of the proposals may have become obsolete; I know that our own revisions at the Commission have already achieved some of the objectives, and many more may be reached without the need for statutory change. The experiences of the past few years have indicated to us at the Commission other areas in which statutory relief of unsound conditions is needed, and probably your own added experience may indicate that you want to change your minds about some of the proposals.

We have passed the war crisis. We all hope to set out for many years of peace to come. I am glad that in our relations with your Association and other groups in the financial community we have already laid the basis for a joint well-considered effort at improvement. The Commission has already begun an intensive study of the documents relating to the statutory revision program, with the purpose of preparing a schedule of proposals that make sense now as a basis for further meetings and conferences to continue our task of reaching agreement on joint legislative proposals. That will take time. It is not something that can be done hastily.

But this is my first address to your Association and I believe in first things first. My most important message to you is that: we are committed to the protection of investors as public servants; you are committed to their service because, in the end, your livelihood depends on it. It is a mutual task we are engaged in and its success depends primarily on our mutual effort to preserve and strengthen the standards under which we work. Wisdom lies in assuring the American investor that there is a whole-hearted intention to preserve the standards necessary for his protection and to make them meaningful where it counts the most in serving him honestly, efficiently and at a reasonable cost.

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Reports Railroad Credit Losing Ground

(Continued from page 3051)

tention to establish grounds for a reduction of the railroad rate base.

The report then proceeds to a forecast of future traffic and reaches the conclusion that the estimate of traffic volume presented by the carriers is unduly low. The carriers' forecast, based on no increase of freight rates, is $6,800 billion. The Commission submits two other estimates, one of $7,434 billion and the other $7,721 billion, and the conclusion drawn from these forecasts in the Commission's report and appendix furnishes the basis for the rate relief awarded.

It is difficult to find in that report any indication of concern as to the future earnings of the carriers in the event that traffic declines. Whether or not traffic will decline cannot be determined at the present time but it should be noted that the forecast of the Commission as to the future volume of traffic is completely irreconcilable with the forecasts made by the Commission only a few years ago in regard to the normal earning power of railroads in reorganization.

There is no indication in the present report as to whether the Commission considers the above estimates of traffic volume as normal or merely temporary. If the Commission considers them normal then these estimates and the estimates made in the reorganization cases are inconsistent. If, on the other hand, the Commission considers the present estimates to be merely the result of a temporary postwar boom period to be followed by a decline to more normal conditions, necessitating a further raise in rates during a period of materially less active business, the future problems and difficulties in connection with this later readjustment should be fully analyzed and discussed at the present time. If sound credit conditions are to be restored, investors must be relieved of their fear that the railroads will again drift into a period of lower traffic volume with a rate structure completely out of adjustment to the lower volume. In this connection, the following record of forecasts by the Commission in prior years is not reassuring:

In April, 1931, the Commission confirmed a decision to reduce grain rates, stating that the reductions would reduce railroad earnings. Earnings of the western carriers at that time were less than 3% on investment but the Commission expressed the opinion that in the event increased earnings were necessary subsequently, the carriers could again apply for relief.

Three months later, the carriers applied for rate relief in Ex Parte 103. The decision of the Commission in December, 1931, was that only an insignificant amount of relief should be granted, due to the extreme gravity of the competitive and the general economic situation.

Eighteen months later, in March, 1933, the Commission decided that the surcharge was no longer necessary and canceled it. Any improvement in the situation, however, was temporary, and subsequently railroad earning power again became impaired due to increased costs. As a result, in March, 1935, the Commission was compelled to reverse its decision of 1933 and again authorize surcharges in rates.

By 1936, conditions had again improved and in December of that year the Commission decided, in spite of the protests of the carriers, that the relief granted in 1935 was no longer necessary. This is what the Commission said in their decision in this case:

"The unmistakable conclusion from these figures is that the emergency which we undertook to meet in our original decision in March, 1935, does not now exist. A continuing revival of industry appears likely to result in a further increase in traffic, and no sharp general increase in operating expenses is immediately in prospect."

Unfortunately, the Commission again was wrong. The developments in 1937 were exactly the opposite of the forecast. Instead of costs remaining stable they increased, and instead of traffic rising, it fell precipitately. In the first quarter of 1938 railroad earning power was practically obliterated and the Commission was again forced to reverse itself not only by restoring all the increases canceled in 1936 but even granting more. It is obvious from a study of the past that the Commission, instead of decreasing rates in 1936, should have increased them as they finally were forced to do in 1938.

In view of this record of repeated errors in forecasting, and the repeated periods of railroad difficulties resulting from a decline in traffic while operating under a rate structure designed for improving traffic, it is no wonder that railroad credit today has again received a severe blow. Of course no one knows today whether traffic will hold at its present level. If it does, railroad earnings may remain on a reasonably satisfactory basis but the disturbing fact in the picture is that the June, 1946, opinion of the Commission gives no consideration to the effect on railroad earning power of a decline in traffic if and when such decline takes place.

This report is prepared prior to the final opinion of the Commission in the present rate case. It may be that when this decision comes out the fears expressed herein will have been proved to be unfounded. In this final opinion the Commission may show clearly that they are fully aware of the necessity of establishing a railroad rate structure adequate under traffic conditions less favorable than those existing at present. The future status of railroad credit is clearly in the hands of the Interstate Commerce Commission. A realistic decision, based on the evidence of the past should in time correct the damage that has already been done.

The conditions that the Commission should recognize are clearly stated in General Commodity Rate Increases, 1937, Ex Parte 115, decided Oct. 19, 1937:

". . . 'It is only necessary to have in mind the incongruous results which would follow an attempt to adjust rates so that a stable rate of return would be realized, notwithstanding general business conditions and the rise and fall of traffic in consonance therewith, to realize the unreasonableness and impracticability of any such policy.'"*

"However, recognition of this fact that the railroads cannot hope in times of economic depression to earn a normal return carries with it the recognition of the complementary principle that they should be given an opportunity to earn more than a normal return in times of prosperity. In the same case, after stating a general rule which might well control our action with respect to railroad rates, we said, at page 582:

"'It will be noted, also, that it contains recognition of the principle that inasmuch as railroad earnings must inevitably fall below normal in times of depression they may properly be permitted to rise above normal in times of prosperity. Such recognition might well be supplemented by a provision that some portion of surplus accumulations shall be held in liquid form.'"*

The future of railroad credit depends on the application by the Commission of these basic principles so clearly stated by it nine years ago, and apparently forgotten today, at least as far as the decision of June 20, 1946, is concerned.

It is not ordinarily customary to quote famous poets in a serious analysis of the rail problem, but a study of the repeated refusals of the Commission to permit the railroads to protect their earning power brings to mind the following quotation from Rudyard Kipling:

"The pain of one maiden's refusal
Is drowned in the pain of the next."

If we would include a quotation from an American poet that seems appropriate, the evidence required of the railroads to demonstrate their need for revenues is comparable to the evidence Eugene Field required to prove that a man was intoxicated:

"He is not drunk who from the floor
Can rise again and drink some more,
But he is drunk who prostrate lies
And cannot drink or cannot rise."

Respectfully submitted,
Railroad Securities Committee
—Fairman R. Dick, Chairman; Benjamin L. Buttenwieser, Pierpont V. Davis, W. Lloyd Fisher, John G. Flint, A. Northey Jones, Arthur C. Knies, John S. Loomis, Robert G. Rowe and Frank M. Stanton.

*Quoted from "15% Case, 1931."

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Wants "Standby" Periods Shortened

(Continued from page 3055)

A special committee of this Association has been working aggressively, in cooperation with the New York Stock Exchange, on this problem and it is hoped that several constructive developments may result which should reduce the risk factor in this type of commitment.

Permissive Incorporation of Member Firms

This committee reported at some length at last year's meeting on the idea of permissive incorporation of member firms. In recent months, the subject has developed much interest and discussion by member houses and it should come up for vote by the Board within several months.

As was pointed out in our previous report, there are several definite advantages to permissive incorporation. One would enable members, if they so desired, to operate under Corporate Tax laws which permit corporations to accumulate reserves without penalty for proper corporate business purposes. Passage of the permissive incorporation amendments should broaden the market for seats, increase the volume of listed business and encourage the listing of many stocks now dealt in over the counter.

Foreign Business

The New York Stock Exchange has been working for some time to expand the list of foreign securities traded on the Exchange and to facilitate the growth of business originating abroad in listed securities. Because we believe the membership is interested in this subject, we present herewith a few of the initial steps which will have to be taken before any large scale business develops:

1. Modernization of existing listing requirements for foreign securities, both dollar and internal.

2. Recommendation of simplifying and liberalizing amendments to the Securities Act to the SEC, State Department, Treasury, and Congress.

3. Cooperation with the State and Treasury Departments to eliminate double taxation of American-held foreign securities and foreign-held American securities through reciprocal treaties.

4. Exploration of questions such as zoning different parts of the world for charges, splitting commissions or over-rides with foreign brokers or dealers, absorbing cable and shipping charges, etc.

5. Establishment of procedure to be followed by the Exchange with respect to the form and extent of foreign nationals permitted participation in partnership, ownership or affiliation with NYSE firms or their branch offices.

6. The development of close relations with Stock Exchanges, governmental officials, and financial centers all over the world.

The wide scope of subjects to be covered is proof that the Exchange is carefully planning a sound approach for recapturing its prewar position in the foreign field. Business originating abroad in our listed securities, from the NYSE branch offices, foreign representatives arbitrage, overseas branches and correspondents of New York banks, and New York branches of foreign institutions was large in the between-the-wars period, reaching its peak in the period of great flight of international capital for refuge before the outbreak of shooting war. Since 1939 this business shrank to a negligible proportion but now gives definite signs of revival.

Public Relations

The public relations program of the New York Stock Exchange, since its inception in mid-1945, has accelerated considerably. During the year 1946, approximately $750,000 will have been spent for newspaper and magazine advertisements. This schedule will continue next year, with copy to be published in over 400 newspapers, appearing in over 300 cities from coast to coast, as well as in 25 magazines. That this policy has borne fruit is already evident—editorial comment from various small newspapers throughout the country has been numerous and favorable. The underlying theme of the advertisements is to impress the need of caution and conservatism to the would-be investor.

The new movie short, "Money at Work," produced for the New York Stock Exchange by the March of Time, has recently been released. During this convention we have made arrangements to have it shown several times for the benefit of our membership. This picture was designed to depict the function and role of the investment banker as well as the stock broker and is well worth seeing.

Miscellaneous

One subject of particular significance to our committee is the SEC's proposed legislation to require all companies with assets of $3,000,000 and with 300 stockholders to register and supply information similar to that required for listed companies. No doubt the effect of its passage would be to drive into the various Exchanges many securities of fairly large closely held companies previously unlisted because of the issuer's reluctance to give out information about the company.

Profit-sharing pension plans have been adopted by many member houses and the group insurance plan is now in force by 91 different firms, giving some 2,600 employees over $12,000,000 of life insurance protection.

There is a continuing trend in industry toward unionization. This trend may affect the future relationships with employees in the financial industry. It might be well for our members who are contemplating employee compensation plans to consult with those in industry who have had practical experience in their organization, use, and change as a result of new labor laws, or union requirements. This may result in avoiding the establishment of precedents that will be difficult to change and which are not in accordance with standard practice.

Your committee is of the belief that some upward adjustment should be made in commission rates on stocks selling at 90 or higher, where the commission at present is a flat 35 cents per share irrespective of price. For example, the commission charge on 100 shares of stock at 180 is the same as for 100 shares at 90, which does not seem equitable. To illustrate, the following shows how the percentage of commission tends to decrease as the price level increases:

Price	Commission
30	.0066%
50	.005
90	.0039
140	.0025
200	.00175

Without disrupting the entire commission schedule, it would seem that there is room for readjustment in the higher priced stocks. This whole problem is being actively studied by the New York Stock Exchange staff.

The trend towards Saturday closings is making further headway, reflecting the tendency in many industries towards a five-day week. Recent action on the part of the New York Clearing House Banks in further petitioning the New York State Legislature is another step towards this end.

In conclusion, your committee wishes to comment favorably again on the close degree of cooperation which obtains between this Association, the New York Stock Exchange, and the Association of Stock Exchange Firms.

Respectfully submitted,

Stock Exchange Relations Committee—Richard de La Chapelle, Chairman; Edward C. Anderson, Irving D. Fish, Richard A. Kebbon, Joseph H. King, Samuel D. Lunt, Ranald H. Macdonald, Charles B. McDonald, C. Newbold Taylor, Albert W. Tweedy.

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Past Year and Future Outlook of IBA

(Continued from page 3044)

and consult with the officers and staff of the Bank on their many problems.

Matters Pertaining to SEC

We have, of course, been very much occupied with matters pertaining to the Securities and Exchange Commission. Early this year, the now almost forgotten "Oxford Case" commanded everyone's attention and after thorough discussion and consideration, we endeavored to clarify the situation for our members.

Last April, you will recall that the Commission circulated proposed Rule X15C2-3 for comment. This rule dealt with the now almost equally forgotten problem of "free-riding" in so-called "hot" new issues. After canvassing the membership for its reaction, we worked closely with both the Commission and the NASD, in addition to the American Bankers Association and others, as I have already indicated. This is a problem which is largely academic in a bear market, but I have no doubt that if it should arise again, we shall be in much better position to deal with it as a result of this cooperative effort.

In July, just before the adjournment of the 79th Congress, the Commission submitted to the Congress a report recommending several important changes in the 1934 Act. This proposal, as you know, would in general subject presently unlisted or unregistered corporations with over 300 stockholders and over 3 million dollars in assets, and their officers and directors, to the registration, reporting, proxy and "insider trading" provisions of that Act. We promptly asked our members to study this proposal and it is to be discussed at subsequent sessions of this Convention.

"Red Herring" Prospectuses

On Oct. 13th, the SEC circulated two proposed rules which were designed to bring about the dissemination of more information regarding new issues during the so-called "waiting period." Having canvassed our membership for its views, a subcommittee of our Federal Legislation Committee, on Nov. 21st, met with the Commission and discussed all aspects of this problem in great detail. Without attempting to be specific, as this subject will be fully reported to you by Walter Schmidt, I am happy to say that our meeting resulted in substantial agreement as to principles and objectives and I am, therefore, very hopeful that in the near future we shall have a rule which will permit underwriters to distribute "Red Herrings" to dealers and other professionals; and dealers, in turn, to distribute "summaries" to the private investor well in advance of the effective date of the registration statement. I know you all appreciate the significance of this development.

You also know that on Nov. 20th the Commission circulated for comment proposed revisions in Form S-1, the registration form most commonly used under the 1933 Act. This proposal is designed substantially to reduce the size of, and to make more readable, the registration statement and particularly the prospectus. This is another step by the Commission which clearly shows their earnest intention to render more reasonable and practical their administrative procedure.

I am sure you will agree with me that the members of this Association individually and collectively are in favor of regulation provided it is soundly conceived and fairly administered and provided that both the statutes and the administrative procedure can and will be amended if properly called for in light of experience or altered circumstances. I am happy to say that duing the past six months, your officers, together with Murray Hanson and a number of our members, have engaged in many wholesome and understanding discussions with the new Chairman of the Securities and Exchange Commission and his colleagues. It is my sincere belief that there now exists between the Commission and our Association a feeling of mutual understanding and respect from which much constructive good can result as long as we all hold paramount the protection of the investor's welfare. We like to think of the investment banking business as a profession, but that descriptive and honorable title is validly earned only if we place the interest of the investor above our own.

State Regulations

During the year, we have been active, as in the past, in the state regulatory field, wherein the lack of uniformity in the various blue sky laws, and perhaps over-zealous interpretation and administration by certain state administrators, have been giving us increasing concern. We were represented at the Cincinnati meeting of the State Commissioners on the warrant and option problem and also at their annual convention in New York. In addition, I know that Arthur Davis has worked with various group committees on specific changes desired in individual state laws. Our State Legislation Committee is well aware of the importance of the problems which have developed in this field and has been endeavoring to coordinate the work of the various state committees in meeting them. Our National committee and our staff stand ready to be helpful on matters of draftsmanship and correlation, but the real basis for effective understanding and cooperation between our industry and the state administrator or legislature must be developed at the state level.

The Boren Bill

Because of the pressure of reconversion legislation, only one Bill relating to our industry was considered by Congress during the past year—the Boren Bill—which was favorably reported out by the House Committee, but it was not acted upon by either the House or the Senate. However, George Martin's Municipal Committee, with the aid of Dave Wood, Dudley Smith and Murray Hanson, accomplished such constructive work that I am very hopeful that the new Congress will pass this measure.

Another problem we have recently studied is that of shortening the stand-by period or otherwise reducing the risks of underwriters where stand-bys are involved. To me, it is highly significant that over the past two years, the losses in such underwritings, where preferred stock has first been offered to common stockholders, have been approximately twice as great as all profits from such underwritings. Eugene Barry and his committee have been earnestly studying this subject and although they may not as yet have found the complete answer, they will make some interesting suggestions to you at a subsequent session.

Educational Program

And last, but by no means least, I wish to comment on our educational program. In the past year, we have seen the fruition of the forehanded and carefully planned program of our Educational Committee. Two and one-half years ago, this group, headed by Julien Collins, in anticipation of the war's end and the return of our young men from the Armed Forces, laid the groundwork for a complete educational program designed to assure the industry of obtaining new personnel of high quality and to provide that personnel with comprehensive and effective training.

Most significant to me is that IBA training courses have been organized in 18 cities and, including those now in session, over 1,200 students have been enrolled. The IBA text, "Fundamentals of Investment Banking," is being published currently and has received wide acceptance and most favorable comment throughout the industry and from other organizations, schools and colleges.

In view of the very great responsibility borne by the individuals engaged in investment banking and our desire to promote a high level of competence in the ranks of the industry, I can think of no more satisfying manner in which to apply our efforts than in the careful education of young men of character in the fundamentals of our business.

So much for my report on the "State of the Union." Although we have not succeeded in all our efforts and while many of our problems are yet unresolved, nevertheless I believe this summary review of our activities demonstrates that we have accomplished something and that we are well on our way toward becoming an effective trade organization which has tangible value for us all. Let me state clearly that the work done and the results achieved are due in major part to the unselfish volunteer efforts of our Governors, our committee chairmen and our committee members, who have given unstintingly of their time and experience, for all of which I am deeply indebted to them.

The Outlook

A word now about our business during the current year and the outlook for the immediate future. For the calendar year 1946, the volume of new financing will probably be about 7 billion dollars, as contrasted with $7,958,000,000 for 1945. Despite this reduction from last year, 1946 will rank higher than any other year since 1930. Of the 1946 financing, approximately 45% will represent new money and 55% refunding.

As to the future, it would appear certain that over the next several years American industry will require additional facilities calling for capital financing far in

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excess of their holdings of liquid assets set aside for that purpose.

And that fundamentally important economic factor—small business—spurred on by the technological advances of the war years, will likely create a vast demand for investment funds. We must not forget that industrial America is the outgrowth of thousands of small businesses and that the small business of today may well become the big business of tomorrow. It is clearly our responsibility to do everything in our power to see that venture capital goes to work with enthusiasm.

Surely, the investment banking business can look forward to an immediate future of high activity.

Thus far, I have directed my remarks to the activities and problems of our business. I think they are suggestive of fruitful fields of endeavor for our Association for the coming year. We must carry on our educational work, our cooperative work with departments and agencies of government, with other organizations, in the field of State regulation, in the municipal field and in connection with Federal legislation and administration. But, as important as these are, we have some duties and responsibilities which far transcend our immediate business interests.

General Problem Ahead

At V-J Day, the entire world looked to the United States for leadership—moral, political and economic. The success of the United Nations, the International Fund, the International Bank and other international agencies, the revival of world trade, world rehabilitation, the future survival of the kind of a world in which we so sincerely believe—all these have depended, and still depend, so definitely upon a strong United States. Today, fifteen months after V-J Day, we must wonder whether we have not failed our stewardship.

It should be obvious to us all that our time is running short. Now or never we must revitalize our country if we are to give the world the unique genius that is America.

Our work begins right here at home. In finance and industry we must clear away the chaotic conditions that now prevail, for a healthy economy is the only sound basis for the role of world leadership that has been thrust upon us.

Fiscally, we must balance the federal budget by drastically reducing unnecessary expenditures; we must adopt a stringent and publicly acknowledged policy of debt reduction; and finally, we must overhaul our tax structure in a manner that will remove the present contradictions, inequities and uncertainties, and provide definite encouragement for private enterprise.

Industrially, with the greatest potential the world has ever known, we are not even approaching our full capabilities. While we appear to have rid ourselves of the restrictions and hampering effects of government controls, unhappily our problem here is even more fundamental. In the simplest of terms, we have succumbed to a false philosophy of "something for nothing"—of less production for higher wages.

I firmly believe that the true progress and welfare of any nation must be measured by the progress and welfare of the wage earner. That in a nation of economic freedom this is a source of, as well as a product of, the wealth of that nation. But further, the wealth of a nation depends upon the volume and efficiency of its production. Thus, the spurious and illusory progress of the wage earner, receiving higher money wages for less work and less efficient production, constitutes a paradoxical situation which can bring only disappointment and unhappiness.

In the field of government, the most important step that can be taken is to create and enforce a strong but fair labor policy. Such a policy should equalize the legal responsibilities of employee and employer and permit to both a freedom of choice as to their coworkers and associates. This, together with a wider application of incentive wage systems, will encourage the patriotic American wage earner to achieve the high productive efforts of which he is capable.

Unfortunately, any such remedial steps will meet with opposition, for they would require the elimination of irresponsible labor leaders and also of those leaders who are consciously and intently working toward a breakdown of our economic system and who are converting the right to strike into an inhuman method of subjecting our free society to the threat of physical danger, starvation and even ultimate destruction.

Battle Line of Conflicting Political Philosophies

Events of the past year have clearly pointed out that the battle lines have been drawn between conflicting political philosophies.

In my opinion it is time for us to take pride in our convictions and to join with others who share our objectives in the battle to preserve the very principles which have made this country great. No other principles can serve us if we are to fulfill the leader's role. In taking this stand we must recognize the fact that our opponents in this ideological battle are sincere, hardworking and clever. They have the willingness to sacrifice everything for their cause, whereas we too often spend only a small part of our thoughts and energies on this all-important matter.

In our own United States, we, who are staunch believers in the personal freedoms engendered by the rights of private initiative and individual enterprise, have the responsibility of preserving for our next generation the great country of opportunity which our predecessors passed on to us. The future of this nation depends upon the resurgence and the firm reestablishment of the system of free enterprise, the open acknowledgment of the soundness and propriety of the profit motive generated by hard work and the assertion of a philosophy of encouragement and opportunity rather than vindictiveness and proscription.

On Nov. 5, the American people demanded a government by representation and an end to bureaucratic government by appointment. The insistence upon honest and fair self-government is unmistakably clear. If the new Congress correctly interprets the will of the people it will undoubtedly:

First—return our government to a policy of fair and equitable treatment of all its citizens based upon the enforcement of laws against all groups alike,

Second—put an end to the era of unrestricted giving, both foreign and domestic,

Third—base our fiscal policy upon sound business principles,

Fourth — restore our economic freedom so necessary to a great America.

None of these steps is reactionary. Rather, each is a reassertion of the principle of self-government by a free, hard-working people.

It is to be hoped that these newly-elected Senators, Representatives and Governors will mark well their responsibility to respect the rights of the minority for therein lies the true test of a properly functioning democracy—an objective which in these crucial times we must achieve and exhibit to the other nations of the world.

As citizens, our part in this program of reconstruction did not end on Election Day—these men whom our votes put into office have constant need of our advice and our support.

Our investment banking industry has a vital part to play, not only in the reestablishment of our normal peace-time economy, both national and international, but in raising the level of that economy to new and greater heights. We have busy and worthwhile years ahead, but let us not become so engrossed in our own personal businesses that we lose sight of our important duties as citizens, for the preservation of our free-enterprise system compels the devotion and the concentrated attention of us all.

Death Benefits Paid to N. Y. Holders by Insurance Companies

New York families received $159,789,000 in life insurance death benefits in the first nine months of the year, under 144,017 claims, the Institute of Life Insurance reported on Nov. 27. This compares with $159,296,000 in the corresponding period of 1945, when 152,120 claims were paid, and $155,007,000 in the like period of 1944, when 150,040 claims were paid. In pre-war 1941, the nine months total of payments was $127,144,000 under 136,399 claims.

The Institute says:

Of the aggregrate payments in this state, $114,970,000 was under 39,698 ordinary policies; $19,208,000 was under 8,917 group life insurance policies; and $25,611,000 was under 95,402 industrial insurance policies.

For the nation as a whole, $961,100,000 was paid in death claims under 962,573 policies in the first nine months, compared with $967,474,000 under 1,008,090 policies in the corresponding period of last year and $751,490,000 under 818,255 policies in the first three quarters of 1941.

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Report of Municipal Securities Committee

(Continued from page 3054)

the long established principle of minimum yield to the purchaser be followed, i.e., (1) Where a callable bond is selling at a discount the yield computation is to the ultimate maturity; (2) Where a bond is callable at par and selling at a premium, the yield computation is to the first callable date; (3) Where a bond is callable at a fixed premium or variable premiums, the yield is computed in such manner that the purchaser would receive not less than the yield indicated, should any such call privilege be exercised.

We also recommended that in any instance where there is a variance from the above method of computing yield it be indicated in abbreviated offering lists as well as in other forms of offerings.

Negotiability

Under the present legislation of some states, doubt exists as to whether the attributes of negotiability, within the provisions of the Uniform Negotiable Instruments Law, attach to bonds payable from a special fund, such as practically all revenue or special tax obligations. This was pointed out by our Association back in 1938. Recommendations were made at the time to broaden the Negotiable Instruments Laws of the states so as to provide the attributes of negotiability to such securities, in addition to general obligation bonds. Several states subsequently did so. There are, however, a number of states which have not done so.

The negotiability of a bond is particularly important not only to the holder who unknowingly comes into possession of a stolen bond, but from the standpoint of the position of a bona fide holder in case of question as to the original sale or title, such as was so clearly demonstrated in the Pulaski County, Kentucky, situation a few years ago. While the attributes of negotiability are generally provided in specific legislation anthorizing bonds payable solely from a particular fund or from special taxes, it is desirable that the Negotiable Instruments Laws of the state be made specific in this regard.

Fundamentals of Investment Banking

All are familiar with the outstandingly fine work that the Education Committee of our Association is doing in training young men in the fundamentals of our business through courses in various cities and the publication of a series of 12 booklets titled "Fundamentals of Investment Banking."

In September the Education Committee published the fifth of this series of booklets. It is devoted to municipal securities and certain related factors. It is based on a series of classroom lectures by Mr. H. C. Taylor of The Chase National Bank of New York given before classes sponsored by the Association at the Graduate School of Business Administration of New York University. Mr. David M. Wood, of the law firm of Wood, Hoffman, King & Dawson, New York, nationally known municipal bond attorneys, was good enough to contribute to the issue an instructive article which appears therein under the title "The Function of the Municipal Bond Attorney." We are deeply grateful to Mr. Taylor and Mr. Wood for contributing the material contained in this booklet.

Tax Remission Bonds in Texas

An unusual situation has recently developed in Texas in regard to so-called Tax Remission Bonds. For some years past, Texas has remitted to certain local units part or all of the state general fund tax. It is reported that in some instances this state ad valorem tax remission represents all or the greater portion of funds for the payment of principal and interest of bonds of the local units.

The state tax levy for the 1946-47 fiscal year does not include any general fund tax levy, which means that there will be no funds available from the current levy for remission to the various eligible areas. It is interesting to note that this is the first year for the past approximate 100 years, that a general fund tax has not been levied. During the past 30 years the lowest tax rate levied for the general fund was 20 cents per $100 assessed valuation. The rate of levy for this purpose has been 35 cents per $100 assessed valuation from 1933 up to the present fiscal year.

We understand that there are 23 areas entitled to receive aid from the state through the medium of donated state ad valorem taxes, which remission of taxes is authorized by various special acts of the legislature, all in accordance with the constitution of the state under various articles permitting the use of state aid for promoting the general welfare and prosperity of the state.

The state property tax levy is calculated by the State Tax Board, consisting of the Governor, the State Comptroller and State Treasurer, under a formula rigidly laid down by the legislature. Briefly it contemplates the balancing of estimated income against actual appropriations and the levy of a general fund tax to cover the deficiency. Estimates of income for the year 1946-47, exclusive of a general fund ad valorem tax, are reported approximately $2,000,000 in excess of appropriations. This explains the omission of a general fund tax levy for this year under the present law.

The situation has created considerable confusion relative to early maturities of both principal and interest of bonds of the various units affected. It would certainly seem that the state will make every effort to avoid any default or delay on the bonds payable from the remission of state taxes. We understand that when the legislature meets in January, an effort will promptly be made to correct this unfortunate situation by requesting the appropriation of surplus funds to cover this year's tax remissions. Furthermore, it is believed that practically all of the units eligible to receive tax funds by remission have varying amounts of excess funds on hand, and that most of such units can meet bond principal and interest requirements from such surplus funds for a reasonable period of time.

The State Tax Board will again meet next summer to consider the levy for the 1947-48 fiscal year. Its action with regard to a general fund levy for that year will depend entirely upon the estimated income for the period and the appropriations made by the legislature at its coming regular session. It might be well to keep in mind that appropriations are made on a biennial basis, and that the year 1946-47 represents the second year of apropriation. The next appropriation will be the first made since the end of the war, and there should be available reasonable estimates of current costs of labor, material and of general operations. We understand that preliminary budget figures call for an outlay for the next year of somewhat over two times the appropriations for the current year. This might well portend the need for a reinstatement of the general fund tax next year, and of course when such tax is levied, the tax remission feature becomes automatic.

The Boren Bill, H. R. 3129

Developments during the year with regard to H. R. 3129 were reported in part in our Interim Report of last June. Very briefly what took place was as follows:

1. A conference was held on March 27 between the Securities Subcommittee of the Interstate and Foreign Commerce Committee of the House, the SEC and representatives of the parties affected. The conference was called by the Securities Subcommittee at the request of the full Committee.
2. At this conference, the SEC again definitely asserted the power, under its interpretation of the Securities Exchange Act in its present form, to regulate transactions in state and municipal securities. It also opposed the bill. Those representing states and municipalities, investment funds, the American Bar Association and the industry took the position that as the law is so construed by the administrative body, it should be amended so as to clearly evidence the intent of Congress in this regard and urged the enactment of H. R. 3129 as a needed clarifying amendment to the Securities Exchange Act to assure the fiscal processes of the states and local governments and the markets for their securities—primary and secondary—freedom from SEC regulatory jurisdiction, either direct or indirect.
3. The Interstate and Foreign Commerce Committee subsequently amended H. R. 3129 and voted it out. The bill as amended in Committee provided for the addition at the end of paragraph 10 (b) and at the end of paragraph 15 (c) (1) of the Securities Exchange Act of the following sentence: "No rule or regulation adopted pursuant to this paragraph shall apply to any transaction with

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respect to an exempted security."

4. The Interstate and Foreign Commerce Committee issued a report dated May 29, 1946, to accompany the bill. It stated the history of the bill, the necessity for the legislation and other facts, and recommended that the bill, as amended in the Committee, be passed. A copy of this report was sent at that time to each of our members.
5. Later on (as of June 14), Representative John W. Murphy of Pennsylvania, a member of the Interstate and Foreign Commerce Committee, issued "Minority Views," contending that the bill should be defeated. A copy of Mr. Murphy's "Minority Views" was sent to each of our members accompanied by a memo pointing out various pertinent facts of the situation which Mr. Murphy had either overlooked or ignored.

The bill was in the hands of the Rules Committee of the House awaiting a legislative calendar date when Congress adjourned in August. We believe, however, that the need for, and importance of, such an amendment to the Securities Exchange Act is so broadly recognized that an identical amendment will be introduced in the coming session of Congress.

Municipal Bankruptcy Act

As will be recalled, the original Municipal Compositions Act enacted in 1934 was held unconstitutional by the U. S. Supreme Court in a decision handed down on May 26, 1936, in the case of Ashton v. Cameron County Water Improvement District No. 1 (298 U. S. 513) as an invasion of the sovereignty of the States. On Aug. 16, 1937, a new law became effective—the so-called Municipal Bankruptcy Act. It was prepared in form to overcome the constitutional objections and was upheld by the U. S. Supreme Court in a decision handed down on April 25, 1938, in the case of United States v. Bekins (304 U. S. 27).

The 1937 Act (Chapter X of the Bankruptcy Laws changed in 1938 to Chapter IX) would have expired on June 30, 1940, but was extended to June 30, 1942, two days before its expiration date. That amendment also broadened the Act to include counties. Just prior to June 30, 1942, the expiration date was again extended; that extension was to June 30, 1946. Late last June, the scope of the Act was again enlarged and the expiration date repealed, thus making it a permanent part of the Bankruptcy Laws of the United States.

Prior to the 1946 amendment (Public Law 481, Act of July 1, 1946), the law did not adequately provide for revenue bonds. It did not apply to bonds payable solely from revenues received from a revenue producing public utility or property. As a result of the amendment this year, the law is now applicable to any type of revenue bonds issued by cities, counties, towns, villages, etc. The amendment also extended the law to include bonds issued by incorporated authorities, commissions, or similar public agencies organized for the purpose of constructing, maintaining, and operating revenue producing enterprises.

Other changes made by the 1946 amendment include:

1. A new provision reading "If securities are deposited by the petitioner with the court or disbursing agent for delivery to the creditors, such final decree shall not be entered unless the court finds and adjudicates that said securities have been lawfully authorized and, upon delivery, will constitute valid obligations of the petitioner, and that the provisions made to pay and secure payment thereof are valid."
2. A new provision reading "That no State law prescribing a method of composition of indebtedness of such agencies shall be binding upon any creditor who does not consent to such composition, and no judgment shall be entered under such State law which would bind a creditor to such composition without his consent."
3. Provision for a preliminary stay of proceedings against a municipal agency prior to the filing of proceedings under the act for a composition of its indebtedness.
4. Provision for references of special issues of fact (as distinguished from general references) to a referee in bankruptcy or a special master for a report and finding of special facts. Only under special circumstances may reference be made to a special master who is not a referee in bankruptcy. It is pointed out that by limiting such references to special issues of fact, the proceedings will be speedily concluded and the costs thereof kept within reasonable limits.

Also of particular interest are the number and amounts of cases concluded under this law. Through the courtesy of Mr. Edwin L. Covey, Chief of the Bankruptcy Division, Administrative Office of the United States Courts, we learn that from the inception of the Act in 1937 through June 30, 1946, 204 cases were concluded; that the aggregate amount of admitted debts in these cases was $181,874,242; and that the total amount paid or to be paid as extended was $115,724,808. The report shows that there were 62 cases pending as of July 1, 1946. The above amounts of admitted and adjusted debts include both principal and interest. No figures are available to us showing separately the amounts of principal and interest.

The Senate Judiciary Committee in its report on the amendment pointed out that the present use of the chapter is not great, but that it has proved its usefulness. Further that the evils which were predicted have not occurred. The law has permitted creditors and municipalities to adjust their difficulties under the supervision of the Federal court. In many cases where a composition has been secured, the principal indebtedness due the bondholders has been paid or extended for the full amount. In most instances there has been no loss of principal to investors in obligations of this character. This has been accomplished by an extension of the due date, a waiver of interest, a reduction in the interest rate, or a combination of some or all of these.

The Tidelands Bill

This Congressional action was the outgrowth of the contention of the Department of the Interior that the Federal Government has title to certain lands that have always been recognized as belonging to the States or their grantees. The House of Representatives and the Senate passed a Joint Resolution (H.J.Res.225). The Senate's action was on July 22. The House had previously passed the resolution. The action of both branches of Congress was taken after extensive hearings on the subject in 1945 and 1946. On Aug. 1, President Truman vetoed the measure.

In its report on the Resolution, the Committee on the Judiciary of the Senate stated:

"The resolution constitutes a quitclaim to lands underlying the navigable waters of the United States, reclaimed or unfilled, within the boundaries of the respective States. It does not, in the opinion of the commitee, give away anything to which the United States has any justifiable claim, but merely removes a cloud from the judicially established title of the States and their grantees, caused by the assertion of claim by certain Federal administrative officials.

"It preserves the title of the United States to such lands where they have been lawfully acquired by donation, purchase, or otherwise.

"The resolution does not affect the right of the United States to acquire such lands lawfully in the future for any Federal purpose; nor does it, of course, abridge any constitutional power to regulate and control commerce and navigation.

"For more than 100 years, the States and their grantees, public and private, have expended vast sums in the development and construction of improvements on the lands affected by the resolution in reliance upon an unbroken line of decisions of the Supreme Court of the United States holding that States have title to such lands.

"As recently as 1933, the then Secretary of the Interior denied an application by a private person for an oil-drilling permit on lands off the California coast, quoting a decision of the Supreme Court holding the title to these lands was vested in the States, the Secretary calling this 'the settled law.'

"Four years later, in 1937, resolutions were introduced in the Congress, for the first time asserting Federal ownership of these lands. These resolutions failed of passage. Their mere introduction, nevertheless, created a cloud upon the title to these lands.

"Since that time, there has been continuous agitation by private applicants for Federal oil leases on such of these lands as are known to contain petroleum deposits. It is therefore clear that the chief connection of oil with this resolution is that applications by private interests for oil-drilling permits furnished the first occasion in the history of the Nation for a claim that the States did not own lands under navigable waters.

"Further aggravating the colud on these titles, the then Secretary of the Interior reversed himself, and, in the early spring of 1945, publicly announced that he intended to grant such applications of private interests on the theory that these lands were owned by the United States.

"Immediately thereupon, a

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Report of Municipal Securities Committee

(Continued from page 3065)

series of resolutions, of which House Joint Resolution 225 is the composite, were introduced in the Senate and the House of Representatives.

"The testimony before the committee indicates that there are petroleum deposits in lands under navigable waters in quite a number of States; these include Texas, Louisiana, California, Mississippi, Ohio, Indiana, Pennsylvania, and others. The testimony likewise shows that there has been invested billions of dollars in harbor facilities, industrial, business, and residential improvements by public authorities and private interests in and upon these lands, which include the facilities of every port and harbor of the Nation. Many cities have parks and recreation areas, highways, and other public developments on such lands. These developments, public and private, alone far exceed many times over the value of the petroleum deposits.

"In addition, the testimony revealed many other diverse interests which are conducted on lands affected by this legislation. These include, for example: coal, brine wells, gravel beds, oyster beds, mussel shells, shrimp fisheries, diamonds, crab fishing, sulfur, muskrats, marine fisheries, saltwater fish, and other industries producing millions in income in parctically every State in the Nation.

"In the opinion of the committee, no distinction can be made between the claim of ownership of any of these lands upon which such improvements have been constructed or from which such natural resources are produced or obtained."

The Federal Government has brought suit claiming lands, below the low water mark, on the California coast. While this claim is primarily directed at the oil there, it will be recognized that the action, if successful, would not affect the titles to these lands alone, but threaten the title to the tidelands of all of our states and the title to land beneath, or reclaimed from, all bays, ports, harbors and inland navigable lakes and rivers. If the Federal Government is successful in seizing title to submerged or reclaimed land in any state, what is there to prevent it from completing the conquest of like lands in all states?

The litigation was brought to the U. S. Supreme Court. President Truman in vetoing the Congressional action last August contended that Congress is not an appropriate forum to determine the legal issue involved and that the Supreme Court should decide the issue in the pending Government suit.

The Senate Judiciary Committee, in its report on the Resolution, also pointed out:

"It is certainly unjust to allow the title to all lands under navigable waters to remain clouded for many years while the Supreme Court is deciding the fifty-fifth case of a series on this subject when the Congress can, and in good equity should, end all clouds by adopting this resolution. Tremendous postwar developments involving millions of dollars are being delayed until this matter is settled.

"Another decision by the courts would not be any more effective in preventing later attacks on the States' titles than have been the others. In 54 cases the Supreme Court of the United States has upheld the ownership of these lands in the States or their grantees. There is no reason to believe one more decision (the fifty-fifth of this series) will prevent some other official from trying to reopen the question in some other State with respect to some other land.

"If the Supreme Court of the United States should reverse itself, unending litigation would result for probably half a century, for it would mean that the boundary of every parcel of land fronting navigable waters in the whole Nation would necessarily require judicial determination.

"It has been suggested that there is a difference in title as to lands in harbors and bays and those lands fronting on the open sea. There is no case which countenances the distinction. Assuming this distinction should be made in the pending Supreme Court case, it would be up to the courts to determine in continuous litigation what lands lie beneath the open sea and what lands lie within bays and harbors.

"In the opinion of the committee, should the Supreme Court reverse itself, the result would be so catastrophic to the economy of the country resulting from the overthrow of long-established rules of property, that the Congress would as a matter of equity be forced to enact legislation having an object similar to that of House Joint Resolution 225.

"Forty-eight State and local public officials, representing among them 47 States, 417 cities located in all 48 States, 50 public port authorities, and other public agencies, appeared in support of the resolution. Two private persons (the attorney for one of these) and one public official appeared in opposition to the resolution.

"The committee concludes that as a matter of sound legislative policy this resolution should pass, as its adoption is the only way to set at rest permanently a controversy which involves titles to property in every State of the Nation."

The following editorial on the subject appeared in the "Saturday Evening Post" of Oct. 5, 1946. It is reprinted in this report by special permission of the "Saturday Evening Post," copyright 1946 by The Curtis Publishing Company.

"There has been so much inept reporting on the dispute over state versus Federal title to submerged land that the people can be forgiven for some strange misconceptions of the whole business.

"For example, most of the news stories and radio broadcasts described the bill passed by Congress and vetoed by President Truman as an attempt by the state of California to 'grab' something from the Federal Government in order to enrich a group of oil exploiters. Actually, the bill was intended to 'quiet' state titles to land which has belonged to the states from the beginning of their statehood and to which the Federal Government repeatedly refused to lay claim until Mr. Ickes reversed himself and all his predecessors in 1945.

"In 1933, before his intellectual somersault, Mr. Ickes declared it to be 'the settled law' that 'title to the soil under the ocean within the three-mile limit is in the state of California, and the land may not be appropriated, except by authority of the state.' If there is any 'grabbing,' it would seem to be by the Federal Government and not by the state.

"Secondly, it might be supposed, from all the ruckus, that land held under state title is invariably exploited by thieves and swindlers, whereas Federal title to the same land would assure purity, justice and rigid conservation of oil. Yet the fact is that the worst oil scandal we ever had in this country arose from the leasing of Federal lands at Teapot Dome. And it is also a fact that Mr. Ickes' promise to snatch California's submerged oil lands from the ownership of the state of California has already inspired the incorporation of one oil company whose sole asset appears to be the expectation of obtaining the right to exploit California's oil lands as soon as the present owners under state title are dispossessed.

"Finally, the incendiary issue of oil has been permitted to obscure the important fact that, if Mr. Ickes' successors manage to upset these state titles, every title to state-owned submerged or reclaimed land will be immediately subject to challenge, and the ownership of property standing on such land could be seriously questioned. Attorney General Robert Kenny, of California, surely not to be classed as an 'exploiter' has shown in his brief, in which he was joined by the attorneys general of forty-six states, how water-front property in cities like Boston, Philadelphia, San Francisco, New York, New Orleans, Kansas City and Norfolk, Virginia, would be subject to suits, claims and other nuisances which the owners have long assumed could never arise.

"It is the persuasive contention of the states that it isn't just a matter of oil, for if California's submerged land containing oil deposits is subject to Federal seizure, so are the submerged lands of Maryland and Virginia, which yield mostly oysters and clams. Anyway, the issue is now in the lap of the Supreme Court, where it may be shorn of sensationalism and decided on legal principles."

Respectfully submitted,

Municipal Securities Committee—George L. Martin, chairman; William M. Adams, Rucker Agee, Hazen S. Arnold, H. Wilson Arnold, Fred D. Blake, Edward Boyd, Jr., Edward B. Coughlin, Ruth Cranston, Clarence F. Davis, Charles W. Easter, Francis P. Gallagher, W. Wayne Glover, Hardin H. Hawes, John G. Heimerdinger, Gustav Klein, Newell S. Knight, John S. Linen, J. W. Means, D. K. Pfeffer, Malcolm S. Prosser, Russell E. Siefert, Louis W. Stayart, Harry Theis, Frederick W. Willey, and Albert J. T. Woll.

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1946 Treasury Finance and Securities Market

(Continued from page 3053)

of securities longer than certificates, it was necessary for banks to make purchases of longer term securities in the markets if they felt that they needed or desired a higher income than ⅞%. In other words, the unexpected need for funds which arose from the debt retirements created a situation in the Bank Eligible Treasury markets which was a sharp reversal from that which had previously existed; i.e., the market level which had been created by continuous bank buying was now being asked to absorb periodic and, at times, necessitous selling. Obviously, that price level could not hold.

Finally, the continued rise in stock prices, the inflationary aspects of the economy, and the action of the Treasury security markets swung the prevailing attitude toward interest rates from one in which lower levels were expected to one in which predications and a fear of higher interest rates prevailed.

On April 30, 1946, transactions in Treasury securities took place on the floor of the New York Stock Exchange at levels sharply lower than those which were quoted largely on "an order basis" in the over-the-counter markets by government security dealers. It is noteworthy that at no time during the course of the war or up to that particular date had this variance occurred. The volume of Treasury security transactions on the Stock Exchange is usually negligible. The volume increased as sellers found occasional bids on the floor—even at sharply lower-than-counter quotations. Under these circumstances government security dealers had no recourse but to abandon their individual wartime practices of limiting daily price changes under the presumption of contributing to orderly markets. When an actual market was thus reestablished offerings were absorbed without further price decline. From that time and through the middle of August, 1946, the price movements of longer-term Treasury 2½% bonds ranged from 102½ to approximately 104.

It might be added that the much-publicized billions of sales to be made by so-called speculative holders of long-term Treasury bonds never appeared. Sales from such sources were so lacking in their visible volume that prices actually increased during the period when such sales were expected to cause the reverse.

In the latter part of August and more prominently in September, the unsettlement in stock market prices caused the Treasury security markets to again come under pressure. On Sept. 10, 1946, Treasury 2½s of 1967-72 sold down to a new low of 101.18. The unsettlement in the Treasury markets was aided by rumors from Washington that the Treasury was considering the advisability of offering additional long-term Treasury bonds. During this same period investors such as insurance companies had been able to make larger than usual commitments in other investments, and the market for long-term Treasury bonds was simultaneously deprived of a comparable volume of investment funds.

Since September prices in longer-term Treasury securities have improved; but the market, on the whole, has not been buoyant. Whereas, in the Spring, Treasury and Federal Reserve officials lent substance to the thought that the pattern of ⅞% to 2½% for Treasury financings was satisfactory (and should not be lowered), the market condition in Treasury securities was now such that other statements were being made to emphasize that this pattern of Treasury borrowing costs should not be increased. In part, the lack of buoyancy may also be attributed to the continuous enlargement of the Treasury's debt retirement program, which by the end of 1946 will have totaled 22.8 billions. Further contributing to this has been the ability of banks to increase their loans, etc., in unexpected volume with a consequent lack of interest in the bond markets.

This completes our summary of market history and some of the highlights. Your committee believes that the current outlook for the Treasury security market is one in which market yields should continue to conform to the wartime pattern of borrowing rates, namely, ⅞% on Treasury Certificates, and 2½% on long-term Treasury bonds. There is general agreement that any lower pattern of rates would be inimical to the best interests of the economy. Whether higher levels are desirable in the short-term or the long-term areas of Treasury securities, or for interest rates in general, is a subject on which your committee expresses no view.

The Treasury has continued to offer its Savings Bonds, Series E, F, and G, to the public on the same terms and conditions as during the war, and from the viewpoint of professional investment distributors, the steady, substantial absorption of these issues has been remarkable—in the absence of the emotional appeal that existed in wartime and with relatively little sales effort or sales expense.

Naturally, redemptions of E bonds have been considerable but they have been less than many people expected. The net decline in the amount of E bonds outstanding since Jan. 1, 1946, has been slightly over 1½%.

The results from Jan. 1 to Nov. 26, 1946, are reported as follows:

	Sales	Redemptions	Excess of Sales over Redemptions
Series E	$4,077,084,000	$4,995,497,000	—$918,413,000
Series F	294,417,000	171,641,000	122,776,000
Series G	2,450,564,000	383,883,000	2,066,681,000
Total	$6,822,065,000	$5,551,021,000	$1,271,046,000

The amount of the national debt now represented by Series E, F and G Savings Bonds is now something over 46 billion, of which a little over 30 billion is in Series E.

The Treasury Savings Bond Division is currently engaged in a commendable and important effort to perpetuate and increase the regular purchase of E Bonds under the payroll savings plan. While the continuation of the Savings Bond Program meets with general approval, there are many differing opinions as to the proper management of the public debt as a whole.

In this connection your committee wishes to make some observations. During the war and reconversion periods a basic goal of Treasury financings has been to place the largest possible percentage of the increased public debt with non-bank investors. The objective has been to reduce the volume of swollen disposable incomes that might be used to compete for a drastically reduced volume of civilian goods and services; i.e., to limit the rise in the general price level which normally accompanies and follows a major war.

In peacetime, the emphasis shifts to achieving and maintaining prosperous business conditions. Sales of Treasury securities to non-bank investors diverts savings to non-productive securities which represent past governmental deficits. This may have a more deflationary effect than excessively high taxes, and may create an environment unfavorable to full production.

Your committee raises the question as to whether the IBA should continue, regardless of the condition of business, to urge the sale of the maximum possible amounts of Treasury securities to non-bank investors. At present, and in prospect, we are dealing with a debt that is not increasing but may be expected to decline. Your committee believes that such debt reduction should be brought about by applying Treasury cash surpluses to the redemption of Treasury securities held by the commercial banks.

The question is who carries the remainder of the dead horse? It is on this point that your committee cautions that in the near future it may be in the public interest to stress the need for a free flow of savings into consumer goods and business ventures —rather than to continue to strive for a shift in the ownership of the public debt from the banking system to other investors.

Governmental Securities Committee—Aubrey G. Lanston, Chairman, Herbert N. Repp, Vice-Chairman, M. S. Andrus, Eugene R. Black, George Buffington, Robert H. Craft, Edward B. Hall, Francis M. Knight, Charles V. Leroy, Delmont K. Pfeffer.

Money in Circulation

The Treasury Department in Washington has issued its customary monthly statement showing the amount of money in circulation after deducting the money held in the U. S. Treasury and by Federal Reserve Banks and agents. The figures this time are those of Oct. 31, 1946, and show that the money in circulation at that date (including of course, that held in bank vaults of member banks of the Federal Reserve system) was $28,600,120,086, as against $28,506,662,707 on Sept. 30, 1946, and $28,049,136,408 on Oct. 31, 1945, and compares with $5,698,214,612 on Oct. 31, 1920. Just before the outbreak of the first World War, that is, on June 30, 1914 the total was $3,459,434,174.

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Revise and Amend State Securities Laws

(Continued from page 3057)

tion is publicly available or is made available to the Director of Securities.

New York: Effective April 23, 1946, the New York law was amended to provide an exemption from the requirements for filing dealers' statements and supplemental statements, by application to the Attorney General, as to the following securities:

1. Securities of a corporation which has been in existence for a period of 10 years, or whose predecessors have been in existence for such an immediate and continuous period, and which securities have not been in default in principal or interest on obligations for the preceding 10 years, and have paid preferred and common stock dividends for the preceding six years, the common stock dividends at the rate of not less than 3% of the book value thereof.

2. Securities which have been fully listed upon any exchange in the State of New York as of Jan. 1, 1925, and so long thereafter as the same shall remain so listed and any securities senior thereto, as well as securities and any securities senior thereto becoming fully listed on such exchanges since that date and remaining so listed for the 10 years preceding the offering, and additional amounts of such securities as have been listed for at least 10 years immediately preceding the offering date, which additional securities it is planned, as of the time of the offering thereof, to list.

3. All securities enumerated in Section 359-f, subdivision 1 of the law, with the exception of paragraphs (b) and (k) thereof.

During the war period, legislation by way of revisions to all securities laws, national and state, was at a standstill. The minds of legislators were predominantly occupied with war emergencies or other most essential matters. Securities laws were deemed to be among those things which very well could wait a more leisure or opportune time.

During this period, however, there have been many matters of daily current interest such as rules and regulations under the laws and practices in the several states. Among these is that of the Declaration of Policy by a number of the state law administrators as to stock purchase options or warrants. This matter has been the subject of much discussion, casual and official, among investment bankers and committee members.

On May 16 a conference was held at Cincinnati between a group of representatives of investment bankers, almost wholly of the IBA, and a committee of five from the securities laws administrators, at which the subject of stock purchase options and warrants was considered at length. The IBA was represented by members from New York, Cleveland, Cincinnati, Louisville, Chicago and St. Louis and by Murray Hanson, General Counsel, and Arthur Davis, Field Secretary. The law administrators' committee were from the States of Illinois, Minnesota, Missouri, Ohio and Virginia. The meeting was entirely informal where all present had full opportunity to put forward their observations, opinions and suggestions.

After the conference meeting the Committee held an executive session. Their final conclusions have not, as yet, been made public.

The year 1946, the first after the war period, has been a so-called non-legislative year; only nine state legislatures being in session.

In 1947 the legislatures of 43 states having a securities law will be in regular session. The modernization of a number of the state laws to attune them to experiences and new developments is due—in some instances, long overdue. More uniformity of the fundamentals of such laws is amply justified. The public welfare and the broad general economy of the country demand revisions in a number of instances. The industry itself, through the NASD is now cooperating as never before. NASD activities, alone, constitute substantial regulation. State policing is supplemented by the SEC. There no longer remains an excuse for multiple and duplicate supervision to the degree heretofore imposed. Simplification and cooperation should now be the major slogans. With a good understanding of the public interest, a patriotic and earnest purpose, regulation may now be reduced to the minimum; and with even a greater efficiency than in the past.

A number of the state laws, over the years, have undergone various amendments and even amendments to amendments. Some such amendments have been hastily drawn and without the time necessary to completely coordinate such amendments with the rest of the Act as a whole. This was particularly true during the deep depression period and to some degree during the war period. These laws, with rare exceptions, have come to embody ambiguities and are incapable of interpretation with a degree of certainty necessary to the smooth functioning compatible with the public interest. In some states the laws have become more of a hindrance to the sale of the better grade of securities than to the less seasoned and more speculative type. Such laws are sorely in need of careful survey and revision both for public protection and the general economy.

But these things will not be brought about without thought and effort. Someone must assume responsibility and leadership. This, in turn calls for preparation against the day when the legislatures of these 43 states will be convening, beginning with Jan. 1, 1947. Preparedness calls for a survey of the problems and developments in some detail in each of the 43 states. This survey should be supplemented by consultations with state officials, particularly the administrator of each state law, on the basis of arriving at a common undertsanding and a cooperative effort to the public economy.

This effort should not be delayed. It should be begun now and pursued, actively, to some logical conclusion.

Primarily, this is the function of the State Legislation Committee and the several Group Legislation Committees. But, in reality, it is, over all, the business of the investment industry, individually and collectively.

ROBERT G. MEAD, Chairman
State Legislation Committee.

Reports Rise in Utilities Equity Financing

(Continued from page 3052)

have given a very good account of themselves.

In addition to the financing by electric and gas utility companies, so far in 1946 the Bell Telephone System has entered the capital market for a sum of $578,000,000 of debentures, including the current offering by American Telephone & Telegraph Co., expiring Dec. 16, of 15-year 2¾% convertible debentures to its stockholders. In 1945 debt financing by the System reached a total of $575,000,000. It is interesting to note that whereas in 1945, 95% of the total financing by the telephone companies was for refunding, in 1946 the trend has been completely reversed with approximately 95% of such financing representing new money.

In 1946 one subsidiary company, Mountain States Telephone & Telegraph Co. raised approximately $9,500,000 from an offering of common stock to stockholders and in 1945, Southern New England Telephone Co. raised $12,000,000 from an offering of 100,000 shares of common stock to stockholders at $120 per share.

An additional source of new capital was available to the parent company, American Telephone & Telegraph Co., which received in 1946 (through Nov. 20) $16,850,720 in cash payments made by holders upon conversion of the 15-year 3% convertible debentures, and in 1945 such cash payments on conversion provided an aggregate of $31,072,760.

Expenditures for new construction by the Bell System amounted to $267,000,000 for the first six months of 1946, as compared with expenditures of $255,000,000 for the full year 1945 and the management of the Telephone Company have stated that expenditures of more than two billion dollars may well be required during the next few years to provide the plant necessary to handle the current demand for service on a normal basis, to carry out plant betterments which were suspended during the war, and to provide for growth. At the present time

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the provision of additional plant and facilities is being impeded by shortages of certain critical materials.

The operating utility companies have been faced with problems common to many other industries in the form of increased wages, higher operating costs and the difficulty in obtaining construction and replacement materials. Such higher costs have been offset by the elimination of the excess profits tax with the result that earnings available for common stock in 1946 will be higher than in 1945.

With the advent of V-J Day, the managements of many of the electric and gas companies expected a sharp drop in kilowatt hour industrial sales and reduced operating revenues due to rapid cancellation of war contracts and the period of reconversion. The reduction in revenues in many cases failed to materialize, the loss in war business being absorbed by rapid increases in commerical light and small power business and in residential sales. Due to strikes and the inability to get new materials as scheduled, the electrical manufacturing companies have not as yet been in a position to deliver electrical appliances in volume with the result that the utility companies have not yet hit their prewar stride in load building programs.

Two important factors affecting the present utility picture should be noted. Most companies have been unable to build lines for several years and require extensive increases in the capacity of transmission and distribution facilities to restore normal excess capacity and normal voltage conditions. A similar deficiency exists in power station capacity in some areas, but this is not as generally existent as the deficiency in distribution plant. The increased investment required to correct these conditions will not increase revenues materially at this time. In time, however, it will be reflected in substantial increased demand for new capital, which will tend to restore investment ratios to levels more normal in line with prewar conditions. A second important factor to note is that new plant is costing as much as 50% more than prewar plant, with a resulting increase in maintenance costs and a tendency to further raise the investment ratios. Both of these factors may be construed adversely to the utilities. Nevertheless, we conclude that the intrinsic position of the operating utility companies have never been sounder than it is today. The prices of the services rendered are at the lowest level in history, in spite of increased costs, and it is evident that the industry is determined to continue the policy of rate reductions as time and circumstances permit.

It is quite improbable that the volume of debt financing by electric and gas companies in 1947 will reach the level experienced either in 1944 or 1945, as in many cases refunding of higher coupon rate bonds has been largely consummated and the demands for new money may be delayed for reasons already set forth. We may, however, look forward in 1947 to a substantial volume of common stock financing in the form of portfolio securities being sold for cash by the holding companies. The following list of companies is indicative of what may be expected and has been compiled from tentative plans which have been filed with the Securities and Exchange Commission or from public statements of the prospective vendors. The list is by no means complete and does not include any of the companies whose common stocks will be placed upon the market by means of distribution to stockholders of holding companies (as for example Commonwealth and Southern Corp.) rather than a sale for cash:

Company—	% Total Common to Be Sold
American Gas & Electric Company	*19%
Atlantic City Electric Company	100%
Birmingham Electric Company	†46½%
California Oregon Power Company	100%
Carolina Power & Light Company	†46½%
Central & South West Utilities Company	14%
Detroit Edison Company	20%
Florida Power & Light Company	15%
Kansas Gas & Electric Company	15%
Michigan Gas & Electric Company	100%
Minnesota Power & Light Company	15%
Montana Power Company	15%
Mountain States Power Company	56%
Northern Indiana Public Service Co.	17.6%
Ohio Public Service Company	100%
Oklahoma Gas & Electric Company	100%
Pennsylvania Power & Light Company	46½%
Public Service Company of New Mexico	64½%
Texas Utilities Company	15%
Toledo Edison Company	100%
Wisconsin Power & Light Company	46%

*Plan of Electric Bond & Share Company contemplates offering stock to its common stockholders at prices under existing market presumably without underwriting by bankers.

†Plan contemplates sale either at competitive bidding or in such other manner as the Securities and Exchange Commission may permit.

While the foregoing list of contemplated offerings is by no means complete, it does embrace the offering for cash, either by means of underwriting or offering of rights to stockholders, of over 15,000,000 shares of common stock with a market value, based on the present level of prices, in excess of $300,000,000.

The timing of the sale of these issues is a matter of concern to the investment banking industry, and unless some means can be found to provide an orderly distribution of these issues, through no fault of its own the marketing machinery of the industry may not be equal to the task. It is most important that the management of the holding companies, in collaboration with the Securities and Exchange Commission, develop some program which will result in an orderly process of bringing the individual issues to market. We have had a demonstration during the current year of the depressing market effect of a great volume of common stocks being offered within a relatively short space of time. Unless sound judgment is used, we may witness an entire new general level of prices for utility equities as a whole, creating a situation where it will be difficult to obtain prices which are fair and reasonable to both the seller and to the investing public. Distribution costs would likewise increase substantially, particularly under the present system of competitive bidding.

Under practices which have been developed as a result of the competitive bidding rule, the management and board of directors of the operating company to be distributed to the public has been selected by the management of the holding company in collaboration with the local operating people, prior to the time the securities are offered for competitive bidding. With the distribution of the common stock to the public, many of the relatively smaller operating companies are "on their own" and cannot afford to maintain a large staff of specialists who were subject to their call under the service contracts with the holding companies. The personnel of these service companies provided men of long experience and judgment in a wide field of activities, including legal, financial, engineering and construction, accounting and taxes, rates and other matters. For the first time, therefore, the management of the operating company will be confronted with many problems on which in the past they could consult with experienced service company personnel. The management of the holding companies take upon themselves a moral obligation to see to it that before the operating company stock is distributed to the public the operating company will be provided with able management and that the board of directors selected will be composed of responsible local citizens who are willing to devote the time and attention necessary to the successful conduct of business. In the case of many of the smaller operating companies, we feel that serious consideration should be given to the possibility of the operating company entering into a service contract, even if for a relatively short period of time, so that the many problems encountered in the transition period from holding company control to investor ownership may be met.

Respectfully submitted

Public Service Securities Committee: Duncan R. Linsley, Chairman; Albert T. Armitage, F. Edward Bosson, Frederic H. Brandi, Joseph T. Johnson, Hugh D. MacBain, Edward K. Van Horne, Robert C. Webster, Edward H. York.

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The International Bank and Its Securities

(Continued from page 3048)

marketing of its own obligations. It is, in short, a going concern.

II

Let us consider the loan operations of the Bank.

The principal purposes of the Bank are:

1. To assist in the reconstruction and devolpment of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.
2. To promote private foreign investment, as I have already stated, and
3. To promote the long-range balance growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

For these purposes the Bank may make or participate in direct loans or guarantee in whole or in part loans made by private investors through the usual investment channels for the exclusive benefit of its own members. Such loans shall be subject to the following conditions:

1. When the member in whose territories the project is located is not itself a borrower, the member or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.
2. The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.
3. A competent committee, including members of the staff of the Bank and a representative of the applicant, has submitted a written report recommending the project after a careful technical, engineering, and economic study of the merits of the proposal.
4. In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.
5. In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.
6. In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.
7. Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.

Moreover the Bank shall make supervisory arrangements to ensure that the proceeds of any loan are used efficiently and only for the purposes for which the loan was granted.

These provisions will result in carefully considered loans of a productive character designed to increase levels of economic activity in the member nations and to facilitate repayment by the borrowers.

The Bank has already announced the receipt of loan applications or letters of intent from Chile, Denmark, France, Poland, the Netherlands, Czechoslovakia, Luxembourg, and Iran. These requests cover both reconstruction programs and developmental projects. They cover only the financing of acquisitions abroad of materials and equipment and not local currency financing of labor and other local costs. They cover a range of maturities of from ten or twelve to twenty-five years. All loans of the Bank will be subject to regular amortization.

Loan committees are actively considering three of the applications. No loan decisions have as yet been taken.

A number of these applications had previously been brought to the attention of the Export-Import Bank. In a report to the Congress of last March the NAC indicated that the International Bank would be the principal agency to make foreign loans for reconstruction and development which private capital cannot furnish on reasonable terms. Pending the effective operation of the International Bank the Export-Import Bank has extended such credits limited necessarily to the immediate minimum needs of the borrowers. With the coming into effective operation of the International Bank it is the policy of the United States in general to withdraw the Export-Import Bank from the business of making emergency long-term loans for reconstruction and development programs and projects. The Export-Import Bank has been so informing applicants for this type of financial assistance.

In the making and implementing of loans the Bank is prohibited by its Articles of Agreement from interfering in the political affairs of any member, nor shall it be influenced by the political character of the member or members concerned. Only economic considerations shall be relevant to its decisions, and these considerations shall be weighed impartially in order to achieve the purposes of the Bank which I have mentioned earlier. I am certain that all of the member governments will direct their representatives to act on loan projects on the basis of such economic considerations alone.

Among the principal purposes of the Bank is the promotion of the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments, conditions important if the borrower is to be in a position to meet its obligations to the Bank. I believe that the Executive Directors of the Bank must, therefore, in passing on an individual loan application, give careful attention not only to the details of the particular project but their relation to the broad trade, financial, and investment policies of the borrower as the latter might affect the useful carrying out of the project and the prospects of repayment of the loan. We intend that the loans of the Bank shall be sound and shall be repaid. The Bank must avoid any political activity. But where policies of a borrower have important economic consequences bearing on the satisfactory attainment of the purposes of the Bank and the repayment of its loans, such policies and such economic consequences thereof, I feel, must be given careful consideration in passing on the application.

III

Let us turn to the financial side of the Bank. The authorized capital of the Bank is $10 billion. The subscriptions of the present 38 members amount to $7.7 billion. With the addition of the six likely countries I mentioned earlier, the capital subscribed would rise to about $8 billion.

The Bank is authorized to call up 20% of its subscribed capital to serve as working funds. The other 80% may be called only as needed to enable the Bank to meet interest and amortization requirements of its own obligations to private investors.

The first 2% has already been paid in gold or dollars and an additional 8% in the local currency of each member. The Bank has announced its intention to call up the second 10% of its capital in two further instalments by May, 1947. In this manner the Bank has already received some $150 million representing the 2% portion which it has invested largely in short-term obligations of the United States Treasury. By May of next year it will have available about $720 million of United States dollar funds, some $80 million of Canadian and other funds immediately usable in loan operations, and the equivalent of almost $800 million more in currencies not readily available for current loans although usable for such administrative expenditures as the Bank may incur in such currencies.

The Bank will thus have perhaps $800 million of its own funds available for loans. For operations in larger amounts, and in order to replenish its working balances, it must have recourse to the private capital markets. It is anticipated that eventually the Bank will market its securities in a number of foreign markets—especially European—which have traditionally financed international investment. Exchange and balance of payments situations make it unlikely that any significant volume of securities may be placed in such markets in the transition period of reconstruction, and therefore the Bank must look at the outset to investment outlets in the United States and perhaps Canada.

The authorities of the United States have interested themselves in efforts to broaden potential U. S. markets for the obligations of the International Bank. Legislation legalizing such obligations has been suggested in the Federal-State legislative program of the Council of State Governments and the Department of Justice. The NAC has recommended action to legalize the obligations of the Bank for investment by insurance companies in the District of Columbia. Action in this field forms a part of the legislative programs of a number of national and state associations of financial institutions. Finally, a number of us representing the United States have held meetings with the principal investing institutions and state authorities in many parts of the country. It is, of course, too early to predict the final outcome but present indications suggest that we may confidently await action during the course of the next legislative sessions for most of the principal classes of investors in the states in which large investment funds exist.

The present status of eligibility may be briefly summarized.

Commercial banks in the United States, with capital and surplus of well over $7 billion, may generally invest up to 10% of their capital and surplus in securities of investment quality of a single issuer. No legal barriers exist in the case of national banks provided that certain requirements of the bank supervisory authorities are met. But in twelve states representing some 6% of the total capital and surplus of all banks, no investment by state banks is now permitted.

Mutual savings banks, with total assets of about $17 billion, exist in 17 states. In four of these, having 62% of the total assets, investment in the obligations of the International Bank is now permitted. The principal one is of course New York where eligibility legislation was enacted at the last session of the legislature.

Insurance companies in virtually all of the states having an important volume of insurance assets are now barred from investing in the obligations of the Bank. Total assets of life insur-

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ance companies run to some $44 billion.

Trusts are in most jurisdictions permitted to acquire the obligations of the International Bank unless specific restrictions are incorporated in the instruments establishing the individual trusts.

Much interest has been displayed by the financial community in the probable size and timing of issues of the Bank, their terms and conditions, and the machinery for their distribution. These are matters on which decisions by the Bank have not yet been taken. As I have indicated, the Bank has already available an important amount of dollar resources, and more will be available by next May. Its consideration of loan applications is proceeding, but no commitments have yet been entered into. The rate of expenditure of loans lags very greatly behind the signature of loan contracts due to delays in obtaining delivery of materials and equipment. So the actual need of the Bank for funds for actual loan expenditures will not be pressing for some time.

On the other hand, the Bank will certainly wish to maintain sizeable working balances, and will therefore wish to replenish in considerable measure its own funds as they are drawn down. This, of course, will also provide a certain testing of the market.

IV

I believe you would be interested in some more detailed analysis of the obligations of the Bank.

Although the Bank may guarantee the direct obligations of its members, it is not believed that at the outset at least this will be the principal method of financing reconstruction and development. It may be expected that the principal business of the Bank will be the direct lending of its own funds and funds raised by the sale of its own obligations.

Such securities will be general obligations of the Bank, secured by the general assets of the Bank rather than by the pledge of specific assets.

The Bank, though not strictly speaking a corporation since it is not incorporated under the corporation laws of any United States jurisdiction, is a legal entity with most of the usual attributes of a corporation bestowed by international agreement implemented by the domestic legislation of the members.

The Bank may make loans or guarantees only to the extent of 100% of its unimpaired subscribed capital, reserves, and surplus—at the present time $7.7 billion. This automatically fixes the amount of its own obligations which the Bank may usefully issue. This also ensures that the Bank at all times will have at least twice as many assets as obligations to private investors—its loan portfolio plus its cash, segregated reserves, and unpaid capital subscriptions.

We will apply for registration of the Bank's bonds with the SEC, and we will apply for a listing of the bonds on the major exchages. They may be issued in the United States only with the approval of the NAC. They will probably be issued in more than one maturity ranging from perhaps ten years to 20 or 25 years, and at least the longer maturities will be subject to amortization.

The bonds of the Bank will not be United States bonds, nor will they be guaranteed by the United States. They will be very well secured by the substantial assets of the Bank, by the conservative provisions of the Articles of Agreement, and by the competence of the management.

The Bank is in fact a source of mutual assistance at two levels. On the one, all of its members band together and subscribe important sums of capital to facilitate loans to certain of the members. The creditor and debtor nations alike stand behind the obligations of the Bank to the limit of their subscriptions. On the other level, the borrowers contribute a fee of 1 to 1½% per annum on the outstanding principal of their loans to a sort of insurance fund called the Special Reserve which must be segregated in liquid assets such as United States Treasury obligations and which may be used only to meet contractual charges on the Bank's own obligations.

Under any even fairly normal general international economic conditions the Bank may expect sporadic suspensions of amortization and possibly interest on particular loans due to local circumstances of the borrower. If these do not occur, the loan portfolio will more than adequately meet the requirements of servicing the Bank's debentures. Even if they occur on a reasonably large scale, the Special Reserve or insurance fund created for the very purpose, should carry the Bank through comfortably with no necessity to impair its own capital.

But let us assume the worst sort of conditions—a deepening, protracted world-wide slump. The Special Reserve and other dollar cash funds of the Bank should be great enough to meet the interest and amortization on dollar obligations for a number of years. If the depression or other world-wide economic disturbance is further protracted, the Bank may call on its subscribers for the 80% of capital not originally paid in, and it may require payment in the currencies needed to meet its obligations. The United States share alone is an additional $2.5 billion. Thus, it may be demonstrated that the Bank would hold total quick dollar assets and claims against the United States Government amounting to almost half the Bank's total obligations at a fully loaned up position. In addition it holds claims against other governments in the form of the loan portfolio, the 80% capital, and the miscellaneous foreign currency cash—all convertible in the terms of the Agreement into dollars or whatever other currency is needed by the Bank, to the extent of almost three times the remaining obligations.

Let me digress to point out that the Bank will not incur any risks of currency depreciation. Its loans out of the proceeds of the sale of debentures must be denominated in the same currencies as the debentures. Also its local currency capital must be maintained by the members at the equivalent in United States dollars of 1944.

Now the foreign members of the Bank include a number of nations whose debt records are outstanding. If we except the first World War obligations, Canada, the United Kingdom, the other British Dominions, Scandinavian countries, Western Europe, and a number of other members whose capital subscriptions with that of the United States make up more than 85% of the total have never failed to meet all contractual debt service. And the records of many of the others are quite good even though not perfect.

The factor of time further improves the analysis.

Since the service on the Bank's bonds will be spread over many years, annual requirements are not great. It is unlikely that capital calls of more than 2 to 3% would be required in any one year and it is certainly not likely that a call of more than 5% could ever be required in one year. The demands on members would thus never be a large fraction of their current balance of payments or their reserves of gold and dollars.

This whole analysis would of course be appreciably altered if the Bank were not in fact fully loaned up or if a portion of its operations were in currecies other than dollars. Moreover, with the operations of the International Monetary Fund and the prospective International Trade Organization, the position of the Bank would be correspondingly strengthened.

I believe that this analysis demonstrates that at all times there should be ample security to protect holders of the obligations of the International Bank.

V

I have devoted this discussion to a very detailed presentation of the financial picture of the International Bank and its obligations, since I have felt that you as members of the Investment Bankers Association would be particularly interested in such specific matters. I should like to conclude with a few observations about the relation of all this to the foreign economic policy of the United States.

I believe that you will all agree with me that the immediate and long-term interests of the United States require the speeding up of the world's economic recovery and economic development through a continuous and steady flow of foregin loans. Only by the reestablishment of high levels of production and trade the world over can the United States be assured in future years of a sustained level of exports and imports appropriate to the maintenance of high levels of domestic production and employment. By facilitating the sound economic development of other areas, the levels of world production and income can be increased. High levels of income at home and abroad are the surest foundations to the expansion of world trade which is necessary to us and to the rest of the world—the surest foundations upon which to build prosperity and peace.

The United States has utilized a number of vehicles for the emergency and transitional financing of relief, rehabilitation, and reconstruction. It is its present policy, fully ratified by the Congress, to place principal emphasis on the International Bank as the instrument for the promotion of private foreign investment and the supplemental financing at long-term of projects and programs of reconstruction and development.

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(Continued on page 3073)

Selling Savings Bonds for Good Public Relations

(Continued from page 3049)

of the debt, for that money hereafter must come out of taxes, which Congress levies. I am not in politics and I cannot predict what the new Congress will do, but I believe it must recognize that the only time to pay off a debt is when income is high, especially during a period of inflation.

Meanwhile, we have to manage the debt. The ideal way to meet maturities on short-term debt is to sell more savings bonds to individuals, trusts and estates, and particularly E Bonds to average income earners. That way the debt is spread among the people, more of the interest on it goes to individuals and directly into the pockets of consumers. The consumer has been the forgotten man lately, but the time is not far off when he'll be the indispensable man again and all of us will be worrying about how to keep him consuming. Blood transfusions for him proved pretty costly in the last depression. The Savings Bond program is trying to build up his strength now by persuading him to put some of his buying power into savings. That isn't charity—it's the reverse of it—self-help.

I have said that this program has the unified support of the commercial and savings bankers of the nation. If we could get investment bankers and all industrial and business management behind it as solidly, we'd sell those E Bonds fast enough.

It is a gratifying fact that the bigger the industry or business is, the better its management appreciates its stake in the bond program. Today 88% of the firms employing 1,000 persons or more are operating the Payroll Savings Plan, and 75% of those employing more than 100 persons are carrying it on in peacetime as they did in war. I wish we could say as much for the smaller firms.

The Federal Reserve Banks and branches have been holding luncheon and dinner meetings with industrial leaders in scores of cities and these, we know are getting results.

We are not selling enough bonds to the small business man, the professional man and woman, the self-employed, the retired and those living off income from investments. That is where you could help most effectively.

Now why should you bother to do this?

You have an opportunity to do an outstanding public relations job for yourselves through the unselfish selling of Savings Bonds to customers. I hope you will pardon me if I am brutally realistic. I am an investment man, myself—19 years in Wall Street.

Investment Banking Needs Good Public Relations

I have traveled 40,000 miles through almost every State in the Union this year, to address some 30 bankers' conventions. I have been looking and listening more than I have talked; meeting all kinds of Americans. I can tell you that there is no business or profession that needs a good public relations job as badly as the investment and brokerage business does. The recent behavior of the market hasn't helped any. John Citizen takes a flier in stocks and if he wins it's because he's a smart cookie. If he loses, it's "those fellows in Wall Street" who have robbed him. And he doesn't distinguish between sound investment counselors or bankers and bucket shop operators. A Gallup poll along this line would be heartbreaking to a decent investment banker. The uninformed citizen thinks of "that Wall Street crowd" as a group of international financiers who involve the world in wars for their own profit—a gang of smug and sleek financial racketeers who contribute nothing to the nation. The aftermath of 1929 is still with us. When, oh when, will "Wall Street" tell its story to the public?

The enemies of private enterprise and banking capitalism are working night and day to undermine our system. Yet our system has worked out pretty well compared to other systems. I am reminded of a story brought back from Russia by someone in Washington recently. You recall "The Grapes of Wrath," a best-seller about migratory workers in California some years back. The Russian government spread a cheap translation of that book widely among the people, to show them how the American capitalistic system produced poverty. They got an unexpected reaction, a boomerang. You'll recall that the Joad family in that story migrated from the dust bowl to California in an antique wreck of an automobile. The Russian workers and peasants said to each other: "This America must be truly a great place; even the poorest peasant family has a motor car."

We have had our Joads, our millions on relief and we may have them again, but private enterprise, with all its shortcomings, has produced here the highest standard of living for the average man of any country on earth.

There is a powerful case for private enterprise and it ought to be presented. After another major depression it may be too late. Investment men are shining targets for the slings and arrows that are hurled at capitalism. By your deeds, more than by words, you can prove your value to society.

This Savings Bonds program offers you an opportunity for unselfish service that will truly be bread cast upon the waters. You might spend millions of dollars in advertising the homely virtues of the investment banker and broker and convince nobody but yourselves. But if every member of this profession started helping people to accumulate savings, as a public service, you'd make friends, well-wishers, yes, and potential customers of scores, hundreds, thousands of people. The commercial banks are doing it by selling savings bonds to their customers.

Dangers of Bank-Held Public Debt

This is an opportunity; it is also a responsibility. I hope you read the recent report of the Committee for Economic Development. It concluded: "If there are simple, pleasant and certain ways to avoid serious inflation we have not found them. . . . But if we wish to live in a dynamic, free society, we must accept the responsibilities of free citizens. This is one of the great post-war tests of the ability of a free society to keep its house

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in order; we cannot afford failure." That was a council of business men talking.

The magnitude of our public debt makes it imperative that every possible American have a stake in its proper management through owning part of it. The debt will be a burden in hard times. Demagogues will propose scaling it down or repudiating it. We'll have a conservative Congress for a while, but no assurance that the conservatives can stay in power if we repeat the history of 1929 and the early 30's. If we should go into a depression with a quarter of a trillion dollars public debt concentrated in the hands of the banks, the wealthy and the well-to-do—watch out!

Now what can you do to help spread the debt?

Investment bankers, brokers and security dealers have a million customers who could easily buy $1,000 or more in Series E Bonds each year and another estimated 5,000,000 who could buy at least a $100 E Bond each year—all of this without seriously affecting your daily business. This would give us a total of 1½ billion additional E Bond sales in a year and many million more E Bond holders in a few years.

Every solvent American should own E Bonds. The man with a large current income should also buy Series F Bonds and the person 50 years of age or older should have part of his funds in Series G Bonds. I want to call your attention to a powerful selling point: "Bonds of Series G may be redeemed at par, in whole or in part, (1) upon the death of the owner, or a co-owner, if a natural person, or (2) as to bonds held by a trustee or other fiduciary, upon the death of any person which results in the termination of the trust."

This provides ready cash to meet expenses created at death. Not many people know about it, not enough at any rate.

I have heard investment men say: "We should be paid for selling Savings Bonds." They have not thought the matter through. Of the 6 million volunteer workers in War Finance only a few thousand were investment men. Among the million we have today only a few hundred from your investment profession are active. To pay one group would mean we would have to pay all, adding to the cost of carrying the debt which is now $5 billions a year. I doubt if the Government will ever pay for the direct sale of Savings Bonds to individuals.

An IBA Savings Bond Committee

We solicit your cooperation and to assist you, I have suggested to Charles S. Garland, President, Investment Bankers Association of America, the creation of a national "IBA Savings Bonds Committee" and the appointment in each State of a chairman who will see that the Committee's program is carried out.

May I suggest to you a national slogan "Every Customer a Holder of U. S. Savings Bonds."

I suggest that the partners of firms take the personal responsibility of seeing that the sales force is not only informed but actually working on this program. I also suggest that in all market letters and ads you run a drop-in line, such as "Buy and Hold U. S. Savings Bonds," or "We Sell U. S. Savings Bonds as a Public Service."

Above all, I ask you to cooperate with your IBA Savings Bonds Committee when it is created.

This nation, so richly endowed with resources and with resourceful people, has won the leadership of the world. Never before has our own leadership been so important. If our system of free enterprise under free institutions is to survive in the world of tomorrow, we must take on the responsibilities of world leadership today—and that is a challenge to every man and woman in this room. It cannot be evaded without surrendering this country's leadership of the world nor without surrendering your leadership of this country. It is up to people like you to guide the ship wisely. You are on the bridge; yours is the responsibility. If you fail, the crew will take over and the good ship Free Enterprise will go on the rocks. It can only be saved by people who know how.

When apparently irresistible forces attacked us in 1941, Americans like you faced what looked like a hopeless job. You did it. We beat the unbeatable Axis. You can do as well in peace once you realize that it is your responsibility. I bring you this challenge and this opportunity to help keep this country solvent, sane and strong—fit to lead the world.

Thank you.

In Attendance at IBA Meeting

(Continued from page 3072)

Carpenter, Fred B.	John Nuveen & Co.	Chicago
Carson, James H.	Salomon Bros. & Hutzler	New York
*Carter, DeWitt	Nashville Securities Co.	Nashville
Carter, Hugh D.	Courts & Co.	Atlanta
Cartwright, Todd	Sweney, Cartwright & Co.	Columbus
*Casey, Douglas	A. C. Allyn & Co.	Chicago
*Cassell, Clair F.	C. F. Cassell & Co.	Charlottesville
Cattier, Jean	White, Weld & Co.	New York
*Chapman, Dwight W.	American Trust Company	San Francisco
Chapman, R. C.	Otis & Co.	Cleveland
Chappell, William B.	First Boston Corporation	New York
Chester, John F.	Associated Press	New York
Childress, Francis B.	Childress & Co.	Jacksonville
*Chisholm, Frank A.	Varnedoe, Chisholm & Co.	Savannah
*Clapp, John J., Jr.	R. W. Pressprich & Co.	New York
Clark, George E.	Adamex Securities Corp.	New York
Clark, Robert E.	Calvin Bullock	New York
*Clark, Robert W., Jr.	Investment Bankers Assn.	Washington
Clark Sydney P.	E. W. Clark & Co.	Philadelphia
*Clarke, Hagood	Johnson, Lane, Space & Co.	Atlanta
Clarke, John W.	John W. Clarke, Inc.	Chicago
Clarke, Richard W.	Richard W. Clarke Corp.	New York
Coggeshall, George K.	Schoellkopf, Hutton & Pomeroy	New York

*Denotes Mr. and Mrs.

(Continued on page 3074)

VIRGINIA—WEST VIRGINIA
NORTH and SOUTH CAROLINA
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In Attendance at IBA Meeting

(Continued from page 3073)

*Collado, Emilio G.	Executive Director World Bank	Washington
Collier, W. T. K.	Collier, Norris & Quinlan	Montreal
Collins, Julien H.	Julien Collins & Co.	Chicago
Colyer, Charles M.	Central National Bank	Cleveland
Connely, Emmet F.	First of Michigan Corp.	Detroit
Conway, James P.	Natl. Assn. Securities Dealers	Washington
Cook, Harold H.	Spencer Trask & Co.	New York
Cook, Robert H.	B. J. Van Ingen & Co.	Miami
Cooper, Walter W.	Lazard Freres & Co.	New York
Corbett, John	International Bank	Washington
*Corns, O. G.	H. M. Byllesby & Co.	Chicago

*Denotes Mr. and Mrs.

(Continued on page 3075)

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MEMPHIS 1, TENNESSEE

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Foresees Heavy Industrial Financing

(Continued from page 3050)

amount of new capital raised during the first nine months of this, the first full postwar year, together with figures showing the amount of refunding during this period:

"Character of Grouping of New Corporate Issues in the United States for the nine months ended Sept. 30, 1946.

	New Capital	% Ttotal	Refunding (000 omitted)	% Total	Total	% Total
Railroads—						
Bonds and Notes	$50,833		$573,095		$623,928	
Stocks	------		------		------	
	$50,833	2.5	$573,095	20.7	$623,928	13.0
Utilities—						
Bonds and Notes	$194,212	7.7	$903,792	32.6	$1,098,004	23.0
Stocks	85,015	6.3	291,674	10.5	376,689	7.9
	$279,227	14.0	$1,195,466	43.1	$1,474,693	30.9
Industrials—						
Bonds and Notes	$585,224	29.4	$758,890	27.4	$1,344,114	28.2
Stocks	1,062,290	53.3	230,670	8.4	1,292,960	27.3
	$1,647,514	82.7	$989,560	35.8	$2,637,074	55.5
Investment Trust Holdings, etc.—						
Bonds and Notes	$6,900	0.3	$9,232	0.3	$16,132	0.3
Stocks	9,856	0.5	2,270	0.1	12,126	0.3
	$16,756	0.8	$11,502	0.4	$28,258	0.6
Total corp. securities	$1,994,330	100	$2,769,623	100	$4,763,953	100
% of total	41.8%		58.2%		100%	

To illustrate the enormity of the above figures in comparison with similar requirements in the past decade, we append the following statement from a recent Federal Reserve Bulletin showing domestic corporate issues from 1936 through 1945:

DOMESTIC CORPORATE ISSUES

Year	Total (000 omitted)	For New Capital (000 omitted)	For Refunding (000 omitted)	New Capital via Stocks % Total new cap.	Amount (000 omitted)	New Capital % of Total
1936	$4,579,000	$1,192,000	$3,387,000	30	352,000	26%
1937	2,434,000	1,225,000	1,209,000	33	408.000	50%
1938	2,140,000	873,000	1,267,000	8	67,000	41%
1939	2,116,000	383,000	1,733,000	26	97,000	18%
1940	2,762,000	736,000	2,026,000	18	135,000	27%
1941	2,619,000	1,062,000	1,557,000	16	173,000	41%
1942	1,042,000	624,000	419,000	19	118,000	60%
1943	1,059,000	374,000	685,000	25	92,000	35%
1944	3,112,000	646,000	2,466,000	35	224,000	21%
1945	5,746,000	1,255,000	4,491,000	52	654,000	22%

State and Municipal Bonds
United States Government Securities
Bonds of Federal Agencies

Bell Teletype—SL 186 Long Distance—160
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Chicago Stock Exchange *St. Louis Stock Exchange*

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Bell Teletype—SL 152 L. D. St. Louis 340, 341 & 342

Correspondent and Private Wire System
Clark, Dodge & Co., 61 Wall St., New York 5, N. Y.

Your Committee has endeavored not to crowd this report with statistics, but it believes that the figures cited furnish such a clear statement of the type and purpose of new corporate issues during the first nine months of the current year, both by major groupings of industries and delineated as between equity securities and indebtedness, that its failure to include such a statement might well be dereliction on its part. The Committee feels that the statement speaks for itself. Nonetheless, it desires to point out one extremely significant feature, namely, that of the total amount of new funds provided through all corporate issues during this period, $1,647,514,000 or 82.7%, was purveyed to industrial companies; and this in the commendably conservative proportion of $1,062,290,000 in equity securities and $585,224,000 through the medium of indebtedness.

The mere citing of the foregoing figures might of itself be sufficiently enlightening to the auditors of this report, but your Committee considers that, in view of the importance of the entire question of postwar financing, some elucidation on its part might well be warranted. As was indicated earlier in this report and as is patent to any thinking person, this and even far vaster sums of new capital must be furnished to satisfy the present voracious monetary appetites of so many corporations, especially those in the industrial field, stimulated by their transition to peacetime economy. The statements of the purpose of so many of our recent industrial security issues have been so relatively similar in their tenor that the following excerpt from the prospectus describing last week's issue of $100,000,000 of General Motors Corporation preferred stock aptly epitomizes industry's need for new, postwar capital:

"The net proceeds (of this issue) will be added to the Corporation's general funds and will be used from time to time for corporate purposes as the management determines. To meet anticipated postwar demands for its products, the Corporation has under way a program for modernization and expansion of its existing facilities, construction of new units and additions to working capital. The present program is under constant revision to conform to changing conditions, but as presently estimated may approximate $590,000,000 for plant facilities and equipment in the U. S. of which $290,000,000 was expended through September 1946. If additional funds are required for this or other purposes, the Corporation may provide them out of cash resources, from the sale of additional securities or from borrowings."

Just one more excerpt to confirm this point—if any confirmation be necessary. This one from the registration statement filed with the SEC for a contemplated issue of $50,000,000 of Westinghouse Electric Corporation preferred stock:

"The stock to which this prospectus relates is a part of a financing plan to provide for the Corporation's plant expansion and rearrangement program and for increased working capital requirements to meet the peacetime production loads which the Corporation anticipates. The accumulated demand for many of the Corporation's products resulting from the general interruption of commercial production during the war, the natural growth of the Corporation's business due to the increased use of electric energy throughout the country and in many foreign markets, and the addition to the prewar volume of production which is anticipated from the development of new

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products and the addition of new items to established lines, all foreshadow a much higher level of sales in the future than at any time in the Corporation's history, except during the war.

"Accordingly, at the end of the war, the Corporation, in common with many other companies, was faced not only with the reconversion of its plants from war production to peacetime operation but also with a program of expansion and rearrangement of its manufacturing facilities to handle the indicated increase in production and to maintain its competitive position. Such program was begun in 1945, and involves the construction and acquisition of additions to plants, the purchase of additional equipment, and the integration and rearrangement of the expanded facilities for efficient operations, at a total estimated expenditure of approximately $132,000,000, of which approximately $95,000,000 represents the cost of new facilities and equipment, and the balance represents the cost of rearrangements and related expense."

As a final indication of the vast amount of capital required for expenditures such as those envisaged above, we might point out that, according to the SEC, capital expenditures on new plant and equipment by all segments of business, excluding agriculture, totaled $5,000,000,000 in the first half of 1946 with an estimated total of $11,700,000,000 for the full year, which compares with a recent peak of $8,200,000,000 in 1941 and a yearly range of from $4,500,000,000 to $6,700,000,000 in the period from 1939 through 1945, excluding 1941.

The purpose of these three excerpts, and especially citing them with the preciseness that we did, was to illustrate not merely the vast amount of capital required for this transition to peacetime economy, but also to give some indication of its complexity.

It is also worthy of mention that the slowing up of the completion of the finished products manufactured by so many of our corporations, due to the difficulty of promptly and steadily obtaining supplies and parts or due to labor unsettlement in other related fields, all too often necessitates the carrying of an inventory far larger than was customary in the prewar era. This increase in inventories on a unit basis, superimposed upon the higher price level of the individual components of that inventory, necessitates larger working capital. While this may not loom large in individual instances, except in the case of our major corporations, nonetheless in the aggregate this represents another sizable drain on our reservoir of new capital.

This reiteration of the need for new capital inevitably leads to a consideration of the sources of such new capital. Your Committee feels that it may be said with justifiable pride by the investment banking industry that it has functioned well during the war years and bids fair to play its role with equal efficiency during the present difficult conversion era. It is only prudent, however, to point out that there are very serious problems which must be faced with intelligence and courage if the free enterprise system, as contrasted with government ownership or at least the alter ego of such ownership through dominant financial control, is to survive.

Foremost among these problems appears to be the question of whence this vast amount of new capital will emanate when one realizes that the preponderant portion of the savings of the country are stored up either in government bonds or in life insurance companies or in savings banks. By the laws of most states, savings banks in no degree and life insurance companies to only a relatively minor degree, are permitted to invest in common stock; and in less restricted but likewise to no great extent, life insurance companies may purchase preferred shares. For industry to finance any too sizable part of its new capital requirements through borrowing would be to sacrifice prudence and could very well, as we know from experience, lead to serious financial embarrassment or even disaster in times of diminished business activity. A very substantial part of these capital requirements must therefore be met through equity financing. Even though your Committee does not so far transgress the bounds of modesty as to feel that it can in this report furnish the solution to this vexing problem of determining the proper and available sources for such new equity capital, nonetheless it deems it timely and proper to present it for the consideration of industry, banking and the entire country.

Despite this self imposed caveat, and despite our not meaning to make any incursion into the realm of your Legislative or Taxation Committees, if incursion it be, your committee is not so pusillanimous as not to outline in very general terms such revision of the tax and investment laws as it conceives may furnish possible panaceas for the situation alluded to above. We do so only because of our appreciation of their significant bearing on capital available for investment.

With regard to the tax laws as they affect the ability of individuals—or in fact corporations or any other entities—to build up savings for the very necessary function of providing funds—be it in the form of equity or indebtedness—for the expansion of industry, we believe that removal of any tax on capital gains would prove economically sound and timely when viewed from all angles. If capital gains were not subject to tax, greater amounts of funds would remain in the hands of citizenry and would be available for capital requirements of industry. This would be highly advantageous to industry. Government, too, would be advantaged because instead of obtaining a mere one time tax on capital gain, it would receive an annual tax on the income derived from the investment of the entire capital gain instead of the lesser income, and consequent diminished

(Continued on page 3076)

In Attendance at IBA Meeting

(Continued from page 3074)

Coughlin, Edward B.	Coughlin & Co.	Denver
Courts, M. C.	Courts & Co.	Atlanta
Courts, R. W.	Courts & Co.	Atlanta
*Coxon, Thomas T.	Hallgarten & Co.	New York
Craft, Robert H.	Guaranty Trust Company	New York
*Crago, John H.	Smith, Moore & Co.	St. Louis
*Craigie, Walter W.	F. W. Craigie & Co.	Richmond
Cromwell, W. Rex	Dallas Rupe & Son	Dallas
Cross, Louis J.	Paul H. Davis & Co.	Chicago
Cross, Milton C.	Harriman Ripley & Co.	New York
Crouse, Charles B.	Crouse & Co.	Detroit
*Crowell, Warren H.	Crowell, Weeden & Co.	Los Angeles
*Crozer, Samuel A.	Stroud & Co.	Philadelphia
*Cruttenden, W. W.	Cruttenden & Co.	Chicago
Cunningham, S. K.	S. K. Cunningham & Co.	Pittsburgh
Currey, Brownlee O.	Equitable Securities Corp.	Nashville
Curry, A. G.	A. E. Ames & Co.	New York
Cutler, Harold B.	Security-First National Bank	Los Angeles
Dalenz, John McG.	Calvin Bullock	New York
Davids, Mark	Lester & Co.	Los Angeles
Davis, Arthur G.	Investment Bankers Assn.	Chicago
*Davis, DeWitt	Welsh, Davis & Co.	Chicago

*Denotes Mr. and Mrs.

(Continued on page 3076)

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In Attendance at IBA Meeting

(Continued from page 3075)

*Davis, George W.	Davis, Skaggs & Co.	San Francisco
*Davis, Ralph W.	Paul H. Davis & Co.	Chicago
Day, William L.	Drexel & Co.	Philadelphia
Decker, O. Paul	American National Bank	Chicago
DeGroff, Ralph L.	Mackubin, Legg & Co.	Baltimore
de La Chapelle, R.	Shields & Co.	New York
Delafield, Richard M.	First Boston Corporation	Chicago
de Neufville, Otto	Swiss American Corp.	New York
Delano, Preston	Comptroler of the Currency	Washington
Denison, John W.	Continental Illinois Bank	Chicago
*DeSwarte, Bruce H.	Continental Illinois Bank	Chicago
*Dewar, Hal H.	Dewar, Robertson & Pancoast	San Antonio
Dickson, Rush S.	R. S. Dickson & Co.	Charlotte
Dieckman, E. F.	Glore, Forgan & Co.	New York
*Dillman, David	Journal of Commerce	Chicago
*Dixon, Joseph W.	Graham, Parsons & Co.	New York
*Doerge, Carl H.	Wm. J. Mericka & Co.	Cleveland
*Donnally, J. P.	Peoples National Bank	Charlottesville
*Doolittle, Roy W.	Doolittle, Schoellkopf & Co.	Buffalo
Dorbritz, Ernest O.	Moore, Leonard & Lynch	Pittsburgh
Downey, Norman S.	Union Securities Corp.	New York
Doyle, Leo J.	Doyle, O'Connor & Co.	Chicago
Drobnis, George J.	69 W. Washington St.	Chicago
Drummond, Kenneth	Calvin Bullock	St. Louis
DuBois, Allen C.	Wertheim & Co.	New York
DuBosque, Clayton	F. Eberstadt & Co.	New York
Dulaff, David	Commercial & Financial Chronicle	New York

*Denotes Mr. and Mrs.

(Continued on 3077)

Industrial Securities Committee Foresees Heavy Financing

(Continued from page 3075)

tax, from the investment of the capital gain minus the tax on that gain. This is the system which has prevailed in England and is there generally conceded to be sound.

As to the laws governing the investments of life insurance companies, savings banks, trust funds and similar fiduciaries, we have indicated that the predominant part of the savings of this country which are not invested in government bonds find their way annually into the hands of insurance companies and savings banks. And this process is growing. We have likewise indicated that we think that the prudence with which capital is purveyed for expansion of industry for its postwar conversion and, in general, for its capital requirements is in almost direct proportion to the degree in which such funds are obtained through equity as against indebtedness, save in cases where the outlay can readily be repaid through depreciation charges, etc., in which case borrowing is entirely warranted. However, if the aforementioned large reservoirs of capital are restrained by law from investing any except a small portion of their assets in equity securities, then obviously new corporate capital requirements will have to be met largely through borrowing. This, we reiterate, is economically unsound; and we wish to emphasize that it is unsound for borrower and lender alike because of the resultant diminished equity junior to the very indebtedness which these lending institutions own. Therefore, we suggest a revision of the laws governing their investments to liberalize and widen somewhat the scope of their equity purchases.

Specially do we repeat and focus attention on the importance of building up in our country equity capital for financing the normal expansion of our industry and trade and for their conversion from wartime to peacetime economy.

The foregoing appear to your Committee to be some of the basic, broad, underlying economic problems confronting industry in general and the investment banking business in particular. There are various technical problems which likewise beset our industry. Some of them have been the subject of considerable discussion in prior reports of your Industrial Securities Committees. Particularly germane at the present time are the following matters considered in the report of our 1945 predecessor committee:

First: "The direct or 'private' sale of corporate securities to investment institutions, without registration under the Securities Act, continues to be an important factor in the field of corporate finance. Industrial corporations now account for nearly all of the issues which are sold through this route. (The competitive bidding rules for public utility and railroad issues preclude issues in these fields from being so privately placed.) . . . In the period of about 4½ years ended July 31, 1945, private placements . . . amounted to $2,597,000,000. . . . It is probable that the desire to avoid registration under the Securities Act has been an impelling reason in the decision of many issuers to sell their securities privately. The pressure of the large volume of funds in the hands of insurance companies and other institutions constantly seeking outlets is also an important factor in the situation. And, it seems probable that an increasing volume of the better grade industrial securities will be sold through private placement in the future. We may expect that the investment banking business will always be at a distinct disadvantage in competing with direct buyers unless the Securities Act is changed to equalize the competitive position in so far as it is determined by the requirements of registration."

That this observation is just as applicable today as it was when made in the above-noted report, is attested by the fact that the figure for private placement indicated above was at the rate of about $48,000,000 per month. A recent article in the "Investment Dealers' Digest" indicated that "Private deals were substantially unchanged at $61,287,000 per month in the first six months of 1946 against $67,308,000 for 1945." The article did not indicate how much of this private placement was for industrial securities but for the reasons indicated previously it is reasonable to assume that practically all were of that nature. Your Committee reiterates and endorses the views of the 1945 Committee on this subject, as expressed in the instant quotation, and adds its own opinion that weighing all considerations involved—both from the standpoint of the issuer and all potential buyers, large and small—private placement is economically unsound.

Second: Another technical problem for which your Committee has no present solution but which it nonetheless again calls to your attention is the question of maintenance of a fixed offering price by agreement between underwriters and dealers during periods when an issue is undergoing initial distribution and which, so far as we can visualize, is an essential part of the machinery by which new capital is obtained by corporations through the public sale of their securities. This observation is a paraphrase of a similar observation contained in the 1945 committee report, which likewise points out that "the Securities and Exchange Commission has recognized this situation in its release in the so-called P. S. I. case and has expressed the view that the agreements under discussion in that case were not in violation of the Sherman Anti-Trust Act." Whether or not this determines the matter of whether our industry will hear further on the subject is a matter on which your Committee prefers not to express any present opinion other than to suggest that if there is any aura of doubt on the question, it is of such overall importance that any vestige of uncertainty should be removed by legislation.

Third and last, there is the entire question of adequate distribution of new securities which, in considerable degree, is related to the proper dissemination of information under the Securities Act in advance of the actual effective date of a registration statement. Circulation of the so-called "red herring" prospectus goes to the very core of this problem, and your Committee is gratified to be able to report that the SEC is giving this far-reaching subject timely and intelligent consideration. With the cooperation of your association and other similarly interested parties, it is confidently expected and piously hoped that this important question of adequate and timely and practical circulation of information prior to the sale of new security issues, which, we reiterate, has such a significant bearing on their proper distribution, will be resolved to the satisfaction of all parties concerned, not the least of these being the issuing corporations and the investing public.

The overture to this report sounded a respectful note on the motif of prophecy as such was intertwined in prior reports. Your Committee is not unaware of the fact that in this report it, too, has not entirely eschewed that motif. It may even have improvised further on that theme. It did so with sober contemplation of the risk entailed and ventured into this limbo of uncertainty only because it felt that the exigencies of the situation which it is charged with surveying required this departure from custom. And it did so, fortified, too, by the memorable lines of Cowper:

"Sweet is the harp of prophesy; too sweet
Not to be wrong'd by a mere mortal touch"

Industrial Securities Committee:
Benjamin J. Buttenwieser, Chairman; Henry M. Bateman, Fred M. Blankenship, Charles B. Crouse, Mark C. Elworthy, Clement A. Evans, Hubert W. Lofft, James W. Moss, Julius W. Reinholdt, Jr., Leroy A. Wilbur, Frank A. Willard.

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Markets in De-Rooseveltization

(Continued from first page)

flicted on the other side, and notwithstanding the significance of housecleaning in finance, trade union policies, and administrative personnel. But in terms of economic fundamentals, the election merely confirmed and accentuated what has been increasingly prevalent already. This country cannot be but one of free enterprise, more or less, just as war-ravaged Europe cannot be but more or less socialistic. It is an essential feature of democratic civilization: that its economic policies are determined by the welfare of the masses. The bleakness of impoverishment drives it into some form of totalitarianism, as the prospect of rising standards calls for economic freedom.

Money-tinkering and wealth-redistribution (or things of that sort) were a politically unescapable sequel to the great depression, as Full Employment, Cradle-to-the-Grave security, and Nationalization philosophies are the reaction of the British masses to compulsory austerity, and as the communist vote registers the French workers' dissatisfaction with wages lagging behind price inflation. That North America is a different world, the Democrats had to learn the hard way. Having been too slow in changing their depression-time ideological horses, they were washed out by the flood of prosperity-expectations.

Better understandable than theirs is the reaction from the other side of the Atlantic, due to the painful worries and socialistic confusions which distort the British and Continental minds. In Europe, the U. S. was regarded anyway as the bastion of unfettered capitalism, and the great importance of the confidence-vote it earned in our elections is easily overlooked. Over there, Nov. 5 merely underscored what was assumed, and its main effect consists in arousing fear about financial, commercial and diplomatic "isolationism," which would strengthen the Russian grip.

Foreign Policies

To be sure, the Republicans do not plan to return to *laissez faire*, to abolish Social Security and collective bargaining, still less to cancel the anti-monopoly legislation, or to abandon the support to farm parity prices and to silver. Nor is there a chance of breaking the continuity of our "bipartisan" foreign policy which has not been a campaign issue at all. In reality, the foreign-born minorities, especially the Poles, deserted the New Deal partly because of Washington's inept handling of Russian "imperialism." No doubt, they will be remunerated for their votes by Congressional declarations in favor of the under-dog in Central Europe, as were the Zionists, possibly also by special immigrant quotas and similar gestures. The trouble is that we are faced by burning issues which call for prompt action if a world-wide economic catastrophe is to be averted.

Of course, no basic change in foreign policy is in the offing, since the major international credit lines already have been granted, and the President's powers under the tariff reciprocity law have been extended until June, 1948. Besides, Republican enthusiasm for high tariffs is burning only in depressions. These are minor questions (though the squandering of American money abroad may be replaced by insistence on the commercial and capitalistic rights of U. S. citizens) compared to the real issue: how to put the world on a peace footing. Evidently we are not going to crusade for democracy, while on the other hand no Republican majority will dare to risk that another world war might be blamed on it if it renounces our commitments. A disgusted Congress may issue a peace proclamation, but that will be meaningless. After the previous war, our proclamation merely confirmed an already established peace, while this time none will be established without us.

But how can it be established, given the deadlock with Russia? So far as the A-bomb is concerned, the danger of losing it voluntarily probably is over. As to territorial questions, a colossal "horse deal" seems to be shaping up. The Russians appear ready to permit unification in Germany as well as in Austria, thus giving up their stranglehold, as indicated by their haste in ridding those countries of equipment and even of men. In view of the lack of German cooperation with, and Allied hostility against their rule, this is the best way for them to keep their finger in the otherwise depleted German pie, by drawing reparations out of current output, rather than to let us restore an anti-Russian Germany in the Western zone. Besides, they ask for a price: a free hand in Central Europe, including Poland and Hungary, and full control of Danubian trade, foreshadowed already by our concession of surrendering the Danube boats without reciprocal concession from their side.

"Bi-partisan" policy means to let the State Department proceed. But to swallow a new appeasement (virtually the program of Wallace!) may cause Congress quite a little indigestion. Anyhow, if an appeasement compromise is accepted, we will have to finance Central Europe's reconstruction. If none materializes, we will have to keep the Germans and Austrians alive. One way or the other, additional appropriations are to be expected—which brings us back to the internal scene.

Return to Free Markets

The prime objective of economic policy is: to secure Full Employment (whatever that means), but avoid the pitfalls of inflation. To the Rooseveltians, inflation was a minor concern, relying as they did on high wages and subsidies to oil the machine, and on regimentation and credit control to check its speed. To the Republicans, a high level of production and "reasonable" price levels should result from abolishing controls. That is the essential change in policy: from a capitalism bolstered by artificial shots-in-the-arm and hamstrung by governmental and trade union interferences, to one operating by and large in accordance with the rules of the competitive game.

Monetary Volume and Velocity

But what of inflation? In October, commercial loans of reporting member banks have risen by $600 millions; for all banks, the record expansion of business credit of a single month must approximate $800 millions. In the same month, money in circulation spurted by $140 millions, consumer loans by a record $300 millions, 4% of the total. These are certainly not signs of an impending depression. Seasonal? If so, it's an unusually booming season, indeed. But they could not be a seasonal matter altogether. The best measure of the "active" monetary volume is the sum of currency in circulation outside the banks, plus "adjusted" demand deposits—total demand deposits minus items in process of collection, governmental and inter-bank balances. This figure of actual purchasing power reached a year ago the then all-time high of $106.3 billions (against less than $26.2 billions in June, 1929) and declined in the following five months by 5%, to $101.2 billions. Since March, it is rising again. By the end of September, it reached a new record: $107.7 billions, and rises since. Nor is this rise due to the decline in the volume of other forms of money. As a matter of fact, the billions of "latent money" grow month after month: savings deposits amounted to $47.9 billions in November, 1945 ($28.6 billions in 1929), $49.7 bililons in February, 1946, and $53.1 billions in September, 1946. The net sale of E, F and G bonds proceeds now at the monthly rate of about $100 millions. Money creation, actual and potential, continues relentlessly.

Rising monetary volume alone need not affect prices immediately if the average dollar's turn-over would slow down proportionately.

(Continued on page 3078)

In Attendance at IBA Meeting

(Continued from page 3076)

Dunn, Charles R.	Federal Land Banks	New York
Dunn, Stewart A.	C. J. Devine & Co.	New York
*Dunstan, E. F.	Bankers Trust Company	New York
Duryea, Wright	Glore, Forgan & Co.	New York
Duskin, Joseph H.	Thomson & McKinnon	Palm Beach
Duval, Gordon B.	Guaranty Trust Co.	New York
Eaton, Chasles F., Jr.	Eaton & Howard	Boston
*Edwards, J. H.	R. J. Edwards, Inc.	Oklahoma City
Eggleston, Aubrey J.	Investment Corporation	Norfolk
Egly, Henry H.	Dillon, Read & Co.	New York
Egly, Mrs. Henry H.	with Henry H. Egly	New York
Egly, Patricia	with Henry H. Egly	New York
Elcook, S. L.	2515 Ponce de Leon Blvd.	Coral Gables
*Elkins, Geo. W., Jr.	Elkins, Morris & Co.	Philadelphia
Ellis, R. Winfield	Lee Higginson Corp.	Chicago
Ellsworth, Sherman	Wm. P. Harper & Son & Co.	Seattle
Elworthy, Mark C.	Elworthy & Co.	San Francisco
Emerson, Sumner B.	Morgan Stanley & Co.	New York
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(Continued from page 3077)

Erickson, E. R.	Chicago Journal of Commerce	New York
Estes, John B.	New York Sun	New York
*Evans, Clement A.	Clement A. Evans & Co.	Atlanta
Evans, Harold C.	Commerce Trust Co.	Kansas City
Evans, Henry C.	Stein Bros. & Boyce	Baltimore
Ewing, Allen C.	Allen C. Ewing & Co.	Wilmington
*Fahey, Leslie J.	Fahey, Clark & Co.	Cleveland
Farrell, F. D.	City National Bank & Trust Co.	Kansas City
*Fauset, Joseph H.	Fauset, Steele & Co.	Pittsburgh
Feil, Helen R.	The Woman Banker	Brooklyn
*Feldmann, Herman A.	Geyer & Co.	New York
*Fennelly, John F.	Glore, Forgan & Co.	Chicago
Fieder, W. A.	H. M. Byllesby & Co.	New York
Finger, Clarence L.	Milwaukee Company	St. Paul
*Finney, Howard, Jr.	Bear, Stearns & Co.	New York
Fisher, Charles N.	Singer, Deane & Scribner	Pittsburgh

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(Continued on page 3079)

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Markets in De-Rooseveltization

(Continued from page 3077)

The annual velocity of net demand deposits (outside New York) slipped from 22.4 in 1937 to 19.4 in '39 and 16.1 in '45. Now, it has started to recover gradually: 17.1 in September, against 14.9 in the same month last year. Inaccurate as this measurement is, it leaves no doubt as to the trend. And there are other indications. This year, the prospective billion dollar increase in circulating currency is not likely to stem from mere hoarding desires. E, F and G bond sales are another object lesson. In the first 10 months of this year, gross sales of $6.40 billions were diluted by $5.51 billions of redemptions. More than 10% of the outstanding savings bonds have been redeemed and the proceeds presumably spent before they reappeared again as bonds. In other words, savings have a turn-over "velocity" of their own which rises, too.

The Inflationary "Cycle"

Both the quantity of money and its velocity are on the increase—the typical boom signal—the more so, since credit restraints are eased. Already, compared to prewar levels, the number of available dollars has more than trebled, while the average dollar turns around at a rate only moderately lower than it used to. That is why national output and paid-out national income more than doubled, average weekly earnings and wholesale prices having risen by 100% or so. Given the vast accumulation of pent-up demand and of unprecedented cash reserves, and above all: the unchecked ability of the credit system to monetize the debt—incomes and prices could and should keep rising. Monetary inflation raises incomes and the spending of consumers, in turn stimulating new investments and raising the demand for labor that is practically in full employment, thus necessitating higher wages. On top of it, the world markets labor under the pains of inflated demands bolstered by gold reserves, dollar balances, U. S. credit lines, and extra-American barter trading, pressing against depleted supplies and inhibited production. As the production and consumption center, we are leading the procession on the inflation road at the end of which stands "Boom and Bust," wishfully prognosticated by the Marxians and their fellow-travellers. At stake is more than the success of the Republicans. Capitalism itself may be at stake.

Confusion, Not Recession

But this ultimate outlook is overshadowed presently by the immediate issue, represented by a somewhat reduced buoyancy in hotel and department store business, downward price corrections in steaks, beverages and costume jewelry, "sluggish" demand for seats on airplanes and in operas, consumer resistance against overpriced hats, poor quality cloth and war-time substitutes, etc. These are supposedly the symptoms which spell "recession," allegedly around the corner.

What they spell is confusion rather than recession. Decontrol is one reason; it throws into the open a wide variety of articles, the prices of which were kept in the OPA hothouse. They have to feel their way and find the real supply-demand positions before they can take their proper seats on the inflationary bandwagon. But in the meantime, violent fluctuations occur, with consumers and producers baffled and hesitant in making commitments, creating confusion.

Very confusing, too, are the stresses and strains in the price structure due to the disproportionate rise of individual prices. For no good reason, cotton rose from 8¢ per pound in 1939 to 39½¢ this fall. If it falls back to last January's 26¢ or so, it still will not have corrected the discrepancy to the general trend. In other words, when all prices rise, some "stick out their necks"; they get shortened accordingly. Speculative orgies call for correction even in a rapid inflation, much more so in a slow one. Similarly, the elimination of OPA and CPA fetters induces more spending in one direction, which necessitates less spending in another. The artificial distortions of the price structure must be corrected, implying gains here and losses there, but ending up with higher prices all around.

Furthermore, a redistribution of the consumers' dollar is the necessary consequence of the increasing output in capital goods. As more automobiles, houses, furniture, etc., appear on the market and absorb the ultimate buyer's attention, he has to divert some of his purchasing power from soft and semi-hard goods, the markets of which "recede" accordingly. That department stores go nervous, is understandable. (But that "economists" do so, is most regrettable. Of course, it is embarrassing to find oneself in a cycle for which the textbooks have no name or precedent. The unpleasant compulsion to use one's own head may explain some of the mental "depression.") Incidentally, until September, department store sales were running month for month 25% above 1945; now, they may be running "only" 20% higher. The spoiled children of this inflation yell "depression" each time they do not reap at least 25% above the previous all-time peak.

Labor Bottlenecks

Bottlenecks are, however, the number one source of confusion. Industrial capitalism abroad, or what is left of it, suffers from all kinds of shortages. (The Prime Minister just warned Britain of a "manpower shortage for years to come.") But foreign shortages merely add to our own troubles. Labor supply is our main source of confusion, direct, indirect, and roundabout. Directly, 58.1 millions employed means that any major additional demand for labor must draw it from other employment—at higher wages; and draw it will, or production cannot expand. Indirectly, labor's extraordinary bargaining position permits it not only to get away with longer vacations, shorter hours, and lesser efforts at work, but also to indulge in production-breaking strikes, which are the more disturbing to the stock market since their "incidence" on profits cannot be foreseen.

No one can tell which plant or industry will be hit next, and to what extent. The same holds for the roundabout effects of the labor bottleneck. They create a wide range of shifting material and parts shortages which delay the assembly lines, hold up deliveries, and postpone the "filling of the pipeline." Nay, new empty ones appear before the old are filled. Involuntary inventories accumulate due to shortage of accessories, postponing the marketing of otherwise finished and sorely needed products. To build a home (often short of essential appliances) now takes from five to six months, instead of three to four, holding down manpower that is in demand elsewhere. Every old car that has to be discarded because of lack of parts not only demonstrates that secondary shortage, but also depletes the supply of second-hand automobiles. Take the vital instance of locomotives and freight cars, the much too moderate production of which has declined lately. When more than 40% of equipment is "over-aged," while all of it is exposed to continuous wear and tear, and while car-loading figures reach for new highs—a derivative bottleneck (freight tie-up) develops on the shoulders of the primary (labor and material shortage). More delays and higher costs of transportation in turn hold up production and raise prices. Lower productivity results also from an unusually high rate of labor turnover, another sequel to labor shortage. Bottleneck in the most essential resource creates derivative bottlenecks all around, with the consequence that the entire system operates under the law of diminishing returns: rising costs per unit of output, which is not remedied even by some decline of demand. (Hotels, e.g., ask for a 15% raise of transient rents

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because a decline of occupancy from 104 to 92% enhances their costs.)

The theory that volume production *per se* will overcome the bottlenecks ignores the essential dilemma of inflation. It produces a high level of demand for virtually everything. But all output cannot be geared to simultaneous full production; there is not enough labor to go around. While one bottleneck is widened, another narrows. Unless the fundamental bottleneck is broken, the economic "traffic jam" will continue, and so will the cost-price inflation. That is the old problem the new Congress should solve—or try to.

Rational labor policies could accomplish a great deal, but not the solution. By restoring the constitutional rights of the employer and of the "non-conformist" employee, reducing the incentives for voluntary unemployment, effectively punishing contract-breaches, eliminating the NLRB's catering to restrictive union practices, etc., man-days lost in strikes might be cut to one-half of this year's 120 millions, perhaps even to the 1937 high of 25 millions (against 2 to 6 millions normally). The lifting of price regimentation may be in itself a sedative to the labor market; it helps to avoid wage struggles at the expense of the consumer. But let us not forget that strikes work both ways: to some extent they "control" or postpone the vicious cost-price cycle. This year, the loss of labor income kept down consumer spending. (Even so, it is running at an annual peak-rate of 120 billions.) They also dampen the speculative spirits, expressed in the decline of stock quotations and the "stagnation" of inflated real estate values.

Less strife on the labor front is all that might be accomplished (without actual deflation). Even at steady wage rates it would result in higher incomes and more spending, virtually offsetting the additional production. But why should wages stop rising? If the law of supply and demand is permitted to operate freely, and that is what the Republican victory stands for, more production means more demand for labor, higher wages, and more consumer spending. Increased net earnings of large corporations in the first three quarters, 12% above 1945 (another "recession" symptom?), must stimulate investments and further increase the demand for labor. As it is, business expenditures for new plant and equipment are estimated at $11.7 billions this year against $8.3 billions at the wartime peak of 1941, and that has not exhausted as yet more than a fraction of the pent-up demand for productive capital goods. In short, given the inflated volume of purchasing power and the access to more money by debt-monetization: "sound" labor conditions, desirable as they are, are likely to break down the last impediments holding up the boom and the concomitant progress of inflation.

The crux of Republican policy then is, must be, to *control inflation at the source*, the only effective control. Balancing the budget, to begin with, is a fairly simple matter, even with some tax reduction thrown into the bargain. But what is needed is an annual surplus of, say, $10 billions to offset the current credit expansion (provided it is used to redeem bonds held by banks, not by the public). The Republicans are significantly vague about that, as about the problem of federal expenditures in their entirety. In spite of substantial economies, no budgetary surplus of such size is likely to appear before '48 or '49, if at all.

Debt redemption would have to be supplemented by methods to *stop the debt-monetization*. But to be effective, any policy in that direction has to be drastic and ready to face a real depression, be it only a short one. Nothing of the kind is under serious consideration, and the objective of budget-balancing at reduced taxes seems to exclude even such partial measures as issuing non-eligible long-terms at appreciably increased yields, or with tax-exemption features.

That leaves the markets to seek their own levels in accordance with supply and demand—operating under conditions of advanced disequilibrium. Supply is hampered by basic and derivative bottlenecks which raise costs; demand is driven by an excessive purchasing power that is able to pay rising prices. Both are in constant structural shifts due to uneven rates in the process of cost and price inflation, and due to constant changes in the allocation of productive resources and in the distribution of consumptive incomes. The disequilibrium is bound to deepen by its own momentum, though the inflation may be interrupted time and again by reactions to correct excessive swings. "Over-production" in one sector, with lowering effect on its prices, merely drives labor and materials out of that sector until production-lags and rising prices set in, attracting back labor and material and starting all over. Temporary set-backs in consumer spending merely serve to re-establish the balance between the rise of incomes and the rise of prices. Ultimately, deflationary fiscal or monetary measures will become unavoidable to call a halt.

In Attendance at IBA Meeting

(Continued from page 3078)

Fisher, Robert W.	Blyth & Co.	New York
*Fisher, W. Lloyd	Baker, Watts & Co.	Baltimore
Fleek, John S.	Hayden, Miller & Co.	Cleveland
*Flint, John G.	Kidder, Peabody & Co.	Boston
Folger, John Clifford	Folger, Nolan, Inc.	Washington
Foote, Gordon R.	Francis I. duPont & Co.	New York
*Fordon, Ralph	Watkins & Fordon	Detroit
Forrest, John G.	New York Times	New York
Frederick, Paul O.	Commerce Union Bank	Nashville
French, Jo M.	Blyth & Co.	New York
Froman, Celeste	Investment Bankers Assn.	Chicago
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Fuller, William A.	William A. Fuller & Co.	Chicago
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(Continued on page 3081)

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Design for Our Federal Tax System

(Continued from page 3010)

something judges and lawyers generally don't permit witnesses to do.

The State of the Budget

We came through the war amazingly well. We produced more war materials and a bigger army than anyone, enemy or ally, thought we could. Look at the money we were able to spend. In the last year of World War I, the fiscal year 1919, the Federal Government spent $18.5 billions, a great peak for the time, for six years before in 1913, Federal expenditures were only $725 millions. In fiscal 1945, the Federal Government spent $100.4 billions; six years previously, in 1939, the total was $9.1 billions. In neither case did revenues keep up with expenditures. In 1919, Federal tax collections were $4.5 billions, in 1945, $41 billions.

World War II experience, like that of World War I, supports two major propositions. If production is high and the national income large, we can support a huge Federal budget. The converse is likewise true, as shown by the experience of the 30s. If the economic machine is not functioning well, if production is not very good, then Federal receipts will not be very good either. The second proposition is one aspect of the first. The income tax with its wartime companion, the excess profits tax, is our most flexible, as well as our most powerful, engine for revenue production. Without the income tax, it is hard to see how either World War could have been paid for. The income tax is a great producer in times of high production. In times of low production and depression, the income tax produces very little, since the revenue from the tax varies with incomes. If the Federal Government is to pay its way in such times, or even to come reasonably close, it must have other taxes to rely upon.

Let me emphasize those two points again, for they are basic. A Federal budget of the dimensions we will have for the foreseeable future requires active business and a good level of production to support it. The Treasury, as well as the people, has a very real interest in good business. Hence, the tax laws and Federal legislation generally should be so framed in the public interest as to permit business to function actively and profitably. We must have active production and high level employment not only for the general welfare, but for the welfare of the Federal Treasury. Second, the income tax is the flexible element in Federal revenues. If expenditures can be reduced and controlled, the income tax rates can be reduced. Since the income tax will produce the bulk of the total Federal revenue, those elements in the income tax which tend to produce stability in recepits must be strengthened and conserved.

Federal Expenditures

The President's last revision of the budget for fiscal 1947, released on Aug. 3, 1946. displayed two salient changes from the original budget message in January. Expenditures were estimated at $5.9 billions *more* than in January and receipts were estimated at $8 billions *more*. The budget deficit as estimated in January was, therefore, slightly reduced.

Without more, this is not a bad budget showing, and it has been so represented to the people. Fortunately, the Administration at long last has begun to advocate a balanced budget. There can certainly be no quarrel with the proposition that the Federal budget should be balanced at this time, particularly in view of the fact that production and national income stand at new high levels. If we cannot balance the budget now, how can we ever expect to balance it? All of us should give the President and Congress full support on this particular effort.

The more important question to my mind, however, is one to which too little public attention has been given, namely, at what level should the budget be balanced? There are, of course, two sides to any budget, receipts and expenditures. The budget is balanced whenever the total receipts equal or exceed the total expenditures. If the Federal budget is out of balance by an excess of expenditures, as it has been since 1932, Congress can seek to bring it into balance by increasing receipts (the method which was followed half-heartedly up to World War II, and then vigorously) or by reducing expenditures.

During the current fiscal year, receipts will just about balance expenditures. The fiscal officers of the Government have advanced the proposition that that balance should be maintained by leaving both expenditures and receipts alone. More particularly, the President and the Secretary of the Treasury have been saying that tax receipts certainly should be reduced. The inference is plain, though it has not been so clearly stated by the principal Administration officials, that expenditures should not be reduced. For it is plain that if a determined drive were made to reduce Federal expenditures, as was done after World War I, taxes could be reduced at the same time and the budget would still be balanced.

Is there any special merit in a $40 billion Federal budget? Some men seem to think so, particularly men who would otherwise have the very unpleasant job of trying to persuade their colleagues in Washington to eliminate bureaus and personnel added during the war, to cut down expenditures budgeted for this or that politically desirable but unnecessary purpose. The common sense of the situation is, though, that expenditures acquire no additional merit through being made by the Government. Basically the question is: can the Government perform the particular function more wisely and efficiently and spend the money better than the individual taxpayer, who would otherwise have the money to spend himself? Certainly the Government can maintain an army and navy better than you or I can individually.

The next question is: how much does the Government need for the purpose? Certainly we want a good and effective army and navy. But it is obvious that we do not wish to maintain either an army or a navy of the size we had during the war. How much expenditures, then, are really necessary? How many young men can be employed to better advantage by the army under arms than by the laboratories and shops of the country? How many young men and women can be employed to better advantage by the OPA or by the Bureau of Animal Husbandry or by the Government Printing Office than by private factories and groceries and farms?

I do not know the answers to these questions, but I do strongly believe that citizens should ask them regularly of their governmental representatives, and that the representatives should think about them, obtain the available information about them, debate about them, and then answer them.

We cannot assume that a Federal budget which has grown to nearly seven times the average expenditures of the 30s, can safely be left untouched. Federal expenditures do not have to be that high. Some of the costs, like interest and veterans' hospitalization, are necessarily much higher than they were before World War II. Probably all expenditures will permanently remain much higher. But we can insist on greater economy and we certainly should do so.

A year ago, several different groups of well-informed men presented Federal budgets for a normal postwar year ranging around $20 billions. The dollar may not be worth now quite what it was then, but even so, a Federal budget of $20-$25 billions is generous and is perfectly possible, if we and our Congressmen are in earnest and insist on it. Such a budget is essential, not merely to permit tax relief that is urgently needed, but to bring Federal expenditures under control, so that in a period of less production, and lowered national income, we can still pay our way as we go.

The Tax System

The income tax is bound to be the mainstay of the Federal tax system. Probably around three-fourths of all Federal revenues will be raised by the income tax, individual and corporate. The other one-fourth will be raised by Federal excise and sales taxes, notably the liquor and the tobacco taxes.

Liquor and tobacco taxes have been used to support the Federal Government all through our fiscal history. These two taxes have the great merits of dependability in good times and bad, and of established and effective administration, and they produce a minimum of controversy and litigation. We have added a multitude of other sales and excise taxes during the war, and have increased their rates. Many of these taxes produce little revenue and are essentially nuisance taxes. We would do well to abolish a great number of them. As a matter of fact, the numerical majority of Federal excise taxes could be repealed without very serious loss of revenue, and the public relief would be great. Why a 10% tax on sales of sporting goods, to produce only $7,878,000? Why a 10% tax on sales of victrola records? Presumably because golf clubs and recordings of symphonies are regarded as luxuries of the rich. But what about the baseball bats used on the corner lot or the discs that the bobby-soxer dreams over? At any rate, the Federal Treasury could get all the needed excise tax revenue if it retained the taxes on liquor, tobacco, jewelry, toilet goods, furs, and luggage; the transportation and communications taxes, and the admissions tax. The gasoline and lubricating oil taxes, and the taxes on automobile tires, tubes and parts will need also to be retained for current years because of their productivity, but should, it seems, be relinquished to the States as promptly as possible. A program of this sort would enable the elimination of a dozen or more nuisance taxes, like those of firearms and shells, radios, and matches, without serious loss of revenue.

Let me state the same proposition affirmatively. Excise taxes are an essential element of the Federal revenue system. In past years, they have been used to produce a much greater proportion of Federal revenues than they produce today. They provide much needed stability in receipts. The Treasury should not have all its eggs in the income tax basket. It is fiscal wisdom, however, to concentrate the collection of excise taxes on a few productive sources, sales of commodities generally used, so that administration can be efficient, and the burden of such taxes can be spread widely and evenly. Hence, the Treasury should be authorized to collect about $5-$6 billions from excise and sales taxes, customs and the estate and gift taxes.

The corporation income tax at a 35% rate, a slight reduction from the present 38%, would produce about $7 billions. Recommendations have been made for the reduction or possibly complete elimination of the tax. In the long run, corporation taxes are certainly borne by and paid by individuals — stockholders, consumers, or laborers. It is probably

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wiser, therefore, to bring the rates down when we can, and to substitute more direct imposts on the individuals who must pay the bill. For the present, however, it certainly is not possible to reduce the corporation income tax rate much; and, in any event, the corporation is a convenient collection agency. Congress should give some recognition to the fact, however, that dividends paid to individuals, have already been taxed as income to the corporation. Some credit for dividends should be granted to individual stockholders, not an exemption from surtaxes, but a full or substantial credit for the taxes the corporation has already paid. That is the main change which needs to be made in the general corporate tax structure.

Finally we come to individual income taxes and rates. If our basic premise is to facilitate active production, our major concern must be that the income tax, essential as it is to government revenues, should not be collected in such a way and at such rates as to discourage individual initiative and activity. During the past 12 years, the income tax has been repeatedly tightened in its substantive provisions. The remaining inequities generally operate against the taxpayer, not against the Government.

The taxpayer is reasonably concerned about two facts: that tax rates are so high, and that, as a result, it is difficult to save any money to acquire a business of his own. He may wonder in that connection whether surtax rates should not be reduced materially, and whether earned income should not bear a less rate of tax than investment income. Let us examine briefly the possibilities of meeting each of these complaints.

High income tax rates are inevitable so long as total expenditures are high. A little detail on budget revenues makes that fact plain. Federal excises, customs, estate and gift taxes produced $7.8 billions in fiscal 1946. Corporation taxes produced $13 billions, including both the excess profits tax and the capital stock tax, now repealed. The individual income tax turned in $18.7 billions, to produce total Federal revenues (aside from social security taxes) of $39 billions. (In addition, there were miscellaneous receipts of $3-$4 billions.) Hence, it is evident that, if the Federal budget stands at $35-$40 billions, as the Administration recommends, no tax reductions can safely be made. It will take active business, full employment and high national income to make up for the loss of the revenue of the excess profits tax.

Suppose we can bring down the expenditures to $25 billions, a budget still far above levels in the 30s. I have suggested reductions and repeals of excises, which would leave that group and customs, estate and gift taxes producing $5-$6 billions. The corporate income tax should bring in about $7 billions. Thus we need about $13 billions (not the $18.7 billions of 1946) from the individual income tax. The surtaxes produce around $2-$3 billions. Statisticians have computed that, to bring in the necessary total, the initial or normal rate of income tax would have to be about 17% instead of 20% as at present. To bring the point home to you, the initial income tax rate, applicable to all persons with incomes in excess of the exemptions, will go up (at our present level of national income) about one percentage point for each $620 millions of Federal expenditures. Thus, if agricultural subsidies of $1,346 millions are to be retained, as in the 1947 budget, and if the budget is to be balanced, the initial or standard rate applicable to all individual income tax payers must be 2% higher than it would be if that expenditure (or another of like amount) were cut out.

Because of the full employment of our revenue sources, then, we have finally come to the point where we can see the direct effect of each class of expenditures upon ourselves individually. With national income at its present peak, each $620 millions of expenditures means 1% to you on your income tax. You can reasonably ask yourselves and your Congressmen whether you want this or that item in the budget that much.

If the budget stays at $35-$40 billions, there is very little hope of tax reduction. It ought not and need not be kept at that height. If we can bring it down to $20-$25 billions, and if we can maintain active production, individual income taxes can be materially reduced. We could give a moderate tax credit on account of earned income. We could bring down the surtaxes all along the line. They will still be high, but they would be more tolerable and they would not then dampen incentive so much. Both steps would materially aid savings, and thus re-establish the sources of venture capital, which in turn has enabled us to build and to improve the greatest plants in the world. It may be well to give more specific encouragement to savings, by permitting a deduction in the income tax, for example, for life insurance premiums, or in the estate tax for life insurance proceeds. We certainly need to get back to the philosophy that it is good policy to save, that it is smart to be thrifty. It is hard to establish habits of thrift or saving, when the tax system makes them almost impossible as a practical matter.

Billions are hard to understand, for you and I have never had any. For that reason, I have tried to translate the billions into terms you can readily fathom — percentage points on your income tax. The key to our whole fiscal situation is expenditures. If Congress can bring expenditures down to $20 or $25 billions, we can have substantial individual tax relief. If expenditures stay at anything like the present astronomical heights, we cannot, and we are certainly headed for trouble when the next financial storm blows. We have little fiscal leeway any more, for the debt is very large and essential expenditures are very great. We can manage successfully, however, if we use on governmental affairs the same good sense and prudence that we apply to private undertakings. We have great problems ahead. What remains is to step out and lick them.

In Attendance at IBA Meeting

(Continued from page 3079)

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Money Management and Credit Control

(Continued from page 3012)

nual meeting, only to be caught in December by your persuasive President.

Problem Not a "War Baby"

I embark on this discussion of money management and credit control with some hesitation. I am not unmindful of the fact that there was an election recently, and the voters seemed to express impatience with controls of various kinds which they had borne with varying degrees of resignation during the war. But money management or credit control is not a war baby; it is the product of many years of growth and development; at least since the establishment of the Federal Reserve System in 1914. It was made necessary by the key position which money and credit occupy in our democratic society and our capitalistic economy. And, by the same token, the powers of money management and credit control must be so limited and so administered as not to hamper that society; not to destroy that economy.

Our primary job is the overall credit administration of the country, and our objective must be to make credit policy serve the demands of sustained high production, high income, and high employment, while preserving public faith in our currency and our credit. We have long since learned, of course, that credit policy is not the sole determinant of economic health or sickness. The high hopes of a specific treatment of our economic ills, which concentrated on central bank operations in the '20s, and which tended to center around fiscal policies in the '30s, have been disappointed in the past, and, I believe, will be disappointed in the future. An integration of all of our various economic programs is necessary and then, if we are to avoid totalitarianism, or State capitalism, or State socialism, we have to relate these programs to the social habits and individual desires of millions of human beings without too detailed compulsions. It is an intricate, complicated, difficult task. It suggests that humility should be combined with hope if we, in the Federal Reserve System, are to play our part well.

I believe that over the past thirty years the Federal Reserve System has acquired the experience which should enable it to acquit itself decently. And I anchor that belief in the unique Federal character of our System. It has been said, in the past, that the only way to insure the proper participation of the Federal Reserve System in any reordering of our financial affairs, is to deprive the System of all taint of private participation. The government, so the argument runs, would be willing to place full reliance in the System's existing powers, or to grant it new powers, only if every vestige of private participation in its management were removed. I know that this is what is happening to central banks in other countries, and that it appears to be a growing political philosophy abroad. But so far as we are concerned it seems to me to be a misreading of the longer term future and a miscalculation of the policy which will best serve us now. Rather than seek powers by trying to make the Federal Reserve System just another government agency, we should be able to claim powers because we are a successful working example of government functioning in the economic field with the aid and support of private business. Our experience in government-business cooperation — government having the dominant voice as it should have in the field of monetary and credit policy—may be a signpost along the way to solution of one of the major economic problems of the postwar years: the relation between government and business in our whole economy.

What are these powers I am talking about which the Federal Reserve System tries to exercise? In laymen's language, and we are all pretty much laymen in this field, they are the powers of "money management." That is a term which is likely to arouse the sensibilities of all those who deny any interference with what they call "natural economic laws." And "natural economic law" in this case usually is thought of, if only vaguely, in terms of restoration of an automatic gold standard — nationally and internationally.

Gold Standard Has Disappeared

Nationally, I make the assumption that the gold standard, in terms of a currency freely convertible into gold, has disappeared and is not likely to return. This I do, not because I am fearful of what might happen if we resumed specie payment, but because I fail to see the advantage of such resumption. There is no lack of faith in our currency or our credit without domestic gold convertibility, and the restraints of such convertibility are not needed to insure wise administration of our monetary affairs. In fact, if reimposed, they would not guarantee such wisdom. This has been amply demonstrated in the past. Restoration of gold circulation within the country would seem to me to be a step backward in the historical evolution of "money".

Internationally, the gold standard still persists and performs a useful function, but it is not automatic. And in so far as it ever was automatic, it was at a particular time and in a particular set of economic circumstances. Except in its earliest and most rudimentary form it was a gold standard applicable to the time and circumstance of England's 19th century position in the world. It rapidly became more of a sterling standard than a gold standard, and it flourished with London as the acknowledged financial center of the world, with Great Britain as the great exporter of capital and the great importer of raw materials, and with the rest of the trading world largely revolving about the center. In essence it was an adjustment between one economy and the rest of the world.

Quite early, and more clearly as it became necessary to cope with simultaneous efforts of many nations to adjust their economies during cyclical depressions, elements of management crept into the gold standard even while it was still referred to as and considered to be automatic. Central banks became more and more aware of their powers and responsibilities. They said that they were working on the lender of last resort theory, but this in itself interfered with the automatic working of the gold standard. And they went beyond this conception because events forced them to do so. Perhaps the most striking example of this transformation was the recognition, during the interwar period of the present century, that movements of capital might be perverse — that instead of redressing international balances they might accentuate unbalance. This did not conform with gold standard theory — but the "hot money" of the years between the wars did not respond to theory; it responded to speculative urges and political fears.

World Concerned With International Money Management

Certainly since the end of the first World War we have had more and more management of money in the international sense, even though a return to the gold standard was one of the early goals of that period. The central banks of the world, under the leadership of the Bank of England and the Federal Reserve Bank of New York, were in the ascendant during the decade following that war, and they were the accepted instruments of money management internationally. They still had respect for the gold standard, but they thought it necessary and desirable to supplement its working. Sometimes they acted to alleviate seasonal strains, or temporary shortages of foreign exchange on the part of one or another of the countries of the world. Sometimes they acted to accelerate the effects of an inflow or an outflow of gold, which was relatively easy because of the multiplied effect of the fractional reserve system.

Obviously they failed to restore either the pre-1914 gold standard or international monetary stability. But we should not be too hasty in attributing that failure to men or to the semi-private character of the institutions they served. They were pioneers, and gallant and courageous pioneers, in the development of common international economic policy through consultation and cooperation. They were the legitimate forerunners of world organizations such as the International Monetary Fund; and that institution, which is now beginning to function, will do well to profit by their experience. Their failures were not so much failures of men and institutions—they were failures resulting from the tendency we have to place too much emphasis on financial arrangements, not enough on underlying economic conditions and the individual problems of particular countries. A world organization run solely and directly by national governments will not solve the problem any better than did the semi-public central banks, if the problem itself is misconceived.

That is why the successful outcome of the negotiations on trade and economic arrangements which have recently been the subject of preparatory meetings in London, and which will be continued during the coming year, is so important, so essential, to the success of the international financial organisms already created. International monetary instability, and currency devaluations, and exchange controls have been, most often, the reflection of basic disturbances in a country's international position, or of international cyclical movements of wide amplitude. Statesmen and economists could condemn currency devaluation or exchange controls, as they condemned war, but these phenomena still persisted. It doesn't do much good to tell a primary producing country, of small means, which has suffered two or three bad harvests, or which has had its exports drastically contracted because of depression in a major industrial country, that it must avoid exchange control or currency devaluation because that would not be "cricket"—would not be "gold standard."

It is true, of course, that there

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has also been a shift of emphasis in "money management" from the maintenance of international exchange stability to the maintenance of domestic economic stability. Monetary policies are coming to be less and less defined with reference to the state of the national gold reserves and the international balance of payments, and more and more in terms of domestic economic stability. It is the difficulty of reconciling domestic stability and prosperity with international balance which is the core of the exchange problem today—the one which the International Monetary Fund and the International Bank for Reconstruction and Development are setting out to help to solve. It means a considerable degree of management of money internationally. But it also requires a recognition of the fact that the problem, fundamentally, is not financial — it is a problem of production and trade, of costs and prices, and of the maintenance of a stable, growing economy in the principal countries of the world.

What we need to retain from the gold standard days, whether pure and automatic, or adulterated and only semi-automatic, is a realization that we cannot escape wholly from the disciplines which the international gold standard imposed on domestic action. Persistent unsound national policies in the fiscal and monetary field, persistent deficits in a country's current balance of payments, will end up in international instability no matter how much management you have. As in many other situations, the late English economist, John Maynard Keynes, has said it, has said it well, and has said it, perhaps, to the confusion of some of those young disciples who followed but could not always correctly interpret the master; who have not been as agile of mind and as free to shift their position as he was. In his last essay, which discussed the United States proposals for consideration by the International Conference on Trade and Employment, Lord Keynes said:

". . . We have here sincere and thoroughgoing proposals, advanced on behalf of the United States, expressly directed towards creating a system which allows the classical medicine to do its work. It shows how much modernist stuff, gone wrong and turned sour and silly, is circulating in our system, also incongruously mixed, it seems, with age-old poisons, that we should have given so doubtful a welcome to this magnificent, objective approach which a few years ago we should have regarded as offering incredible promise of a better scheme of things.

"I must not be misunderstood. I do not suppose that the classical medicine will work by itself or that we can depend on it. We need quicker and less painful aids of which exchange variation and overall import control are the most important. But in the long run these expedients will work better and we shall need them less, if the classical medicine is also at work. And if we reject the medicine from our systems altogether, we may just drift on from expedient to expedient and never get really fit again. . ."

Nationally or domestically, I think most of us will agree that the question of "money management" was thoroughly studied and calmly decided by the review of our national experience, the examination of the experience of other countries, and the investigations of our existing banking and credit system which preceded the adoption of the Federal Reserve Act in 1913. How successful we have been in the administration of the Act, and of the various amendments which have been adopted, particularly the Banking Acts of 1933 and 1935, may well be a matter of some difference of opinion. But I know of no serious body of opinion which seeks to abandon money management, as it has developed over the past thirty years. The Federal Reserve System has made a place for itself, as a part of our banking and credit machinery, and has fortified its position by performing services which could not have been otherwise rendered during two struggles for our national existence.

The Federal Debt

The principal new problem which now faces us in the successful management of money grows out of our participation in World War II. It has been created by the tremendous increase in the size of the Federal debt and by the extent to which public debt obligations have become a part of our banking and institutional assets. On the one side this has emphasized the relative importance of fiscal policy and debt management, as contrasted with monetary policy, as a means of economic control, and on the other side it has greatly reduced the area in which monetary policy is free to work or can work effectively.

The cost and the availability of credit were the twin weapons of domestic money management as practiced by central banks. In my opinion, substantial changes in interest rates, affecting all maturities, such as were formerly employed for purposes of monetary control, are now impractical. I deem them impractical because of their effect on the prices of public debt obligations, and therefore on all those holding such obligations, and their effect on the cost of public debt service. At the same time control over the availability of credit has been substantialy relinquished, for the time being, by obligations or responsibilities which have been assumed in support of the government security market.

At the beginning of the recent World War it was decided that our expenditures for war purposes should be financed at stable, not rising, rates of interest such as the pressing needs of previous wars had produced. To make this decision effective, a pattern of rates for government securities was established, with Federal Reserve support. The almost inevitable consequence of the fixing of this pattern, which meant supplying the commercial banks with whatever funds were necessary to maintain the pattern, was pretty constant pressure on the longer term rates. Actualy, therefore, the war was financed not at stable rates of interest, but at declining rates. We came out of the war with short-term rates still pegged where they were when we went in, but with the longer term rates under steady downward pressure. So long as differences in maturity, and the risks which longer maturities are supposed to involve, are deprived of their significance, the tendency of interest rates is to come together at one figure for all maturities. If the short end of the rate curve is fixed, that means that the long end will tend to decline. So much for loss of control over the cost of credit.

Similarly with the control of the availability of credit. In its simplest terms, our support of the government security market has meant and still means that the commerical banks, in large part, have the initiative in determining whether or not reserve bank credit is to be created or extinguished. If the commercial banks sell government securities and the market will not absorb them at somewhere near the going prices, we are the residual buyers. If the commercial banks have surplus funds, and government securities of the kinds they want are not available in the market, at least without a substantial run-up of prices, we are the ultimate sellers. In either case we are not the masters in our own house.

Transfer from Quantitative to Qualitative Credit Controls

One way out of the dilemma—the loss of control over the cost and availability of credit—would be to transfer our interest and our affections from quantitative credit controls to qualitative credit controls. We have two such now, the control of credit used in the stock market and the control of consumer credit. Our experience with these controls has not been altogether happy, but it is my opinion that they are worth continuing—that we need them, at least until something better has been devised. Our economy is peculiarly susceptible to the influence of wide swings in the use of credit in the stock market and in the mass distribution of consumers' durable goods. These swings have tended to accentuate our booms and our depressions, and in so far as they can be moderated by credit controls, it is a contribution to stability. The administration of these controls is possible without interfering too greatly with that independence of decision which will permit individuals and business enterprises to adapt their practices to the needs of a dynamic expanding economy. When you think of extending such controls into other fields, however—and this would be necessary if qualitative controls are entirely to supplant quantitative controls—you find yourself wandering perilously far from the kind of private enterprise economy we are trying to preserve. I

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Money Management and Credit Control

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think we must still try to see what we can do with quantitative controls.

In current thinking the quantitative approach has had at least two expressions. The Board of Governors of the Federal Reserve system in its 1945 annual report to the Congress suggested that the present powers of the Federal Reserve System, granted in very different circumstances, are inadequate to deal with present or possible future situations, and that we shall have to have new powers if we are to be held responsible for credit control—for "money management." The Board suggested that consideration might be given (1) to requiring banks to maintain a secondary reserve in the form of Treasury bills and certificates of indebtedness, which would be superimposed on our present cash reserve system; (2) to the control of long-term security investments of commercial banks, and (3) to an increased authority to change cash or primary reserve requirements of banks. I am not going to try to explain, analyze or discuss these proposals. Information concerning them has been sent to you and their discussion could form the content of one or more separate speeches. I can only say that I think they have little relevance as far as meeting present problems is concerned. I do not believe we can expect Congressional consideration of and action upon such fundamental changes in our banking system in the near term future.

Siamese Twins of Money Management and Debt Management

It has seemed profitable to me, therefore, to concentrate on what we might do with our present powers and our present skill, combining our resources of power and skill with those which the Treasury uses in managing the public debt. Money management and debt management, as distinguished from fiscal policy which depends largely on Congressional action, are today's Siamese twins of effective and usable power and influence in the hands of those who have executive authority and responsibility. I think that it is possible to do something with them as they stand. What we do need not be spectacular nor drastic. It has not been sufficiently recognized, perhaps, that the very size of the public debt and of the bank holdings of the public debt have made the money market much more sensitive to relatively modest action than was formerly the case. The fact is, of course, that we have been using the modest approach in debt and money management—elimination of the preferential discount rate, retirement of Government debt out of Treasury balances, increases in acceptance buying rates—and that so far this approach has been measurably effective in the economic situation in which it has been used. Aggressive bank bidding for longer term Government bonds has been diminished, at least temporarily, the pressure on longer term rates of interest has been reduced, the banks have been in intermittent need of reserve funds, and some short-term rates of interest have risen slightly.

It is true that this is weak medicine in terms of combating inflation—it has done little to reduce the volume of funds already created and in the hands of the public, and nothing to increase the supply of goods and services available to the public. I have heard of no practical program of credit control which would accomplish these purposes. So far as inflation is concerned, ours is essentially a holding operation.

Remedy in More Efficient Production

There is only one final and compelling and satisfying answer to the present lack of balance between the supply of goods and services and the supply of money, and to the present danger of our climbing another loop in the cost-price spiral. That is an increased supply of goods and services growing out of increased production per man hour—out of increased efficiency of men and machines. That is the only way we can validate the increases in costs which have already taken place in our economic structure. That is the only way we can prevent a further increase in prices, or bring about a decline in prices, without the hardship and suffering of depression and unemployment. Responsible management must know that this is the problem; that putting into effect a price increase to meet every wage increase is no real solution. Responsible labor must recognize that its own interests, as well as the interests of the whole community—our standard of living—are bound up in the same package with output per man hour. Recognition must lead to action, however, or little will be accomplished. And action will require consideration of our incentives to investment and to work, and of the penalties for slackness in production, whether of management or labor. Without adequate incentives for superior performance and without observable penalties for inferior performance, it is flying in the face of human experience to expect increased production per man hour.

Unfortunately, the whole world will be affected if we ride the roller coaster of boom and bust. We shall not be the only ones to suffer for our sins. America's national income represents perhaps two-fifths of the world's total income. It is certainly the most dynamic and significant factor in the world economy. If we exhibit a lack of responsibility in our domestic economic affairs, we shall betray a world which is looking to us for leadership, and which depends on us, in large part, for its own stability. Those who are concerned with the direction of American business and American labor need to ponder this, not only because of its economic implications but because of its international political implications. If we are to lead the world toward enduring peace, we cannot afford to dissipate our influence and weaken our world neighbors by economic irresponsibility. No one who lives, as we all do, in the shadow of the atomic bomb, should forget that fact for one instant.

This partial digression should make clear, I think, that I attribute to money management only a very secondary role in meeting the major problems of today. It is important, however, that it be free to work in the right direction. That is the significance of what might be called the next step in the modest approach to restoring credit control—breaking out of the straitjacket of the pattern of rates, in which we voluntarily allowed ourselves to be tied and fastened during the war. By that I mean, specifically, the defrosting of the presently frozen short-term rates on Government securities. I do not suggest this as an urgent matter of the moment; other actions and other factors have given us and are giving us time to consider the problem. And I recognize that the benefits of such a move are not certain; there are few certainties in credit administration. But it seems to me that if we are again to have a credit policy worthy of the name, and if we are to be able to support and supplement a constructive policy of debt management, we must sooner or later get out of the straitjacket of the pattern of rates. We cannot indefinitely leave with 14,000 commercial banks the determination of how much Federal Reserve credit will be used; how much further the money supply may be expanded. And it makes little difference, in terms of the money supply, whether the action of the banks is motivated by a desire to shift from short to long Government securities, as was the case early this year, or whether it rep-

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resents a shift from Government securities to private credits, as has been the case more recently.

I do not mean, of course, that so long as anything like the present situation exists, we should abandon the short-term market to its own devices. And I do not mean that we should relax our controls so far as to breach the 2½% rate on long-term Government securities. The former is not necessary and the latter is not desirable. But it is necessary and it is desirable that we regain a position in which we shall be able to apply the brakes to credit expansion when inflation threatens, even if we can only apply them ever so gently. That is why we should look forward to restoring some flexibility to the interest rate structure. It can be argued that flexibility of interest rates in a supported market merely means changing the peg. But surely there is a vast difference between supporting a market at your own discretion, at rates which you can move up or down, and supporting a market at fixed rates which you have announced in advance your determination to maintain. In the former case, all the advantages of initiative and uncertainty will be working to make policy effective. In the latter case, betting against the house is a sure thing. If it is not known in advance exactly what we are going to do, we may well find that very little pressure will have sizable and beneficial results. If reserve funds can be made a little less readily available, and the certainty as to their future availability in any amount at a fixed price can be removed, banks as lenders may be deterred from inflationary lending, such as lending to finance excessive inventory accumulation or consumer spending. And banks as investors may be deterred from reaching out for the longer term bank eligible bonds if the safety of premiums is no longer guaranteed.

Treasury's Concern Regarding Short Term Rates

Nor should there be any reason for Treasury concern, if short-term rates are unfrozen. The Treasury would still be able to sell its short-term securities for refunding purposes just as it does now. Banks and other investors would hardly prefer to hold idle funds, from month to month, in anticipation of a minor change in rates which might not be forthcoming. The market for intermediate securities would be subject to greater uncertainty and therefore less attractive, especially to banks, but the Treasury's long-term market need not be affected. Historically, there is no fixed relationship between long and short rates, and certainly so long as the Federal Reserve System gives its support, the long-term rate can be kept where it is. Downward pressure on the long rate would be relieved, but upward pressure, if it developed, could be successfully resisted. Finally, the cost of servicing the debt need not be in-

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Money Management And Credit Control

(Continued from page 3085)

creased by a rise in the shortest term rates. It has been estimated that the annual interest charge on the $65 billions of marketable Government securities maturing or callable before the end of 1950, excluding bills, is about $1 billion, or 1½%. If all of these securities were refunded with an average rate less than 1½%, there would be a reduction in the annual service cost. Inasmuch as the major part of these short securities are held by the banks, or will be when they mature, this is not an impossible program! Refundings of Government securities within the banking system could well be made with shorter maturities and at lower rates than during the war—we do not need to finance through the banks with 2% bonds.

Such a program, of course, would seem to be the reverse of funding some of the debt but, in present circumstances, the only funding of debt which has real meaning is the sale of securities to non-bank investors, and retirement of bank-held debt with the proceeds. That could still be accomplished, so long as it is economically desirable, by stepping up sales of Savings Bonds faster and further, and by sales of long-term 2½% bonds—with rollover removed—to institutional investors. This is the kind of debt management which really increases the cost of servicing the debt, but what you get is worth what you pay for it.

Such a modest approach to money management would have to lean on and to support a complementary program of debt management, just as it has in the recent past. Since early this year the Treasury policy of using surplus balances to retire outstanding debt, held largely by the Federal Reserve Banks and the commercial banks, has subjected the reserve position of member banks to moderate pressure at frequent intervals. This has been the result of Treasury withdrawals of funds from its war loan account at the banks, to redeem securities maturing in the portfolios of the Federal Reserve Banks. Reserve funds were temporarily taken out of the market and this limited, to some extent, the ability or the inclination of banks to expand their loans and investments, at least in the fringe areas of credit. The program also directly disposed of $23 billions of Treasury deposits which, if spent for other purposes, would have increased by that amount the already large supply of money in the hands of the public.

End of Short-Term Refunding

This phase of the debt retirement program will come to an end this month. With the redemption of $3,261 millions of Treasury notes maturing on Dec. 15, Treasury balances in war loan account growing out of the tremendous sale of Government securities in the Victory Loan Drive a year ago will have been largely eliminated. Hereafter, reduction in the total Federal debt will depend primarily upon an excess of current income over cash disbursements. While the effect of debt retirement thus far has been mildly anti-inflationary, further redemptions of bank-held securities,

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Money Management And Credit Control

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If financed by an excess of tax receipts over Government disbursements, will be actively deflationary. Money will be taken from individuals and corporations and used to extinguish bank credit, thus reversing the wartime process of credit creation.

A similar effect can be obtained by net sales of Government securities to non-bank investors, the proceeds being used to pay off bank-held debt. Such shifts of securities from bank to non-bank investors would also extinguish bank credit and in addition would provide an outlet for accumulations of funds which otherwise would have to seek employment elsewhere, quite possibly with inflationary effects. So long as inflation, or the threat of inflation, is our adversary, this aspect of increased sales of Savings Bonds to individuals, and possible sales of long-term restricted bonds to institutional investors, should not be overlooked. If we should enter a deflationary period, of course, a reversal of these public debt operations would probably be appropriate and quite readily attainable. Debt management as well as Federal Reserve policy must be responsive to changing economic conditions.

Right now, faced with a violent resurgence of labor troubles, we can do no more than stand fast. Nevertheless, problems of money management and debt management should have our consideration as we enter a new phase in our financial affairs. I have outlined a modest approach to the restoration of credit control. There is opposition to, disbelief in, and timidity with respect to this modest approach, but it seems to me it may be the best approach available to us in the circumstances in which we find ourselves. For the longer term we may need new methods or new powers. I am only concerned that we do not get into the habit of seeking "just one more power" until we have powers beyond our wisdom and our skills.

My talk has been overlong and the subject probably more interesting to me than to you. For this I am sorry, but I thought I must tell you what is most on my mind, in the field in which I am supposed to have some competence.

Let me close on a more general note. An incident recently occurred which warmed my heart and renewed my faith in this country of ours, and the democratic capitalism which it sponsors before the world. Last August and September, 48 Estonian refugees crossed the Atlantic in three small boats to breathe the air of freedom here. By Presidential order they were saved from deportation. This to me is a sign and a portent. We may be making many mistakes in the ordering of our affairs. These mistakes may have tragic consequences for us and for the world. But we are still pressing forward toward the goals we set up for ourselves when this country was settled and when its political institutions were founded. Not until people begin taking to the sea in small boats, to get away from the United States and into countries where other economic and social systems are in the ascendant, need we despair.

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A National Labor Relations Policy

(Continued from page 3014)

has been the reverse for employers, who have found their power and freedom of action in labor disputes seriously curtailed while many new legal responsibilities and duties have been imposed on them. Simply changing the policy to correct that lopsided picture will not change overnight our labor relations in the United States from their present chaotic state to one of harmony and stability. The changes must be reflected in hundreds of thousands of individual negotiations before that can happen.

Principles of a New National Labor Policy

There are three principles which I believe should govern us as we try to formulate a new national labor relations policy. The first of these is that all disputes between employers and employees should be settled insofar as is possible through free collective bargaining, with the right of the employees to strike and the right of the employer to try to beat the strike preserved.

There is an increasing demand in some sections of public opinion today that we abandon this principle of free collective bargaining as our primary method of settling disputes in favor of some kind of compulsory adjudication or arbitration of labor disputes. Those who hold this view point out that settling these disputes by economic warfare, in which all parties concerned and the general public almost inevitably lose, is a barbaric and uncivilized method, and that it is high time we should develop procedures for peaceful settlement just as we settle most disputes between individuals.

On the face of it, such a position makes a lot of sense. But those who advocate it must consider its full implications. Simply to set up a system of labor courts empowered to settle disputes between employers and employees by decisions which will be binding on both parties and to prohibit strikes or lockouts will not be enough. Individual judges deciding disputes on the sole basis of their own judgment of what is right and fair is not our concept of equal justice under law. It is simply one group of men rendering arbitrary decisions in the disputes between two other groups of men. The judges of our courts do not decide disputes coming before them on the basis of their individual judgment as to what is right and fair. Our judges apply a general law defining the rights and privileges and responsibilities of all citizens to a particular dispute. That is basically what we mean by equal justice under law.

If we carry that concept over into the field of labor relations, then we must first define the jurisdiction of these special labor courts. That means defining in the law what are the proper issues for collective bargaining. Obviously, wages, hours and working conditions come into that category. But how about a union's demands to see the company's books? How about a union's demand that it have observers at all meetings of the board of directors? How about union demands that foremen be required to join the union? Are they proper issues in collective bargaining? You will recall that the Labor-Management Conference last winter wrestled with this problem for several weeks and was unable to reach any agreement.

But even if we could define in the law what are proper issues for collective bargaining and thereby within the jurisdiction of these courts, we would have to go still further and set up in the law general standards to guide our judges. We would have to define what is a fair wage, what are fair working hours and working conditions, what are fair vacation schedules, sick leave, seniority rules, et cetera. Only by establishing such standards in the law and defining the jurisdiction of such courts could we adopt this concept of judicial decision in labor disputes and preserve our concept of equal justice under law which is vital to a free society.

The fact is that there is no general agreement as to proper issues for collective bargaining or the standards to apply in determining what are fair wages, hours and working conditions. In the absence of such general agreement, the development of legislation along this line would require several years at least. Frankly, I do not think we have time to adopt this approach to national labor relations policy. There is a suggestion that compulsory adjudication should be applied only in disputes where the public interest becomes paramount to the private interests and rights of the two parties. But that field is so broad today that we still could not leave decisions to the arbitrary judgment of individual men and would have to write the kind of statute I have outlined.

When Public Interest Is Paramount

The second principle which I believe should govern in the development of a new national policy is that the Federal Government's intervention in labor-management relations should occur only when the rights of individuals as defined in law are involved or where the public interest in the dispute is considered paramount to the private rights and interests of the contending parties and is so defined in the law.

If we are to adopt free collective bargaining as the primary principle of our national policy and our major means of settling disputes, then this second principle follows inevitably. We cannot have free collective bargaining if the Federal or state government is going to butt in any time it feels like it, or any time one of the two parties believes that it can gain some advantage by such intervention. The Government's intervention in situations where rights of individuals are involved should come primarily through an appeal to the courts by the individuals concerned. The intervention by administrative agencies should occur only when it is clear that under the law the public interest in the settlement of the dispute has become paramount to the private rights and interests of both parties.

The third and final principle which I believe we should apply in this field is the liberal concept of equal justice and responsibility under the law for all individuals and groups, which underlies our whole Constitution and form of government.

There will be opposition to the adoption of this principle to national labor relations policy. There are people who believe quite sincerely that simply because of the employer-employee relationship and the advantage which the employer normally has in that relationship, the government must be in effect a partisan on the side of employees and their organizations in order to bring about substantial equality of bargaining power. That has been the theory of our national labor relations policy under the New Deal Administration in practice if not in theory.

The fallacy of this position is that it overlooks the fundamental nature of government in a free society. In order to function, government power must always be superior to the power of any private or minority interest in society. The current challenge by the United Mine Workers of the law of the land and an order of a Federal court is essentially a challenge by a minority group of the sovereign power of government. No government which wants to remain a government with the power to govern can permit such a challenge to succeed. Government must have a monopoly on the use of force and government power must be superior to the power of any private interest in society.

To align that tremendous power of government on the side of one group in the collective bargaining process makes a complete mockery of free collective bargaining. In order to bargain freely, there must be reasonable equality of power on both sides of the table. If government is to throw its tre-

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mendous power on the side of unions, then there is no free collective bargaining. More fundamentally, when any democratic government forgets its liberal function of adjudicating the rights and interests of private parties and groups on the basis of equal justice under law and becomes a partisan of a particular group or groups in society, it is headed inevitably toward dictatorship and eventual liquidation of the rights and freedoms of all individuals and groups.

So if we believe in a free liberal society and in collective bargaining as the primary method of settling labor disputes, we cannot accept this theory that government must be a partisan of the supposedly weaker group in collective bargaining. This does not mean that government cannot step in to check the arbitrary use of power by either employers or unions in such ways as to impair equal bargaining. In the Norris-LaGuardia Act, Congress outlawed the so-called "yellow dog" contract, which was such a misuse of employer power. In the National Labor Relations Act, we protected by law the individual employee's right to organize and bargain collectively through representatives of his own choosing, free of coercion or interference by his employer. That is an entirely different thing from having the government line up on the side of one party to the collective bargaining process. That was simply a recognition that the individual employee, unless he be very exceptional, is often at a disadvantage in bargaining with his employer, but that when he bands together with his fellow employees that disparity in power is lessened, if not eliminated completely.

Increased Power of Unions

Since for 15 or 20 years our policy has been increasing the power of unions while at the same time decreasing their legal duties and responsibilities, it is inevitable that in writing a new policy, in accord with these principles, the legislation involved will bear most heavily on unions. Certain special privileges and immunities which they now enjoy will be taken away from them. New responsibilities will be imposed on them. In most cases, the employer does not enjoy the special privilege or immunity which we take away from the union and has already had imposed on him responsibilities corresponding to those which would be imposed on unions.

I have listened to a great deal of testimony on this problem for the past six years and I have yet to hear union leaders make any showing of general employer abuse or misuse of power which would justify legislation checking them. The main burden of union complaints against the employers when we were holding hearings on the Case Bill was that when unions demanded a 30-cent increase in wages, the employer made an insulting counter offer of a mere 10 cents an hour increase. That is no kind of legitimate complaint if the unions really believe in free collective bargaining. Whether the employers were sound economically in taking that position is a moot question and one which only a free market can decide eventually.

Kinds of Legislation Needed

The legislation needed in developing a new national labor relations policy breaks down naturally into four general categories of problems and I shall discuss each one briefly.

First, we need better Federal mediation machinery. The present Conciliation Service is badly staffed and is directed by the Secretary of Labor who is by statute a partisan of labor, whereas the first requisite for a good mediator is that both parties have confidence in his complete impartiality. The Senate version of the Case bill in the last session of Congress would have established an independent Federal mediation board of five members with the Conciliation Service transferred to it. That board would have had no power to issue orders or decisions but would have been exclusively a mediation agency.

In order to give such a board a chance to function, we should provide that where the board moves in on a dispute either by its own motion or at the request of one of the parties, both employer and employee should maintain the status quo for a specified period of time—either 30 or 60 days. Since the board would be directed to intervene only in disputes where a stoppage would substantially interrupt interstate commerce, such a limitation or the right to strike or lockout is thoroughly justified under our second principle of government intervention when the public interest becomes paramount to the private rights or interests of the two parties.

Our second problem is what to do about industry-wide bargaining and shutdowns. The current coal shutdown has dramatized this for all of us. It is clear that the public interest does become wholly paramount to the private interests or rights of either party in such a situation. We simply cannot tolerate nation-wide shutdowns in coal, oil, steel, transportation or communications which can, very quickly, not only affect millions of people adversely but can strangle the whole national economy. Our problem is how to eliminate the possibility of such stoppages without destroying or weakening free enterprise or the free labor movement in the process.

Frankly, I know of no very satisfactory solution at the present time. Our present answer is government seizure and operation of facilities, and it doesn't seem to be working very well. Eventually, such a solution heads toward totalitarianism. Other solutions which have been advanced include some form of compulsory arbitration of disputes in this category, which I discussed earlier; or application of the Anti-Trust laws to prohibit simultaneous strikes against or lockouts by two or more employers in the same industry, a possible solution which nevertheless presents many technical and legal problems; and, finally, a very strict regulation of industry-wide bargaining in the public interest so as to discourage both parties from industry-wide bargaining and get negotiations back on an individual employer basis.

It is my own conviction that the problem has not been studied sufficiently to produce the best solution possible. Therefore, I believe an intensive study of industry-wide bargaining and shutdowns should be undertaken in January by the new Congress before we try to draft legislation.

The problem of stoppages in electric, gas and water utilities is in a somewhat different category because they are government-licensed monopolies with their rates and permissible rates or return on capital more or less fixed by government agencies. Since the rate-fixing is done almost entirely by the states, I believe it would be sounder policy for the states to take the initiative in solving this problem than for the Federal Government to move into a new field.

A third problem in writing a new Federal policy is that of equalizing the rights and responsibilities of employers and unions under law. Obviously, a rigid application of identical statutes to both employers and unions is neither practical nor desirable. A rigid application of the Anti-Trust laws to unions, for instance, would prohibit all strikes, since any strike is a conspiracy which restrains commerce. What is required is a general balancing of legal rights and responsibilities in the collective bargaining process.

We dealt with some aspects of this problem in the Case bill in those sections which made unions suable as legal entities for breach of contract, which stopped the compulsory unionization of foremen under the National Labor Relations Act, which outlawed secondary boycotts which are in restraint of trade or create monopolies which are against the public interest, and which established standards for welfare funds set up through collective bargaining.

On these phases of this problem, we are in a position to introduce bills early in the next session and

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A National Labor Relations Policy

(Continued from page 3089)

proceed immediately with hearings and floor action.

Overhaul National Labor Relations Act

But any solution of this third problem of balancing legal rights and responsibilities also requires a thorough overhauling of the National Labor Relations Act. That will take considerably more time and study because it has been six years since Congress considered any amendments to the act, and we have 10 years of court and NLRB decisions to consider in making changes.

Overhauling the National Labor Relations Act does not mean any weakening whatsoever of the employee's right to organize and bargain collectively. As a matter of fact, that guarantee needs to be strengthened because, as it stands now, no employee can get into court to protect his right unless the National Labor Relations Board says he can. A hostile board could make a complete dead letter of the act, which is merely another proof that granting legislative, judicial and administrative powers to an appointive agency in government is neither sound nor liberal law.

Drafting the proper amendments to the National Labor Relations Act will take time and study, but among the changes which appear at this time to be essential are:

First, a prohibition of jurisdictional strikes and a requirement that unions use and abide by the democratic election machinery provided in the act.

Second, giving to employers an absolute right to an election whenever they are threatened with either a jurisdictional or an organizational strike by unions which claim to represent a majority but will not voluntarily submit to an election.

Third, requiring that the National Labor Relations Board's findings of fact be reviewable by the courts unless they are supported by the "weight of evidence" instead of by "any evidence" as the law now reads.

Fourth, clarifying the definition of employee in the act so that at some stage in a strike he ceases, at the employer's option, to be a legal employee. The present definition has decreased too much the employee's risks in a strike and increased the employer's risks. At some stage in a prolonged strike, whether after three, six or nine months, an employer should have the right to say that those workers still out are no longer his employees and request a new election to determine the bargaining agent for those who really are working for him. The opposite for the employer of the employee's right to strike is not to lockout, which no employer in his senses ever does, but his right to beat the strike by lawful means if he feels the union demands made a settlement impossible.

And, fifth, we should define in the law what we mean by "collective bargaining," instead of leaving it to the NLRB, and we should require unions as well as employers to bargain.

Protection of Individual Worker's Rights

Our fourth problem in writing a new national policy is protection of the rights of individual workers and minorities within unions. This has become increasingly important and urgent as unions have grown in size and power and individual workers have had less and less voice in the determination of union policies.

There have been many proposals to meet this problem by Federal regulations, requiring annual financial reports from unions, biennial secret elections of officers, supervised strike votes by secret ballot, an appeal to a Federal tribunal for any employee refused admittance to a union or expelled from membership, and a requirement that no closed shop contract would be valid unless approved by a large and specified majority of the employees affected.

The more I have studied the problem and these regulatory proposals, the more it has appeared to me that such remedies are not only superficial but they head in the direction of ever-increasing government control and regulation, which in my experience is almost certain to be abused. It is my own conviction that by far the soundest and most direct solution is to go to the heart of the problem and outlaw the closed shop and all other forms of contract making membership in a union a condition of employment. The closed or union-ship, which turns over to the union leadership absolute control over the individual's right and opportunity to work in an occupation of his own choosing, is clearly an illiberal violation of individual freedom. In addition, the closed shop has formed the basis for monopolies as vicious as any attempted by the unlamented trusts of a few decades ago. If individuals cannot be forced to join a union by this shabby bread-and-butter control, free workmen will through the democratic process eliminate racketeering and Communist leadership and keep their unions sound and liberal.

Whether Congress will choose to regulate this closed shop evil or root it out of our economy, I would not venture to predict. But I shall press for the more drastic, but more permanent and liberal solution.

What Laws Can Provide

So much for possible legislation. Permit me to emphasize again that laws can only provide the framework for industrial harmony. Employers and unions must fill in the details, and it is their attitudes and efforts which will in the long run make the difference between harmony and chaos.

There are many attitudes and practices by both employers and unions which are most harmful, but which are not subject to correction by legislation to any marked degree. The economy of scarcity which appears to dominate many unions is an outstanding example of selfish and short-sighted thinking on that side of the bargaining table. We all recognize that this strong tendency of unions to limit production and makework developed out of experience during depressions when stretching every job to the limit became standard practice. But it is time for union leaders to recognize and to impress on their followers that such an economic policy inevitably heads downward to lower living standards and fewer jobs, rather than toward full employment and full production. No people have ever yet succeeded in consuming more than they produced for any length of time, and unions should begin to act on this basic economic fact.

But if unions are short-sighted, many employers have been even more myopic. Our present lopsided national policy is a direct result of the power-drunk arrogance and stupidity with which employers dealt with unionization a few decades ago. The John L. Lewises in the labor movement learned their lesson well — from employers.

Although it has been apparent to anyone who had eyes to see for many decades that free American workmen would not and could not be treated as just so many digits on a balance sheet, added up with steel and coal into costs, many employers had to be clubbed into recognizing that their employees were individual human beings like themselves. Even today, it is a rare concern where the top executive is a specialist in labor relations, although it is clear that labor relations is the toughest problem with which top management must deal.

We refer to employer-union negotiations as collective bargaining, but how many times do you read of employers making demands on the unions? Shouldn't bargaining be a two-way street? Shouldn't the employer demand something in return for higher wages, shorter hours and all the other demands he is agreeing to constantly? Management knows the importance of production and individual incentive in our economy. It is about time that employers figured out some way of incorporating these fundamentals of our economy into collective bargaining contracts, without any speed-up implications.

I believe management has as much responsibility as its employees for developing ways and means of dealing effectively with Communist or racketeering leadership when it gains control of the

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unions through which their employees must bargain. Management often does not even recognize this problem, let alone develop ways of solving it.

I have worked enough in industry to know that the loyalty and effort of veteran employees are vital factors in the success of any enterprise, yet they have very seldom been adequately recognized by management. A worker who stays with the same concern five, 10 or 20 years honestly feels that he has invested a substantial part of his life in that business, an investment as important as the investment of dollars, yet how many concerns treat those investments the same?

Any psychologist will tell us that the satisfaction which an individual gets out of doing a job well is tremendously important. There is a creative instinct in all of us which demands satisfaction or there is trouble. How to satisfy that basic human need in our mass production factories where men and women spend all day on monotonous tasks I do not know, but I am sure that it is another problem in labor relations to which management has paid insufficient attention.

Legislation cannot solve these problems, for either labor or management. But more intelligent, liberal, courageous leadership on both sides can solve them, and must solve them if we are to maintain our free economy.

I receive a great many letters on the subject of labor relations, including quite a few from employers who want to see the whole National Labor Relations Act junked, who demand that all strikes be outlawed. Congress is not going to do anything of that kind. As a matter of fact, such demands prejudice the chances of doing a really fair and sound job of overhauling our national labor policy. To many of us, it is apparent that in laws, in court interpretations and in administrative procedures and attitudes, government has gone much too far in increasing the power of unions and relieving them of legal responsibilities and duties.

We want to correct that situation and do it on a fair, sound basis, achieving a reasonable equality of power and a sound balancing of responsibilities and rights as between unions and employers. We do not want to leave any loopholes for any employers so inclined to go on the kind of union-busting campaigns we had after the first World War.

How extensive will be the changes made in national laws no one can say, but I think it is safe to predict that there will be substantial changes in the direction I have outlined. If any substantial number of employers interprets those changes as a signal to embark on a drive to destroy unions, then I can assure you that the changes will be repealed soon, and we will have an even more lop-sided and partisan policy than we have now.

I cannot emphasize too strongly my own conviction that whenever government departs too far and for too long a time from its liberal function of dispensing equal justice under law to all individuals and groups and becomes a partisan of particular groups, it inevitably tends to degenerate into dictatorship. Both free enterprise and free labor unions would be liquidated if that happens. The employers of America, through such organizations as the NAM, can help tremendously to make sure that this time our labor relations policy stops somewhere near the center and that the new policy then is made to work on a fair and sound basis.

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(Continued from page 3088)

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*Roberts, Malcolm F.	Sidlo, Smions, Roberts & Co.	Denver
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Roddy, James E.	Scharff & Jones	New Orleans
Rogers, Frederick C.	Thomson & McKinnon	New York
Rouse, Robert G.	Federal Reserve Bank	New York
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*Sanders, Jesse A., Jr.	Sanders & Newsom	Dallas
*Schaedle, Thomas G.	Briggs, Schaedle & Co.	New York
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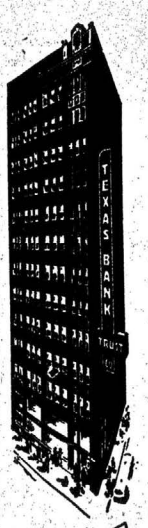

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Slezak, G. Edward	Loewi & Co.	Milwaukee
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Smith, Elwood D.	Harriman Ripley & Co.	New York
Smith, H. Laird	Equitable Securities Corp.	Nashville
Smith, J. Raymond	Weeden & Co.	New York
Smith, Norman	Merrill Lynch, Pierce Fenner & Beane	New York
Smith, Winthrop H.	Merrill Lynch, Pierce Fenner & Beane	New York
Smutny, Rudolf	Salomon Bros. & Hutzler	New York
Space, Julian A., Jr.	Johnson, Lane, Space & Co.	Savannah
Speas, J. W.	First National Bank	Atlanta
*Stabler, C. Norman	Herald-Tribune	New York
Staley, Thomas F.	Reynolds & Co.	New York
Stalker, Alfred J.	Shields & Co.	New York
Starring, Mason B., Jr.	Graham, Parsons & Co.	New York
Stearns, Philip M.	Estabrook & Co.	Boston
Stephenson, Edwin A.	Chase National Bank	New York
Stephenson, F. Kenneth	Goldman, Sachs & Co.	New York
Sterling, Norman E.	Allen C. Ewing & Co.	Jacksonville
Stern, Sigmund	Stern Brothers & Co.	Kansas City
*Stevenson, Robert, 3rd	Investment Bankers Assn.	Chicago
*Stewart, Harold S.	Dittmar & Co.	San Antonio
*Stewart, Percy M.	Kuhn, Loeb & Co.	New York
*Stirling, Louis J.	Hirsch & Co.	Chicago
Stone, Fred D., Jr.	John Nuveen & Co.	New York
Stone, Morton J.	Prescott & Co.	Cleveland
*Stuart, William R.	Mason, Moran & Co.	Chicago
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Talbot, Jack	Northwestern National Bank	Minneapolis
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Thomas, Joseph A.	Lehman Brothers	New York
Thompson, J. Cary, Jr.	Buckley Brothers	New York
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*Topping, James D.	Braun, Bosworth & Co.	New York
*Torrey, Clare M.	Cohu & Torrey	New York
*Townsend, Mossir M.	United States Treasury	Washington
*Trigger, Raymond	Investment Dealers Digest	New York
Trost, Milton S.	Stein Bros. & Boyce	Louisville
Tsolainos, K. P.	Baker, Weeks & Harden	New York
Tucker, Norman L.	Chase National Bank	New York
Tweedy, Albert W.	H. C. Wainwright & Co.	Boston
Tyson, Robert W., Jr.	Blair & Co.	New York
Urell, W. H.	Barr Brothers & Co.	New York
*Valentine, John W.	Harris, Hall & Co.	New York
*Vance, Henry T.	Vance, Sanders & Co.	Boston
*Vanderpoel, Robert P.	Herald-American	Chicago
Van Hart, T. George	Salomon Bros. & Hutzler	New York
Van Ryn, John	Merrill Lynch, Pierce, Fenner & Beane	Palm Beach
*Varnedoe, Samuel L.	Varnedoe, Chisholm & Co.	Savannah
Vind, Helen	Fortune Magazine	New York
von Glahn, Theodore A.	Salomon Bros. & Hutzler	New York
Wade, L. R.	Adamex Securities Corp.	New York
Waldmann, George R.	Mercantile-Commerce Bank	New York
Walker, G. H., Jr.	G. H. Walker & Co.	New York
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Free Exchanges vs. Fixed Exchanges

(Continued from first page)

tempts to weld into one system two antithetical monetary regimes: the Gold Standard and the System of Managed Currency, each of which eliminates the other.

Managed Currency is the frankest admission of the fact that economic and monetary policies everywhere are primarily conducted to suit national needs. On the other hand, adherence to any form of common standard demands a partial subordination of national to international economic policy, for which the world is totally unready. Be it remembered that foreign trade represents but a fraction of the total trade of most nations. Although a very important fraction, it is a fraction none the less, which explains why most nations are loath to adopt policies which subordinate their total trade to that fraction of it which represents their foreign trade.

Some contend that the Bretton Woods program is but an adjunct of the United Nations Organization's plan, but examination will prove the contrary. The chief aims of the Bretton Woods Monetary Fund are "to facilitate the expansion and *balanced* growth of international trade . . . (and) to promote exchange stability." It stresses expansion first on the theory that it will bring about full employment, and it relegates balance to a dim future measured in "cycles." In the meantime equilibrium is to be maintained by a system of credits and debits which, *it is hoped*, will be liquidated at the end of the "cycle." This, of course, is sheer speculation. For international accounts always balance, either in black or in red. Trade is either paid for or unpaid, and the surest way to perpetuate red figures on the international balance sheet is to offset them with loans. The long and melancholy record of repudiated loan issues will, or should, dispel any illusions on that score. By contrast, short seasonal credits, because they are sound and practically self-liquidating, are almost invariably repaid. But Bretton Woods adopts the "cyclical" in lieu of the "seasonal" principle for financial accommodations. "*Apres le cycle, le deluge*" would typify the Fund's authors' unconcern for consequences much as that of Louis XV's, whose successor it was—not he—who took the ride in the tumbril. Both merely postpone the day of reckoning.

The authors of the Bretton Woods program are determined at all costs to "stabilize" the exchanges. Now the most exploited, abused and least understood verb in the Bretton Woods vocabulary is the verb "stabilize." For all too many people—the authors of the Bretton Woods program included—believe that fixity of the exchanges is conducive to stability in the economy. But truth is that, in foreign exchange, the precise reverse is the case, because it is by their very fluctuations that the exchanges provide those correctives which make for balance between the economies of the various nations. Fixity, maintained by artificial means such as loans, or controls, merely perpetuates imbalance by preventing the natural forces from operating. Nor can the true relative values of the different currencies be determined if these are arbitrarily fixed and then maintained by resort to all the tricks in the currency manager's bag. To maintain a given value in a currency its manager needs must resort to loans, to quotas, to tariffs, to subsidies, to the freezing of accounts and to all those controls which impede trade at every turn. How, then, can we have expanding trade

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under the regime of fixed exchanges?

In contrast, each and all of these controls, when needed, are actually integrated in the free exchanges, yet at once disappear when the need for them is gone. Under the regime of free exchanges all nations either balance their international trade or accept the consequences in either a lower or a higher rate of exchange. If they sell too much on balance their exchange rate will rise and put a brake on their sales because their goods will have become too expensive when priced in terms of foreign currencies. Conversely, if they buy too much on balance their exchange rate will fall and put a brake on further purchases by making foreign goods too expensive when priced in terms of their own currency. Low exchange, by stimulating exports and curbing imports, tends to equilibrate a nation's position without resort to artificialities by way of loans or controls. Conversely, by checking exports and stimulating imports, high exchange tends to bring about the same result. Low exchange will attract venture capital where and when it is most needed by rendering it profitable to shift capital from centers of high exchange. Thus it is that venture capital adds its weight to the other factors making for equilibrium. Incidentally, it might be pointed out that venture capital, with its risks and its rewards, is the province of the individual, not of the State.

Some will contend that free exchanges will turn foreign trade into a gamble. Such, however, is not the case, because the exchange markets, like the markets for staple commodities, offer short-term "hedging" facilities. But what of long-term operations? The answer to that is that neither the exchange markets nor the staple commodity markets offer long-term "hedging" facilities, so that those who demand fixed exchanges might as reasonably insist on fixed prices for wheat, for cotton, for copper, etc., etc. Supply and demand will then be as completely regimented in the local as in the international markets. Moreover, trade statistics will confirm that foreign trade everywhere is chiefly composed of short-term transactions involving innumerable individuals. To fix the exchanges merely for the sake of accommodating those few engaged in infrequent long-term operations would subordinate the interest of the rule to that of the exception. Those who are unwilling to accept the risk of exchange as a legitimate business risk may always elect to do business in terms of their own currency, in which event the risk of exchange will be assumed by the foreign customer who, in turn, includes it in his own cost figures. Foreign exchange is part and parcel of the "know-how" of foreign trade. It is essential equipment for those who would succeed when doing business outside their country's boundaries.

What of cost (and wage) differentials between nations? Under the regime of fixed exchanges the destructive impact of low relative costs on the price structures of high cost nations is plainly visible. But under the regime of free exchanges, dumping is neutralized and penalized by the rise in the dumping nation's exchange rate. If, for example, X nation dumps a million dollars' worth of goods on our market, and we pay not gold but legal tender thereagainst, X nation needs must reimburse itself by buying one million dollars' worth of American goods or services or sell dollar exchange in the amount of one million in the exchange markets. In the first instance we shall have sold as many dollars' worth as we have bought, which suits our book; in the latter event the dollar will have fallen when measured in terms of the seller's cur-

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In Attendance at IBA Meeting

(Continued from page 3092)

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Weed, Walter H., Jr.	Union Securities Corp.	New York
*Weeden, Frank	Weeden & Co.	San Francisco
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*Weltner, Adoph E.	A. E. Weltner & Co.	Kansas City
Wendt, George B.	First National Bank	Chicago
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*Wheeler, Howard S.	Leedy, Wheeler & Co.	Orlando
White, Cleveland	Lazard Freres & Co.	New York
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Whiteside, Thomas	Chace, Whiteside & Warren	Boston
*Whiting, Max O.	Whiting, Weeks & Stubbs	Boston
Wilbur, Leroy A.	Stein Bros. & Boyce	Baltimore
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*Williams, Emil C.	Chemical Bank & Trust Co.	New York
Williams, John S.	Graham, Parsons & Co.	New York
*Williams, Warren D.	Ryan, Sutherland & Co.	Toledo
Wilmot, Willis G.	Hibernia National Bank	New Orleans
Wilson, H. Warren	Union Securities Corp.	New York
Wilson, Julia	Arthur Weisenberger & Co.	New York
*Wilson, Lyle F.	Pacific Northwest Company	Seattle
Wilson, Walter W.	Morgan Stanley & Co.	New York
Wiltberger, Alfred S.	Blyth & Co.	Chicago
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Free Exchanges vs. Fixed Exchanges

(Continued from page 3093)

rency, thus raising his relative costs and rendering his dumping the more costly to him. For as the dollar falls in terms of his own currency he will receive that many less units of his own money against the one million dollar proceeds of his sale of dollar exchange. Under the regime of free exchanges dumping doesn't pay. Such being the case, foreign cost differentials cannot seriously undermine our price structure, and only those industries which cannot exist without shelter or subsidization will feel the effects of open competition.

Under the regime of free exchanges all nations may adopt such economic and monetary policies as best suit their needs, enjoying the rewards of sound policies and suffering the consequences of the unsound. Nor will they, in their relations with other nations, be able to play pilot-fish to the shark, using others' currencies to manipulate their own; for as he enters the exchange markets for purposes of manipulation the currency manager will know what he has to pay for his foreign currency, but never what he will receive for it when ultimately obliged to sell. Unable to see the exit, he is not likely to use the entrance. Manipulation will thus carry its own penalty. Nor will there be cause for complaint as to the over- or under-valuation of currencies, because free markets set more accurate relative values than can be fixed by any group of men, however omniscient.

Curiously enough, the professional "stabilizers" derive much support from the very champions of free markets. Those to whom price-fixing is anathema seem to accept fixed exchanges as a condition *sine qua non* of international trade prosperity. They will, as a matter of course, accept as a legitimate business risk the risk of price fluctuations in the commodities in which they deal. They will provide for this risk by "hedging" whenever able, yet they shrink from the risk of exchange as if from a plague. In consequence of their paradoxical attitude, balance in international accounts can only be achieved through trade restrictions and loans. Good money, by way of credits funded and refunded, is sent after bad, ultimately leading to partial or total repudiation. Some American industries will seem to have profited in the process but, in reality, while we gain some foreign markets we have destroyed our home market to the extent of our investors' losses in foreign loans. This, I submit, doesn't make sense.

The modern mania, visible on every hand, is the mania for management; the attempt by the few to impose on the many untested theories which defy the natural laws or the rights of man. The Bretton Woods Monetary Fund is the professional manager's dream come true. It is an attempt at world regulation by men who disregard the difficulties inherent in mere local monetary problems yet would blithely act in global terms. Price-fixing is resented whenever imposed because people understand it. Unfortunately, knowledge of foreign exchange is not widespread, so that few suspect the danger threatening the price structure if the exchanges are fixed during a period of uncertainty such as we now face. Whereas fixed exchanges provide the conduit through which alien factors freely enter and undermine every segment of the economy, free exchanges, by their reaction to imbalance, prevent their penetration and thus immunize the price structure.

The Bretton Woods Monetary Fund will fail because: money expresses price by its unit, but it measures value by its volume. To fix units and leave volume uncontrolled in the belief that stability will result is illusory. This is precisely what Bretton Woods attempts. Under its provisions, each member of the Fund abandons some measure of his sovereignty when fixing, and promising to maintain, the exchange value of his unit of currency, but he retains full sovereignty over the volume of currency he will issue. He will be unable to maintain a fixed value for his currency without resort either to loans or controls. If he borrows it will be because imbalance has set in against which he will be denied the aid of the natural forces to return his position to equilibrium. If, for the same reason, he applies controls, he will throttle trade. Thus it is that we cannot have balanced growth of trade under the regime of fixed exchanges.

Our choice is as between fixed exchanges tied to gold with an exposed price structure or free exchanges based on legal tender with a stable national price structure. For if we fix and try to maintain arbitrary values on the exchanges we shall expose our economy to undermining from without. We shall then try to carry our debt burden and maintain our wage scale by letting down the bars and opening our markets to many who pay their labor a daily wage equal to the hourly earnings of the American worker. Can we do this and survive? Do we have a monopoly on mass production and "know-how"? And if we have, when will that monopoly lapse? Bretton Woods answers none of these questions.

By contrast, under the protection afforded by free exchanges, we can and we should reduce tariffs to a minimum because the rate of exchange, by its invariable and immediate reaction to imbalance, will operate as the surest compensator against cost and wage differentials between all nations, and thus insure sound and balanced growth of trade as the need for tariffs disappears.

Van Alstyne Noel Offers Seaboard Finance Stk.

Public offering of 200,000 shares of $1 par value common stock of Seaboard Finance Co. was made Dec. 2 by a banking group composed of Van Alstyne, Noel & Co., Johnston, Lemon & Co., and Crowell, Weedon & Co. The stock was priced at $16 per share.

Proceeds from the sale of 100,000 shares of common stock will be used by the company to reduce in part outstanding bank loans and commercial paper, and for other general corporate purposes. The balance of 100,000 common shares are being sold for the account of Industrial Acceptance Corp. Ltd., which company acquired these shares as part payment for the purchase from it to Campbell Finance Corp. Ltd.

Seaboard Finance Co. is approximately third in size among the small loan companies in this country. Balances of loans outstanding at Sept. 30, 1946 amounted to $33,949,498, as compared with $13,322,388 a year earlier.

The company operates 115 offices, located in 18 states in this country and 8 provinces of the Dominion of Canada. Approximately 65 of these offices have been acquired since last year. This expansion has been brought about largely by the purchase of all of the capital stock of Campbell Finance Corp. Ltd., an Ontario corporation which operates 50 loan offices in the Dominion of Canada.

Velvet Freeze Stock Placed on Market

An offering of 150,000 shares of common stock par value $1 was made Dec. 6 at $7.50 per share by an underwriting group headed by Scherck, Richter Co. of St. Louis and Straus & Blosser of Chicago.

The company manufactures, wholesale and retails ice cream through four plants and 82 retail stores in St. Louis and Kansas City, Mo., Peoria, Ill.; Milwaukee, Wis. and surrounding territories.

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Holland's Present International Economic Outlook

(Continued from page 3011)

Holland's recovery is a matter of conjecture. Mr. Eugene Meyer recently made a statement in an address in New York, to the effect that full production in the U.S.A. is of vital interest to the whole world.

Original Dutch estimates put 1946 imports at 3 billion guilders and exports at 1 billion, but especially in the first half of the year both imports and exports lagged considerably, and the figures of imports were revised to 2.3 billion guilders, and exports to 600 million guilders.

In the third quarter, however, imports and, particularly, exports, improved markedly, and it now appears that the gap in the balance of trade, though large, will be smaller than was estimated.

Exports in Million Guilders, 1946

1st Quarter—	
Jan.	19.9
Feb.	27.8
March	46.1
	93.8
Monthly average	31.3
2nd Quarter—	
April	43.2
May	41.3
June	40.5
	125.0
Monthly average	41.7
3rd Quarter—	
July	66.0
Aug.	60.4
Sept.	91.6
	218.0
Monthly average	72.7
4th Quarter—	
Oct.	110.2
Nov.	
Dec.	

Value of 10 months' exports now stands at 547 million guilders, and with two months to go, 600 million guilders appears to be a very safe estimate, 700 million even being within the realm of possibility.

Immediately after the liberation, exports, to an important degree, were made up of available stocks of horticultural products (flower bulbs, in as far as they had not been used for human consumption!) and shipments of diamonds cut in Amsterdam. Gradually, however, exports became more diversified and as in pre-war years industrial products are taking the lead again.

Ranking high in Dutch industrial exports are radio, electrotechnical and affiliated products, produced by Philips Incandescent Lamp Works (Eindhoven). Since the the beginning of 1946, exports of this company alone have more than doubled and will probably again be doubled in 1947. At present, Philips' exports run to some 10 to 15% of total Dutch exports going to 73 countries and in 1947, the figure of exports is estimated at 100 million guilders. The Eindhoven factory now employs 21,100 workers.

Other industrial exports consist of machinery, chemicals, ships, textiles (rayon yarns, cotton piece goods), coke, paper, gin, beer and numerous other items.

Important agricultural exports are made up of flower bulbs, seeds, seed potatoes, fresh vegetables, fresh fruits, flax, breeding cattle, fish, leguminous vegetables, etc.

(2) Imports Still Running Ahead of Exports

Initial imports had to feed a starving population and, as mentioned above, had to help industry get a new start.

Disappointing in 1945 and the first half of 1946, imports picked up in the third quarter and though this temporarily widens the already-existing gap between imports and exports, it is essential to the construction and ultimately, to the Dutch export capacity.

Imports in Million Guilders, 1946

Jan.	not published	June	136.6
Feb.	not published	July	207.7
March	not published	Aug.	206.7
April	not published	Sept.	198.1
May	105.0	Oct.	212.4

Though not officially given, we estimate the first four months' imports at some 450 million guilders and therefore, ten months' imports at some 450 million guilders

First imports after the liberation were foodstuffs, textiles, clothing, and other typical consumer goods. Now, however, the accent is mainly on raw materials, machinery, semi-finished goods, etc. for further reviving industry.

Although Holland will export several hundred millions worth of agricultural and horticultural products, large imports of cereals (mainly from the U. S.) will remain necessary.

(3) Balance of Trade Still Unfavorable

The foregoing paragraphs indicate that, although exports are increasing, the Dutch balance of trade is still adverse.

1946	Exports	Imports	Imports Covered by Exports
Jan.	19.9	*not published	‡30%
Feb.	27.8	*not published	‡30%
March	46.1	*not published	‡30%
April	43.2	*not published	‡30%
May	41.3	105.0	39.3%
June	40.5	136.6	29.7%
July	66.0	207.7	31.8%
Aug.	60.4	206.7	29.2%
Sept.	91.6	198.1	46.3%
Oct.	110.2	212.4	51.9%
	547.0	1,516.5	36.1%

*January through April estimated at 450 million guilders.
‡Estimated.

In prewar years, the Dutch balance of trade always showed a a considerable gap, the difference being made good by such items as income from shipping, foreign investments, etc. Over the 1930-39 period, Dutch imports averaged 1,400 million guilders annually, as against exports of 1,000 million guilders.

Assuming that fourth-quarter imports will total 600-700 millions, total imports for the year would be some 2,000 million guilders. With exports at 600 or 700 million guilders, the gap in the balance of trade would amount to 1,400 or 1,300 million guilders. Exports therefore will cover imports by approximately 30 to 35%, as compared with 70% in prewar years. In September and October however, this ratio showed strong improvement.

(4) How to Restore the Balance of Payments?

Before the war, Holland's "invisible income" more than offset the deficit in the balance of trade.

But prospects with regard to income from foreign investments, shipping, transit trade, etc. have changed markedly. Besides, Holland now has to take care of annual interest charges on its foreign debt.

As the situation is now, restoration of the balance of payments can only be expected if exports can be increased to the level of imports.

To equalize imports, the ultimate goal of Dutch exports is set at 1,000 million guilders in 1947, 2,000 million in 1948, 2,800 million in 1949, 3,000 million in 1950, and 3,200 million in 1951.

Extremely high as these figures may seem as compared with prewar Dutch export capacity, it should be borne in mind that the figures given above reflect the greatly raised price level of commodities and finished products in international trade. The index figure of prices on which these export estimates are based is 250 as against 100 in 1938.

If we take 1946 figures as compared with 1938, we see that so far this year Holland exported 2,806,000 tons with a value of 547 million or an overage value of 190 guilders per ton; for 1938 the figures were 14,429,000 tons for 1,039,000,000 guilders or an average value of approximately 70 guilders per ton!

Taking therefore not value but

(Continued on page 3096)

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Holland's Present International Economic Outlook

(Continued from page 3095)

volume, the 1950 figure equals more or less the volume of Dutch exports in 1938.

Narrowing the gap between imports and exports and even making exports exceed imports is aimed at, in order to restore the balance of payments and to create a surplus with which to pay off international indebtedness, contracted to finance recovery.

(5) Dutch-American Trade

It is generally known that the United States is one of few countries in the world able to export in sizable quantities. All formerly occupied countries in Europe therefore show considerable gaps in their balance of trade with the U. S. Nine months' exports to Holland were about $140,000,000, as against imports from Holland of about $14,000,000.

The U. S.'s share in Holland's imports is about 25-30%. But the U. S. takes only 6% of Holland's exports.

Before the war, also, it was normal for Holland to have an unfavorable balance of trade with the U. S., although the postwar gap is larger than before Holland's occupation:

	Holland Exports to U.S.A.		Holland Imports from U.S.A.
1937	$32,000,000		$75,000,000
1938	20,000,000		81,000,000
1938	22,000,000		77,000,000
*1940 (4 months)	4,000,000	(in round	71,000,000
†1945	5,000,000	numbers)	82,000,000
‡1946	14,000,000		148,000,000

*Stockpiling. †Holland liberated May 1945. ‡9 months.

Holland's exports to the U. S. in 1945 were made up of:

Industrial exports (mainly diamonds)	$ 743,676
Horticultural and agricultural exports	4,551,312
Miscellaneous	64,649
	$5,359,639

For the current year, figures are:

	Holland Imports from U.S.A.	Exports to U.S.A.
Jan.	$12,907,889	$ 976,327
Feb.	10,625,083	769,511
March	13,902,836	1,492,071
April	16,621,995	1,180,020
May	17,116,209	867,496
June	11,546,169	851,058
July	21,111,457	1,397,794
Aug.	19,692,134	1,620,738
Sept.	*19,660,000	4,528,153
	$143,183,772	$13,683,168

*Approximate.

Leading 1946 exports to the United States are: diamonds (cut but unset), flower bulbs, flowers, plants, seeds, flax, chemicals, medical preparations, books, paintings, antiques, etc.

1946-1947 Dollar Needs Covered

Holland's dollar needs for 1946 and part of 1947 are covered. The $200 million loan acquired last May from the Export-Import Bank in Washington ($100 million of which was taken by 50 American banks) is fully committed.

Mr. Eugene Meyer, outgoing President of the International Bank for Development and Reconstruction, recently announced that Holland would apply for a $500 million loan. As Minister Lieftinck stated in Washington last October, 1947 will be the top year in Holland's recovery program and the need for large imports and considerable amounts of foreign exchange will go hand in hand. Besides, the Dutch Wall Street loan announced in July of this year is being held in abeyance only until there is a greater investment demand for foreign securities in this country.

(6) The Next Four Years

Summarizing, we arrive at the conclusion that after a disappointing start Holland's export trade for the second half of 1946 has shown surprising strength.

The ultimate goal of the government—to have the balance of payments really balanced—is far off, however.

The estimate of the Government Planning Bureau speaks of 1950 as the year in which exports will cover imports. This, however, rests on the supposition of no major break in the international price structure. The European countries in general find themselves in the unpleasant situation of having to cover their immediate needs for new machinery and new equipment in a period of very high prices, whereas it might well be that by the time they get ready for large-scale exports, prices will have dropped, leaving these countries with costly assets (bought with borrowed money) giving a much lower yield than originally calculated. They missed the high tide in world prices and probably will get caught in the low tide with markets glutted.

As regards trade between Holland and the U. S., Holland has never been able to balance its trade with that country and, in our opinion, will hardly ever be able to do so in the future. So, in order to be able to pay back its dollar indebtedness, Holland can only hope that, by creating an active balance of trade with the rest of the world or by creating a large surplus on its revenue account in international shipping, it can exchange other currencies for dollars, either through the Monetary Fund or ultimately through free foreign exchange transactions.

But if the export drive fails to realize its goal, (or if prices for industrial export products fall) or if conditions in world shipping are disappointing, many countries that have borrowed in the U.S.A. will find themselves caught with huge dollar debts and will have great difficulties in paying back according to plan.

Holland (as well as the lending countries) may, however, find a considerable safeguard in the fact that its foreign investments are virtually intact and can always be called upon to support the balance of payments if other means should fail.

This same fact, however, means that as long as Holland is in its period of rehabilitation its nationals always might be called upon to give up part of their holdings of foreign, and especially dollar, investments.

Toppers to Hold Annual Christmas Party

The Toppers, an organization of municipal bond traders, will hold its annual Christmas luncheon on Wednesday, Dec. 18, at the Hotel St. George, Brooklyn, N. Y.

Reveille, chow, recreation and taps, in that order, beginning at 12 noon and ending at 4:30 p.m., will be the schedule with John Hollan, Barr Brothers, as toastmaster. The established Topper party custom of awarding door prizes and other amusements will be included. Luncheon will be served at 1:30 p.m.

The Toppers committee consists of: Bigelow Chaplin, Hirsch & Company; John C. Clark, John C. Clark & Co.; Mark de Bary, Harris, Hall & Co., Inc.; George B. Gibbons, Jr., Geo. B. Gibbons & Co.; John Hollan, John Hornblostel, F. P. Lang & Co.; William McKay of "The Blue List," and Robert Sharp, Grunwald & Co.

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The Economic Outlook

(Continued from page 3010)

sure on wages. Hourly earnings in manufacturing, for example, have risen over 14% between October, 1945, and October, 1946. Nevertheless, the prices of consumer goods have risen faster than hourly earnings. As a result of the rise in prices and the repeal of the excess profits tax, corporate profits have been running somewhat better than last year. For the first nine months 350 companies made about 12% more than last year. This figure, however, fails accurately to reflect normal cost-price relationships because in many industries profits were held down by strikes. Among 271 companies in industries relatively free from strikes, profits during the first nine months rose from $573.9 million in 1945 to $832.9 million in 1946, a gain of 45.1%. Business is doing much better than many managers are willing to admit.

4. The possibility of labor disputes makes the outlook for profits highly uncertain. This is shown by the record of 89 companies in industries where strikes were numerous this year—steel, automobiles, electrical equipment, and mining. The profits of these 89 companies dropped from $398.3 million in the first nine months of 1945 to $267.2 million in the first nine months of 1946—a decline of one-third.

5. The cost of living during the last few months has undergone one of the sharpest rises in its history. The index of consumer goods prices rose from 129.6 in February to 148.8 in October, or nearly 15.0% in eight months. The index of prices paid by consumers for food jumped from 139.6 in February to 180.0 in October, or 20.9%.

6. The price structure contains many serious distortions. Wholesale prices of farm products, for example, are about 70% above 1926, and 151% above 1940. The rise in food prices is almost as great. The wholesale prices of commodities other than food are about 21% above 1926 and 46% above 1939.

7. Inventories have increased substantially, but the ratio of inventories to sales is still below prewar. Manufacturers' inventories have increased from $16.3 billion in December to $18.9 billion in September: retail inventories from $6.7 billion in September, 1945, and $6.1 billion in December to $8.4 billion in September, 1946; and wholesale inventories from $4.3 billion in December, 1945, to $5.1 billion in September, 1946. The ratio of manufacturers' inventories to sales in September was 1.76 in comparison with 1.83 in September, 1939. The ratio of retail inventories to sales in September, was 1.02, substantially below the September, 1939 ratio of 1.43.

8. Signs of weakness in prices are beginning to appear. Particularly significant is the trend in the index of commodity futures. Despite the rise in wholesale prices, the index of commodity futures has shown virtually no change. In fact, its movement since the end of July has been slightly downward. It stood at 116.7 on June 22; 122.1 on July 31, and 120.9 on Nov. 30. The Bureau of Labor Statistics index of wholesale food prices dropped from 176 on Oct. 19, to 164 on Nov. 16. There has also been a wholesome drop in the price of cotton, although this price is still far too high.

9. Despite the scattered signs of weakness in prices, new orders are at a peacetime peak. The Department of Commerce index reached 228 in September (1939 equals 100) in comparison with 166 in September, 1945.

10. The basic source of inflationary pressure has shifted from the government to the private part of the economy. The government debt is no longer increasing. This means that the banks are not creating demand deposits to finance the purchase of government securities by themselves or by others. In fact, the debt of the Federal government has been reduced from a peak of $279.2 billion in February to $263.5 billion in October. On the other hand, private credit is expanding. Business loans to reporting member banks increased from $7.5 billion in June to over $10 billion on Nov. 13. Consumer credit has risen from $5.7 billion a year ago to $8.4 billion during September.

11. The bargaining position of labor is considerably weaker than it was a year ago. There are two principal reasons for this. One is the widespread lack of confidence on the part of businessmen in the price level. Consequently, interruptions to production would worry them much less than a year ago when the business prospects were much more certain. A second reason for the weaker position of labor is the large amount of time lost directly and indirectly because of strikes in many industries—steel, automobiles, automotive parts, electrical equipment, coal, copper, and others. As a result of the loss of much working time, the rank and file of unions are not strike-minded today. They do not wish to lose any more time. The leaders know this. They know that it would not be easy to work up enthusiasm for new strikes. Employers, as a general rule, are not fully aware of the strong anti-strike sentiment among workers.

12. Despite the relatively weak bargaining position of the unions and the business uncertainties ahead, a second round of wage increases has started. The increases are likely to be fairly substantial. One of the large oil companies has already granted a cost of living increase of 18 cents an hour. This increase is to be re-examined every three months in the light of changes in the cost of living. Swift and Company and one of the packinghouse unions have negotiated a wage increase of 12 cents an hour in nine plants. The Amalgamated Clothing Workers, which received a general wage increase of 15 cents an hour last year, recently received a 12½ cent an hour increase. An even larger increase has been awarded by an arbitrator in the women's garment industry. Contracts have been reopened in the Chrysler Corporation, in the International Harvester Company, in the rubber industry, in the cotton and rayon textile industry of New England. Increases of 15 cents to 26 cents an hour are being demanded. The second round is likely to produce wage increases in a good many industries of 10 to 12 cents an hour. This will occur despite the fact that the first round of wage increases was very uneven. A survey of 6,600 enterprises by the U. S. Bureau of Labor Statistics shows that between V-J Day and May, 1946, in manufacturing 21.3% of the workers received no

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The Economic Outlook

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general wage increase in wage rates; 2.3% received increases of less than 10%, and 25.5% received increases of 18½% or more per hour. In non-manufacturing, 59.2% received no general increase, 25.2% received increases of less than 10 cents an hour, and only 1.4% received 18½ cents or more.

13. Although the edge is rapidly being taken off the accumulated demand for non-durable goods, little dent has been made in the huge accumulated demand for automobiles, housing, industrial equipment, and other durable goods.

14. Spending by individuals in relation to their incomes in the second half of 1946 is still below normal by prewar standards but considerably higher than during the first quarter. A gain of nearly $15 billion in the annual rate of incomes after taxes produced a rise of $13.6 billion in the annual rate of expenditures on consumption. Spending for consumer goods in relation to cash and bank deposits held by consumers is still very low. In 1940, expenditures on consumer goods were 5.17 times the average holdings of demand deposits and cash by individuals (exclusive of trust funds); in 1943, 3.2 times; in the middle of 1945, 2.5 times; and in the middle of 1946, 2.6 times.

15. Although the proportion of disposable income spent for durable consumer goods during the first half of 1946 was substantially below the prewar normal, the proportion in the third quarter was virtually normal by prewar standards.

II

Two principal conclusions for the immediate future of business follow from this analysis of fundamentals. One is that the prospects for profits depend upon industrial peace. Had the time lost from strikes been normal, industrial concerns in the first nine months of 1946 would have been one-third higher than they were. In the case of individual companies industrial peace means the difference between comfortable profits at present cost-price relationships and large losses. Hence uncertainties in the labor situation profoundly affect business planning. The second principal conclusion from this survey of fundamentals is that important readjustments are ahead in the price structure. Moderate to fairly substantial drops in the prices of agricultural products and apparel may be expected by summer and probably considerably earlier. Agricultural prices will be sustained to some extent by industrial recovery in various parts of the world. Nevertheless improvements in transportation will make available supplies of raw material which cannot now be marketed. Increases in farm equipment and fertilizer will raise farm output in Europe. In the United States, the increasing flow of durable goods will divert some spending from foods. Barring extremely unfavorable crop weather sizable reductions in the prices of farm products may be expected within a few months. Apparel prices are out of line with incomes, and as the urgent demand is met and as apparel meets more competition from other goods, the prices of apparel may be expected to drop.

In order to judge the short-term business outlook, one needs to know the answers to two principal questions: (1) what are the prospects for industrial peace and (2) how will the inevitable adjustment in the price structure affect production and employment.

The outlook for industrial peace during the coming months appears to me to be good. In this opinion I am probably in a minority. Persons who expect much labor trouble point to (1) the large number of important agreements which are being reopened; (2) the very stiff wage demands being made by unions; (3) the keen rivalry between union leaders and between unions which causes economic considerations to play a minor role in wage negotiations; and (4) the increasing difficulty of employers in passing on wage increases in the form of higher prices. My optimistic view rests in the main upon two facts: (1) the appreciable number of large and important settlements which have recently been made without strikes and (2) the obviously strong reluctance of both employers and the rank and file to become involved in strikes. There is far more room for compromise in the present labor situation than the man-in-the-street suspects. Hence I look for compromises not strikes. The prospects for industrial peace would be brighter if employers were better at making counter demands which could be used as the basis for compromise.

Unless prices go higher than I expect them to do, the drop in prices which may be expected next year will not produce a serious drop in the output of goods. The current expectations that adjustments in prices will produce large drops in output overlooks three important facts: (1) the limited number of prices which will be affected by the adjustments; (2) the enormous unsatisfied demand for durable consumer goods, industrial equipment, and housing; and (3) the progress that is being made in removing the special conditions which have been holding back the output of these and many other items. The drop in prices will occur in the main among farm products and a few lines of "soft" goods, such as apparel. Most finished goods are not high in relation to incomes and, after the next round of wage increases, will not be high in relation to costs. Hence, price adjustments will not seriously affect either the buying or the production of most manufactured goods. The need for durable consumer goods, industrial equipment, and housing is so urgent and so large that the demand for these goods will exceed the current capacity of industry, despite the adjustments that may be occurring in the prices of farm products and soft goods. The high and sustained output of durables, equipment, and housing will sustain the entire economy. After reductions in the prices of food and apparel have occurred, the lower prices of these goods will help support the market for durable goods and housing. The output of durable goods, industrial equipment, and housing has been held back by shortages of raw materials and parts and by various bottlenecks. These bottlenecks are gradually being eliminated. The removal of price controls, by permitting increases in the prices of copper, zinc, lead, and other raw materials and of many fabricated and partly fabricated goods, is facilitating the removal of bottlenecks. Particularly encouraging has been the rise in the output of many building materials and household equipment. Whatever contributes to higher output and employment in the industries making durable consumer goods, industrial equipment, and housing helps the economy go through the adjustment in prices of agricultural products and soft goods without bad effects upon output and employment.

All in all, the outlook for production and employment during the next nine to 12 months appears to me to be considerably better than most business analysts predict. I have seen estimates that the index of industrial production will drop to 140 before next fall. This appears to me to be unlikely. Unless the index is forced down by a great wave of strikes, I should not expect to see it drop below 165. It may not drop below 175.

III

What policies should business, labor, and government adopt to promote stability of production and employment during the next 12 months?

By far the most important contribution which business can make is to keep down the prices of finished goods as much as possible and to reduce any prices which are out-of-line with the general price level. Some prices, especially in the field of manufactured goods, are still low in relation to costs and may have to be raised. The second round of wage increases may compel some additional increases. Even where costs are high relative to prices, however, managements should exhaust every effort to cut costs before raising prices. Certainly any price which is more than 40% above prewar should be regarded as too high and reduced as soon as possible.

The reason why prices should be held down as much as possible is that the rise in incomes since 1940 has been very uneven. Wage increases, as I have pointed out, have varied greatly. Millions of wage earners and salaried workers have had no increases or only small ones. Interest payments, rents, dividends, pensions, and annuities have not been adjusted upward to offset the rise in the cost of living. The incomes of farmers next year have risen rapidly, but next year these incomes will be substantially less than this year. The second round of wage advances is increasing maladjustments in the wage structure because these advances are going in the main to the very persons who received large raises last year. The large accumulation of urgent demand prevents the uneven increase in incomes from immediately limiting the market for goods. As the urgent demand is met, the market more and more feels the influence of the uneven rise in incomes. Hence, concerns should be conservative in raising prices and should not readily assume that prices which moved goods satisfactorily in 1946 will do so in 1947.

The first step in holding down prices is to avoid wage increases this winter which will compel further advances in prices. Some unions, sensing that the cost of living is about to fall, are hastening to get wages adjusted to the recent temporary rise in living costs. Despite the good profit record in many industries, wages cannot be raised as much as the recent increase in the cost of living without foreing advances in many finished goods. With adjustments in the price structure about to occur, the time has come to stop the spiral of wage increases producing price increases, which in turn produce demands for further wage increases.

Instead of letting wages rise in proportion to the cost of living and thus force a further advance in the prices of many finished goods, employers would serve themselves, labor, and the community by refusing to make wage increases which require price increases—except in the case of the workers who did not participate in the first round of wage increases or in the case of occupations or industries which need to pay more in order to eliminate bottlenecks in production. In other words, now is the time to adopt a wage policy which will help force down the cost of living toward the wage level rather than to force it up still further. If further increases are not forced in the prices of finished goods at the present time, the price structure will be more favorable to employment after the prices of farm products fall.

Much of the contribution of business to keeping down prices must take the form of reductions in costs. Managements are always

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doing this. Recent progress in eliminating bottlenecks and replacing old equipment is not spectacular, but it is steady and it adds up in the course of a few months. Expenditures on industrial equipment, for example, rose from an annual rate of $8.5 billion a year in the first quarter of 1946 to $11.0 billion in the third quarter. Two important steps which could help hold down prices have not been taken by most concerns. They are: (1) getting trade unions to help in raising labor efficiency and (2) negotiating agreements with unions which assure industrial peace for two or three years.

Many unions would undoubtedly be unwilling to cooperate with managements in cutting costs. Some which would be willing might lack union representatives who could be of much help. Nevertheless, there is far more willingness among unions to cooperate with management in raising efficiency than has been able to express itself—simply because managements have not attempted to create the necessary machinery for cooperation.

Particularly important is the contribution which management can make to keeping down prices by promoting industrial peace. The record of the last year shows that present prices are high enough to enable business concerns to earn comfortable profits **provided there is industrial peace.** Prices are not high enough, however, to produce a very satisfactory annual statement if operations are seriously interrupted by strikes. Assured industrial peace, business concerns would be in a position to pass on savings in costs fairly promptly in the form of lower prices. Hence, industrial peace becomes a major step in a program to keep down prices.

The strong bargaining position of business concerns at the present time gives them a golden opportunity to make a major contribution to industrial peace. Managements should abandon the practice of making substantial concessions to unions without getting anything in return. The most important concession that managements can gain in return for wage increases this winter are agreements which run for two or three years and which bind the union to engage in no strikes against the enterprise during the life of the agreement. Such agreements would not prevent reopening wages at least once a year in the event of a substantial rise in the cost of living, subject to the provision that deadlocks would be submitted to arbitration. A substantial number of agreements in steel, automobiles, rubber, meat packing and electrical equipment industry assuring industrial peace for two or three years would be a strong boost to business confidence and would provide a strong foundation for a program of gradual reduction in prices.

Organized labor can contribute to business stability (1) by pressing for an opportunity to work with management to increase efficiency; (2) by adopting wage policies which do not force up prices; and (3) by pressing for two- or three-year agreements which rule out strikes for the immediate future. Participation by unions with management in increasing plant efficiency would increase the capacity of unions to raise real wages as distinguished from merely raising money wages. During the last year unions have succeeded in increasing money wages, but in most industries they have failed to raise the purchasing power of an hour's pay. Cooperation with management would also help to arouse and hold the interest of their members. As a result of the virtual doubling of union membership during the last six years, unions have millions of new members who regard the union as a sort of slot machine which, in return for a dollar or a dollar and a half in dues each month, gets the members a sizable rise in money wages every few months. Such members obviously cannot be counted upon to stand by the union in times of adversity. Unions have need to broaden their activities in order to make their interest in the organization less exclusively a narrow economic one. Working with management on production problems is one way of doing this.

Labor's interest in wage policies which do not force up prices is plain—especially after the uneven rise in incomes during the last several years. I wish to stress, however, the golden opportunity which unions have to win prestige and good will as well as to contribute to general economic stability and to raise their own bargaining power in the long run by negotiating agreements which would definitely rule out strikes for the next two or three years. It is doubtful whether the strikes of the last year have been worth their cost to labor. At any rate, assurance of peace in the principal industries for the next several years would stimulate long-range planning by business and would thus raise the demand for labor and improve the long-run bargaining position of unions. Does the labor movement have leaders with the economic insight and the vision to see labor's interest in assuring industrial peace in the country's key industries for the next several years?

How can the government promote business stability during the next year? The principal contribution which the government can make is to discourage the expansion of credit except where this expansion makes possible a proportionate rise in production. The large purchases of durable consumer goods and housing which are in prospect create the danger that credit will expand faster than output. When this happens, demand rests on an unstable foundation. It is bound to drop as soon as the expansion of credit ceases. It is bound to drop still more as soon as people begin paying old bank loans faster than they incur new ones.

Restrictions on the expansion of credit are never popular. Concerns like to expand their sales by encouraging customers to go into debt regardless of whether these debts are financed by an expansion of credit or by the savings of other persons. The banks and the Federal Reserve System are under pressure to facilitate the expansion of bank credit regardless of whether it is used in consumption or production. At the present time regulation of consumer credit by the Federal Reserve authorities is under fire. This regulation rests upon the war powers of the President. The new Congress should promptly give the Reserve system proper authority to regulate consumer credit.

Some people regard the prospective drop in agricultural prices as a reason why credit policies should be liberalized. Such action would be premature. Agricultural prices are dangerously high and should be slowly forced down without delay. If consumers are compelled to buy durable goods and housing out of the savings of the community instead of being permitted to use bank credit, prices in general and agricultural prices in particular would be put under mild pressure. As a result, the abruptness of future price adjustments would be mitigated. Certainly present credit policies should not be permitted to force up the prices of farm products and thus to aggravate the drop in those prices which will occur in the near future.

Of great importance is the budget policy of the government. This policy must be based upon estimates of the needs of the government. No satisfactory estimates have been made public. For the present fiscal year expenditures of the federal government are expected to be about $41.5 billion. If taxes are not cut, the Treasury estimates income at $39.6 billion. Although a bookkeeping deficit of $1.9 billion is indicated, the Treasury has estimates that cash receipts of the government will exceed cash outlay by about $4.6 billion. As Treasury estimates of income are usually on the low side, the cash surplus under present tax rates may well exceed $6 billion.

Under present conditions, with upward pressure on many prices strong and a considerable part of the price structure too high, this surplus is not too large. Developments during the next six or nine months, however, may well require that the government reduce or eliminate its surplus or even to run a deficit. Unfortunately the fiscal machinery of the government is not well designed to make quick changes in fiscal policy. So great is the inertia of public opinion that the fiscal machinery is not likely to be changed until the country has had more lessons in the school of experience to teach it that quick changes in fiscal policy are necessary.

The long-run tax policy of the government should be based upon careful estimates of the long-run revenue needs of the government. Taxes should be set to provide revenue dring most of the next five years of several billion dollars in excess of current needs. Most of the next five years will be a boom period which means that this will be a period when reduction of the public debt will contribute to economic stability. The needs of the government will be determined in the main by national defense and by the success of various groups in getting large handouts from the government. My guess is that government expenditures over the next several years will average $35 billion a year. This is considerably higher than I should have guessed a year ago.

In the light of this analysis, the proposal to cut all income tax rates by 20% seems premature. Obviously it does not rest upon a careful analysis of the needs of the government. Furthermore, when tax reductions are made, they should be carefully designed to increase the supply of venture capital because, in the long-run, shortage of venture capital is likely to be the most serious limit on the level of employment. The most serious fault with the tax system is the high marginal rates at which incomes are taxed. At about $20,000 a year, for example, the government takes half of any increment of income, and above that income, substantially more than half. Since the government allows very limited loss offsets, the high marginal rates of taxation cause the very people who are best able to take risks and to supply venture capital to prefer secure investments. The first step is tax changes, therefore, should be to reform this major defect in the tax system. One step in the attack on this general problem would be to permit capital losses to be offset to a limited extent against general income. A second step would be to eliminate the double taxation of dividend income by giving individuals credit for the tax paid by the corporation on the profits of which the dividends are a distribution. A third step would be to tax dividends received by persons with incomes above a given amount (say $10,000 a year) at lower surtax rates than general income.

IV

The insistence of the public that wartime controls be eliminated has shifted to business most of the responsibility for keeping the economy stable. The elections have shifted to the Republican Party much of the responsibility for determining the government's contribution to stability.

Neither business nor the Republicans are well prepared to assume these new responsibilities. They lack definite programs. During recent years they have argued strongly that all would be well if controls were eliminated. The fact that they could point to many blunders in the operation of controls does not assure that business or the Republicans will do a good job of running the economy now that the opportunity and the responsibility is theirs. Today the community demands security more insistently than ever before in its history. In my opinion the demand is overdone. Nevertheless, nothing is gained, in the short run at least, by challenging the demand. Whoever makes the economic policies of the country will be expected to do a far better job than has ever been done before in keeping the growth of production and employment steady. No time should be lost by the new holders of power in devising effective programs to promote stability and in bringing home to the managers of each business enterprise and the leaders of each union that each shares the responsibility for keeping the economy stable.

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Edwards & Holt to Be Abbott Proctor Partners

Abbott, Proctor & Paine, members of the New York Stock Exchange, will admit James N. Edwards and Bernard S. Holt to partnership as of Jan. 1. Both have been associated with the Richmond, Va. office, 911 East Main Street, for some years, Mr. Holt being an associate manager of that office.

Salomon Bros. Hutzler To Admit Shaw & Simon

Salomon Bros. & Hutzler, 60 Wall Street, New York City, members of the New York Stock Exchange, will admit Leo G. Shaw and Charles J. Simon to partnership as of Jan. 1, 1947. Mr. Shaw is manager of the firm's arbitrage department.

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Our Economic Operations in Austria

(Continued from page 3026)

cial institutions; and the financing of its foreign trade. The implementation of American financial policy in Austria on all these heads is effected by the Finance Division of the U. S. Element, Allied Commission for Austria (USACA).

Heading the U. S. Element is General Mark W. Clark, who is U. S. High Commissioner for Austria as well as Commander-in-Chief of the U. S. Forces in Austria (USFA). The Chief of the Finance Division is therefore financial advisor to General Clark, as well as to General Clark's Deputy, Brig. Gen. Ralph H. Tate, and to General Tate's assistant, Colonel Francis H. Oxx.

Apart from his duties as financial advisor to General Clark, the work of the Chief of the Financial Division runs through two principal channels. On the one hand, he is in almost daily contact with the Austrian Minister of Finance and the President of the Austrian National Bank. On the other, he is a member of the quadripartite Finance Directorate, the other members of this Directorate being the Chiefs of the Financial Divisions of the British, French, and Soviet Elements of the Allied Commission, respectively. The chairmanship of the Finance Directorate changes monthly; and during the month when General Clark is Chairman of the Allied Council, the Chief of the Finance Division, U. S. Element, is Chairman of the Finance Directorate.

Arthur W. Marget, the present Chief of the Finance Division, U. S. Element, is a professional Economist, on military leave from his peace-time post as Professor of Economics and Finance at the University of Minnesota. He has taught at Harvard and the University of California, and has been special lecturer at the London School of Economics. In addition to numerous contributions to technical journals on economics in America, England, Italy, and Austria, he is author of a two-volume work on *The Theory of Prices*, which is widely used in graduate study at universities in America and abroad. Entering the army as Major (later Lt. Colonel) in August, 1943, Mr. Marget was put in charge, in April, 1944, of the Finance work of the Anglo-American planning group for Austria, then stationed in England. As the defeat of Germany became more and more certain, he moved to Italy with the nucleus group of the U. S. Element of the future Allied Commission, entered Austria in June, 1945 with an advance group then stationed at Salzburg, and moved to Vienna upon the establishment of the Allied Commission for Austria in August, 1945.

Martin M. Rosen has acted as Deputy Chief of the Finance Division since April 1, 1945, when he joined the organization in Italy. Prior to his entry into the Army (in which he held the rank of Captain), he was with the U. S. Treasury. The Administrative Officer of the Division, Frederic S. Newman, likewise joined the organization in Italy. Prior to joining the Army, in which he had served as Lieutenant of Infantry, he had been connected with the Manufacturers Trust Company, New York City.

Under the Chief of the Finance Division are six branches: Banking, Insurance, Foreign Exchange, Foreign Credits, Public Finance, and Accounting. With the exception of the Accounting Branch, the work of each branch, through its chief, runs through the same two types of channels mentioned in connection with the work of the Division Chief. On the one hand, the Branch Chiefs are in continual contact with the corresponding Section Chiefs in the Austrian Ministry of Finance or the Austrian National Bank. On the other hand, each Branch Chief is member of a quadripartite Sub-Commission which is responsible to the quadripartite Finance Directorate. The chairmanship of each of these Sub-Commissions (on Financial Institutions, Insurance, Foreign Exchange, and Public Finance) changes each month in accordance with changes in the chairmanship of the Allied Council and the Finance Directorate.

Chief of the Banking Branch is Hubert K. Ladenburg, who joined the organization in Italy in April, 1945, after having served with the planning group for Germany in London. Prior to his entry into the Army (in which he served as Captain) in 1943, he had been with the Department of Commerce, which he had joined in 1941 after an extensive banking experience in Europe and the United States. He has published articles on economics and banking, including a *Plan for an International Clearing Bank*. Deputy Chief of the Banking Branch is Stephen T. Forbath. Prior to his entry into the Army in 1943, in which he received his commission in 1944, he had worked at the Hungarian General Credit Bank, Budapest, and had taught economics at Lakemont Academy, Lakemont, N. Y.

Chief of the Insurance Branch is Arthur F. Ackermann. Mr. Ackermann joined the Finance Division in February, 1946, succeeding Captain Robert L. Gannon, who had joined the organization in June, 1945 in Italy, and had been Branch Chief until his redeployment in August, 1946. Mr. Ackermann had been with the U. S. Department of Agriculture (1933-36) and the Social Security Board (1936-46).

Mr. John H. Adler, Chief of the Foreign Exchange Branch since November, 1945, had served with the Federal Reserve Board (International Section); had been consultant to the House of Representatives Special Committee on Post-War Economic Policy, in whose Report on Post-War International Trade he collaborated; and had been Research Analyst with the U. S. Strategic Bombing

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Survey. He has contributed articles on foreign trade to various scientific journals.

Chief of the Foreign Credits Branch is Mr. Gabriel T. Kerekes, who joined the Division in May, 1946. Prior to his service with the U. S. Forces and with the Office of Strategic Services during the war, he was engaged in banking in New York City, and had been with the Foreign Funds Control Division (Diplomatic Section) of the U. S. Treasury.

Mr. Lawrence S. Dreiman, present Chief of the Budget Section of the Public Finance Branch, is also acting as Chief of the Branch. Both prior to and following his service in the Army from October, 1942, to November, 1945 (which included work with the Far Eastern Division of the Office of Strategic Services), Mr. Dreiman taught economics at the University of Minnesota. He has published articles in technical journals on economics, and served as economist with the Research Division of the OPA in Washington.

Unlike the other Branches of the Finance Division, the Accounting Branch does not maintain direct contact with the Austrian Government or the other three Elements, its responsibilities —which are very considerable— being confined to accounting for all funds and supplies which pass through U. S. military government channels in Austria. Chief of the Branch is Mr. Kelison R. Helms, who succeeded Major Alfred B. Hecker. Mr. Helms, also in private life associated with Price, Waterhouse and Company, joined the Finance Division in November, 1945, after having served in the Army since 1943. He became Chief of the Accounting Branch after Major Hecker's redeployment in August, 1946. Deputy Chief of the Accounting Branch, with special responsibility for Supply Accounting, is Mr. Ernst J. McLuckie.

Sunshine Park Racing Stocks on Market

Preliminary to the opening on Jan. 15, 1947, of the initial 50-day period of horse racing on its track near Tampa, Fla., the Sunshine Park Racing Association, Inc., publicly offered Dec. 6, 60,000 shares of 25 cents non-cumulative preferred stock and 120,000 shares of common stock. The securities, underwritten by John K. Walters & Co., Inc., of Wilmington, were priced at $5 per unit, consisting of one share of preferred and two shares of common stocks. Proceeds from the sale will be applied to additional improvements to, and further rehabilitation of Sunshine Park, and to provide working capital for the conduct of race meetings.

Pursuant to an agreement between the corporation and the partnership of M. Russell Dock and C. C. Vega, Jr., holders of a permit issued by the Florida State Racing Association, meets will be held each year for a 50-day period during the months of January to March. Sunshine Park consists of a one-mile track with a three-quarter mile chute, a grandstand and clubhouse, which together with adjacent terraced areas will accommodate approximately 20,000 spectators, and a parking area able to accommodate 3,500 cars. The corporation has recently acquired stables with approximately 600 stalls which will be installed at the Park. Although not in use since 1934, the Park has been maintained and rehabilitation was commenced during the past summer and will be completed before the opening on Jan. 15.

Capitalization of the corporation following the sale of the securities will consist of 75,000 shares of 25 cent non-cumulative preferred stock, $4.80 par value, and 300,000 shares of .10 cent par common stock.

Halsey, Stuart Group Offers $30 Million Phila. Electric Bonds

Halsey, Stuart & Co. Inc. headed an investment banking group that made a public offering Dec. 11 of $30,000,000 first and refunding mortgage bonds 2¾% Series due 1981 of Philadelphia Electric Co. at 101.35% plus accrued interest. The bonds were awarded to the group at competitive bidding Dec. 10 on a bid of 100.879.

Proceeds of the sale of the bonds together with proceeds from the recent sale of 300,000 shares of new 3.8% preferred stock will be used to provide approximately $60,000,000 of new capital for the company's construction program through 1947. Temporary financing for part of the program has been provided through $18,000,000 of short term loans represented by 1½% promissiory notes payable to banks. These notes will be retired from the proceeds of the new financing.

Redemption prices on the bonds are scaled from 104.4% if redeemed during the 12 months period ending Nov. 30, 1947 to 100.3% for the 12 months ending Nov. 30, 1980, and thereafter at par.

The largest project in the construction program consists of work now in progress on the new Southwark steam-electric generating station, located in southeastern Philadelphia on the Delaware River, and related transmission facilities. Present plans call for the ultimate installation at this location of four turbo-generator units, each with a rated capacity of 150,000 kilowatts and an effective generating capacity of 169,000 kilowatts.

Capitalization of Philadelphia Electric Co. and subsidiaries consolidated after the new preferred stock and bond financing will consist of $221,757,064 of long term debt, $57,472,000 of preferred stock and $137,816,005 stated value of common stock.

Harold Welt in NYC

Harold L. Welt is engaging in the securities business from offices at 175 Fifth Avenue, New York City.

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Ingersoll Nominated to Head Phila. Sec. Ass'n

PHILADELPHIA, PA.—William B. Ingersoll, of Stroud & Company, Inc., has been nominated for President of the Philadelphia Securities Association in 1947 by the Association's nominating committee to succeed H. Clifton Neff, of Schmidt, Poole & Co., the 1946 President. Election will be held at the annual dinner meeting of the Association on Tuesday, Jan. 14, at the University Club. According to custom nomination is tantamount to election.

Other nominations announced by the committee are: Vice-President, Harry C. Rippard, Buckley Brothers; Treasurer, G. Ellwood Williams, Pennsylvania Company, and Secretary, Harold Scattergood, Boenning & Co.

For membership on the Board of Governors to serve three years: Harold Scattergood, Newlin Davis, Kidder, Peabody & Co.; Harry B. Snyder, Yarnall & Co., and William B. Ingersoll.

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Securities Salesman's Corner

By JOHN DUTTON

WILL HE LOVE US IN MAY AS HE DOES IN DECEMBER?

(Continued from page 3011)

signs of the times in the election results, whichever way they may blow.

The new Chairman of the Commission has started off well and in all fairness to him, no one should doubt his sincerity when he speaks about his desire for closer and more harmonious relations between the financial community and the SEC. It is about time that brokers and dealers in securities lost their fear of the SEC. Whether Mr. Caffrey knows it or not, there are still large numbers of investment dealers who do not call their local SEC offices on the telephone, even for routine information. They don't wish to become involved in discussions of the most unimportant matters for fear that some employee of the agency will make something unpleasant out of it. This is no fantasy of the imagination. It is a fact that many dealers live in dread of the Securities Commission, and for no earthly reason except that they distrust this agency to such an extent that the less they have to do with it the better. Many, too, are fed up with requests for information that have been made in the past.

In addition to the Commission's past record of coldness toward the securities industry, the fact is that there have been far too many chairmen during its short life for anyone to have much faith in the possibility that a continuity of policy and procedure could ever be developed. For example, does anyone know how long Mr. Caffrey is going to be the head of the Commission? No matter what his policy may now be, next year he, too, may become a judge. Then everybody will have to start all over with a new chairman. That is what has been going on in the past and it is yet too soon to believe that times have changed. What happened to Messrs. Kennedy, Landis, Douglas, Frank, Purcell — and how many more were there? I've lost count!

One more thing that Mr. Caffrey had better get straight before he goes out on a limb, and that is this business of protecting the investor. He is of the opinion that it would be a good thing if those who sell securities would insist that those who buy them know more about what they are buying before they hand over their money. Now he's really got something, but this is exactly what securities dealers and brokers have been doing day in and day out in this business for many, many years. Yes, and this was so even before their was an SEC. But you don't make intelligent investors out of people by sticking their noses down into a prospectus and telling them to read a lot of verbiage that has been prepared by ex-SEC lawyers who have written those things in language no one but themselves and the professionals could understand, because if they did it otherwise, someone might get in trouble ten years from now on the grounds that relevant facts had been omitted. Learning to become an intelligent investor takes time, patience, experience, and possibly even the loss of some money. And those among the public who were hollering about free riding in a lot of speculative junk last spring, because they thought if they were accorded bigger allotments they could make more profits and sell out before they even put up the cash, were nothing but greedy gamblers and not investors and deserved to lose their money. IF THE SEC THINKS IT WAS PROTECTING THE INVESTOR, OR ANYBODY ELSE, BY MAKING A SQUAWK ABOUT THE FACT THAT THE PUBLIC WASN'T GETTING ENOUGH OF THAT STUFF, as they did last April, THEY ARE ONLY KIDDING THEMSELVES.

There is only one protection for the investor. That is for the securities dealer and broker in this country to continue to lead the way through education and sound advice. This is a long, slow process. If this is what Mr. Gaffrey means when he discusses the subject of protecting the investor then he will give the utmost cooperation to those who are running their own individual business organizations along sound, constructive lines. He will strive to make THE PERSONNEL OF THE COMMISSION which comes in contact with the securities dealers and brokers conscious of the fact that they are the servants of the people and not their lords and masters. Meanwhile it is up to all who are desirous of better relations to give the new chairman their cooperation. If something constructive is now to come out of the SEC after what has been going on ever since it was born he will need help from everybody.

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(Continued from page 3012)

wants investment bankers to cooperate. Offhand, this looks like paperwork problems for corporations filing registration statements.

* * *

Reconstruction Finance Corporation will be overhauled, won't be dismantled. Congress will (1) call for the first public accounting ever made by RFC, (2) blame waste on poor administration rather than the basic law, and (3) continue the agency in standby form. Republicans recall that the original RFC law was sponsored by the GOP under President Hoover. For sentimental as well as political reasons they won't yet admit publicly that need for this pre-New Deal agency no longer exists.

* * *

National debt concentration in the hands of the banks, wealthy and well-to-do has Treasury economists worried. They're afraid a depression may come along with most of the Government's obligations held by these three classes of investors. To cushion the crash, they want Federal securities more widely distributed.

* * *

Investment bankers are being urged by the Treasury men to help bring this wider distribution of Federal indebtedness by selling savings bonds. Statisticians visualize a potential annual market of $1,500,000,000 for savings bonds in customers of investment bankers, brokers and security dealers. To date, investment bankers have failed to join other bankers in promoting savings bonds sales. Now, the Treasury is striving to woo the IBA into joining its unpaid sales staff.

* * *

Guaranteed annual wage in industry remains purely in the academic stage. Nobody of influence not even advocates — take seriously the recent recommendation by a bloc of Federal experts that immediate steps be directed toward industry-wide guaranteed yearly pay. Congress may talk about the idea, won't do anything about it soon.

* * *

International Bank officials are worried by a growing murmur in some investment circles against securities to be issued by the Bank. It's agreed for the time being at least these flotations must be financed wholly by private capital in the United States and Canada. The Bank will apply to SEC for registration of its bonds, hopes all States will make them legal investments for insurance companies and banks. The bonds will be general obligations secured by general assets of the Bank. No government guarantee, United States or otherwise, will be attached. It's this combination of facts which has provoked considerable skepticism over the soundness of the securities.

* * *

Reciprocal trade agreements law faces amendment. This whole issue will be precipitated next month when the Committee on Reciprocity Information opens hearings on projected modifications in existing pacts. High tariff Congressmen will demand (1) submission of all tariff changes and deals to Congress for ratification, and (2) elimination of the voodoo secrecy shrouding the making of such pacts. Odds are better than even they'll win on both issues.

* * *

Installment buying restraints are slated for further modifications. And you can mark down one thing as almost certain—Federal Reserve Board won't get permanent authority to regulate such credit.

* * *

Insurance industry has been encouraged by Republican election win to renew the fight for exemption from Federal control as interstate commerce. Existing law, in effect sets aside until Jan. 1, 1947 a Supreme Court decision holding the industry to be interstate in scope and therefore subject to Government supervision. The existing New Deal Congress rejected the industry's plea to legislate the court opinion permanently out of operation. There's a good chance the incoming Republican Congress may prove more sympathetic.

* * *

American business may rejoice over appointment of O. Max Gardner as Ambassador to England. The Senate will confirm Gardner without demur. Although a Democrat who held New Deal appointive office, the North Carolina business man never lost his perspective during the reform drive against private enterprise. In the Court of St. James, he will remain a sagacious, practical exponent of the capitalistic system which brought him personal wealth.

* * *

Airline merger talk is heard in important circles here. It's in the whisper stage, but may bear watching.

* * *

Republican Robin Hoods are bending their bows at the State Department's Office of International Information and Cultural Affairs. That high-sounding propaganda outfit is hiring hundreds of young ex-servicemen at lush salaries and training them for foreign assignments to peddle American ideology. A Congressional committee will investigate this contrivance, will find out (1) why taxpayers should be forced to finance these wandering troubadours, (2) why inexperienced youngsters are being hired at $6,000 and $7,000 salaries without any qualifying examination whatsoever, (3) why State Dept. hasn't sought for this task of selling America abroad experienced men with thorough knowledge of our business, industrial, commercial and financial institutions.

* * *

Bringing in the sheaves might be a better title for an 80-page technical study just released by the Treasury Department under the appellation "The Postwar Corporation Tax Structure." The opus discusses inequities in the double taxation of distributed corporate profits and delves into various tax formulas which might be substituted without loss of Federal revenue. In a pre-publication review, Treasury statisticians bewildered financial writers with such terminology as Rsi (R—Rc) +RC Rni + Rsi. If you want a copy, write to Charles Shaeffer, Treasury Director of Public Relations.

* * *

Don't expect miracles in the direction of more and speedier housing. But at least two constructive steps are certain. First, additional suffocating controls over materials will be lifted. Second, industry will be encouraged to erect rent projects for veterans rather than inadequate houses for sale at inflated prices.

Barclay President of Philadelphia Bond Club

PHILADELPHIA, Dec. 11—William K. Barclay, Jr., a partner of Stein Bros. & Boyce, was elected President of the Bond Club of Philadelphia, at the Club's annual meeting held last night (Wednesday, Dec. 11), at the Racquet Club.

Wm. K. Barclay, Jr.

H. Gates Lloyd of Drexel & Co. was elected Vice-President; James D. Winsor, 3rd, of Biddle, Whelen & Co., was elected Secretary; and Samuel Evans, Jr., of C. C. Collings & Co., Inc., was elected Treasurer.

Spencer D. Wright, Jr., of Wright, Wood & Co., retiring President, was elected to the board of governors for term expiring in 1947, and Edward M. Fitch, Jr., of E. M. Fitch & Co., Inc., and Theodore S. Mead, of The First Boston Corp., were elected for terms expiring in 1949.

Baker Weeks to Admit Kaelin & McConnell

Baker, Weeks & Harden, 1 Wall Street, New York City, members of the New York Stock Exchange and other exchanges, will admit William R. Kaelin and Rollin M. McConnell to partnership as of Jan. 1, 1947. Mr. Kaelin has been with the firm for some time in the institutional bond department. Mr. McConnell has been manager of the Detroit office, Penobscot Building.

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Changes in Wage Trends

(Continued from page 3016)

nection, that the United States, in common with the rest of the world—but we have been in a very favored position because of geography and because of our native endowment—that we have been through a very unsual situation and it is very hard to draw conclusions from this unusual situation and say, "We are going on from here with much the same kind of conditions." I don't think that is a safe thing to do because a war is unusual, and the immediate aftermath of a war is unusual and tends to mislead people, to lead them astray and make them think that things are better than they really are. So there are these elements in the background that need to be considered.

I want to add another element, and that is, pople's thinking about these things. There has been a lot of thinking in this country and throughout the world about what an appropriate, proper, tenable wage policy is and people have got themselves all messed up in this.

We are not immune; I mean America is not immune from this messing around that has been done. The outcome of a lot of this theorizing has been that it doesn't really matter what you do to wages, that the wage rate ought to be raised continuously and that certainly the worst evil or crime you could commit would be to lower it some time or other or to contemplate lowering it.

Many people now hold that view and they hold it because they think that there is a relation between the rate of wages paid when a person is hired for a job, or does a job, and the general prosperity of the country, and they have always simplified this thing to the point where they are ready to say that, if you have a high wage rate you have prosperity; if you have a low wage rate you have depression. They go further and say, if you have a high wage rate and undertake for some reason or other to lower it a little bit, you will force yourself into depression, or into worse business, and things of that kind.

I am putting it to you in very simple terms, but that is a very subtle kind of idea and underlies a lot of American thinking. You see for yourself by examining, weighing this simple statement of the thing I have given to you, that it would be a very popular idea because it is an attractive idea. But because it is a popular idea and an attractive idea, it does not necessarily mean it is right, and we had better learn about it. We had better learn about it because though I am not prophesizing—I am looking mainly at history tonight—we may encounter the conditions which make it necessary to deal with this set of ideas in a more or less practical manner.

I think the first thing to do about wages is to take stock and see where we staud and I think you will find a lot of surprising conclusions, because as much as the talk is about wages and, as much information as we have in this country—and we are a country which is simply deluged with information, we spend an awful lot, we spend more money on information that all the rest of the world put together and you never pick up a newspaper that is not full of information—I am not sure we know the main facts. That may be one of the penalties we pay for saving thrust upon us day in and day out all of this undigested material.

Where Do We Stand?

I know from efforts I make from time to time to find out what it is that somebody knows about a relatively simple labor fact, that we simply do not know them. So the first thing to do is clear the deck, so to speak; how we got to the present position in wages and where we stand. We have moved a lot.

I might start this by a general statement to this effect, that we have been raising wages in the United States at an unusual rate for a much longer period of time than most people imagine. Now, let this sink in on you: We have been raising wages in the United States at an unusual rate. What that means I will come to later, but that is important—not that we have been raising wages, but raising them at an unusual rate for a long period of time.

We didn't wait until this war to do it. We have been doing it before and we did it part of the time as a matter of deliberate policy for the purpose of solving economic problems. It doesn't solve them, but that is another matter. We have been in a high wage movement for a long time, so that we are not novices at this, and we have a wealth of experience if we will only turn to its use, if we will only pay attention to it.

When you raise wages, you raise a kind of wage, and you hope that the result of raising that kind of wage will be prosperity and stability, and a higher material standard of living and all the things people hope for. You do not legislate these hopes, you hope for them; you do not legislate these goals, you hope for them. All you legislate, all you arrive at by collective bargaining, is a price—that is all—and you arrive at that price and you demand that price and you take a position with respect to that price; or you put it into a Fair Labor Standards Act or law, because it is your judgment—right or wrong—that if you do that, if you arrive at that price, you will have stability, you will have an expanding economy, you will have an ever-rising material standard of life. But you want to remember, you don't legislate any of those ends; you hope you will achieve them.

Now, we have been raising the price of labor. I have divided for purposes of simplicity the behavior of wages in the United States into several well-defined and interesting periods, and the data are simplicity itself. I would like to put it before you.

I have taken first the period from 1933 to 1939. That is a period of industrial recovery. I do that so that we have a kind of foundation upon which we can look to the future, because you don't look into the future beginning with an abstraction somewhere. We are doing it right in New York City, the center of the United States, in a room filled with representatives of industry and the press. We are doing it from here in their presence and there is no use being abstract about this thing for there are certain concrete situations we have got to deal with.

We had a period of industrial recovery in the United States (it was interrupted, all right, but don't worry about that) that ran from 1933 to 1939, when the World War began. In that period, the money wages of American labor increased 50%. Now, of course, an an American audience listening to this thing, we are awfully spoiled, so that 50% looks like small pickings in this country, but just put it in its proper perspective: We have increased money earnings 50%. While we were doing that, the cost of living increased 10%, so that people profited, so far as price was concerned, in that period from 1933 to 1939—in the rate of wages paid to manufacturing labor in this country (14,000,000 people, or whatever the number was) and that reflects a more or less general situation. We increased the rate of wages 50% and the cost of living increased only 10%, so that the people that said that you solved your economic problem by raising the purchasing power of wages did not know these figures or, knowing them, decided to disregard them. They were, then, poor guides for us. Anyhow, there are the figures.

Now, 1933 to 1939 is a short period of time in the history of a country or the history of an industry, and that was the increase from 1933 to 1939.

Let me take the next period, which was the period of the war, from 1939 to 1946. You all know more about this period and have heard a lot about it; and you read a lot about it, too. From 1939 to 1946, using the same kind of figures, the money rate of wages increased 80%. I could give you the exact figures but I have a great array of talent here that will tell me in a minute, so I have to cut this short. The cost of living—this runs down to 1946, you see, September, August, October, some such date—the cost of living increased in that period 40%.

You know, we are getting worried about the cost of living, but we worry about it, yet nobody takes the responsibility for it, nobody is responsible for this increase in the cost of living. We are just all universally worried about it. That's a fine state for an intelligent country to be in—but don't worry about that!

Anyhow, we increased the money wages during the war 80% and increased the cost of living 40%. Again we followed with a second period of substantially greater increase in money wages than in living costs or than in prices. Therefore, there was a substantial increase in the purchasing power of money wages.

I want to make an interpolation here. Don't hold me responsible for these figures. I did not invent them. I take figures from official sources. They are responsible — and they are pretty good figures. I could quarrel with them if I wanted to, but I have never yet seen any figures that somebody could not quarrel with. I am coming back to quarrel with those figures. People who quar-

(Continued on page 3104)

Canadian Securities

By WILLIAM McKAY

During the wartime crisis Canada was pre-eminent both in point of time and also in the quality of its governmental controls. Disciplined acquiescence to Federal regimentation has become ingrained in the Dominion system to the detriment of private initiative and industrial enterprise.

This situation has been aggravated by the removal of controls in this country which has put further pressure on the Dominion's ironbound economy. In order to counteract the natural influences exerted by greater external freedom, Canada sacrificed its most effectual bargaining counter—the 10% discount of the Canadian dollar *vis-a-vis* the U. S. dollar. Not only will this weaken the Canadian position when price controls are eventually lifted but it also operates in the meantime as an inflationary factor.

Moreover, the Dominion has not learned from the object lesson so well demonstrated in this country that the wage and price levels cannot be dealt with separately. On the contrary, the ceiling on wages has been removed and the strict control of prices remains.

Just as the action in raising the level of the Canadian dollar tends to exert an inflationary effect on the Dominion's artificially low price level, in a similar way the belated effort to depress the rate of interest operates in the same direction.

Once again the example set by this country in relaxing the drive towards lower interest rates has not been followed north of the border. As soon as the strict exigencies of wartime financing became less acute the government bond market here was permitted to adjust itself to a more natural level.

Such was not the case in Canada. Since the conclusion of the Dominion's final War Loan Drive, the Bank of Canada has been more active than ever, in directly maintaining the Dominion bond market at an artificial level. As a consequence the inflationary influence of Central Bank bond purchases now has an even greater impact on the frozen Canadian economy. This effect is disguised to some degree, as the war-inflated volume of credit cannot, under the strict regime of price control, flow into natural constructive channels, but creates a pressure of idle funds on the general interest structure.

Thus when the day comes to free the entire economy, the Canadian economy will be exposed to pressure from within and without — credit inflation held in bounds only by strict governmental controls—a sudden upward revision of internal prices when controls are removed, aggravated as far as foreign trading competition is concerned by the sacrifice of the 10% exchange advantage.

A further factor of no mean importance is the fact that this country, in taking the initiative in returning to a free economy, is now far ahead of the Dominion in its effort to restore normal peacetime stability.

During the week the feature of the security markets was a flurry in internal bonds which were in demand partly as a result of the gloomy strike picture south of the border. Free funds in consequence firmed sharply to 3⅝%. The movement however did not follow through and the rate reacted to 4%. External bonds were motionless and the call for payment of the Dominion 2½s of 1948 produced no noticeable reinvestment demand.

Internal stocks were again irregular with golds weaker on speculative liquidation, and paper and base metals reactionary after earlier strengthening. During the week the sponsors of Gaspe Oil Ventures Ltd., set a praiseworthy example by calling a meeting in New York to keep the stockholders in this country intimately posted concerning the up-to-date developments on the company's property on the remote Gaspe peninsular. Other Canadian raisers of capital in this country could very well take note of this admirable procedure.

With regard to future prospects the Canadian situation as a whole is still not sufficiently clear to justify any marked departure from an investment policy based on careful consideration of the underlying factors.

Frederick R. Lack to Head American Standards Assn.

Frederick R. Lack, Vice-President of Western Electric Co., will be President of the American Standards Association for the ensuing year, it was announced on Nov. 22 at the concluding session of the two-day annual meeting at the Waldorf-Astoria, New York. Mr. Lack succeeds Henry B. Bryans, Executive Vice-President of the Philadelphia Electric Co. Mr. Lack formerly was Vice-President of the ASA. George H. Taber, Jr. will be Vice-President of the Association for the coming year. He is Executive Vice-President of the Sinclair Refining Co. and already was a member of the Board of Directors of the ASA. W. Averell Harriman, Secretary of Commerce, in a telegram to Mr. Lack hailing his election said: "In the critical years ahead, I envision the ASA Federation of some 100 trade, technical, consumer and governmental bodies as making an outstanding contribution to strengthening our national economy."

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NORTHERN OHIO

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Changes in Wage Trends

(Continued from page 3103)

reled with them a year ago, taken them as the gospel truth today, because they have changed their minds about what they want.

Let's take another period, September, 1945 to 1946, one year, and a critical year; the first postwar year. In this year we converted ourselves from a war economy into a so-called peace economy; at least, that is what we thought it was. We will rededicate it shortly.

I want to call your attention to things that have been said about this year. The Secretary of Labor, who has at his disposal a great statistical agency, made a speech a while ago in which he said that the 18-cent increase really did not apply generally because, according to the Bureau of Labor Statistics, people only got about 11 cents on the average. Well, that is a foolish statement for a Secretary of Labor to make. It would not be a foolish statement for a Secretary of Labor to make if he did not have a big statistical agency at his disposal, but, having a big statistical agency at his disposal, it was a very foolish statement to make because if he had gone to his statistical agency he would have gotten the figures which he used to the CIO convention and which I will now have the privilege of imparting to an employer's organization which perhaps ought not to see the figures before they are shown to a labor organization.

Anyhow, in this year, September, 1945, 1946—again quoting from the U. S. Department of Labor—the money wages went up 20%. Figures are interesting: 94c to $1.12, $1.11, $1.13—there is no use worrying about a cent or two. The cost of living in that period went up 13%.

Here you have three very important periods, a prewar period which was our period of experimentation when we were solving the economic problems of the United States and when we were left with the highest unemployment rate that the United States ever had in periods of industrial republic.

From 1933 to 1939 the increase in money wages was five times the rate of increase in the cost of living. In the war period—a lengthy period from 1939 to 1946—the increase in money wages was twice the increase in cost of living. Then we narrow it to the last period of one year, September '45 to '46; there was a 20% increase as against the 13% increase.

A lot depends on what period you use. I brought with me, because I want to use it, a report of the American Federation of Labor statistical organization which gets out a monthly bulletin with a chart in it in which they compare productivity, the efficiency of labor, with the money rate of wages from March to July, 1946. I haven't the slightest idea why they chose those months. You can choose any months you like. But this has reason behind it; these are reasonable years. They are prewar years, war years and the first postwar year which I am using.

One more figure and it is a figure of profound importance, if you want to understand this thing, and we do want to understand it. If we do not understand it, we are going to commit ourselves to lots of trouble. I assume you have got these figures. Let's take a look at this other figure. I take the peak of the last big burst of prosperity, or inflation, or whatever you want to call it—boom—in and out of states which was reached so far as manufacturing wages are concerned from September, 1929. That is a long time ago from one point of view, but not so long from another. Seventeen years is not a long time in American history. September, 1929, was a peak. I compare September, 1929, to the latest date for which we have got figures now—say, September, 1946—this is a peak because wages have been going up unsteadily now since 1933 and I wager you are going to be surprised at these figures.

This was a prosperous country in 1929. Of course, things were going on that did us in later, but who knows whether they don't go on again somehow or other even with the best of intentions, but I don't want to worry you. This is a cheerful audience.

The fact is that at that time there traveled to this country people from all over the world in the 1920's and wrote books about the prosperity of this country that got into common circulation during that period, and they explained why we were prosperous. Do you know what the average rate of wages of a factory worker was in 1929? Something like 56 cents an hour. It shows you how you change your sights without quite knowing what you are doing.

Now, that peak of prosperity in September, 1929 and the latest month for which we have got a figure—you all call this prosperity, all right, but you are nervous about it—the money rate of wages of a factory worker increased 107%. That is double, a little more than double, just to show you how this kind of thing works, and the cost of living in that period increased 18%. That is, from September, 1929, to August or September of 1946, 18%.

Increase in Purchasing Power of Labor

There is an increase in purchasing power, of the price of labor, that you cannot match anywhere in any history or in any part of the world for so short a period of time, and that is the record. It is not a record I made. That is the background on which we work.

Let me add a couple of other items to the background. You get a background like that and you might as well make up your mind if you are practical people—and this room is full of practical people that all know about this—you don't do a thing like that without pushing up your cost. I wish I had the time to say why I thought so, but I haven't and I make the assertion that you don't do it without pushing up cost. We did find many odd devices that everybody is familiar with willingly and unwillingly. We have added taxes on payrolls on which we have seen only the beginning.

Let me cite one case. Nobody knows what the Crosser Bill is unless he happens to be from that industry. It is a railroad social insurance bill which was passed by an overwhelming majority of Congress, most of whom did not understand what they were voting for and, if they did, should not have voted for it. It imposed upon the railroad industry a tax for certain forms of social security which an unbiased actuary estimates will cost 21½% of the payroll.

Now, there is a policy—to pick an industry that everybody knows cannot afford it—and to put an additional tax above its wages of 20 to 21½% on the payroll. We might well talk of these things frankly because there is no use keeping them under cover. There are these other charges, also, of which taxes on payrolls for welfare and social insurance purposes are won.

Another is a new idea we invented in the war when we were prosperous. When you say you are prosperous in a war, you mean a simple thing: you mean the government prints money and pays for it. And that is a kind of prosperity that doesn't last. Anyhow, it never has lasted, and if you look at the logic of it you won't expect it to last, so we invented during the war, in the goodness of our hearts (we are generous people) a thing called "on the fringe," and that can add up to a lot of money. But fringe is fringe anyhow and we invented these things and they are adding to cost.

Somebody is going to talk about one of these fringe items, which just occurred to people they'd have to pay for. Portal-to-portal. Then we added a third item—indirect cost—and that is a very interesting item. I wish I had time to talk about it. Indirect cost is a very simple kind of thing, a new thing unknown to most people. It is what you pay in order to get people to work whom you are paying to work at a higher rate than you ever did before. This sounds funny, but I am not being facetious about it. That is a big item in American cost today and it is going to be devilishly hard to absorb. It is in many cases going to be impossible to absorb, and it is a kind of cost nobody had any business imposing on an economic system which has just gone through the thing that this economic system will have gone through in the next few years.

So you have got in addition to these wage rises, which I think any unbiased person will say are pretty substantial things, these marginal items that can rise to a very substantial figure. I won't try to estimate it. That is the background, ladies and gentlemen, and it is on that background that someone dared to ask me to predict the future. I don't think that is so hard to do. So, I say now, as to the future, that wages are going up some more. Fairly soon. They will go up no matter what happens to the coal dispute, though the outcome of the coal dispute may affect the amount and the timing. They are going up!

Now, why are they going up? Because large numbers of people in this country have been told they should go up and they have been told something more: they have been told they should go up and can go up without doing any harm. To translate that into simple language that anybody can understand, they have been told that wages can go up without costing anybody a penny. That is an economic miracle. If you can raise the wages of everybody and it doesn't cost anybody a cent, then we are performing the kind of miracle we have hitherto not been able to perform. So that the reason why wages are going up is that people have been taught that they are going up and that they can go up without doing any harm.

There is a third reason for it and the third reason is that there isn't anybody in the United States today who is willing, able and prepared to take the responsibility for telling the American public what is likely to happen if you keep on raising the wages once more. That is all. There is lacking that responsibility, because if you raise them once more, this is what you can be reasonably sure of, that this time they will be followed instantaneously by a rise in prices for a very simple reason. Some people, maybe, need not raise their prices, but most people will have to raise their prices. The OPA is gone, as was predictable last year this time it would be gone. Gone or not, it could not have interposed itself against a price increase when wages went up at that rate. So we are in for a wage increase and it will be followed instantaneously by a commensurate price increase, so that the people who use the arguments for a wage increase now to say they have got to repair a damage done a while ago—the damage being the fact that prices crept up on wages—won't repair that damage at all, because prices are going to creep up on them so fast you won't know there has been any wage increase.

So, looking into the future, we are going to have a wage increase. I don't know the amount, but you can say this about the amount: nobody is going to increase wages less than 10 cents an hour. That is treason. That is in the nature of a crime. You wouldn't do that.

There is going to be a substantial wage increase and it is going to be followed fairly promptly by a substantial price increase, and now let me stick my neck out and make my final prognostication, and it is (I run a great risk in doing this, but this is a more or less friendly audience) it is the last increase for some time to come. It is the last one. There are no more big wage increases for some little time on the books—on the books. It is a mistake to get this one. It is an irresponsible group that asked for this one. It is an irresponsible group of people that propagandized for this one, because it ends wage increases for some time and because it adds to the strains and stresses, already great in this economic system which, if you push them much further, will bring us into trouble.

There is a question and answer period coming and maybe in the question and answer period some one will ask one of my colleagues what that trouble is.

Observations

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result of the present higher prices combined with the wartime shortening of automobile credit terms from 24 to 15 months, the average instalment buyer making a purchase involving a trade-in, must make monthly payments three times the prewar amount.

To illustrate the present critical plight of the great mass of automobile buyers and would-be buyers, who do not have the ready cash to cover the (greatly increased) cost in one payment, we list the comparative obligations on the New York buyer of a *Ford Super-de-Luxe* car in 1939 and now:

	1939	1946
Cash price (without accessories)	$879	$1,535
One-third down payment	293	512
Unpaid cash balance	586	1,023
Insurance	58	131
Total unpaid balance	644	1,155
Finance charges	77	72
Total balance due	721	1,227
Monthly Installments (24 formerly; 15 now)	30	82

When it is remembered that one-half of all prewar cars were consumed by individuals with incomes less than $2,500, and that about two-thirds of cars going to all groups were customarily purchased on instalment credit, the very crucial potential damage to our entire consumption economy resulting from a continuation of these severe consumer credit restrictions, can be clearly appreciated. In this connection the degree of our present abnormal boom demand must also be kept in mind, with the Federal Reserve Index of Industrial Production showing the physical volume of business to be no less than 45% above 1937's previous peacetime peak. For it indicates the probability of a severe business recession (if not "bust") which would greatly accentuate the above cited obstacles from credit regulation.

The American Bankers Association is particularly concerned over this potential threat to the fair and adequate distribution of goods, as evidenced by the current deliberations of its Consumer Credit Committee in Chicago.

With this general picture of an anticipated recession (particularly in Administration circles) there must be coupled the very low volume of automobile credit which is now outstanding. The present outstandings of $331 millions are less than their minimum during the 1930-32 Great Depression, and only one-sixth of the 1941 amount. Hence the current regulatory borrowing curtailment, particularly if long continued, will constitute an uneconomically unjustified bar, further reducing effective buying power.

Long-Term Implications

The permanent exercise of qualitative credit controls by the Federal Reserve Board may be defended as being theoretically sound. Nevertheless, when seen in the context of the entire economy, and particularly of the monetary and credit operations of the Treasury as well as the Reserve Board itself, their application to consumer credit must be seen as inadequate, and inconsistent with other far more powerful inflationary stimuli set in motion by the very same, or other, branches of the government. Our Federal debt has grown eight-fold during the past decade, and our money supply has trebled since pre-War. In proportion to our "super-modern" machinery for producing floods of inflation, the consumer credit dam will have no greater effect than a straw. Let the Reserve Board and the Treasury concentrate on fundamentals!

The foregoing treats of the overall economic phases of the present consumer credit situation. But there are also the traditional objection to consumers' borrowing on ethical and moral grounds, which

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at least some Reserve officials are presently voicing. There is also the "personalized" objection based on fear of the borrower as well as the lender not being wise enough to abstain from overextension. But the record has consistently disproved this. Ever since the start of this form of business in this country by Cowperthwait & Sons, the individual's management of his borrowing has consistently confounded the skeptics.

Taking 1940 as a typical year, we find the following as the "trouble" record of one of the "Big Three' finance companies. Total repossessions aggregated only 1.6% of new car volume. Net losses were only four-tenths of one percent (based on recoveries through 1944); and all past due accounts as of the end of the year amounted to but two-tenths of one percent of outstanding dollar volume.

If objection be voiced on grounds of potential future injury to the lender—irrespective of this past record—surely restriction based thereon should at least be confined to banks, who are acting as trustees of the public's funds. The Federal Government is not justified in playing self-appointed nursegirl to the privately-owned finance companies.

Penalizing the Underprivileged

In conformity with inconsistencies generally involved in well-intentioned regulation, clamping down on consumer credit contravenes a basic government aim, in additionally aggravating the disadvantageous position of the *small* consumer. Curtailing his accessibility to credit privileges obviously also obstructs his access to goods, and lowers his standard of life. The degree of hardship ensuing from the afore-cited high instalment payments prescribed for the automobile user, is exactly correlated with the size of his income and savings.

The Reserve Board has said that the issue of continued Government restriction should be decided by the Congress—that is, whether the enabling Executive Order should be vacated, or whether the authority for such regulation should be continued by specific legislation. Whether the Board is wholeheartedly sincere or not; let the incoming Congress follow the urgent dictates of sound economic policy —as well as the recent election returns—by deciding that the small consumer shall *not* be thus sabotaged!

Our Grave Inflationary Danger

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be stable or even increasing. But of the volume of money is increasing more rapidly than the volume of goods, buyers will bid up even this increasing supply. Then the price rise is not due to a shortage of goods; it is due to increased money. And we have then a simple inflationary process.

Because a dollar always sells for a dollar people are deceived about its stability. Nothing needs greater emphasis at the present time than the simple truth that a rise in prices and a decline in the value of money are different names for the same thing. When the Sunday newspapers in certain cities rose in price from 10¢ to 20¢, a dollar would buy only half as many papers, but 10 papers would buy twice as many dollars. The price change came not because paper and other newspaper services and supplies were dear; the change came because money was cheap. And that is our first point. In spite of actual wartime-imposed shortages of certain goods, the terrific pressure within our price structure is due to the over-supply of money, not to a short supply of goods.

Our American Inflation Problem

We may turn now from considerations of inflation in general to our current American problem. The increase in our money supply is clear in the figures for all forms of money. In 1920, Americans did business with between $3 and $3.5 billions of legal money. This is the dollar bills, the fives and tens, and the nickels, quarters and dimes that are daily going in and out of pockets and purses, cash registers and tellers' windows, settling minor payments. In 1933, after the bank holiday, this amount of legal money increased to about $5.5 billions—representing, in part at least, money withdrawn from the banks in alarm and not returned. But even after the FDIC was well established, the trend continued; by 1939, the figure was about $7.5 billions. With the war, the expansion exceeded all conceivable bounds; in 1942 the figure was $15.4 billions. In January, 1945 it was $25.2 billions and in October, 1945, $27.9 billions; in December, 1945, $28.4 billions, at which figure it has remained with minor fluctuations till the present time. In short, in comparison with 1920's, the American people have at least eight times as much legal money at ready command as they formerly had. Yet there has been no increase in American population, productivity, or volume of trade to offer any kind of justification for such a change.

The figures for bank deposits are every bit as impressive as those for currency. In June, 1929, one the eve of the great collapse, demand deposits stood at what was regarded as an imposing and dangerous height, $55 billions. Four years of depression reduced this, by June, 1933, to $41.6 billions. Since that time we have had an almost uninterrupted advance: $57 billions in 1937; $66 billions in 1940; $74 billions in 1941; $81 billions in 1942; $110 billions in 1943; $136 billions in 1944; $162 billions in June, 1945, and $168 billions in November, 1945; and $170 billions in August, 1946, the last month for which we have complete and accurate figures. This means that from June, 1933, to August, 1946, the volume of funds against which the American people could write checks increased more than four times. This increase has been greater since we entered the war, but the process was well along at the time the bombs were dropped on Pearl Harbor. And even war is not a sufficient excuse for such an expansion of the means of payment: $315 per capita in 1933 and nearly four times as much in 1945 —$1240 per capita.

Where did such funds come from? During the early 30's some of it came from gold that still poured into the country. But most of it came from the expansion of deposits to finance the Government debt. At the present time, about $140 billions of a $270 billions debt, more than half, is in the hands of some class of banks or of some Government agency or fund. By and large, this fact means that more than half of our vast national debt was financed by means which did not represent a direct reduction of purchasing power from any individual's budget. About $106 billions came from the reserve banks and the commercial banks; and in this case there was clearly no curtailment of the power of any individual to spend, and little curtailment of the banks' further power to lend. Another $25.5 billions in bonds held by the insurance companies may be added to our total of $140 billions. This represents an allocation of funds arising from savings and does not there-

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Mutual Funds

By BRUCE WILLIAMS

Don't Expect the Impossible

The Trustees of **George Putnam Fund**, writing in the December issue of "The Prudent Investor," make some realistic comments about the limitations as well as the advantages of professional investment management. We quote:

"The old idea that investment managements have some magic formula, or are endowed with some singular ability to foretell the future dies hard. Actually, of all the arts, that of investment is the most difficult, and the least susceptible to reduction to a fixed approach. Compared with a trustee, the doctor or the lawyer find their paths well marked.

"Much has been written about the advantages of hired management in the care of invested money, but we would like to say something to you about the limitations of this same management. For unless we frankly recognize our weaknesses, as well as our strength, how can we hope to make real progress in any line of endeavor?

"No one should put his investment dollars under the care of a management and expect the impossible, or hope even, for the improbable. To do so will lead only to eventual disillusionment. The investor should not expect that management will always get out of the market at the right time, and back in again at the right time—or that the value of his investment will not fluctuate, or that there may not be times when the current market value will be less than the original amount accepted for investment. The art of investing has not yet reached the stage where we can look ahead and plan—with a feeling of complete confidence, in the accuracy of our forecasts. Probably it never will. People have been trying to do this for a very long time—but it is the unexpected which usually upsets the best laid plans.

"What then, you may well ask, should be the function of investment management? First of all, such management should operate along tested, common sense lines. It should not hold out hope for the impossible. It should be progressive, yet at the same time keenly aware of the lessons of history. . . ."

An accompanying article cites the record of Harvard University's 300-year-old endowment fund as an example of what competent, full-time investment management may be expected to accomplish.

"Harvard long ago recognized the need for an experienced and full time management to look after its Endowment Fund. It knew that capital could not take care of itself. The accomplishments of this management can best be shown by a glance at the record. From 1886 to 1931 the rate of return averaged approximately 5% and from 1932 to date slightly over 4%, a remarkably steady income record through wars and depressions. Furthermore, as of June 30th, the market value of the Fund was 19% in excess of book value. Truly the record of this great Endowment Fund over the years is a fine example of competent Massachusetts trusteeship. At a time when so many people are concerned over the future of their savings, this 300 year old record should be a real source of inspiration."

Keystone Distributions

Distributions declared on **Keystone Shares** for the first 10 months of 1946 totaled $15,378,000, of which $6,748,000 were Regular Distributions paid out of investment income and $9,629,000 were Special Distributions realized on the sale of securities.

Since inception in 1932, more than $59,400,000 has been paid out to shareholders, of which $32,389,000 were Regular Distributions and $27,027,000 were Special Distributions.

On Nov. 1, 1946, net assets of the 10 Keystone Funds amounted to $153,655,100.

Commonwealth Investment Co.

Referring to Barron's recent comparison of investment company performance, **North American Securities Co.** calls attention to the record of **Commonwealth.** "From the Barron's reprint it is evident that among the combination funds, Commonwealth has been outstanding, as it leads them in three of the five periods compared, and is in second place in the other two."

Diversified Investment Fund

Hugh W. Long & Co. has just released two new folders on DIF listing six advantages in owning its share and indicating its current yield to be 5.2%. This liberal rate of return is the highest available on this fund anytime within the last 15 months.

The Long Company also announces increased dealer compensation on conversion from one Series of **New York Stocks** to another. The following percentage charges on conversions now apply. Formerly these charges were divided between the dealer and the sponsor; henceforth the dealer will receive the full amount.

Net Asset Value	Percentage Charge
$ 0—$49,999	3%
50,000— 99,999	2%
100,000— up	1%

Chemical Shares

Distributors Group has an attractive new folder available on **Group Securities' Chemical Shares.** The following excerpts are from the covering letter:

Two factors are today pulling in opposite directions in the American economy:

1. An enormous unsatisfied demand for goods, including new products made from new materials.
2. The attitude of organized labor demanding an increasing share of the total value of the product and restricting output through stoppages, thus reducing both direct manufacturing volume and raw materials supplies.

Under these circumstances, shares in the Chemical industry have particular interest now—for this industry is, above almost all others, characterized by relative unimportance of wage costs and availability of raw materials under almost any conditions.

[The views expressed in this article do not necessarily coincide with those of the "Chronicle." They are presented as those of the author only.]

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Our Grave Inflationary Danger

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fore involve an expansion of the means of payment. But such savings are routine; and while they do not represent expansion of deposits, neither do they represent a curtailment of ordinary disposable consumer income.

The same set of important facts may perhaps be more easily realized if we turn the figures around. Out of our 270-billion dollar debt only $63 billions are in the hands of individuals — and the classification "individuals" includes unincorporated businesses which in some cases are substantial enterprises. In other words, definitely less than one-fourth of our total debt is in a form which represents a real deduction of consumer purchasing power. The amount of the indebtedness in 1929 is so small a fraction of the present total that it may be neglected. Therefore, we may say that only one-fourth, at most, of our indebtedness was financed by means that were clearly anti-inflationary.

We have a vast increase in the supply of money of all types; therefore, we have a decrease in the value of money. The first effect of an increase in the volume of money is a decline in its value; that is, a rise in prices. We cannot emphasize too strongly that a rise in prices and a fall in the value of money are different ways of saying exactly the same thing.

Effect of Unused Money Supply

Ordinarily, when we have an increase in the volume of money we have a fall in its value; that is, prices rise. Before the war, except for a brief period in early 1937, we did not have any impressive price rise in spite of the increase in money. We have here a case of an economic cause ready to operate but with its effect suspended. The reason for the suspended effect was that the expansion of money was done in such a way as to cause general business apprehension and lack of activity, in spite of the power of the monetary factor. The money was there, but it was not used, and the normally expected effects did not follow.

At the present moment, the patriotic motive for observing price control is gone. The sense of common effort in a common peril that produced cooperation during the war has departed. All the accumulated inflationary pressure of thirteen years is now ready to work; nothing whatever needs to be added. If anyone thinks we have had a general shortage of goods, let him consider the indexes of department store stocks for the past six years. Never once did they go down to the average for 1935-39. For the most part, they ran 50% to 60% above it. A limited list of important goods was scarce, but there was no general shortage.

For anyone who is willing to use his eyes and ears, there is no need to quote figures to prove the existence of inflationary pressure. You see it and hear of it all about you. In spite of some small adjustment in the past few weeks, every salesman expects to be able to sell any goods he can get; every house owner is sure he could get higher rent. Every job holder is expecting a raise. The bars, hotels, and resorts are full. Luxury items that couldn't be given away are now selling at big-figure prices. This does not spell goods shortage; this spells easy money, which is the layman's phrase for inflation. The money is already existent, ready to operate. All that is needed to bring about an unmanageable situation is a more rapid use of the funds we have.

The price level that can be supported by a given sum of money depends in an important degree on the rate at which money goes from hand to hand and checks go from bank to bank. A small sum moving fast enough can support a large volume of trade. In the last stages of inflation, this velocity becomes visable. When the mark was going to pieces in Germany, the youngest and fastest member of the family met Father at the factory gate on pay day and ran with the money as fast as he could to Mother, stationed at the grocery store, so that the money could be spent at once before it declined further in value. Velocity gets into big figures when money is handled like that. In the United States in 1936, a time as close to normal as we have in the past decade, the "average dollar" changed hands 22 times a year in business transactions; now the average velocity is about 13 times a year. All that is needed to give us an acute inflationary problem is to increase the average velocity; no new money, no spending program, no new policy, no new legislation is needed.

Preventing Further Inflation

Our problem is to prevent further inflation without inducing a deflationary spiral. This is extremely difficult to do. Only two serious proposals have been made concerning it. The first is good but inadequate—let the government stop making its own market for its own bonds; let the rate of interest rise and again become a significant and reliable price. This would have an overwhelming effect on the banks which are loaded with government bonds at rates of interest less than 1%. This price adjustment would wipe out the capital of many banks. Fortunately, the bonds held by the bank are mostly securities that have not far to go to maturity; and the proposal would allow the banks to carry the securities at par until maturity. This plan has the merit of putting an end to the source of further inflation, but it does not reduce the urgency of the present problem.

The other proposal is adequate and sound and no more drastic than the situation requires; but it is too drastic to be accepted. This proposal—to explain it briefly—would make use of the present economic situation to introduce a system of 100% reserves. The government securities in the banks would be retired and the banks simply given a credit in paper money at the Federal Reserve. This would reduce the public debt by $116 billions. This would, moreover, with the lawful money in circulation, give us a supply of lawful money very closely equal to the volume of deposits. That sum of money would be fixed and not allowed to expand or contract. Against demand deposits the banks would be required to carry 100% reserves and would become simply money warehouses, charging for their services. With time deposits the legal requirement of notice would be strictly enforced. Money would no longer do double duty as invested funds and still be available to the investor as though they were liquid funds. These simple devices would prevent markets from going to pieces for purely monetary reasons; but they are devices too drastic, as I have said, to be accepted.

II.

Inflationary Policy A Deliberate One

Our second point was that the inflationary problem was the result of deliberate policies that have been mischievous in the extreme. In flation is the economic ailment of poor countries and weak governments. When an unpopular government cannot get popular support for a tax program, the people are forced to pay the taxes in the form of higher prices. Now we certainly are not a poor country and we have not had weak government; but since 1932 our national fiscal policy has been basically inflationary; that is, we have used an increase in the money supply to increase the incomes of various groups. Inflation as a policy solves none of the old problems and creates new ones of its own. Any group of persons who were caught in the price collapses of 1929 and of 1931-32 and who seem to have benefited by inflation, still have their problem. Inflation may postpone the problem or change its direction or its form, it will not solve it.

A simple example of this is the course of wages. In the unemployment period of 1932-1935, labor enthusiastically welcomed the spending program. Employment recovered very moderately, more slowly than it did in any other major country. In the fall of 1937 we had the sharpest price collapse in economic history and we came out of the resulting unemployment only by the adoption of the "Defense Program," a new form of government spending, From this we moved easily into war spending on an apocalyptic scale—not spending merely for what was required for the conduct of the war, but spending also for other purposes and using the outlay of money to achieve shifts in personal and regional income distribution. Today, after 13 years of spending, labor is again clamoring for higher wages, for better housing (in which field we are about 15 years behind in supply) and for another spending program as the only way to avoid disaster.

Keynes' Theories

The analytical basis for this has been furnished by a British economist, John Maynard Keynes, a few years ago created Lord Keynes, who died some months ago. Keynes' influence among the younger economists, especially those in government service, was enormous. No other scholar of modern times has affected the minds and lives of so many people. The acolythical devotion of his disciples was well summarized by a University of Chicago economist who stated that he was no longer a Cummunist because "Keynes has rendered Marx unnecessary." This was a very common attitude, though it is interesting to note that in this case of this speaker its practical importance may be doubted. The speaker was Oscar Lange who, thinly disguised as a representative of the "Polish" people, has been dutifully carrying water on both shoulders for the Kremlin in the United Nations meetings.

Now, though Keynes wrote as an economic analyst and sought to develop theories of general validity, he was primarily interested in practical policies with which to solve the grave Briitsh economic problems. Conceal Keynes' theories and policies behind formulas elaborate as you will and bedeck them with a technical vocabulary as complex as you please, they come to nothing more nor less than inflation. As a said in the beginning, inflation has many forms and manifestations. England is a country about half again as big as Missouri, highly centered financially in one metropolis, with only five big banks all closely under the thumb of the Bank of England, with a working class accustomed to do as they are told and to leave public questions to the gentry. A policy that might work when strongly controlled as it could be under such circumstances cannot be transferred to our vast country, with its large semi-independent regions each with a Federal Reserve Bank of its own, and with its almost 15,000 banks and a population that is anything but docile and that likes to ask questions and express its mind regardless of what the gentry, if any, may think. Yet we took Keynes' inflationary theories and applied them in this country as though they were generally valid.

Just in passing, this is a striking parallel to another historical situation. During the Napoleonic Wars, England was cut off from continental supplies. For several decades wages tended to remain at a subsistence level; and if one class — the merchants — made money, another class—the land owners—did not. Labor, in any case, was presumed to stay at the subsistence level. This theory of opposition of class interests was a valid piece of economics on a local scale, but historically speaking, of momentary duration. Able British economists, analyzing their local circumstances, set up their analysis as of supposedly universal application and we have been fumbling about in economic blind alleys ever since because we accepted their theory of class warfare. In the past 15 years we have made a similar mistake by following Keynes' British analysis.

III.

No Hope For Careful Handling Of Problem

Our reliance and dependence upon British economic theory is one of the principal reasons why there is little reason to think that anything will be done about our present difficulties. Keynes' theories under a variety of attractive names have been sold to millions of Americans who wouldn't be found dead with a "cheap money" label on them but who will talk glibly about "deficit financing." Besides, the temptation is too great for the politician and the supposed beneficiary. People like yourselves may be strongly opposed to cheap money; but if your region or your county or your ward or your brother-in-law is going to be benefited, it is easy to recall that economists have made mistakes before and to feel that the situation is controlled by the big bankers anyway. One of the most beguiling attractions of inflation is that everybody thinks he is the only one that will gain by it; and everybody wants just a little inflation which will benefit him. A little bit for each is a lot for all in the final total; and inflation balloons the original problem it was supposed to solve into a distorted price structure which highly aggravates that original problem.

Finally, the magnitude of the problem makes it almost impossible of human control. The vast and erratic monetary pressure that has been created cannot be allowed to increase, but at the same time the pressure cannot simply be withdrawn. It is like bringing a man from his work in a pressure caisson. Sooner or later we must get him out, but if we take him out quickly he will have a serious case of "the bends." The price system will have "the bends" in many different directions at once if we adopt a drastic deflationary policy. Now it is easy to say that the government should stop printing money, start paying its debts, let the interest rate alone, and do its borrowing in a market it does not control. But this must be done in the face of the opposition of special interests like silver and against the urging of many groups who think a little inflation is all right for just them. This sort of policy-making and execution requires a quality of mind and will that is rare among public officials.

People too easily forget that the secret police organizations of continental Europe began with popular approval as intelligence and enforcement agencies for price control. They hid behind the old formula that high prices caused inflation—not the truth which is quite the contrary—and the old Russian Cheka and the Nazi Gestapo were out to get the speculators who were the cause of all the trouble. The short road to National Socialism in this country, just as it was in other countries, is WPA—easy spending; OPA—price control while government policy makes it impossible; FBI—to assist OPA do the impossible.

I can give you a pertinent example of this process. A student at St. Louis University, a former service man, managed to obtain a car at less than the ceiling price. He was called on by the OPA to explain how he was able to buy a car at less than the fixed price. He maintained that this was no business of OPA's and that until he bought a car at more than the ceiling price the OPA had no interest in the matter. He was informed by the OPA official that people did not realize it but actually it had just as much authority as the FBI.

At the present moment, there has been a slight but happy reversal of this trend; but the enormous pressure is still bearing on our price structure and the utmost vigilance of the guardians of the republic and of all good citizens is required to prevent the appearance of inflation in any form and under any administration. The essentials of medieval democracy, of which in its English form we are the fortunate heirs, was the control of the purse strings. This we have largely lost. It must be regained and maintained.

Minn. Honeywell Pfd. Offered to Public

An underwriting group headed by Union Securities Corp. and including Piper, Jaffray & Hopwood, of Minneapolis, and Alex. Brown & Sons, of Baltimore, is offering today to the public 24,300 shares of Minneapolis-Honeywell Regulator Co. 3.20% convertible preference stock, series "A." The stock is priced at $105 a share and accrued dividends.

Net proceeds from the sale will be added to the company's treasury funds as additional working capital and will be available for general corporate purposes. The current volume of the company's production, and the resulting increase in inventories, have increased working capital requirements.

The preferred shares constituting this offering are identical in respect to dividend, conversion rights and call price with the 85,700 shares of convertible preference stock already outstanding and listed on the New York Stock Exchange. They are convertible into shares of common stock of the company at a conversion price of $75 per common share (taking the preference stock at $100 a share). They are redeemable in whole or in part at $110 a share on or before March 1, 1949; and $109 a share on or before March 1, 1952, and at $108 a share thereafter.

Upon completion of this offering the outstanding capitalization of Minneapolis-Honeywell will consist of 110,000 shares of 3.20% convertible preference stock, series A, and 1,243,800 shares of common stock, par value $3 a share.

Halsey Stuart Offers Gulf Mobile Equipments

The award of a new issue of $3,600,000 Gulf, Mobile & Ohio RR. equipment trust certificates due 1948 to 1959 was made Dec. 10, to Halsey, Stuart & Co. Inc. and associates, at 99.2599 for 2% notes. The bid was the only one submitted. Subject to Interstate Commerce Commission approval of the financing, the bankers reoffered $1,800,000 of the notes Dec. 11 at prices to yield 1.15 to 2.30% according to maturity.

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Problems Facing Industry

(Continued from page 3019)

industry, and it is becoming increasingly clear that they do not like them in labor either. Americans instinctively fear the loss of individual liberty through the abuse of power that a monopoly or any form of dictatorship creates.

In the decade before the war a number of laws were passed by Congress with the laudible objective of fundamentally improving the economic position of workmen, including the Norris-LaGuardia Act, the Social Security Act, the Wages and Hours Act, and the National Labor Relations Act.

The stated purpose of the National Labor Relations Act is: "To diminish the causes of labor disputes burdening or obstructing interstate and foreign commerce." It certainly has not accomplished this desirable purpose. In fact, the abuse of the power that this Act has given unions and union leaders has multiplied the troubles the Act was intended to eliminate. The result is now an intolerable situation.

This labor act has now worked out about like the prohibition act, which was also passed with laudible objectives; namely, to promote temperance and improve the morals and health of the public. The abuses of the prohibition law and its administration were ultimately so great that the majority, 14 years after its enactment, decided that the only way out was to repeal the law. Incidentally, this did not solve the liquor problem, and I am sure that the repeal of all Federal labor laws would not solve the labor problem either. But I am equally sure that the majority of the people of our country now realize that there must be important reforms in labor union activities. The existing laws governing labor relations must be amended in the interests of all the people and in keeping with American concepts of a free society.

As a nation we still face the problem of not only achieving a final sound settlement of the coal controversy but also of other threatened interferences with production. But we must not overlook the bigger problem of reforming our labor laws and their administration so that the conditions we now face and the organized unemployment and lack of production we suffered last winter will not be repeated annually. The American people cannot stand annual work stoppages and organized unemployment in one industry after another.

The present situation was clearly forecast when government condoned and even supported the Communist - inspired sit - down strikes and plant seizures under the cloak of legitimate unionism. We are now reaping the harvest of the wirlwind from the wind that was sown ten years ago. Today, the power that this public policy created is threatening the very life of our nation.

In our modern industrial society none of us can live exclusively by his own efforts. Everyone of us is dependent upon the activities of others for his very existence. Our country cannot survive in an atmosphere of industrial anarchy.

I am not in any sense making a political speech, but the recent elections show clearly that the majoriy of our fellow citizens recognized even before the coal strike, that the policies followed in the last ten years must be changed. The new Congress has a great responsibility to see that sound remedial measures are promptly taken. The consistent rise since 1936 in the strength of the Republican Party has paralleled and coincided with the growth of union membership and the abuse of power created thereby. As the public has suffered more and more from the abuse of this power, public resentment has risen. This resentment has been expressed in the only effective available way; namely, by voting against the administration which fostered and allied itself with this movement. If there is one clear mandate in the election last month, it is that there must be reform by legislation and improved administration to correct this intolerable situation in labor relations. The public is insisting that such laws must recognize the interests of all the people and not simply promote labor monopolies.

I am not advocating a return to the horse-and-buggy days in labor relations. I am sure no one would accuse me of wanting to substitute horses and buggies for automobiles.

Workmen's unions can have a sound and constructive place in American economic life, and the majority of Americans are for them and do not want to destroy them.

On the other hand, the overwhelming majority recognizes that they must be protected against the predatory abuse of monopolistic power under the guise of unionism. They are willing to support sound measures to improve the lot of workmen, but they are not willing to place union members above the law of the land or give them special privileges not enjoyed by all other citizens.

The majority of our fellow citizens, including union members when they think about the matter seriously, realize that the real improvement in the standard of living of our country and in the welfare of workmen generally is fundamentally due to the better tools industry has supplied and to the superior organization of industry and business that we have developed in our country under our system of free competition.

Opinion may differ as to just how much unions can or do help their members, but even the most ardent unionists must realize that in striving for the last 5% or 10% that might be gained for their members, they must not destroy the 90% which they already have. They know that a truck driver can earn more and can be paid more than a teamster. They know that a man with a bulldozer or a coal cutting machine can earn more and can be paid more than a man with a pick and shovel. The reason men can be paid more when working with superior tools is because they accomplish more useful work. We all know that capital must be accumulated to pay for these superior tools. Most Americans are proud of our American industry and of what we have accomplished as free men working in a free society. They do not wish to see our industries handicapped or destroyed. While there are notable records of success of both employers and their employees without unions, there is no record of a successful union without a successful employer.

In developing the new laws or modifications of old ones affecting unions and workmen generally, it is clear, at least to me, that these laws and procedures and the administration of them should be consistent with the following principles:

1. They must be economically sound. The effort to find political shortcuts to prosperity without work must be abandoned.
2. They must be ethically and socially sound.
3. They must be legally sound and enforceable.
4. They must be practical and understandable.
5. They must recognize the principle that we can all have more only if we produce more. They must reward industry and thrift and recognize that laziness and dissipation must pay their penalties.
6. They must recognize that the right to work—to compete for a job and earn a living—is superior to the privilege of striking.
7. They must recognize that labor monopolies, just as any other form of business monopoly are intolerable in a free society and must be regulated by the government or prohibited.

The rewriting of our laws regarding industrial relations and the power of unions is extremely complex. There are many points which must be covered. There are five, among others, which seem essential:

1. Industry - wide bargaining should be prohibited. It is the essence of monopoly in labor relations and has importantly contributed to the nation's present difficulty. If labor monopolies are permitted on an industry - wide basis, employer cartels to match them are thereby made inevitable, and the product of this situation in the end will require State control of both. This is the Nazi-Fascist-Communist pattern. At the very least it would be wise for Americans to observe how this experiment develops and works out in England before we commit ourselves irrevocably to the same course. There certainly is a grave question as to whether England can achieve efficient production in its socialized industries without resorting to coercion and the destruction of essential personal freedoms and, finally, the dictatorship which has been the result of such a political philosophy in all other countries.

Immediately at the end of the Japanese war, and while the guns were still smoking, the auto workers' union, in an effort to break the nation's wage-price, anti-inflation policies, made its destructive "30% or else —" demand on General Motors with this qualification: "The Corporation well knows that for years we have urged industry-wide treatment of wage problems. We call upon it now to initiate the calling of an industry-wide conference for the purpose of establishing a uniform wage pattern for the entire industry.

"In the event that the General Motors Corporation will give leadership to insure the convening of such a conference of the automotive and allied industries, we agree to waive direct negotiation with the General Motors Corporation in lieu of industry-wide negotiation. If you fail to take this step, however, we of course shall insist upon immediate negotiation with the Corporation on the demands stated herein."

To this position of the union General Motors replied, "As part of your demands you have suggested that we take the initiative and develop industry-wide bargaining with your International Union. We are not in a position to do this, and do not believe that it would be a sound development for our country even if we were. Our American system and the standard of living we have achieved are based on free competition. Industry-wide bargaining tends to disregard the peculiar or local interests of many groups of employees and of individual employers, to increase costs and prices and to affect adversely the interests of the people as a whole."

Gentlemen, when we made this decision we were conscious of the risks involved. As it turned out, it cost General Motors one hundred million dollars. We still think it was the right decision.

2. Compulsory unionism is totalitarian. The most basic democratic freedom is the right to dissent from the opinion of a majority without being subjected to coercion and loss of individual liberty. It is the basis of free speech. If labor leaders need compulsion to hold their unions together, there must be something wrong in the way the unions operate. No man should have to pay tribute to any private group in order to hold a job. Compulsory union membership is as antagonistic to American principles of personal freedom as compulsory membership in a church or a political party. It should be prohibited by law throughout all industry as it is on the railroads under the Railway Labor Act.

3. Unions must be subject to law. They must be subject to the same laws regulating group and personal conduct that apply to other groups and all other citizens. Unions should not expect or be given any special privileges to resort to violence and intimidation.

4. The law governing collective bargaining must be clarified. The law says that employers must bargain collectively, but in all the language of the National Labor Relations Act there is no definition of collective bargaining. What it is and the limits of collective bargaining must be clearly defined. Likewise, the law must be clarified so that management employees, such as foremen, do not have a conflicting responsibility by being subject to union control.

5. Strikes over jurisdictional disputes, sympathy strikes and all forms of boycotts must be outlawed. Jurisdictional disputes must be resolved by judicial processes.

These proposals alone, however, will not assure us of labor peace overnight. We have a long, hard row to hoe before that end will be achieved, even with the best reform of our present laws affecting labor relations. The spirit of cooperation will have to replace that of conflict. This will require many months of effort and the elimination from the ranks of unions of all subversive elements which are now atempting to use unions to create economic destruction and social chaos for their own anti-American ends.

The second critical problem which all of us face as American citizens is the heritage of debt from the war and the failure to balance the federal budget in the decade before the war, together with continuing high federal expenditures for non-essential activities. Our federal debt alone today is about equal to the entire wealth of all citizens before the war. As a nation we now have a 100% mortgage on our productive machine.

Continuing high taxes mean that government is taking for its purposes too high a percentage of the productive effort of all citizens. When federal taxes amount to approximately 25% of the national income, it means on the average that citizens work three hours for themselves and one hour for the government, or in terms of a forty-hour week, enjoy the fruits of thirty hours of their labor and work ten hours for the government. If such taxes are not reduced, either an extension of the average work week will ultimately be required or a reduced standard of living for the citizens as a whole will result.

During the period of shortages it would have been much more sensible to have worked somewhat more than forty hours, as we did during the war, instead of forcing organized unemployment on the country by strikes and continuing the period of shortages with the resulting increasing costs and prices. The sound policy now would be to reduce the tax load for non-essential government purposes and to improve the efficiency of our operations so that a satisfactory standard of living can be achieved with the forty-hour week.

Material problems, unbalanced inventories, uncertain prices, and high costs of tools, plants and facilities must be carefully watched by all businessmen to keep their activities on a sound basis. These problems will be solved in large part when we reform our labor legislation and our fiscal policies.

We must avoid dangerous inflation, stop wasting the nations resources, quit quarreling and go to work. Americans want freedom from industrial strife just as they want freedom from war.

In conclusion and to emphasize again the importance of a sound solution of the country's labor problem, it seems appropriate to quote from a speech made by the late Justice Brandeis in Boston at the conclusion of a long and bitter strike more than 40 years ago. In speaking of what we now call collective bargaining, he said, "But conferences, though wisely conducted and with the best of intentions on either side, do not always result in agreement. Men fail at times to see the right; and, indeed, what is right is often in doubt. For such cases arbitration affords frequently an appropriate remedy. This remedy deserves to take its place among the honorable means of settling those questions to which it properly applies. Questions arise, however, which may not be arbitrated. Differences are sometimes fundamental. Demands may be made which the employer, after the fullest consideration, believes would, if yielded to, destroy the business. Such differences cannot be submitted to the decision of others. Again, the action of the union may appear to have been lawless or arbitrary, a substitution of force for law or for reason.

"What, then," Justice Brandeis asked, "should be the attitude of the employer?" He answered his own question in these words — "Lawless or arbitrary claims of organized labor should be resisted at whatever cost. I have said that it is essential in dealing with these problems that the employer should strive only for the right. It is equally as important that he should suffer no wrong to be done unto him. The history of Anglo-Saxon and of American liberty rests upon that struggle to resist wrong—to resist it at any cost when first offered rather than to pay the penalty of ignominious surrender. It is the old story of the 'ship money,' of 'the writs of assistance,' and of 'taxation without representation.' The struggle for industrial liberty must follow the same lines.

"If labor unions are arbitrary or lawless, it is largely because employers have ignominiously submitted to arbitrariness or lawlessness as a temporizing policy or under a mistaken belief as to their own immediate interests."

Justice Brandeis then went on to illustrate his points by a specific example.

He then went on to say, "Fortunately, the world is so ordered that we must pay the penalty for our sins, be they sins of commission or omission, of doing wrong or of suffering wrong to be done unto us.

"You may compromise a matter of wages, you may compromise a matter of hours—if the margin of profit will permit. No man can say with certainty that his opinion is the right one on such a question. But you may not compromise on a question of morals, or where there is lawlessness or even arbitrariness. Industrial liberty, like civil liberty, must rest upon the solid foundation of law. Disregard the law in either, however good your motives, and you have anarchy. The plea of trade unions for immunity, be it from injunction or from liability for damages, is as fallacious as the plea of the lynchers. If lawless methods are pursued by trade unions, whether it be by violence, by intimidation, or by the more peaceful infringement of legal rights, that lawlessness must be put down at once and at any cost."

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Germany—Poor-House or Power-House

(Continued from page 3015)

ground for the great experiment, to which we are now committed—the experiment of building an enduring peace upon the foundation of great power cooperation. Germany is the laboratory in which that experiment must succeed or fail.

Nowhere else in the world is cooperation so difficult. Nowhere else is it so necessary. Every aspect of the problem of building an enduring peace is reproduced in that troubled and troublesome part of Europe which lies between the Vistula and the Rhine. Between these two rivers East and West must meet, join hands, and go to work in friendship and in peace—if there is to be peace in this world. Between the Vistula and the Rhine the peace of the world cannot be wholly made—but it can be lost there beyond redemption.

German Hub of European Economy

Finally: We have a vital interest in the future of Germany, because Germany—besides being the chronic trouble maker of Europe—is also the hub of the whole European economy.

Geography, geology and technology have conspired to bring about this inescapable fact. Whether we like it or not, German rivers and railroads are the gateways to the heart of the European Continent; German coal fields are the sole producers of surplus coal in western Europe. The German people—even in defeat—are still the largest single compact mass of skilled labor on the Continent.

These elements combine to make the German people a major factor in Europe's productive capacity, as well as a major market place for the goods produced by other nations.

Before Hitler came to power, Germany ranked third—after the United States and Britain, in total world commerce. Half of Italy's foreign trade was with Germany. Germany was—next to Britain—the best customer and supplier of the western European countries. During the Nazi period of forced draft penetration into southeastern Europe, Germany bought more than one-third of all the exports of Hungary, Bulgaria, Rumania, Greece, Yugoslavia and Turkey, and likewise supplied more than one-third of the imports of those countries.

The Coal Areas

As you well know, coal is the heart of a modern industrial economy. But few nations in the world possess coal fields capable of producing their own requirements. Apart from Russia, every country in Europe has been dependent for all or part of its coal supply upon one of three great sources of surplus. These used to be Britain, the German Ruhr and Upper Silesia.

I say "used to be" because two of these sources are at the present moment unavailable. Britain, which once exported as much as 78,000,000 tons of coal per annum, is now barely able to produce enough to satisfy home requirements. Upper Silesia, which is said to have produced over 100,000,000 tons per annum for the Nazis during the war, is now held by Poland, and the products of its mines go mostly to Russia or to countries in the Russian trade orbit. Thus, for all of western Europe there remains only the German Ruhr as a source of exportable surplus. If the Ruhr fails to provide coal for Scandinavia, the Low Countries, France, Switzerland, Italy, Greece and the Iberian Peninsula, the peoples of these countries must go without sufficient fuel, or else pay an exorbitant premium for coal brought all the way across the ocean from the United States—provided that our own coal mines are working at the time, and our ships sailing.

These are some of the reasons why Germany has been, and will, to a very great extent, remain the economic hub of Europe, unless her people are wholly destroyed or enslaved and her lands partitioned and annexed to other countries. Since no such drastic course is contemplated, the problem is not merely how to render the German people peaceful and law-abiding, but how to harness the skill, energy and natural resources of a new, peaceful German nation to the best interests of Europe and of the world.

Let me say here that a carefully planned and faithfully executed long-range endeavor to build up the backward nations of Europe may well, eventually, reduce the relative importance of Germany in the European economy. But such an effort—no matter how desirable—cannot bear fruit except over a long period of years. In the meantime, the whole European economy cries out for swift rehabilitation. Delay means not only protracted suffering, but unrest and a consequent threat to the as yet precarious structure of peace.

In other words, we, in this country, cannot hope for peace, unless there is peace in Europe. There can be no peace in Europe, unless the peoples of Europe are reasonably prosperous, reasonably soon. And there can be no early revival of prosperity in Europe, so long as its present power-house remains a poor-house.

To summarize:

We must, in our own interest, prevent a recurrence of German aggression;

We cannot, in our own interest, allow the planned structure of peace to be undermined by failure of the laboratory test in Germany; and

We cannot reasonably hope for lasting peace, unless a peaceful and productive German nation takes its place in the heart of a peaceful and reasonably prosperous Europe.

That is why a solution in Germany is as vital to us as any domestic problem we face today.

Conditions in Postwar Germany

And now let us take a brief look at what has happened to Germany under four-power occupation, and try to see what this means to us and to the whole world.

It is not quite two years since the Allied Armies crossed the Vistula and the Rhine—one year and seven months since Hitler's Germany surrendered and ceased to exist. What was once the German nation, before the annexation of Austria, is now partitioned into six pieces. One piece has been annexed by Russia. A much larger and more important part has been annexed by Poland. And the remaining rump, lying roughly between the Oder and the old western frontier, has been cut up into four separate zones of occupation.

As a result of this partition, the economic life of Germany is paralyzed. The parts annexed to Russia and Poland, as well as the Soviet zone of occupation, are working to produce reparations for Poland and the Soviet Union. The French zone is similarly being milked by France. The British and American zones are living on subsidy to the extent of half a billion dollars a year paid out of the pockets of British and American taxpayers. At this moment they are in the course of economic unification—a process which will cost over a billion dollars before the two zones alone can become self-supporting.

Between the Anglo-American area and the French zone there is but little exchange of food, raw materials or manufactured goods. Between eastern Germany and the western zones there is practically no natural commerce at all, no movement of people to and fro, no exchange even of information. It is more difficult for a German to get from Leipzig to Munich or Hamburg than for a British subject to go from Montreal to Calcutta.

Eastern Germany, which used to supply the food for itself and for a large part of western Germany as well, is now exporting all its foodstuffs to the East, except for a bare subsistence ration retained at home. Its industries are working for Russia; but they are gradually running down, due to war damage, removals of plant equipment, lack of effective manpower and absence of parts and raw materials formerly derived from the West.

Western Germany is in even worse condition. Never self-sufficient in food and now deprived of the normal surplus from the East, it lives on French leavings and Anglo-American charity. Deaths from starvation are frequent, hunger oedema prevalent, infant mortality nigh. Industry is at a low level of production—some plants at a total standstill and few operating at more than a fraction of normal capacity. In part, this is due to war damage, but even more to shortage of manpower and the low productivity of available skilled labor. Most of all, it is due to shortage of coal.

The great Ruhr coal fields, capable of producing something like 130,000,000 tons per annum, are turning out less than half of that amount. Most of this is needed to run the railroads and public utilities, to supply the armies of occupation, and for export to the coal-hungry countries of western Europe. Only a trickle is reaching German industry—not enough to make steel for even the most needed construction and repair.

Throughout all of Germany consumers' goods are practically unobtainable. Foodstuffs (apart from rationed items), clothing, household utensils, furniture, or even the simplest hand tools are not to be found anywhere except in limited quantities and at fantastic prices on the black market. Those who have goods, refuse to sell them for currency, because even the most simple-minded citizen knows that the German currency is inflated and intrinsically worthless. Cigarettes—at a dollar per cigarette—have become the accepted medium of exchange. Farmers hoard their produce, hungry hordes of gleaners invade their fields, and those who work for wages can buy nothing for their money except the scant allowance of food called for by their ration cards.

Millions are homeless. But scarcely a new house has been built in Germany since the surrender. Even window glass is practically unobtainable. Families are crowded together in available housing, with a whole family frequently compressed into a single room. Many are still living in cellars. Here and there a window-box with blooming geraniums indicates where some one lives in the still habitable portion of a ruined building.

To make matters worse, some thirteen million Germans are in the process of being expelled from the lands annexed by Poland and Russia, from the Sudetenland, and from parts of Hungary. These "expellees"—preponderantly old men, women and children—have no place to go except into the already overcrowded homes in the rump of Germany.

And—to cap the climax—as the occuping powers have begun to bring in the families of troops and officials stationed in Germany, more and more of the better housing facilities have been taken over to serve their needs. Often as many as four or five German families are evicted to make room for one Allied household.

The Germany of today is an economic desert. Not because it was planned that way, but because the four occupying powers failed to carry out their agreed plan. This plan—the Potsdam Agreement—called for treating Germany as an economic unit, instead of cutting it up into four separate water-tight compartments. How and why this plan has miscarried is a story in itself. There is not time to tell it here. Moreover, I have discussed this subject in the most recent issue of your own "Headline Book" series.

We are concerned here only with an appraisal of what has happened and what it means to us. From this point of view, I think it is fair to say that Allied occupation set out to accomplish three immediate objectives, only one of which it has so far accomplished. It set out to disarm, to demilitarize and to democratize Germany.

Disarmament has been accomplished. Except for German police operating under Allied supervision, not a single German legally possesses firearms of any sort—not even a shotgun to kill rabbits. The Wehrmacht, the SS, the SA and the Gestapo have ceased to exist. German ships are banned from the seas, and German airplanes from the skies.

As for demilitarization, very little has been done. War damage to German industry is not nearly so great as one might suppose from a casual inspection of the ruined cities of the Ruhr. Bombing could temporarily put out of action a steel mill or a huge synthetic plant for the manufacture of oil or rubber. But such damage was more often to easily repaired structures than to vital machinery. Since the surrender, a few shipyards and war plants have been destroyed. But the planned process of destruction or removal of war potential has proceeded at a snail's pace, because of Allied bickering and because of the realization that this program was in direct conflict with the immediate and pressing problems of rehabilitation.

Little, too, has been accomplished in the far more important field of demilitarizing the mind and spirit of the German people. The Allies have learned that it is difficult to teach democracy to men struggling for a bare existence—particularly when the four occupying powers have not reached any agreement on what this democracy is that they desire to teach.

The political vacuum in Germany is almost as complete as the economic vacuum, and closely related to it. But this is a subject about which my able colleague will speak to you in a moment.

In the time which remains, I should like to call your attention to the effects of the present economic conditions in Germany upon the rest of Europe and upon the prospects of durable peace.

In 1941, when Nazi bombs were raining upon Britain, Anthony Eden, then Foreign Secretary, had the vision and the courage to make a declaration of British policy after Germany should have been defeated. "Our conditions for peace with Germany," he said, "will be designed to prevent a repetition of Germany's misdeeds. But while these military measures must be taken, it is not part of our purpose to cause Germany . . . to collapse economically. I say that, not out of any love for Germany, but because a starving and a bankrupt Germany in the midst of Europe would poison all of us, who are her neighbors. That is not sentiment; it is common sense."

Today Germany is starving and bankrupt. Her neighbors on all sides are frightened and demanding a voice in what shall be done in the future. They are frightened of living next door to a moral morass and an economic desert — a plague-center—which has come into being in place of an area which once supplied them with much of what they needed and bought from them much of what they produced. And this applies not only to Germany's small neighbors. French reconstruction is delayed and imperiled by lack of German coal. The same thing is even more true of Italy. The British, after seven years of privation, are still compelled to remain on wartime rations. And even we—remote and fortunate—are made aware that a coal strike or a shipping strike in this country may mean the death of cold and hungry thousands across the sea.

The economic collapse of Germany, and especially the cutting off of German coal, may turn out to be the worst physical disaster that has befallen western Europe.

More serious still is the effect of all this upon the prospects for lasting peace. Not only is reconstruction being delayed, misery protracted, and the seed of unrest sown, but confidence in the whole planned structure of a great power peace is being undermined. If the four-power failure in Germany continues, people throughout the world will begin to wonder whether they have made a fatal mistake in placing their faith in the ability of the great powers to reach and carry out agreements—especially in the more troublesome parts of the world.

This is the picture which confronts the Council of Foreign Ministers, now in session. This is the picture which the Foreign Ministers have so far avoided facing, and which must be faced now. This is the picture which confronts you and me here, as citizens of one of the four great nations responsible for the failure.

We Need Two Plans

What we need at this moment is not merely a new plan for Germany. *We need two new plans. We need a new long-range agreement* as to *what* Germany and *what kind of Germany* will best fit into a new peaceful and reasonably prosperous Europe. *Even more urgently than this, we need a new short-range plan for the rapid rehabilitation of Europe*—a plan which will use the human and material resources of Germany for this reconstruction, instead of creating a focus of economic and political infection in the heart of the Continent.

To some extent at least, these two plans will necessarily be in conflict. A long-range plan should contain provisions for limiting Germany's heavy industries, especially steel production, and for stimulating the increase of heavy industries, and especially steel capacity in other countries. The short-range plan should, on the other hand, use every possible device of immediately utilizing the existing or potential German capacity to provide materials for repair, reconstruction and new construction throughout Europe.

This conflict between short-range and long-range objectives must be carefully analyzed, understood and brought into harmony. What is needed most of all is a timetable and a carefully worked out and adjustable schedule of priorities.

The whole problem, simply stated, is how to make the poor-house into a power-house for reconstruction, without letting the power-house again become an arsenal. Or—if you prefer—how to get the Germany economy up out of the cellar without letting its upward momentum carry it beyond the floor it is ultimately to occupy.

This problem is difficult, but not insuperable. It can be solved if each of the occupying powers is willing to state its own point of view fully and sincerely, in the

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realization that effective agreement can be reached only as the result of a compromise based upon mutual confidence and understanding.

To date, not one of the occupying powers has had a clear policy. Each has had its own understandable preoccupation. Russia has been concerned with reparations in order to restore its own devastated areas. France has been concerned with partition, as protection against a fourth German invasion. Britain has been concerned with restoring as much as possible of the prewar map of the world. And we have been concerned with preserving as much as we could of its economic order. We have not faced the fact that the peoples of Europe do not want a restoration of prewar capitalism, and could not restore it even if they wanted it.

Because of these and other preoccupations, none of us has worked out a realistic and considered view of the two interwoven problems — rehabilitation, and the ultimate creation of a world capable of living in peace. Germany is only a part of that twofold problem, but a part which reflects the whole.

Compromise is difficult between men who know only what they desire to prevent but not what they are trying to accomplish. A clear definition of considered purpose by each of the four occupying powers would probably bring out a far greater area of common ground than is at present apparent. Peace is more important to all of us than the attainment of our individual desires or predilections. Putting an end to human suffering everywhere is more important than economic or political advantage temporarily gained or precariously held.

As one of the great powers charged with making the peace, we are one of the trustees for all the peoples of the world. And, among the great power trustees, we are, for the moment, the strongest. This is our crisis of opportunity. A moment to use our strength, not to hoard it. A moment to use our strength—not in the arrogant flexing of our military and economic muscles—but in the clear definition of our purpose that this war shall be the last, and that it shall not have been fought in vain. This is the time, not for floundering in vagueness and ambiguity, but for determination conditioned by respect for the rights of others, for courage tempered by wisdom, and for strength made gentle by a sense of responsibility.

If we have failed thus far, it is not solely the fault of our government. We have a government which does, in the long run, represent the will of the people. And we *are* the people. The failure to date is ours, but so also is the opportunity.

F. V. De Voll Dead

Frederick V. De Voll, Secretary of W. H. Bell & Co., Inc., 1500 Walnut Street, Philadelphia, Pa. died at his home after suffering a heart attack. For many years he was with G. L. Ohrstrom & Co., later joining the W. H. Bell firm.

St. Regis Paper Pfd. Offered at Par

Public offering of 150,000 shares of $100 par value first preferred stock, 4.40% series A, of St. Regis Paper Co., is being made today (Thursday) by an investment banking group headed by White, Weld & Co. The stock is being offered at $100 per share plus accrued dividends from the date of issue.

Proceeds from the sale will be used to redeem the company's outstanding 5% cumulative prior preferred stock and the $2.50 cumulative preferred stock of Taggart Corp., a subsidiary, amounting in each case to $52.50 per share plus accrued dividends; to purchase certain pulp and paper mills and other related assets from Time, Inc., and the balance together with other corporate funds will be used in the company's modernization and expansion program. The company will issue to Time, Inc., an additional 50,000 shares of the new preferred stock and 550,000 shares of common stock as part of the purchase price for the property acquired from that corporation.

St. Regis Paper Co. is one of the leading manufacturers of paper products in the United States with an output consisting of groundwood printing and publication papers, kraft pulp and paper, heavy-duty multiwall paper bags and laminated plastics. The company and subsidiaries also manufacture bag-making and bag-filling machinery. St. Regis is probably the world's largest manufacturer of multiwall paper bags which are used to package cement and other pulverized rock products, as well as chemical, food and many other items. The company is one of the country's leading producers of groundwood printing and publication papers, having produced approximately 14% of the total domestic output of such paper during the 18 months ended June 30, 1946. Nearly 50% of current sales are of heavy-duty multiwall paper bags, while sales of groundwood printing and publication papers, used for telephone directories, magazines and catalogues, account for another 25%. The Panelyte division, which manufactures laminated plastics, accounts for approximately 10% of current sales, and supplies primarily the refrigeration, automotive and electrical industries. Net sales, royalties and rentals of the company and subsidiaries in the United States and Canada for the year 1945 totaled $51,225,567 and net income amounted to $2,211,411. For the six months ended June 30, 1946, net sales were $35,336,923, and net income amounted to $2,100,299.

May & Gannon Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—May & Gannon, Inc., 161 Devonshire Street, has added John A. McCue to their staff.

With L. F. Rothschild

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — James C. Morham has joined the staff of L. F. Rothschild & Co., 30 State Street.

Railroad Securities

Although many people have decried the delay of the Interstate Commerce Commission in coming to a decision on the carriers' request for rate relief there are few to be found who are inclined to criticize the final decision. In view of the sharp earnings declines experienced by the great majority of railroads in the period since V-J Day, and influenced by the earlier decision of the Commission in the Railway Express Agency rate case, it had generally been expected that the railroads would get a good share of what they had asked for. It is doubtful, however, if many of even the most bullish followers of railroad securities had anticipated as favorable a decision as was finally handed down.

With the exceptions contained in their orginal request for rate relief the railroads had asked for an average increase of little more than 19%. The Commission has actually granted what is estimated to work out to an average increase of 17.6%. Moreover, the decision was unanimous with no Commissioner dissenting and also provided for making the temporary 10% increase in passenger fares permanent. Aside from the magnitude of the over-all increase allowed there were a few minor surprises in the decision, considering the past history of rate allowances by the Commission. Some increases were even greater than had been requested.

Coal roads were particularly well treated and the general treatment of agricultural products, where long term policy has been against substantial increases, was highly favorable to the carriers. Failure to allow any increase on iron ore shipments to upper lake ports, on the other hand, constituted a surprise in the opposite direction. Some quarters had also held to the belief that the decision of last spring, in connection with the temporary increases, to give the eastern carriers a better break than other sections of the country would be carried through in the permanent increases. Although it has been indicated this year that the eastern roads are more seriously in need of the rate relief the favorable differential was cut to purely nominal proportions in the recent decision.

The surprise over the size of the rate increase allowed touched off a buying wave in the short session Saturday which, however, was dampened to some extent by uncertainties inherent in industrial stagnation brought about by the coal strike. Over the weekend this remaining cloud on the horizon was dissipated and a far more healthy and well rounded market enthusiasm was in evidence as the week opened. Obviously all of the uncertainties have not been removed. We have still to look forward to anticipated requests for additional wage increases in the steel and automobile industries. With greater firmness on the part of government, however, and the recent change in the political complexion there is increasing confidence that these two problems will be surmounted without any disastrous paralyzation of our economy.

All in all, the great majority of railroad analysts accept the present outlook as fully justifying a constructive attitude towards railroad securities. This attitude could well be supported by constructive dividend developments over the next week or so. By the time this is in print it is expected that directors of Chicago, Milwaukee, St. Paul & Pacific will have declared the full $5 dividend on the preferred out of 1945 earnings. Action on this was postponed pending clarification of the general railroad picture.

At their regular monthly meeting on Dec. 17, directors of New York, Chicago & St. Louis are expected to declare a dividend of at least $5 a share out of 1946 earnings against arrears on the 6% preferred stock. A dividend of $1 a share out of 1946 earnings was paid in the spring and the company will earn this year well over twice the $6 dividend. Directors of Gulf, Mobile & Ohio, who took no action with respect to the mid-year dividend, are expected to declare at least $2.50 a share on the 5% preferred at their December meeting. There may be other favorable actions. With any such evidence of returning management confidence public sentiment should also be bolstered now that the rate question is out of the way and the industrial picture has improved.

Two With Glogher & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA.—Frank M. Collins and Stanley H. Gettis have become associated with Clogher & Co., 1011 Lincoln Road. Mr. Collins was previously with Thomson & McKinnon for many years.

With John R. Schermer Co.

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH. — Marion H. Bignell has become associated with John R. Schermer & Co., Grand Rapids National Bank Building.

Kerr & Bell Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—John L. Strahley has been added to the staff of Kerr & Bell, 629 South Spring Street, members of the Los Angeles Stock Exchange.

Smart With E. H. Stanley

(Special to THE FINANCIAL CHRONICLE)

WATERVILLE, ME.—Ray John Smart has become associated with E. H. Stanley & Co., 177 Main Street.

With Cantor in Boston

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Paul B. Condry has become associated with B. G. Cantor & Co., 161 Devonshire Street.

With Clayton Securities

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—John M. Colburn has joined the s aff of Clayton Securities Corp., 82 Devonshire Street.

With Kidder, Peabody Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Sanford D. Palmer, Jr. has become affiliated with Kidder, Peabody & Co., 115 Devonshire Street.

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Push through of old highs starts talk of new bull market. Current optimism based on past. Future still clouded. Raise stops on present holdings.

Now that the market zoomed up the talk is beginning about the "New Bull Market or Where Will the Bear Market End?" What set off the recent or current rally (by the time you read this it may no longer be current) was the Lewis order to his miners to go back and dig coal. At least that is the popular belief. Who am I to argue about it.

* * *

What actually set off the rally I don't have the faintest idea, nor do I care very much. Rallies and declines come and go and explanations for them are as common as politician's promises before election. I don't look gift horses in the mouth. The fact that they went up is enough. Let somebody else worry about the why.

* * *

In last week's column I wrote that in spite of the then poor news, the market wasn't acting too badly. At the same time I also said I expected a dull reaction "for the next few days." Just to show how wrong I can be, the dullness was there, but the reaction was not. Oh, yes, a few stocks did go off here and there, but it was hardly a reaction as reactions go.

* * *

The market student who follows the action of the averages might be interested to know that the rally brought about certain technical changes. For example if the industrials close above 176.76, according to a strict interpretation of the familiar theory, it indicates a secondary uptrend. This in turn is based on the fact that the rails have already pushed through their previous tops three times. The top was 51.22 made Nov. 2. But before you go off half-cocked it might be just as well to know that by a strict interpretation of this theory, nothing has occurred to change the bear market signal which was first given last September. Within this theory are many other ones which call for subsequent testing of old lows and another follow-through above the old tops. I won't go into it because I'll only confuse you. If you know the theory, you don't need my explanation. If you don't, then anything I say, will only add to your bewilderment. So instead of theories I'll go back to the stocks you hold and their action.

* * *

But before I go on allow me to point out that the present end of the coal strike doesn't mean that there'll be smooth sailing from now on. Before 1947 is over there will be more strikes. Some of them may be worse then the recent coal stoppage.

* * *

You still hold four stocks, all of which are now in the black. Position is as follows: Anaconda bought at 37, to be sold across 42. It's now about 41. Stop should be raised to 39.

* * *

Dresser bought at 17, is now about 20. Suggest profits across 24. Raise stop to 18. You won't get the 24 right away, at least I don't think so. If you do, so much the better.

* * *

Gulf, Mobile and Ohio bought at 12, is now about 15. Raise that stop from 10 to 13.

* * *

Southern Pacific came into the list between 42 and 43. I'll make it 43 to avoid the hair-splitters. It is now 49½ and may get across 50 by the time you read this. I can give you all sorts of reasons why the stock should go up, citing rate increases (about which you were told weeks ago) and other fundamental factors. Trouble with fundamentals is that they reflect the past and not the future. The market in turn is concerned with the future and not the past. So I continue to recommend stocks on market performance and not on earnings, dividends and dyspepsia. Incidentally I have always tried to follow a slogan developed by C. Leslie Croll, "Facts and How to Avoid Them," for reasons I'll let you figure out.

* * *

To get back to Southern Pacific I now suggest you raise your stop from 38 to 44. I hope you won't be stopped out. But it would be foolish to buy anything without some insurance.

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.]

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Gulf Oil Offering Placed on Market

A block of Gulf Oil Corp. common stock valued at $25,191,180 was placed on the market as a secondary offering Dec. 9 after the close of the New York Stock Exchange by an underwriting syndicate of 147 investment houses headed by The First Boston Corp. The block consisted of 399,860 shares, representing about 40% of the holdings of the Mellon family and trust. The offering was priced at $63 a share, the closing price on the New York Stock Exchange.

Formal offering came 21 days after the Securities and Exchange Commission had cleared the transaction. Persistent market uncertainties during the soft coal labor crisis caused by the underwriting managers to delay the offering until the present time, but meanwhile members of the selling group were permitted to solicit orders on a provisional basis.

Gulf Oil Corp., one of the largest of the fully integrated petroleum producing, refining and marketing companies, distributes its products over a large part of the United States and in many foreign countries. In 1945 the corporation's gross operating income was approximately $504,693,000 and net income $43,204,000. For the first six months of 1946 net income amounted to $26,746,013.

Dobbs Houses Stock Offered to Public

Emanuel, Deetjen & Co. and associates on Dec. 6 offered to the public 75,000 shares of the common stock, par value $1, of Dobbs Houses, Inc., airline food caterers and airport restaurant operators. The stock was priced at $7 a share. The proceeds will be used for expansion.

Other underwriters include B. F. Ward & Co.; Herman Bensdorf & Co.; Mid-South Securities Co.; J. C. Bradford & Co.; Bullington-Schas & Co.; and Edward Brockhaus & Co.

NAM'S Program for Prosperity

(Continued from page 3023)

his property, at home, at work or elsewhere. Mass picketing and any other form of coercion or intimidation should be prohibited.

7. Employers should not be required to bargain collectively with foremen or other representatives of management.

8. No employee or prospective employee should be required to join or to refrain from joining a union, or to maintain or withdraw his membership in a union, as a condition of employment. Compulsory union membership and interference with voluntary union membership both should be prohibited by law.

9. Biased laws and biased administration of laws have made a contribution to current difficulties and should be replaced with impartial administration of improved laws primarily designed to advance the interests of the whole public while still safeguarding the rights of all employees. The preservation of free collective bargaining demands that government intervention in labor disputes be reduced to an absolute minimum. The full extent of government participation in labor disputes should be to make available competent and impartial conciliators.

Compulsory arbitration, in particular, is inconsistent with American ideals of individual freedom and is bound to destroy genuine collective bargaining.

All labor and related legislation should be consistent with the principles set forth above. Any existing statutes that are in violation of such principles should be brought into accord with them through appropriate action by the Congress.

A Tax Policy

The tax burden on all people should be reduced.

American taxes in fourteen years have been punitive. Taxes levied to redistribute wealth only reduced it. Taxes levied to socialize the economy incited class conflicts. Taxes levied to raise revenue encourage prodigality. The extravagance of government and the expense of the war exist in a burdensome debt to be paid by our children and grandchildren.

To offset the absence of venture capital the government spent the people's money, obtained through taxes. In 14 years the government made 16 different tax increases. This punitive tax policy has discouraged incentive and has forced venture capital into hiding, into government bonds and other non-venture risks.

The public has learned a "soak-the-rich" policy, also soaks the poor by reducing the productive income of the nation. Government has demonstrated that it cannot spend the money of the people as productively as the people who earned the money.

It is entirely possible to balance the budget in the fiscal year 1947-48, to reduce the public debt at least $2½ billion in 1947-1948 and future years and to reduce all individual taxes 20%, effective Jan. 1, 1947.

The balancing of the budget will restore confidence. The reduction of the debt will increase national solvency. The reduction in taxes will invite venture capital into industry and commerce, and into agriculture, where it should seek and earn its own rewards.

If the tax burden is not reduced in amount and made equitable in its distribution, private investment will largely disappear in this country. The results will be either increased unemployment, depression and economic stagnation, or the government taking over the function of investment which would destroy the economic and political freedom of America.

Credit

Aside from international catastrophies and great natural disasters, there are only three developments which can throw our economic system into a depression—

1. Mismanagement of the money and credit system, and the Federal debt, in ways which convert prosperity into an inflationary boom, thereby creating strains and stresses which must inevitably lead to a collapse of prices, production and employment.
2. Granting or perpetuating special privileges which hinder production or prevent the flow of goods and services to final consumers at reasonable prices, thereby creating a lack of balance between various groups or various sections of the country.
3. Prevention of an adequate flow of private capital into productive, job-making activities, thereby making it impossible to have that growth of capital resources which is necessary to provide increased production and jobs for our growing population.

These three causes of depression have existed in America in recent years. These causes are not within the power of industry to control.

History records that political demagogues tinker with the money system whenever trouble threatens their political lives. Governments have been overthrown, nations have been devastated by bad money policies of government.

Long before the war the interest rate structure had been forced to artificially low levels. Both the commercial banks and the Federal Reserve Banks as a result are heavily loaded with government securities. The Federal Reserve Board, which was created to guard the nation against a misuse of the credit system, has committed the Reserve banks to buy government securities in unlimited volume in order to maintain artificial low yields on government securities. This manipulation by the Reserve Board leaves the nation without protection against serious credit disturbances. This creates a danger which should be removed by permitting interest rates to find their own levels in free markets.

The Reserve Board should recapture its function of protecting the nation against the misuse of the credit system.

The end of money tinkering and return to a gold standard would restore confidence to the nation, improve the purchasing power of the dollar and strengthen our international position.

Decontrol of Enterprise

To win the war the American people willingly curtailed their liberties to strengthen the fighting power of the nation. Thus the rights of labor and industry, of agriculture and commerce were restricted.

More than a year of the peace has been lost while the government created inflation to offset its predicted unemployment that never came. At this late time we should be moving forward solidly and with confidence on all fronts.

All our liberties curtailed in wartime except those needed for national security should be restored completely and rapidly. There should be assurance to the nation that all residual wartime controls do not become permanent restrictions on the liberties of the people.

It is a serious error to assume that the ending of controls of food

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prices has ended the continued wartime subjugation of the people by the government.

Agriculture

It is indispensable to industry and all other segments of the economy that agriculture be on an independent, self-supporting basis. Industry wants to be of help.

There is much that industry believes it can do further to assist agriculture. It believes that the spectacular increase in industrial horsepower per worker can be roughly imitated in agriculture. Industry believes that the application of power on farms is in its initial stages.

Like industry, agriculture must continue to improve its efficiency and lower its costs.

The farmers' success in the improving of crops and in animal husbandry affords reason to believe that there is unlimited opportunity to apply further scientific methods to agriculture in the way that they have been applied to industry.

The American economy is indivisible. The prosperity of industry and of agriculture is so interrelated that it cannot be divided. American farmers and American manufacturers must stand shoulder to shoulder in winning back their liberties if competitive enterprise is to survive. Only by standing together can industry and agriculture produce that flow and interchange of farm and industrial products which will prevent inflation and make the United States that great free country which it once was and can again become.

World Economy

The production achievements of the American profit and loss system have been so tremendous in comparison with the cartelization and communism of Europe that the Old World now looks to capitalistic America for relief and sustenance.

All the successive five-year plans of the Russians were attempts to approach the production achievements of free enterprise. The continued low standard of living in Russia reflects the inadequate results obtained by Communism.

Americans have shown their intention to recapture the competitive enterprise system and its incentive principles which have been so effective in increasing the standard of living and protecting the liberty of every individual in America.

Progress in America has resulted from the freedom of the individual to venture for himself and to assure the gains and take all the losses as they come. This willingness to take losses in the hope of gains has induced the risking of money and effort that has penetrated all frontiers of geography and of the mind.

What America has done, other nations could do if given individual liberty. America cannot heal the wounds of the world, but it offers a system of economic health that raises the standard of living of all who are willing to use it. American foreign trade will increase with the improved wealth of foreign nations.

Just as it does in the United States, whatever the National Association of Manufacturers can do to raise the standard of living of other countries, to increase their purchasing power by local industrialization, to improve their agriculture by modern methods, to reduce disease and improve the working capacity of individuals, it is prepared to do through cooperation with the businessmen of other nations, or on invitation from any nation or from our own government.

World prosperity points the way to good will among men and world peace.

Opponents of Incorporation on NYSE Say They May Organize to Fight Proponents of Issue

(Continued from page 3017)

against the proponents and their arguments than in convincing very many as to the relative merits of permissive incorporation.

The pamphlets, so say the opponents, have obviously been prepared by clever advertising writers more skilled in the use of high-powered punch-words and phrases than conversant with the general problem. The members of the Exchange, too, according to the opponents, don't like to see themselves pictured as common day laborers or in other ludicrous guises in the childish cartoons used in the pamphlets. In fact, in the judgment of the opponents, the tactics of the proponets are, in a very real sense, insulting to the intelligence of the members of the Exchange.

It is highly significant, the opponents believe, that the proponents of incorporation, despite all the efforts they are putting in their current pamphleteering campaign, have not advanced a single new argument to support their position. The pamphlets are merely presenting the same old discredited ideas in a new dress, they say. Actually, the proponents are changing their story somewhat, that is, changing the wording of their main arguments presented in the Kantzler-Ames brochure on the subject last spring and this fact is not making a favorable impression on the members of the Exchange, the opponents allege. If the proponents had any real case to present in favor of permissive incorporation, the opponents argue, they would not be resorting to the devices they are now employing.

The opponents say they wouldn't object to the incorporation of any member firm of the Exchange which, for some reason or other, might think it advantageous to incorporate if only the matter could end there. It is the effect that permissive incorporation can have on the brokerage industry as a whole which is troubling most of the members of the Exchange, they argue. The feeling is general among the members that permissive incorporation would eventually relegate them to the minor position which brokers on the Zurich, Switzerland, Stock Exchange occupy, the opponents contend. In Zurich, the brokerage business is a subordinate function of the great banks, they declare. There, bankers hold all the important positions on the Exchange, bankers make all the necessary decisions and brokers are just the hired help, they say. Of course, as proposed, the question of permissive incorporation does not provide for the admission of banks as such to the Exchange but, think the opponents, it would only be a matter of time when a bank could take out a membership in the Exchange.

Some concern is also being felt by the opponents over the rather pretentious scale of the campaign being conducted by the proponents of incorporation. The elaborateness with which this campaign is being conducted, in fact, is causing many members of the opposition to wonder whether there isn't more behind the drive of the proponents than what would seem to be contained in the finely-worded arguments that appear on the surface.

The 26-man Ames' committee to push the cause of permissive incorporation was formed this fall when the Board of Governors of the Exchange failed to take definite action in the matter. It has been common observation, too, opponents say, that this committee has become increasingly aggressive the more the Board of Governors has hesitated to act. It has announced now that it plans to issue a new pamphlet each week discussing some phase of the question until some decision is reached in the matter or an actual vote is taken among the general membership. The Ames' group is just as certain the matter of permissive incorporation will be approved overwhelmingly by the Board of Governors and the general membership of the Exchange as the opponents are positive the question is actually a dead issue already.

The Board of Governors, according to one of its own spokesmen, understands exactly how the individual members of the Exchange feel about the question of permissive incorporation. Still the only announcement on the subject forthcoming from the meeting of the board last week when the matter was scheduled to be taken up was that the board would not reach a decision on the issue now until after the first of the year. In retrospect, it is seen now that the board has been taking monthly postponements on the question since September. It is becoming increasingly evident that the proponents are working hard to convince the members of the board as to the merits of their case. No one certainly will ever be able to say that the board didn't give the various members time or the opportunity to think the matter through thoroughly.

The proponents are confident that the Exchange will amend its constitution to permit incorporation by an overwhelming vote since, as they see it, the Exchange members, once they are aware of the benefits to be had from incorporation, will want to share in those benefits. Pamphlet number five in the Ames' committee's education campaign, for instance, stresses the point that incorporation would tend to bring more business to the Exchange, arguing that the new firms joining the Exchange would use their facilities to steer new business to it. The opposition points out, however, that the over-the-counter firms joining the Exchange under the stimulus of the greater rate of profit on over-the-counter business would merely utilize their Exchange connections to build up their over-the-counter business and underwriting and distributing firms that came into the Exchange would merely look for contacts for their underwriting and distributing business on the Exchange. Commission business just isn't the function of over-the-counter, distributing or underwriting houses, the opponents say. Permissive incorporation, therefore, would indeed have the effect of really diluting the business done by the present members of the Exchange, they declare.

The figures cited in the number five pamphlet purporting to show the new firms coming into an exchange bring new business along with them are also meaningless, the opponents point out. The pamphlet argues that the volume of listed business done by four new firms which purchased seats in recent years increased many-fold: Firm A, for instance, increased its volume of listed business five times; Firm B, 6½ times; Firm C, 3.9 times, and Firm D, 5.9 times. It stands to reason that any firm starting from a zero (0) volume of trade is going to make seemingly spectacular gains in its business during the first few years if it is at all successful in entrenching itself in the new field, the opponents say. There is nothing in these figures to show, however, either that the increases were greater than the industry-wide increases over the period or that the firms didn't take their business from the other, established, houses affiliated with the Exchange, the opponents point out.

The junior partners of the various firms connected with the Exchange should realize, too, that if their income is less than $50,000 a year, the tax advantage which some of them think now lies on the side of corporation, actually exists, so far as they are concerned, at least, in the present partnership form of organization, the opponents point out. The partnership does not have to pay the 38% corporation tax before distributing profits, they say. The tax authorities are not going to permit the large accumulations of undivided profits either; the brokerage business is a service industry and, theoretically, does not need any large amount of capital, the opponents insist.

The opponents, it is seen now, will very likely form a committee to combat aggressively the attempt of the Ames' committee and its followers to force, in the opponents' view, permissive incorporation upon the members of the New York Stock Exchange, especially should the Board of Governors decide to refer the question to the members for a vote. Such a committee might be formed, too, even before the board gets around to take any such possible action, it has been indicated. The opponents aren't fearful of what the Ames' committee may be able to accomplish. As mentioned above, the opponents see the arguments of the Ames' group as weak and boomeranging. The opponents, however, feel that perhaps they should organize so as to make the arguments of what it insists is the majority opinion more vocal.

SEC Issues New Rule on Red Herring Prospectus

(Continued from page 3021)

"Solicitation of an Offer to Buy" as used in Section 2(3).

(a) Sending or giving to any person, before a registration statement becomes effective, a copy of the proposed form of prospectus filed as a part of such registration statement, shall not in itself constitute an "offer to sell," "offer for sale," "attempt or offer to dispose of," or "solicitation of an offer to buy" as used in Section 2(3) of the Act, provided—

(1) Such proposed form of prospectus contains substantially the information required by the Act and the rules and regulations thereunder to be included in a prospectus for registered securities, or contains substantially that information except for the omission of information with respect to the offering price, underwriting discounts or commissions, discounts or commissions to dealers, amount of proceeds, conversion rates, call prices, or other matters dependent upon the offering price, and

(2) Each page of every copy of such proposed form of prospectus contains the following statement printed in red ink in type as large as that used generally in the body thereof:

"A registration statement relating to the securities referred to herein has been filed with the Securities and Exchange Commission, but has not yet become effective. Information contained herein is for informative purposes only, and is subject to correction and change without notice. Under no circumstances is it to be considered a prospectus, or as an offer to sell, or the solicitation of an offer to buy the securities referred to herein. No offer to buy or sell any such securities should be made and no order to purchase the securities herein referred to will be accepted unless and until a registration statement under the Federal Securities Act of 1933 relating to the securities herein referred to has become effective."

(b) This rule shall not apply to the sending or giving of any proposed form of prospectus if, at the time such proposed form of prospectus is sent or given to any person, the registration statement is the subject of pending proceedings under Section 8(b), 8(d), or 8(e) of the Act, or of an order entered under any of such sections.

"Hard" and "Soft" Currencies: Einzig

(Continued from page 3017)

stead of straining every nerve to export more and more? Faced by this campaign, British Ministers reluctantly admitted that all is not gold that glitters in the sphere of export statistics. They admitted that part of the proceeds of exports is never received while part of it is unspendable, because the importing countries are unable or unwilling to export more of their goods to Britain. They now admit that it is not the global export figures that matter but the currencies in which they are paid.

For practical purposes, Britain's trade balance must be sharply divided between trade with countries with "hard" and "soft" currencies. It is the trade balance in relation to the former that really matters. And from this point of view the sharp rise of prices in the United States has dealt a severe blow on Britain's economy. It further increased the tradé deficit in relation to "hard" currency countries, and forced the government to use up the proceeds of the American and Canadian loan at a disconcerting pace. This is why it has become a necessity to inform the British public that in spite of the superficially favorable appearance of export figures, Britain cannot afford to slacken the export drive.

On a recent occasion Sir Stafford Cripps appealed to exporters to correct this position by diverting export from soft currency countries to hard currency countries. This is easier said than done, however. Nor is there much inducement for exporters to discriminate, since they receive Sterling payment also for "soft" currencies which they surrender to the authorities. Since it is much easier to export to countries whose economies have been gravely affected by the war, they naturally prefer it to uphill work of increasing exports to the United States. Nevertheless, with a little goodwill it may be possible to go some way in the direction indicated by Sir Stafford Cripps. Exporters are afraid that, unless they make an effort to meet the government's request, that request may assume the form of a command. They will therefore go out of their way to sell to "hard" currency countries even at the cost of bigger efforts and smaller profits. Meanwhile the proceeds of the dollar loan have to be used to a far larger extent than would appear from the size of the British trade deficit.

Municipal Bond Club to Hold Christmas Party

The Municipal Bond Club of New York will hold a Christmas Cocktail Party for members on Monday, Dec. 23, at the Wall Street Club, 40 Wall Street, New York City. Jerome C. L. Tripp, Tripp & Co., is Chairman of the party committee.

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Securities Now in Registration

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Acme Electric Corp., Cuba, N. Y.

June 26 filed 132,740 shares ($1 par) common stock. **Underwriters**—Herrick, Waddell & Co., Inc., and First Colony Corp. **Offering**—To be offered publicly at $5 a share. **Proceeds**—Company will receive proceeds from the sale of 68,880 shares and four selling stockholders the proceeds from the sale of 63,860 shares. Company also will receive proceeds from the sale of 20,000 warrants for common stock to underwriters at an aggregate price of $200. Of the net proceeds ($292,940) $50,000 will be used to pay current bank loans; about $20,000 will be used for machinery and equipment, and the remainder for working capital.

Acme-Hamilton Mfg. Corp., Trenton, N. J.

Aug. 29 filed 50,000 shares 5% cumulative preferred stock ($20 par) and 82,000 shares ($1 par) common stock. **Underwriters**—G. L. Ohrstrom & Co. and S. R. Livingstone & Co. **Offering**—Company is offering the 50,000 shares of preferred, while the 82,000 shares of common are being sold for the account of certain stockholders. **Prices**—$20 a share for the preferred, and $11.50 a share for the common. **Proceeds**—Company will apply proceeds to fully discharge secured demand notes, mortgage notes and partial discharge of debenture indebtedness. Offering temporarily postponed.

Aerovox Corp., Bedford, Mass.

Aug. 22 filed $1,500,000 of 5% sinking fund debentures, due 1961, and 50,000 shares ($1 par) common stock. **Underwriter**—Ames, Emerich & Co., Inc., and Dempsey & Co., Chicago. **Offering**—The debentures will be offered publicly. The common shares will be issuable upon the exercise of stock purchase warrants for purchase of common stock at $2 a share above the bid price of such common on the effective date of the registration. Company will sell warrants for 25,000 common shares to the underwriters at 10 cents a warrant. The remaining warrants will be sold to officers and employees of the company. **Price**—Debentures at 98. **Proceeds**—Company will use $1,025,000 of proceeds of debs. for payment of an indebtedness to Bankers Trust Co., New York. Balance, will be added to working capital. Offering postponed.

Air Lanes, Inc., Portland, Me.

Oct. 9 (letter of notification) 15,000 shares each of preferred and common. Offering price, $10 a preferred share and 1 cent a common share. If offerings are made in the State of Maine, they will be made by Frederick C. Adams & Co., Boston. To complete plant and equipment and to provide working capital.

American Broadcasting Co., Inc., N. Y.

June 27 filed 950,000 shares ($1 par) common stock. **Underwriter**—Dillon, Read & Co. Inc., New York. **Offering**—A maximum of 100,000 shares may be sold by company to persons, firms, or corporations with whom the corporation had network affiliation agreements on March 31. The remainder will be offered publicly. Price by amendment. **Proceeds**—To prepay notes payable to acquire radio station WXYZ, to construct broadcast transmitter for station KGO at San Francisco and for working capital.

American Building Corp., Dover, Del.

Nov. 5 (letter of notification) 20,000 shares each ($10 par) 5% cumulative preferred and no par common. Price, $10 a unit consisting of one share of preferred and one share of common. **Underwriter**—E. M. Fitch & Co., Philadelphia. **Proceeds**—For additional machinery, working capital and other corporate purposes.

American Cladmetals Co., of Pittsburgh

July 8 filed 196,500 units comprising 196,500 shares of voting common stock ($1 par) and 589,500 shares of non-voting common stock ($1 par), each unit consisting of 1 share of voting common and 3 shares of non-voting common. **Underwriters**—None—the company intends to distribute its common stock directly to the public. **Offering**—Price $6 per unit. **Proceeds**—Net proceeds estimated at $1,179,000 will be used to pay a mortgage on plant, pay accounts payable, purchase equipment, for building alterations and working capital.

American Colortype Co., Clifton, N. J.

Aug. 12 filed 30,000 shares ($100 par) cumulative preferred stock. **Underwriter**—White, Weld & Co. Price by amendment. **Proceeds**—Net proceeds initially will be added to general funds, however, the company anticipates it will use the funds for its building and expansion program. Offering date indefinite.

American Fidelity Co., Montpelier

Dec. 2 (letter of notification) 10,000 shares (no par) capital stock, to be offered to present stockholders. **Price**—$59 a share. No underwriting. For additional capital funds for expansion purposes.

American Limoges China Corp., New York

Sept. 25 filed 75,000 shares of common stock (par $1). **Underwriter**—Riter & Co. **Proceeds**—Stock being sold for account of Harry Bloomberg, President. **Price**—By amendment. Offering date indefinite.

American Locomotive Co., New York

July 18 filed 100,000 shares each of $100 par prior preferred stock and $100 par convertible second preferred stock. **Underwriting**—Union Securities Corp., New York. Price by amendment. **Proceeds**—Net proceeds, with other funds, will be used to redeem $20,000,000 of 7% cumulative preferred stock at $115 a share plus accrued dividends. Indefinitely postponed.

American Water Works Co., Inc., N. Y.

March 30 filed 2,343,105 shares of common (par $5) plus an additional number determinable only after the results of competitive bidding are known. **Underwriters**—To be filed by amendment. Probable bidders include Dillon, Read & Co. Inc., White Weld & Co., and Shields & Co. (jointly), and W. C. Langley & Co. and The First Boston Corp. (Jointly). **Offering**—Price to public by amendment.

American Zinc, Lead & Smelting Co., St. Louis

Sept. 6 filed 336,550 shares common stock (par $1). **Underwriting**—No underwriting. **Offering**—Stock will be offered for subscription to common stockholders in the ratio of one additional share for each two shares held. Unsubscribed shares will be offered for subscription to officers and directors of the company **Price**—By amendment. **Proceeds**—Working capital. Offering indefinitely postponed.

Arkansas Western Gas Co.

June 5 filed 33,639 shares of common stock (par $5). **Underwriters**—Rauscher, Pierce & Co. Inc., and E. H. Rollins & Sons Inc. **Offering**—Stock will be offered to the public. Price by amendment. Shares are being sold by six stockholders.

Armour and Co., Chicago

July 12 filed 350,000 shares (no par) cumulative first preference stock, Series A; 300,000 shares of convertible second preference stock, Series A, and 1,355,240 shares common stock (par $5). **Underwriter**—Kuhn, Loeb & Co., New York. **Offering**—The 350,000 shares of first preference stock will be offered in exchange to holders of its 532,996 shares of $6 cumulative convertible prior preferred stock at the rate of 1.4 shares of first preference stock for each share of $6 prior preferred. Shares of first preference not issued in exchange will be sold to underwriters. The 300,000 shares of second preference stock will be offered publicly. The 1,355,240 shares of common will be offered for subscription to common stockholders of the company in the ratio of one-third of a new share for each common share held. Unsubscribed shares of common will be purchased by the underwriters. **Price**—Public offering prices by amendment. **Proceeds**—Net proceeds will be used to retire all unexchanged shares of $6 prior stock and to redeem its outstanding 7% preferred stock. Temporarily postponed.

Artcraft Hosiery Co., Philadelphia

Sept. 27 filed 53,648 shares ($25 par) 4½% cumulative convertible preferred and 150,000 shares ($1 par) common. It also covers shares of common reserved for issuance upon conversion of preferred. **Underwriter**—Newburger & Hano, Philadelphia. **Price**—$25.50 a preferred share and $12 a common share. **Proceeds**—Company will receive proceeds from the sale of all of the preferred and 100,00 shares of common. The remaining 50,000 shares of common are being sold by three stockholders. Estimated net proceeds of $2,300,000 will be used by the company to pay off bank notes of about $1,100,000 and to purchase additional machinery and equipment in the amount of $1,200,000. Offering date indefinite.

Associated Manufacturing & Foundry Co. N.S.L., Albuquerque, N. Mex.

Nov. 25 (letter of notification) 10,000 shares ($10 par) common. **Price**—$10 a share. **Underwriter**—E. H. Martin & Co. For erection of modern grey iron foundry and for working capital.

Atlantic Refining Co., Philadelphia

Oct. 29 filed 293,000 shares ($100 par) cumulative preference stock. **Underwriter**—Smith, Barney & Co., New York. **Offering**—Stock will be offered for subscription to common stockholders on the basis of one share of preference stock for each nine shares held. Unsubscribed shares will be sold to the underwriters who will reoffer it to the public. Price by amendment. **Proceeds**—A maximum of $15,540,000 of the net proceeds will be applied to redemption of the company's cumulative preferred stock, convertible 4% Series A, at $105 a share. The balance will be added to general funds for corporate purposes including repayment of obligations, acquisition of additional production, and expansion of refining, transportation and marketing facilities. Offering temporarily postponed.

Australia, Commonwealth of (12/16)

Nov. 27 filed $25,000,000 20-year 3½% bonds due Dec. 1, 1966. **Underwriter** — Morgan Stanley & Co. Price by amendment. **Proceeds** — Net proceeds together with treasury funds will be used to redeem on Feb. 1, 1947. $18,000,000 New South Wales external 5s due 1957 and to pay at maturity Feb. 15, 1947, $8,700,000 State of Queensland External 6s.

Bachmann Uxbridge Worsted Corp.

Nov. 27 filed 45,000 shares of 4% preferred stock (par $100) and 200,000 shares of common stock (par $1). **Underwriters**—Kidder, Peabody & Co. and Bear, Stearns & Co. **Proceeds**—Will go to selling stockholders. Price by amendment.

Basic Food Materials, Inc., Cleveland, Ohio

Nov. 26 (letter of notification) 5,000 shares (no par) common, to be offered to stockholders; 295 shares of ($100 par) preferred, 4,750 shares (no par) common and $50,000 10-year 5% debenture notes, all to be offered to the public. **Prices**—$5 per common share to stockholders; $10 per common share to public, $100 per preferred share and debentures at face. No underwriting. To increase working capital.

● **Beacon Associates, Inc., Providence, R. I.**

Dec. 4 (letter of notification) 4,572 shares (no par) common. **Price**—$16.40 a share. **Underwriter**—F. L. Putnam & Co., Inc., Boston. For liquidation of bank loans or as advances to subsidiary companies.

Beaunit Mills, Inc., New York

Sept. 27 filed 180,000 shares ($2.50 par) common. **Underwriter** — White, Weld & Co., New York. **Price** — By amendment. **Proceeds**—Of the total, 140,000 shares are being sold by St. Regis Paper Co., New York, and the remaining 40,000 shares are being sold by I. Rogosin, President of Beaunit Mills, Inc.

Berbiglia, Inc., Kansas City, Mo.

Sept. 12 (letter of notification) 41,000 shares of 5% cumulative convertible $6 par preferred. Offering price, $6 a share. **Underwriter**—Estes, Snyder & Co., Topeka, Kans. To pay outstanding indebtedness and expenses and to open five additional stores in Kansas City, Mo. Offering postponed indefinitely.

Berg Plastics & Die Casting Co., Inc.

Oct. 31 (letter of notification) 75,000 shares (10c par) common. **Price**—$4 a share. **Underwriter**—E. F. Gillespie & Co., Inc. **Proceeds**—For acquisition of machinery, tools and raw materials, and for working capital.

Birmingham Electric Co., Birmingham, Ala.

Nov. 1 filed 64,000 shares ($100 par) 4.20% preferred. **Underwriting**—To be determined by competitive bidding. Probable bidders include The First Boston Corp.; Dillon, Read & Co., Inc.; Blyth & Co., Inc.; Lehman Brothers; Kidder, Peabody & Co. **Offering**—Company is offering the stock on a share for share exchange basis to holders of its $7 preferred stock and $6 preferred stock, plus a cash adjustment. Exchange offer expires 3 p.m. (EST) Dec. 23. Shares not required for the exchange will be sold at competitive bidding at a price not less than $100 per share net to the company.

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NEW ISSUE CALENDAR

(Showing probable date of offering)

December 12, 1946

Kansas City Power & Light Co.....Bonds and Pref.

December 16, 1946

Australia, Commonwealth of.....Bonds
Christina Mines Co.....Common
Drayer-Hansen Inc.....Preferred
Halliday Stores Corp.....Common
Portis-Style Industries, Inc.....Common
Read (D. M.) Co.....Capital Stock

December 17, 1946

Eastern New York Power Corp.
11:30 a.m. (EST).....Bonds
Harman (William H.) Corp.....Capital Stock
Ohrbach's Inc. .....Preferred
Pennsylvania Turnpike Commission.....Bonds
Pittsburg, Bessemer & Lake Erie
Noon (EST) .....Bonds

December 18, 1946

Chase Candy Co.....Pref. and Common
Red Owl Stores, Inc.....Pref. and Common
Stage Publications, Inc.....Pref. and Common

December 19, 1946

Buffalo Creek RR. (Noon)...Cond. Sales Agreement
Union Pacific RR. (Noon)...Cond. Sales Agreement

December 23, 1946

Old Town Ribbon & Carbon Co., Inc.....Common

December 30, 1946

Sydney County Council.....Bonds

January 6, 1947

Manning, Maxwell & Moore, Inc.....Common

January 15, 1947

White's Auto Stores, Inc.....Pref. and Common

● **Blue Book Associates, Inc., New York**

Dec. 6 (letter of notification) $150,000 of $5,000 or $10,000 franchises for distribution of catalogue publication. **Price**—$5,000 or $10,000 each. No underwriting. To finance production of catalogue publication.

Blumenthal (Sidney) & Co. Inc., New York

Aug. 30 filed 119,706 shares (no par) common and subscription warrants relating to 30,000 shares thereof. **Underwriting** — None. **Proceeds**—For reimbursement of company's treasury for funds expended in redemption of 3,907 shares of 7% cumulative preferred on April 1, and for funds deposited in trust for redemption on Oct. 1 of remaining preferred shares. Although it was proposed to offer the stock for subscription to stockholders at $10 per share, company on Sept. 20 decided to withhold action at this time.

Book-of-the-month Club, Inc., New York

Oct. 28 filed 300,000 shares ($1.25 par) capital stock. **Underwriter**—Eastman, Dillon & Co., New York. **Offering**—Of the total, the company is selling 100,000 shares and six stockholders, including Harry Scherman, President, and Meredith Wood, Vice-President, are selling the remaining 200,000 shares. Price by amendment. **Proceeds**—Company will use its net proceeds for working capital to be used for expansion of inventories of paper and other raw materials and book inventories.

Boston Store of Chicago, Inc.

Sept. 10 filed 30,000 shares ($50 par) 5% cumulative preferred and 500,000 shares ($1 par) common. **Underwriters**—Paul H. Davis & Co. and Stroud & Co., Inc. **Offering**—Preferred will have non-detachable stock purchase warrants for purchase of 30,000 shares of common stock of the total common, 375,000 shares will be offered for sale for cash. 30,000 shares are reserved for issuance upon exercise of warrants attached to preferred and 95,000 shares are reserved for issuance upon exercise of outstanding warrants. **Price**—By amendment. **Proceeds**—Net proceeds, together with other funds, will be used to pay the company's 2% subordinated note in the principal amount of $5,268,750 and accrued interest. Offering date indefinite.

UNDERWRITERS—DISTRIBUTORS—DEALERS

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and Municipal Securities

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Bowman Gum, Inc., Philadelphia

Sept. 27 filed 268,875 shares ($1 par) common. **Underwriter**—Van Alstyne, Noel & Co., New York. **Price**—By amendment. **Proceeds**—Stock is being sold by shareholders who will receive proceeds.

Braunstein (Harry), Inc., Wilmington, Del.

Sept. 25 filed 12,500 shares ($25 par) 4½% cumulative convertible preferred stock and 50,000 shares (20¢ par) common stock. **Underwriter** — C. K. Pistell & Co., Inc., New York. **Price** — $25 a share for preferred and $11 a share for common. **Proceeds**—7,000 preferred shares are being sold by company, the remaining 5,500 preferred shares and all of the common are being sold by present stockholders. Net proceeds to the company, estimated at $147,500, will be used to prepay to the extent possible outstanding $149,300 mortgage liabilities. Offering date indefinite.

Briggs & Stratton Corp., Milwaukee

Aug. 9 filed 76,000 shares (no par) capital stock. **Underwriters**—A. G. Becker & Co., Inc., Chicago. Price by amendment. **Proceeds**—Shares are being sold by stockholders. Temporarily postponed.

Brooklyn (N. Y.) Union Gas Co.

May 3 filed 70,000 shares of cumulative preferred stock ($100 par). **Underwriters**—To be filed by amendment. **Bids Rejected**—Company July 23 rejected two bids received for the stock. Blyth & Co., Inc., and F. S. Moseley & Co. and associates submitted a bid of 100.06 for a 4.30% dividend. Harriman Ripley & Co. and Mellon Securities Corp. bid 100.779 for a 4.40% dividend. Indefinitely postponed.

California Oregon Power Co.

May 24 filed 312,000 shares of common stock (no par). Stock will be sold through competitive bidding. **Underwriters**—Names by amendment. Probable bidders include Blyth & Co., Inc.; The First Boston Corp.; Harriman Ripley & Co. **Offering**—Stock is being sold by Standard Gas and Electric Co., parent, of California. **Bids Rejected**—Standard Gas & Electric Co. rejected June 25 two bids for the purchase of the stock as unsatisfactory. Blyth & Co., Inc., and First Boston Corp. bid of $28.33 a share, and Harriman Ripley & Co. bid of $24.031 a share. Stock will again be put up for sale when market conditions improve.

Cameron Aero Engine Corp., New York

Oct. 2 (letter of notfication) 60,000 shares of common. **Offering**—Price $2 a share. **Underwriter**—R. A. Keppler & Co., Inc., New York. **Proceeds**—To demonstrate the Cameron Engine by flight tests in company-owned plane.

Camfield Mfg. Co., Grand Haven, Mich.

July 29 filed 220,000 shares ($1 par) common stock. **Underwriters**—Gearhart & Co., Inc. **Offering**—Of the shares registered, 100,000 are issued and outstanding and will be sold to the underwriters by three stockholders at $4.50 a share for their own account. The remaining 120,000 shares are being offered by the company. Price $4.50 a share. **Proceeds**—Company's share to pay renegotiation refund in amount of $180,000 to the U. S. Government, and for additional working capital. Offering date indefinite.

Canadian Admiral Corp. Ltd., Toronto

July 8 filed 150,000 shares ($1 par) common stock. **Underwriter**—Dempsey & Co. **Offering**—Stock initially will be offered to common stockholders of Admiral Corp. at $3 a share. **Proceeds**—$75,000 is earmarked for purchase of machinery and equipment, and tools, jigs, dies and fixtures; balance will be available for corporate purposes. Indefinitely delayed.

● **Caribbean Plywood and Plastics Corp., San Juan, Puerto Rico.**

Dec. 9 (letter of notification 16,627 shares of common. **Price**—$11 a share. No underwriting. For purchase of machinery, equipment and working capital.

Carscor Porcupine Gold Mines, Ltd., of Toronto, Ontario

June 24 filed 400,000 shares of common stock. **Underwriter**—No underwriters. **Offering**—To the public at $1 a share in Canadian funds. **Proceeds**—For a variety of purposes in connection with exploration, sinking of shafts, diamond drilling and working capital.

Central & South West Utilities Co.

Aug. 30 filed its ($5 par) capital stock. Company's name is to be changed by post effective amendment to Central & South West Corp. (Del.) Prospectus will be issued in connection with the public invitation for sealed bids for the purchase of a sufficient number of such shares as same will be constituted upon consummation of a proposed merger into the issuer of American Public Service Co., to provide funds for retiring the preference shares of the issuer and American Public Service Co., not exchanged for shares of the merged corporation. Underwriters by amendment. Possible bidders: Glore, Forgan & Co.; Lehman Brothers-Lazard Freres & Co. (jointly); Smith, Barney & Co.-Harriman, Ripley & Co. (jointly); Blyth & Co., Inc., Stone & Webster Securities Corp. and First Boston Corp. (jointly). Price by amendment.

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Central Soya Co., Inc., Fort Wayne, Ind.

Aug. 21 filed 90,000 shares (no par) common. **Underwriter**—None. **Offering**—Common shares initially will be offered for subscription to common stockholders at rate of one share for each 7⅓ shares held. Unsubscribed shares will be sold to underwriters. Price by amendment. **Proceeds**—Working capital, etc. Offering indefinitely postponed.

Chase Candy Co., St. Joseph, Mo. (12/18-20)

Sept. 12 filed $2,500,000 of 4% sinking fund debentures, due 1961 (being sold privately to two insurance companies); 100,000 shares ($20 par) 5% convertible cumulative preferred, and 170,000 shares ($1 par) common. **Underwriters** — F. S. Yantis & Co., Inc. and H. M. Byllesby and Co. (Inc.), Chicago, and Herrick Waddell & Co., Inc., New York. **Offering**—Common will be offered for subscription at $8 a share to common stockholders at rate of one share for each two shares held and the preferred will be offered at $20 a share. Pursuant to the common stock subscription rights, F. S. Yantis & Co. will purchase 100,000 shares of the 170,000 shares of common for investment. Any of the remaining 70,000 shares which are not subscribed for by stockholders and officers, directors and employees will be sold to the underwriters. **Proceeds**—Net proceeds, estimated at $5,700,000, will be used to make payment to Clinton Industries for all the assets of their National Candy Division.

China Motor Corp., New York

Oct. 24 filed 7,500 shares ($100 par) Class A stock, entitled to 6% preferential dividends, cumulative from July 1, 1947, and to participating dividends. **Underwriter**—None. **Offering**—Company expects to sell the stock largely to members of Chinese communities in the United States and elsewhere. **Price**—$101 a share. **Proceeds**—Net proceeds, estimated at about $748,500, are expected to be applied as additional working capital, payment of indebtedness and to provide capital to aid in establishing a branch plant in Canton, China.

● **Christina Mines, Inc., New York (12/16)**

Dec. 9 (letter of notification) 270,000 common shares (par $1). **Underwriters**—Newkirk & Banks, Inc. **Price**—$1 per share. **Proceeds**—Working capital, etc.

● **Citizens Casualty Co. of New York**

Dec. 3 (letter of notification) 5,000 shares of $1.25 prior preferred being offered to stockholders at $25 a share. The right to subscribe will be in the ratio of one share for each 5 shares held. **Underwriter**—Salvoy Adjustment Corp., New York, may be considered underwriters. For general corporate purposes.

Claussen's (H. H.) Sons, Inc., Augusta, Ga.

Nov. 7 filed 7,500 shares ($100 par) 5% cumulative preferred and 35,000 shares ($1 par) participating convertible preferred. **Underwriter**—Johnson, Lane, Space & Co., Inc., Augusta. **Price**—By amendment. **Proceeds**—The securities are issued and outstanding and are being sold by the executors of the estate of George F. Claussen and by Euclid Claussen, President of the company, who are sole stockholders.

Colonial Airlines, Inc., New York

Oct. 25 filed 150,000 shares ($1 par) capital stock. **Underwriter**—Auchincloss, Parker & Redpath, Washington, D. C. and Hornblower and Weeks, New York. Price by amendment. **Proceeds**—Net proceeds will be used to pay off a $550,000 loan to the Continental Bank & Trust Co. of New York; purchase equipment and development expenses of Bermuda route. The balance will be used to increase working capital.

Colonial Sand & Stone Co., Inc., N. Y.

August 15 filed 300,000 shares ($1 par) common stock. **Underwriters**—Emanuel, Deetjen & Co., New York. **Price** by amendment. **Proceeds**—Company will receive proceeds from the sale of 150,000 shares and Generoso Pope, President of company, who is selling the remaining 150,000 shares will receive proceeds from these shares. The company will use its proceeds for payment of mortgage notes, open account indebtedness and for purchase of additional equipment. Any balance will be added to working capital. Indefinitely postponed.

Colorado Milling & Elevator Co., Denver, Colo.

Aug. 20 filed 70,000 shares ($50 par) cumulative convertible preferred stock. **Underwriter**—Union Securities Corp., New York. Price by amendment. **Proceeds**—Prior to the proposed issue of preferred stock, the company plans to call its $3 cumulative convertible preferred stock for redemption at $55 a share plus accrued dividends. Funds for the redemption will be supplied by a short term bank loan. Proceeds from the sale of preferred, together with other funds, will be used to repay the bank loan. Indefinitely postponed.

Columbia Aircraft Products Inc.

June 26 filed 150,000 shares ($4 par) 30c cumulative convertible preferred stock, convertible into common

(Continued on page 3114)

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(Continued from page 3113)

stock in the ratio initially of 1½ shares of common for each share of preferred. **Underwriter**—Floyd D. Cerf Co., Inc., Chicago. **Offering**—Company offered 59,585⅓ shares for subscription to present common stockholders of record Aug. 6 at $4.50 a share in the ratio of one share of preferred for each share of common held. Rights expired Aug. 20. Stockholders subscribed for 735 shares. The offering to common stockholders excluded the two principal stockholders who waived their rights to subscribe. The remaining 90,414⅔ shares and 58,850⅓ shares not subscribed to by common stockholders will be offered to the public through underwriters. **Price**—$5 a share. **Proceeds**—Approximately $50,000 for payment of Federal taxes; $250,000 for payment of Lincoln-RFC loan; $50,000 as a loan to Palmer Brothers Engines, Inc., a subsidiary; balance for purchase of machinery and equipment and working capital.

Columbia Axle Co., Cleveland, Ohio

Oct. 28 filed 89,540 shares ($5 par) common. **Underwriting**—None. **Offering**—Of the total 56,420 shares are to be issued to persons under a trust agreement in satisfaction of funds loaned by the trust to the company; 10,500 shares are to be issued to satisfy options, 2,300 shares will be sold to employees and it is expected that the remaining 20,320 shares will be sold to persons under the trust agreement. **Price**—$7.25 a share. **Proceeds**—For purchase of machinery and inventory.

Commonwealth Telephone Co., Madison, Wis.

Sept. 23 filed 16,071 shares ($100 par) $4 cumulative preferred. **Underwriters** — Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. **Offering**—Shares will be offered for exchange for $5 cumulative preferred, on a share for share basis, plus cash adjustment. Shares not exchanged will be sold to underwriters. Price by amendment. **Proceeds**—To redeem at $110 a share, plus divs., all unexchanged old shares.

Conlon Corp., Chicago

Nov. 26 (letter of notification) 15,109 shares ($1 par) common to be offered for subscription to present stockholders. **Price**—$2.50 a share. No underwriting. For additional working capital.

Continental Car-na-var Corp., Brazil, Ind.

Nov. 4 (letter of notification) 132,500 shares ($1 par) common and 35,000 warrants for purchase of common one year after present public offering. **Price**—$2 a common share, one cent a warrant. **Underwriter**—L. D. Sherman & Co., New York. For working capital.

Continental Oil Co., New York

Nov. 25 filed an unspecified number ($5 par) capital stock shares. **Underwriters**—None. **Offering**—The shares will be offered for exchange on or before Feb. 1, 1947, to holders of $2 par capital stock of Texon Oil & Land Co. The exchange ratio will be filed by amendment. **Proceeds**—If substantially all of the stock of Texon is acquired by the company pursuant to this offer or otherwise, merger, consolidation or liquidation proceedings subsequently may be instituted.

Continental-United Industries Co., Inc.

Aug. 2 filed 150,000 shares ($1 par) common. **Underwriters**—Aronson, Hall & Co. Price $8.25 per share. **Proceeds**—To repay demand loans and for general funds. (Originally company filed for 80,000 preferred shares par $25 and 350,000 common shares.)

Crawford Clothes, Inc., L. I. City, N. Y.

Aug. 9 filed 300,000 shares ($5 par) common stock. **Underwriters**—First Boston Corp., New York. Price by amendment. **Proceeds**—Go to Joseph Levy, President, selling stockholders. Offering date indefinite.

Cyprus Mines, Ltd., Montreal, Canada

May 31 filed 500,000 shares of common stock (par $1). **Underwriters**—Sabiston-Hughes, Ltd., Toronto. **Offering**—Shares will be offered to the public at 75 cents a share. **Proceeds**—Net proceeds, estimated at $300,000, will be used for mining operations.

Dallas (Texas) Railway & Terminal Co.

Nov. 27 filed 40,000 shares ($25 par) 5% participating preferred stock. **Underwriters**—Names to be supplied by amendment. **Probable Underwriters**—Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane; Rauscher, Pierce & Co. Price by amendment. **Proceeds**—Proceeds will be applied to the redemption of 3,843 shares of 7% preferred stock and for purchase of new equipment and for construction as part of its modernization and expansion program. **Business**—Railway, trolley and bus transportation.

Danly Machine Specialties, Inc., Cicero, Ill.

July 26 filed 62,000 shares ($25 par) 5% cumulative convertible preferred stock and 71,950 shares (par $2) common stock 40,000 by company and 31,950 by certain stockholders. **Underwriters**—Paul H. Davis & Co., and Shillinglaw, Bolger & Co., Chicago. Price by amendment. **Proceeds**—Company will use proceeds, together with a $1,000,000 bank loan, to purchase machinery, buildings and to retire bank indebtedness. Offering date indefinite.

Delta Chenille Co., Inc., Jackson, Miss.

Oct. 2 filed 300,000 shares (20¢ par) common. **Underwriters**—Names by amendment. Price, $8 a share. **Proceeds**—Of total, company is selling 150,000 shares and remaining 150,000 shares are being sold by Apponaug Manufacturing Co., Inc. Principal stockholder estimated net proceeds to company of $1,007,913 will be added to general funds to be applied for corporate purpose. Company anticipates expenditures of $300,000 in 1946 and $300,000 in 1947 for equipping and absorbing costs of starting operations of four plants, two of which already have been contracted for. The balance will be added to working capital.

Delta Hybrids Co., Tuscola, Ill.

Nov. 19 (letter of notification) 500 shares ($100 par) common. **Price**—$100 a share. No underwriting. For production, harvesting and marketing of white hybrid seed corn now growing to be sold for planting in Spring of 1947.

Detroit Typesetting Co., Detroit, Mich.

Sept. 25 filed 70,920 shares ($1 par) common. **Underwriter** — C. G. McDonald & Co., Detroit. **Price** — $5.50 a share. **Proceeds** — Stock is being sold by six shareholders who will receive proceeds.
Boston. For working capital.

Drayer-Hanson, Inc., Los Angeles (12/16-18)

Aug. 12 filed 80,529 shares ($1 par) 60c cumulative convertible Class A stock. **Underwriters**—Maxwell, Marshall & Co., Los Angeles. **Price**—To public $10 a share. **Proceeds**—Net proceeds, estimated at $694,761, will be used to pay off loans and accounts payable.

Duluth (Minn.) Airlines, Inc.

Oct. 15 (letter of notification) 12,000 shares ($5 par) Class A common and 8,000 shares ($5 par) Class B common. **Offering**—Price $5 a unit. No underwriting. For purchase of additional flight and servicing equipment, payment of deferred salary balances, for working capital and other expenses.

Durasite Corp., Clearwater, Fla.

Oct. 11 (letter of notification) 99,000 shares of common and purchase warrants covering 50,000 shares of common. **Offering**—Price $3 a common share and five cents a warrant. **Underwriter**—Amos Treat & Co., New York. For machinery, plant renovation and working capital. Offering date indefinite.

Eastern New York Power Corp., N. Y. (12/17)

Nov. 15 filed $9.861,000 of first mortgage bonds, sinking fund series, due 1961, and $3,000,000 ($100 par) preferred stock. **Underwriters**—To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co., Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Smith, Barney & Co., The First Boston Corp. and Eastman, Dillon & Co. (jointly). **Proceeds** — Proceeds, supplemented by other funds, will be used to redeem the outstanding International Paper Co. 1st & ref. 5% sinking fund mortgage bonds, due 1947. These bonds were assumed by Hudson River Power Corp. which together with System Properties, Inc. will be merged into Eastern New York Power, subject to approval of the SEC. **Bids Invited**—Bids for the purchase of the bonds will be received up to 11:30 a.m. EST Dec. 17, at Room 1840, 15 Broad Street, N. Y. City.

Empire Millwork Corp., New York

Aug. 28 filed 50,000 shares of $1.25 cumulative convertible preferred stock, (par $25) and 150,000 shares of common stock (par $1). **Underwriters**—Van Alstyne, Noel & Co. **Proceeds**—Corporation will receive the proceeds from the issuance of 50,000 shares of the common stock which will be used to increase productive capacity, add new lines of products and expand the business. The remaining 100,000 shares of common stock and the preferred shares will be sold by present stockholders. Offering temporarily postponed.

● **Empire Mines Corp., Walla Walla, Wash.**

Nov. 15 (letter of notification) 709,500 shares (1c par) common and offer of recission of sales previously made during 12 month period for 162,250 shares. Price to public, 10 cents a share. No underwriting. For road building and mine development in Canada.

Ero Manufacturing Co., Chicago

Sept. 5 filed 105,000 shares common stock (par $1). **Underwriter**—Straus & Blosser, Chicago. **Price**—$11.50 a share. **Proceeds** — Shares are being sold by stockholders. Offering date indefinite.

Falk Mercantile Co., Ltd., Boise, Ida.

Oct. 21 (letter of notification) 3,000 shares of 4½% preferred ($100 par). **Price**—$100 a share. **Underwriter**—Richard Meade Dunlevy Childs, Boise, Idaho. Proceeds to retire debentures and for expansion purposes.

Farquhar (A. B.) Co., York, Pa.

Sept. 26 filed 30,000 shares ($25 par) cumulative convertible preferred; 45,000 shares ($5 par) common; and an unspecified number of common shares to permit conversion of the preferred. **Underwriter**—Stroud & Co., Inc., Philadelphia. **Price**—By amendment. **Proceeds** — Proceeds will be used to redeem $355,350 4½% sinking fund mortgage bonds, due Aug. 1, 1957, to pay off certain contracts and chattel mortgages of $72,000 and $800,000 to reduce principal on outstanding bank loans.

Films Inc., New York

June 25, filed 100,000 shares ($5 par) class A stock and 300,000 shares (10 cent par) common stock, of which 200,000 shares reserved for conversion of class A. Each share of class A stock is initially convertible into 2 shares of common stock. **Underwriters**—Herrick, Waddell & Co., Inc., New York. **Offering**—To be offered publicly at $8.10 a unit consisting of one share of class A stock and one share of common stock. **Proceeds**—$201,000 for retirement of 2,010 shares ($100 par) preferred stock at $100 a share; remaining proceeds, together with other funds, will be used for production of educational films.

Food Fair Stores, Inc., Philadelphia

Aug. 5 filed 60,000 shares ($15 par) cumulative preferred stock. **Underwriters**—Eastman, Dillon & Co. Price by amendment. **Proceeds**—To be used to redeem 15-year 3½% sinking fund debentures, due 1959; and $2.50 cumulative preferred at $53 a share. Balance will be added to working capital. Temporarily postponed.

Foreman Fabrics Corp., New York

July 29 filed 110,000 shares ($1 par) common stock, all outstanding. **Underwriters**—Cohu & Torrey. Price by amendment. Offering date indefinite.

Foster & Kleiser Co., San Francisco

July 29 filed 100,000 shares of $1.25 cumulative convertible preferred stock (par $25). **Underwriter**—Blyth & Co., Inc. **Offering**—Underwriters are making exchange offer to holders of Class A preferred on share for share basis plus a cash adjustment. **Proceeds**—Approximately $1,060,950 for redemption of class A preferred; balance for expansion, working capital, etc. Dividend rate and price by amendment. Offering temporarily postponed.

Fresh Dry Foods, Inc., Columbia, S. C.

Aug. 30 filed 450,000 shares (10¢ par) common. **Underwriter**—Newkirk & Banks, Inc. **Offering**—Of the total company is selling 350,000 shares and two stockholders, Roland E. Fulmer and Louis H. Newkirk, Jr., are selling the remaining 100,000 shares. **Price**—$6 a share. **Proceeds**—For purchase of sweet potatoes, plant expansion, additional storage facilities, research and development work and working capital. Offering date indefinite.

Frontier Power Co., Trinidad, Colo.

Oct. 25 filed 119,431 shares ($5 par) common. Underwriter by amendment. Price by amendment. **Proceeds**—Shares are being sold by three stockholders, including J. G. White & Co., Inc., New York, which is selling all of its holdings of such stock. Following the sale of its holdings J. G. White will no longer be parent of Frontier. Company will receive none of the proceeds.

Glen Industries Inc., Milwaukee, Wis.

July 31 filed 50,000 shares of $1.25 cumulative convertible preferred stock series A ($20 par) and 150,000 shares (10c par) common, all issued and outstanding and being sold by eight selling stockholders. **Underwriters**—Van Alstyne Noel & Co. Price by amendment. **Proceeds**—To selling stockholders. Offering temporarily postponed.

Glencair Mining Co. Ltd., Toronto, Can.

Oct. 2 filed 300,000 shares ($1 par) stock. **Underwriter**—Mark Daniels & Co., Toronto. **Price**—40 cents a share (Canadian Funds). **Proceeds**—For mine development.

Glensder Textile Corp., New York

Aug. 28 filed 355,000 shares ($1 par) common, of which 55,000 shares are reserved for issuance upon the exercise of stock purchase warrants. **Underwriter** — Van Alstyne, Noel & Co. **Offering**—The 300,000 shares are issued and outstanding and being sold for the account of certain stockholders. Company has also issued 55,000 stock purchase warrants to the selling stockholders at 10 cents a share entitling them to purchase up to Aug. 1, 1949, common stock of the company at $11 a share. Price by amendment. Offering temporarily postponed.

● **Good Foods, Inc., Minneapolis**

Dec. 3 (letter of notification) 2,000 shares ($100 par) 4½% Class A preferred. **Price**—$100 a share. No underwriting. For additional working capital and to cover in part the cost of erecting a new manufacturing plant.

Grand Canyon-Boulder Dam Tours, Inc., Boulder City, Nev.

Sept. 3 filed 500,000 shares ($5 par) capital stock. **Underwriting**—There will be no underwriting but Everett N. Crosby, President and James Manoil, Treasurer, will act as selling agents. **Price**—$5 a share. **Proceeds**—For refinancing of company and for working capital and funds for development and construction program.

Griggs, Cooper & Co., St. Paul, Minn.

Sept. 3 (letter of notification) 12,000 shares ($1 par) common. **Underwriters**—Kalman & Co., Inc., St. Paul. **Price**—$25 a share. **Proceeds** — For improvement and modernization program. Offering indefinitely postponed.

Grolier Society, Inc., New York

July 29 filed 18,500 shares at $4.25 cumulative preferred stock ($100 par), with non-detachable common stock purchase warrants entitling registered holders of shares of the $4.25 preferred to purchase at any time 64,750 shares of common stock at $16 a share at the ratio of 3½ common shares for each preferred share held; and 120,000 shares of $1 par common stock. **Underwriters**—H. M. Byllesby and Co., Inc. **Offering**—Underwriters to purchase from the company 18,500 shares of preferred and 20,000 shares of common; and from Fred P. Murphy and J. C. Graham, Jr., 100,000 shares of issued and outstanding common. Prices, preferred $100 a share; common $14 a share. **Proceeds**—To retire $6 cumulative preferred, pay notes, discharge a loan. Offering temporarily postponed.

Gulf Atlantic Transport'n Co., Jacksonville, Fla.

Jan. 17 filed 270,000 shares of common stock (par $1). **Underwriters**—Blair & Co. **Offering**—Stock is being offered to present shareholders at $3 per share. Holders of approximately 200,000 shares have agreed to waive their preemptive rights. Offering date indefinite.

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● **Halliday Stores Corp., New York (12/16)**
Dec. 9 (letter of notification) 74,687 shares (50c par) common, and an option for 25,000 shares of common on behalf of Robert Best and Samuel Schulman. **Price**—$4 a share of common. The options will be granted to the underwriter on the basis of one option share for each three shares sold pursuant to the underwirting agreement. The underwriter has agreed to pay Best and Schulman 5 cents for each share on which the option is granted. **Underwriter**—E. F. Gillespie & Co., Inc., New York. **Proceeds**—Will be used to purchase Benton Stores Inc. and its affiliates.

Hammond Instrument Co., Chicago
Aug. 8 filed 80,000 shares ($1 par) common. **Underwriter:** Paul H. Davies & Co., Chicago. Price by amendment. **Proceeds**—Net proceeds will be used to redeem its outstanding 6% cumulative preferred stock at an estimated cost of $213,258, exclusive of accrued dividends. It also will use approximately $402,000 toward the purchase of a manufacturing plant in Chicago; balance for working capital. Offering date indefinite.

Harman (William H.) Corp., Phila. (12/17)
Nov. 13 filed 300,000 shares of capital stock. **Underwriter**—Smith, Barney & Co. Price by amendment. **Proceeds**—Will be applied to the purchase and installation of machinery and equipment and to the carrying of inventories and receivables. Additional working capital is expected to be made available under a credit agreement with the Chase National Bank.

Hartfield Stores, Inc., Los Angeles
June 27 filed 100,000 shares ($1 par) common stock. **Underwriters**—Van Alstyne, Noel & Co., New York, and Johnston, Lemon & Co., Washington, D. C. **Offering**—To be offered to the public at $8 a share. **Proceeds**—Company is selling 60,000 shares and stockholders are selling 40,000 shares. The company will use its proceeds to pay the costs of opening additional stores and to expand merchandise in its existing stores. Offering temporarily postponed.

● **Helene Curtis Industries, Inc., Chicago**
Dec. 5 filed 60,000 shares ($5 par) 50-cent cumulative convertible preferred, Series A, and 120,000 shares ($1 par) common, reserved for conversion of preferred. **Underwriter**—Simons, Linburn & Co. **Offering**—Company will offer 40,000 shares of preferred to employees at $9.50 a share and 20,000 shares to the public at $10 a share. **Proceeds**—To be added to general corporate funds. **Business**—Beauty supplies.

Hollywood Colorfilm Corp., Burbank, Calif.
Oct. 16 (letter of notification) 119,500 shares of ($1 par) capital. Price, $3 a share. No underwriting contract, however, 55,000 shares to be issued to or through H. R. O'Neil of Buckley Bros., Los Angeles, will be sold by one or more of the following firms: Buckley Bros.; Durand & Co., Tucson, Ariz.; J. Earle May & Co., Palo Alto, Calif.

Holt (Henry) & Co., Inc., New York
June 28, 1946 filed 20,000 shares of 4½% ($25 par) cumulative convertible preferred stock and 33,884 shares ($1 par) common stock. **Underwriters**—Otis & Co.,-Cleveland, Ohio. **Offering**—Company is selling the preferred shares and stockholders are selling the common shares. **Price**—$25 a share of preferred. Price for the common by amendment. **Proceeds**—Net proceeds will be added to general funds. Offering date indefinite.

● **Hy-Grade Supply Co., Oklahoma City**
Dec. 3 (leter of notification) 54,350 shares of cum. conv. preferred and 50,000 common stock purchase warrants. **Price**—$5.50 a preferred share and 2 cents a warrant. **Underwriter**—Amos Treat & Co., New York. To exercise options for purchase of five variety stores, to retire notes and for working capital.

Illinois Power Co., Decatur, Ill.
June 17, filed 200,000 shares ($50 par) cumulative preferred stock and 966,870 shares (no par) common stock. **Underwriters**—By competitive bidding. Probable bidders include Blyth & Co., Inc. and Mellon Securities Corp. (jointly) and Morgan Stanley & Co. and W. E. Hutton & Co. (jointly). **Proceeds**—Net proceeds from the sale of preferred will be used to reimburse the company's treasury for construction expenditures. Net proceeds from the sale of common will be applied for redemption of 5% cumulative convertible preferred stock not converted into common prior to the redemption date. The balance will be added to treasury funds. Company has asked the SEC to defer action on its financing program because of present market conditions.

International Dress Co., Inc., New York
Aug. 28 filed 140,000 shares of common stock (par $1). **Underwriter**—Otis & Co. **Offering**—Price $10 per share. **Proceeds**—Selling stockholders will receive proceeds. Offering date indefinite.

● **Intra-Video Corporation of America, New York**
Dec. 3 (letter of notification) 149,000 shares of common. **Price**—$2 a share. No underwriting. For working capital and expenses.

● **Jewish World Publishing Co., Inc., New York**
Dec. 5 (letter of notification) 8,000 shares ($25 par) 4% preferred. **Price**—$25 a share. No underwriting. For working capital.

Kable Brothers Co., Mount Morris, Ill.
Nov. 6 (letter of notification) 20,907 shares ($10 par) common. To be offered to stockholders in ratio of one share for each five held. **Price**—$10 a share. No underwriting. For expansion purposes.

Kansas City Power & Light Co., Kansas City, Mo. (12/12-13)
Nov. 1 filed $36,000,000 of first mortgage bonds, due 1976; and 100,000 shares ($100 par) cumulative preferred. **Proceeds**—Proceeds will be used to redeem $38,000,000 of 3¾% bonds, due 1966 and 40,000 shares of first preferred stock, Series B. **Issues Awarded**—Bonds awarded Dec. 11 to Halsey Stuart & Co., Inc. on bid of 100.889 for a 2¾% coupon. Bonds to be reoffered at 101.43. Stock awarded to The First Boston Corp. Dec. 11 on bid of 100.91 per share for a dividend rate of 3.80%. To be offered at $102.70 per share.

Kingsport Press, Inc., New York
Nov. 14 filed $1,200,000 4% sinking fund debentures, due 1961, and 55,000 shares ($2.50 par) common. **Underwriter**—Alex. Brown & Sons, Baltimore, Md. **Price**—By amendment. **Proceeds**—Company will receive proceeds from sale of debentures, and common stockholders will receive proceeds from shares. Company will use $577,500 to redeem 5,500 shares of 5% prior cumulative preferred and $281,017 to prepay note to Equitable Life Assurance Society of the United States.

Kiwago Gold Mines Ltd., Toronto, Canada
Dec. 3 filed 1,000,000 shares (no par) common. **Underwriter**—Jack Kahn, New York. **Price**—70 cents a share, the underwriting discount will amount to 21 cents a share. **Proceeds**—For exploration and development of mining property and for administrative expenses.

Leader Enterprises, Inc., New York
Sept. 26 (letter of notification) 150,000 shares of (10¢ par) common and 57,000 shares ($5 par) 6% cumulative convertible preferred, Series A. **Price**—10 cents a common share and $5 a preferred share. **Underwriter**—Gearhart & Co., Inc., New York. **Proceeds**—To replace working capital used to promote new publication called Fashion Trades and to provide additional working capital. Offering date indefinite.

Lynchburg (Va.) Gas Co.
Nov. 26 (letter of notification) 5,000 shares ($10 par) common. **Price**—$10 a share. No underwriting. For conversion of company's facilities from manufactured to natural gas.

Macco Corp., Clearwater, Calif.
Sept. 25 filed 100,000 shares ($1 par) capital stock. **Underwriter** — Dean Witter & Co., Los Angeles. **Price**—By amendment. **Proceeds** — To pay off outstanding bank loans.

● **Mackay (Roy Hugh), San Francisco**
Dec. 3 (letter of notification) 100 shares of $1,000 par preferred; 100 debentures of $1,750 each and 1,000 shares of no par common. **Prices**—$1,000 a preferred share and $1,750 a debenture. Four shares of common will be issued to each purchaser of one share of preferred and one debenture. The securities will be sold by Mackay as the underwriter. For organization and operation of factory to prefabricate, sell and erect residential structures.

Mada Yellowknife Gold Mines, Ltd., Toronto
June 7 filed 250,000 shares of capital stock (par 40c). **Underwriters** — Names to be supplied by amendment. **Offering**—Stock will be offered publicly in the U. S. at 40c a share (Canadian money). **Proceeds**—Proceeds, estimated at $75,000, will be used in operation of the company.

Maine Public Service Co., Presque Isle, Me.
June 25 filed 150,000 shares ($10 par) capital stock. **Underwriters**—To be determined through competitive bidding. Probable bidders include The First Boston Corp.; Kidder, Peabody & Co., and Blyth & Co., Inc. (jointly); Harriman Ripley & Co; Coffin & Burr and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—The shares are being sold by Consolidated Electric and Gas Co., parent of Maine Public Service, in compliance with geographic integration provisions of the Public Utility Holding Company Act.

Managed Funds Inc., St. Louis, Mo.
Dec. 3 filed 2,300,000 shares (1c par) capital stock. **Underwriter**—Slayton and Co., Inc., St. Louis. **Price**—$5 a share. **Proceeds**—For investment.

Manning, Maxwell & Moore, Inc. (1/6-47)
Nov. 27 filed 160,000 shares of $12.50 par common. **Underwriter**—Hornblower & Weeks, New York. Price by amendment. **Proceeds**—Proceeds will be used to repay $1,000,000 in bank loans with the balance going into general funds.

● **Markley Corp., Meriden, Conn.**
Dec. 5 (letter of notification) $75,000 5% convertible notes (par $1,000), $25,000 5% convertible notes (par $500) and 22,500 warrants for purchase of common. The notes will be sold at face amount and purchasers of each $1,000 note also will receive warrants for purchase of 140 shares of common and purchasers each $500 note will receive warrants for purchase of 70 shares of common. Other warrants for purchase of 8,500 shares of common will be sold at five cents a warrant. **Underwriter**—Amos Treat & Co., New York. For payment of certain current indebtedness, purchase equipment and improve plant facilities.

● **Maryland Credit Finance Corp., Easton, Md.**
Dec. 6 (letter of notification) 1,370 shares ($100 par) 6% cumulative preferred. **Price**—$105 a share. No underwriting. For additional capital.

May McEwen Kaiser Co., Burlington, N. C.
Aug. 22 filed 175,418 shares ($1 par) common stock. **Underwriters**—Goldman, Sachs & Co., and Hemphill, Noyes & Co. **Price**—By amendment. **Proceeds**—Net proceeds go to 11 shareholders who are selling the stock being registered. Offering temporarily postponed.

● **Metropolitan Paving Brick Co., Canton, Ohio**
Dec. 4 (letter of notification) Company plans to sell on the Cleveland Stock Exchange shares of common (par $4) in an amount and number equal to the aggregate of fractional interest in shares represented by unsurrendered scrip certificates and share certificates for old common. Price at market. The company will pay customary brokers' commissions in connection with the sale. Proceeds will be paid pro rata to holders of scrip certificates and shares certificates for old common.

Meyer-Blanke Co., St. Louis, Mo.
Nov. 29 (letter of notification) 1,200 shares (no par) common, 50% on behalf of George A. Meyer Finance Co., St. Louis; and 50% on behalf of Robert L. Blanke, Jr. and Marian Blanke, both of University City, Mo. **Price**—$31 a share. **Underwriter**—Smith-Moore & Co., St. Louis.

Michigan Gas & Elec. Co., Ashland, Wis.
June 24 filed $3,500,000 of series A first mortgage bonds, due 1976; 14,000 shares ($100 par) cumulative preferred stock and 120,000 shares ($10 par) common stock. **Underwriters**—To be determined by competitive bidding. Probable bidders include Blyth & Co., Inc.; Kidder, Peabody & Co.; The First Boston Corp.; Harris, Hall & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane, and Ira Haupt & Co. **Offering**—New preferred will be offered on a share for share exchange basis to holders of its outstanding 7% prior lien, $6 no-par prior lien, 6% preferred and $6 (no par) preferred. Of the common stock being registered, company is selling 40,000 shares, Middle West is selling 57,226 shares and Halsey, Stuart & Co. Inc., New York, is selling 22,774 shares. **Proceeds**—Michigan will use net proceeds from bonds to redeem $3,500,000 3¾% series A first mortgage bonds, due 1972, at 106.75 and interest. Net proceeds from sale of common and from shares of new preferred not issued in exchange will be used to redeem $375,000 3½% serial debentures, due 1951, at 101.2 and interest. It also will redeem at 105 and accrued dividends all unexchanged shares of prior lien and preferred stocks.

Midas Yellowknife Gold Mines Ltd., Toronto, Canada
Oct. 21 filed 1,250,000 shares ($1 par) common. **Underwriter**—R. J. Hale, East Aurora, N. Y. **Offering**—Of the total company is selling $1,000,000 shares and the remaining 250,000 shares are being sold for the account of the principal underwriter, brokers and dealers, which shares they will receive as additional compensation on the basis of 250 shares for every 1,000 shares sold for the company. **Price**—60 cents a share. The underwriters will receive a discount on the 1,000,000 shares of 15 cents each. **Proceeds**—For exploration and mine development work.

Middlekamp Building Corp., Pueblo, Colo.
Oct. 23 (letter of notification) $95,000 4% first closed mortgage sinking fund bonds, due 1960. **Price**—Not more than 98½ per unit. **Underwriter**—Boettcher and Co., Denver, and Hutchinson & Co., Pueblo, Colo. For retirement of debt and for working capital.

● **Monmouth Park Jockey Club, Oceanport, N. J.**
Dec. 5 filed 16,000 shares ($50 par) 5% cumulative convertible preferred and 633,500 shares (1c par) common. **Underwriter**—Unsubscribed shares and additional shares to a total of 315,000 will be purchased by the Monmouth Corp., formed last May to finance construction of the racing plant. **Offering**—Company will offer present common stockholders the right to purchase 387,500 additional common shares at $4 each in the ratio of 1¼ shares for each share held. **Price**—$4 a share. **Proceeds**—Part of the funds will be used to redeem 25,200 shares of $50 par 4% non-cumulative convertible preferred held by Monmouth Corp. A balance due on construction work will be paid by distribution of 14,636 shares of the new preferred to F. H. McGraw & Co. and subcontractors. **Business**—Operation of race track.

Monroe Sales Corp., Philadelphia
Nov. 27 (letter of notification) 250 shares ($100 par) 6% cumulative preferred and 100,000 shares (50¢ par) common. **Price**—$100 a preferred share and 50 cents a common share. No underwriting. To carry on business of the corporation as factory representative and dealer.

Moreno-Cripple Creek Corp., Denver
Nov. 27 filed 7,399,500 shares (10c par) common. **Underwriter**—Company is negotiating with James T. Chiles, Denver, who will act as their selling agent. Price by amendment. **Proceeds**—Proceeds, estimated at $438,770, will be used for current property payments, exploration of mining properties and for working capital.

Mountain States Power Co.
June 6 filed 140,614 shares of common stock (no par). **Underwriters**—To be determined by competitive bidding. Probable bidders include Blyth & Co., Inc.; Kuhn, Loeb & Co. and Smith Barney & Co. (jointly); Harriman, Ripley & Co.; The First Boston Corp. **Offering**—Shares, are owned by Standard Gas & Electric Co. and constitute 56.39% of the company's outstanding common. **Sale Postponed**—Standard Gas & Electric Co. asked for bids for the purchase of the stock on Sept. 4, but the sale has been temporarily postponed.

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Murphy (G. C.) Co., McKeesport, Pa.

June 13 filed 250,000 shares of common stock (par $1). **Underwriter**—Smith, Barney & Co. Price by amendment. **Proceeds**—Redemption of outstanding 4¾% preferred stock at $109 a share plus dividends. Indefinitely postponed.

National Aluminate Corp., Chicago

Sept. 27 filed an unspecified number ($2.50 par) common shares. **Underwriters**—First Boston Corp., New York, and Lee Higginson Corp., Chicago. **Price**—By amendment. **Proceeds**—The stock is issued and outstanding and is being sold by shareholders. Names of the selling stockholders and the number of shares to be sold by each will be supplied by amendment.

Newburgh Steel Co., Inc., Detroit

Aug. 2 filed 30,000 shares of 6% cumulative convertible preferred (par $10), and 30,000 common shares ($1 par). **Underwriters**—Names by amendment. **Offering**—Shares are issued and outstanding and are being sold by Maurice Cohen and Samuel Friedman, President and Secretary-Treasurer, respectively, each selling 15,000 shares of preferred and 15,000 shares of common. **Price**—$10 a share for the preferred and $6 a share for the common.

New England Gas and Electric Association

July 11 filed $22,500,000 20-year collateral trust sinking fund Series A bonds, and a maximum of 1,568,980 common shares ($5 par). **Underwriters**—By amendment. Bidders may include Halsey, Stuart & Co. Inc. (bonds only), Bear, Stearns & Co. (stock only), First Boston Corp., White, Weld & Co.-Kidder, Peabody & Co. (jointly). **Offering**—Bonds and common stock are being offered in connection with a compromise recapitalization plan approved by the SEC, on June 24, 1946, which among other things provides for the elimination of all outstanding debentures and preferred and common stocks, and for the issuance of $22,500,000 of bonds and 2,300,000 of new common shares. Bids for the purchase of the bonds and the common stock which were to be received by the company Aug. 13 were withdrawn Aug. 12. An altemate plan filed Nov. 25 with the SEC provides for the issue of 77,625 convertible preferred shares (par $100) and 1,246,011 common shares (par $8). Under the proposed plan consolidated funded debt would be practically unchanged from that provided in original plan, the Association to issue $22,425,000 coll. trust bonds. These bonds and preferred stock may be sold, subject to an exchange offer, to the holders of present debentures on a par for par basis. Present preferred would receive for each share held 8 shares of new common with rights to subscribe to 5 new common shares at $9 per share. The present plan does not affect the status of original plan, but determination as to which will be left to the SEC and the court. Hearings on the alternate plan are scheduled by the SEC for Dec. 19.

New York State Electric & Gas Corp., Ithaca N. Y.

Oct 30 filed $13,000,000 first mortgage bonds, due 1976, and 150,000 shares of ($100 par) cumulative preferred. **Underwriters**—To be determined by competitive bidding. Probable bidders include Blyth & Co. and Smith, Barney & Co. (jointly); First Boston Corp. and Glore, Forgan & Co. (jointly) and Halsey, Stuart & Co. Inc. (bonds only). **Proceeds**—Estimated proceeds of $28,000,000. together with a $6,000,000 contribution from NY PA NJ Utilities Co., parent, will be used for redemption of $13,000,000 of 3¾% bonds, due 1964, and 120,000 shares ($100 par) 5-10% cumulative serial preferred and to finance new constructions.

Northern Engraving & Mfg. Co., La Crosse, Wis.

Aug. 29 filed 70,000 shares ($2 par) common stock. **Underwriter**—Cruttenden & Co. **Offering**—All shares are issued and outstanding and being sold for the account of present holders. **Price**—$16 a share. **Proceeds**—To selling stockholders. Indefinitely postponed.

Northern Indiana Public Service Co.

Aug. 28 filed maximum of 384,016 shares of common stock. Underwriters by amendment as shares will be offered under competitive bidding. Probable bidders include Blyth & Co., Inc.; The First Boston Corp.; Stone & Webster Securities Corp., and Harriman Ripley & Co., Inc. (jointly). Of the shares registered, 182,667 are being sold by Midland Realization Co.; 54,426 by Midland Utilities Co., and 146,923 by Middle West Corp.

Nugent's National Stores, Inc., New York

June 21 filed 85,000 shares ($1 par) common stock. **Underwriters**—Newburger & Hano, and Kobbe, Gearhart & Co., Inc. Price, $6.75 a share. **Proceeds**—Net proceeds to the company from 62,000 shares, estimated at $350,200, will be applied as follows: About $111,300 for retirement of outstanding preferred stock; $41,649 to purchase 100% of the stock of two affiliates, and balance $197,000 for other corporate purposes. The proceeds from the other 3,000 shares will go to selling stockholders. Offering temporarily postponed.

Ohio Associated Telephone Co.

Sept. 11 filed 35,000 shares (no par) $2 cumulative preferred. **Underwriters**—Paine, Webber, Jackson & Curtis and Stone & Webster Securities, New York. **Offering**—Of the shares registered, 21,000 are being sold by the company and the remaining 14,000 are being sold by General Telephone Corp. **Price**—By amendment. Offering indefinitely postponed.

Ohrbach's Inc., New York (12/17)

Nov. 27 filed 40,000 shares ($50 par) cumulative preferred stock series A. **Underwriter**—A. G. Becker & Co., Inc., New York. Price by amendment. **Proceeds**—Company will receive proceeds from the sale of 5,000 shares and five stockholders will receive proceeds from the sale of the remaining 35,000 shares. The company will apply its proceeds to general funds.

Old Town Ribbon & Carbon Co. Inc. (12/23-31)

Sept. 19 filed 140,900 shares ($5 par) common. The shares are being sold by three stockholders. **Underwriter**—The First Boston Corp., New York. **Price**—By amendment.

Orange-Crush de Cuba, S. A., Havana, Cuba

July 22 filed 125,000 shares ($1 par) common and 40,000 warrants. **Underwriter**—Floyd D. Cerf Co., Inc., Chicago. **Offering**—Price $4.75 a share. **Proceeds**—Of the total company is selling 37,500 shares and stockholders are selling 87,500 shares. The company will use its proceeds for equipment and working capital.

Pacific Power & Light Co., Portland, Ore.

July 10 filed 100,000 shares ($100 par) preferred stock. **Underwriters**—By amendment. Probable bidders include Blyth & Co., Inc., White, Weld & Co. and Smith, Barney & Co. (jointly); The First Boston Corp., W. C. Langley & Co.; Harriman Ripley & Co. **Offering**—Company proposes to issue the 100,000 shares of new preferred for the purpose of refinancing at a lower dividend rate the 67,009 outstanding preferred shares of Pacific and the 47,806 preferred shares of Northern Electric Co., in connection with the proposed merger of Northwestern into Pacific. In connection with the merger, the outstanding preferred stocks of Pacific and Northwestern will be exchanged share for share, with cash adjustments, for the new preferred stock of Pacific, the surviving corporation. **Offering price**—To be supplied by amendment.

Pal Blade Co., Inc., New York

June 28, 1946 filed 227,500 shares ($1 par) capital stock. **Underwriters**—F. Eberstadt & Co., Inc. **Offering**—225,000 shares are outstanding and are being sold by 10 stockholders, and 2,500 shares are being sold by A. L. Marlman to all salaried employees. Indefinitely postponed.

Palmetto Fibre Corp., Washington, D. C.

August 16 filed 4,000,000 shares (10¢ par) preference stock. **Underwriting**—Tellier & Co., New York. Price 50 cents a share. **Proceeds**—The company will use estimated net proceeds of $1,473,000 for purchase of a new factory near Punta Gorda, Florida, at a cost of about $951,928. It will set aside $150,000 for research and development purposes and the balance will be used as operating capital.

● **Pan American Investment Fund, Inc., Los Angeles, Calif.**

Dec. 9 filed 26,226 shares ($1 par) capital stock. **Underwriter**—None. **Price**—Based on market price. **Proceeds**—For investment. **Business**—Investment business.

Peninsular Oil Corp., Ltd., Montreal, Canada

Sept. 3 filed 600,000 shares of common (par $1). **Underwriter**—Sabiston Hughes, Ltd., Toronto, Canada. **Price**—60 cents a share. **Proceeds**—Net proceeds will be used to purchase drilling machinery and other equipment.

● **Peruvian International Airways, Lima, Peru**

Dec. 5 filed 477,122 shares ($7 par) 50-cent convertible preferred and 238,561 shares ($1 par) common. **Underwriter**—None stated. **Offering**—Shares will be offered publicly in units of two shares of convertible preferred and one share of common at $15 a unit. The company also may offer the shares other than by unit at a price of $7 a preferred share and $1 a common share. **Proceeds**—To increase capital for expansion of proposed air route connecting Peru and Montreal, Can. **Business**—Air transportation.

Pharis Tire & Rubber Co., Newark, O.

Sept. 27 filed 100,000 shares ($20 par) cumulative convertible preferred. **Underwriter**—Van Alstyne, Noel & Co. and G. L. Ohrstrom & Co., New York. **Price**—$20 a share. **Proceeds**—For payment of loans and to replace working capital expended in purchase of building from RFC and to complete construction of a building.

Plastic Molded Arts, Inc., New York

Aug. 27 filed 60,000 shares of preferred stock ($10 par) and 75,000 shares of common (par 50c). **Underwriter**—Herrick, Waddell & Co., Inc. **Offering**—Company is offering the preferred stock to the public, while the common is being sold by certain stockholders. **Prices**—Preferred, $10 a share; common, $4 a share. **Proceeds**—Proceeds from sale of preferred will be used to purchase equipment, pay bank loans, and other corporate purposes.

Portis Style Industries, Inc. (12/16)

Sept. 27 filed 110,000 shares ($1 par) common. **Underwriters**—Brailsford & Co., and Shillinglaw, Bolger & Co., Chicago. **Offering**—Of the total 100,000 shares will be offered to the public and 10,000 to employees of the company. **Price**—Price to public $6.50 a share. Price to employees $5.525 a share. **Proceeds**—Shares are being sold by four stockholders.

Precision Parts Co. of Ann Arbor, Mich.

July 5 filed 75,000 shares 5% cumulative convertible preferred stock ($10 par). **Underwriter**—Van Alstyne, Noel & Co. and associates. Price by amendment. **Proceeds**—Of the net proceeds, $250,000 will be used to pay 3% notes held by National Bank of Detroit, $75,000 to reimburse treasury for sums spent in acquisition of the electrical division plant of the company, $30,000 for construction of space for executive offices in the economy baler plant, and the balance will be deposited with general funds. Offering temporarily postponed.

Quebec Gold Rocks Exploration Ltd., Montreal

Nov. 13 filed 100,000 shares (50¢ par) capital stock. **Underwriter**—Robert B. Soden, Montreal, director of company. **Price**—50¢ a share. **Proceeds**—For exploration and development of mining property.

Read (D. M.) Co., Bridgeport, Conn. (12/16)

Nov. 27 (by amendment) filed 50,000 shares of common stock (par 25¢) and stock purchase warrants. **Underwriters**—Warren W. York & Co., Inc., Allentown, Pa., and Richard J. Buck & Co., New York. **Price**—$5.75 per unit of one common share and one warrant. **Proceeds**—Net proceeds will be used to pay off a loan.

Realmont Red Lake Gold Mines, Ltd., Toronto, Canada

Nov. 20 filed 800,000 shares of common stock ($1 par). **Offering Price**—$0.60 a share to public. Company has not entered into any underwriting contract. **Proceeds**—Development of mining properties and exploration work.

Red Owl Stores, Inc., Minneapolis (12/18)

Nov. 29 filed 15,000 shares ($100 par) cumulative convertible preferred and 50,000 shares ($3 par) common. **Underwriters**—Piper, Jaffray & Hopwood and J. M. Dain & Co., Minneapolis. Price by amendment. **Proceeds**—Company expects to use $800,000 of the proceeds for reduction of its bank loans. Of the remaining proceeds, it will use $500,000 for equipment of its general office and warehouse being constructed at Hopkins, Minn.; $300,000 for equipment of warehouses at Green Bay, Wis., and Fargo, N. D., which it expects to construct in the future. Any balance will be used in its modernization and the expansion program.

Reliance Varnish Co., Louisville, Ky.

Nov. 20 filed 60,000 shares of common stock ($2.50 par). **Offering Price**—$10 a share. **Underwriter**—Bankers Bond Co., and Almstedt Bros., both of Louisville, and Cruttenden & Co., Chicago. Of the total of 60,000 shares, the company is selling 40,000 and seven stockholders are disposing of the remaining 20,000. **Proceeds**—Company will use its proceeds, together with $500,000 bank loan, to finance paints and varnish plant now under construction.

● **Repeter Products, Inc., Long Island City**

Dec. 3 (letter of notification) 25,000 shares of common stock, (par $1), 15,000 shares of which represent treasury stock originally issued to Robert E. Peterson for tangibles and now donated back as an absolute gift. Two shares of treasury stock will be distributed as a bonus for every 2 shares of unissued 10,000 shares now offered at $2.40 per share. The remaining 5,000 shares of treasury stock will be reissued as additional compensation to the underwriter. The underwriter will sell the 5,000 shares of stock as they are reissued in 4 share units at $2.40 per unit. **Underwriter**—Clokey & Miller, New York. Proceeds for development, etc.

Republic Aviation Corp., Farmingdale, N. Y.

Oct. 9 filed 100,000 shares ($50 par) convertible preferred stock. **Underwriters**—Hayden, Stone & Co., and Kidder, Peabody & Co. **Price**—By amendment. **Proceeds**—Proceeds, together with bank loans, will be used to increase working capital. Such funds are deemed necessary in view of the additional facilities that company intends to acquire and its large backlog of peacetime business. Reported Dec. 4 company negotiating bank loans in lieu of public financing.

Republic Pictures Corp., New York

Registration originally filed July 31 covered 184,821 shares of $1 cumulative convertible preferred ($10 par) and 277,231 shares (50c par) common stock, with Sterling, Grace & Co. as underwriters. Company has decided to issue 454,465 shares of common stock only, which will be offered for subscription to stockholders of record Sept. 5 to the extent of one share for each five held. Issue will not be underwritten.

Rowe Corp., New York

July 29 filed 100,000 shares common stock. **Underwriters**—Hayden, Stone & Co. **Offering**—The selling stockholders, who include Robert Z. Greene, President, are offering the shares to the public through the underwriters, for their own account. Price, by amendment. Offering date indefinite

● **Santa Cruz (Calif.) Sky Park Airport, Inc.**

Dec. 6 (letter of notification) 53,000 shares ($1 par) common. Of the total 31,000 shares will be offered publicly at $1 a share, 16,000 shares will be transferred to Alex. Wilson and Wayne Voigts for their interest in Santa Cruz Flying Service, which is a flying field and airport, and 6,000 shares would be issued in cancellation of partnership indebtedness. No underwriting. For operation of airport business.

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7-Up Texas Corp., Houston, Texas

Oct. 28 filed 71,141 shares (45c par) Class A common and 35,441 shares (45c par) Class B common. **Underwriting**—The underwriters who are also the selling stockholders are Dempsey-Tegeler Co., St. Louis, Mo.; Dittmar & Co., San Antonio, Tex.; Stifel, Nicolaus & Co., Inc., St. Louis, Mo.; and Rauscher, Pierce & Co., Inc., Dallas, Tex. Price by amendment.

Shatterproof Glass Corp., Detroit, Mich.

Oct. 28 filed 280,000 shares ($1 par) common. **Underwriting**—None. To be sold through brokers on over-the-counter market. **Offering**—The shares are issued and outstanding and are being sold by William B. Chase, President, and members of his family or trusts created by Chase or his wife. **Price**—At market.

● **Silver Bell Mines Co., Denver, Colo.**

Dec. 5 (letter of notification) 150,000 shares of common. **Price**—$1 a share. No underwriting. For mine operating expenses.

● **Slick Airways, Inc., San Antonio, Texas**

Dec. 9 filed 500,000 shares ($10 par) common and options to purchase 175,813 shares of common. **Underwriting**—None. **Offering**—The common shares are to be offered publicly. The options for purchase of the 175,813 shares of common are to be offered to original subscribers of the company's stock. It also will issue options to employees for purchase of 69,875 shares of common. **Price**—$10 a share. **Proceeds**—For purchase of equipment and for working capital. **Business**—Air freight transportation.

Solar Manufacturing Corp.

June 14 filed 80,000 shares of $1.12½ cumulative convertible preferred stock, series A (par $20). **Underwriters**—Van Alstyne, Noel & Co. Price by amendment. **Proceeds**—Net proceeds will be applied for the redemption of outstanding series A convertible preferred stock which are not converted into common stock. Such proceeds also will be used for additional manufacturing facilities in the amount of $600,000; for additional inventory amounting to $400,000, and for additional working capital. Offering temporarily postponed.

Soss Manufacturing Co., Detroit, Mich.

Sept 3 filed 40,000 shares ($25 par) 5% cumulative convertible preferred. **Underwriter**—Ames, Emerich & Co., Inc., Chicago. **Offering**—To be offered to common stockholders for subscription at $25 a share in the ratio of one preferred share for each five shares of common held unsubscribed shares will be sold to underwriters at same price. **Price** — Public offering price of unsubscribed shares by amendment. **Proceeds**—For expansion of plant facilities and for additional working capital. Offering postponed.

● **Stage Publications, Inc., New York (12/18)**

Dec. 10 (letter of notification) 5,000 shares of 4½% preferred stock (par $50) and 20,000 shares of common stock (par $10c). Price per unit of one preferred share and two common shares, $50.20. **Proceeds**—Expenses involved in preparing "Stage" a magazine to be devoted to the theatre for publication and for other expenses of publishing.

Stanley (C. V.) Furniture Co., Inc., Magee, Miss.

Nov. 20 (letter of notification) 25,000 shares ($10 par) common. **Price**—$10 a share. No underwriting. To purchase real estate for factory site, erection of factory building and organization of business.

Stereo Pictures Corp., New York

Oct. 14 (leter of notification) 2,985 units of stock, each unit consisting of one share of $6 cumulative (no par) non-voting, non-convertible, preferred stock and one share of common stock (par 50c). **Underwriter**—Ayres Barley & Associates, Inc., (165 Broadway, Suite 1717) New York. **Price** — $100 per unit. **Proceeds**—for working capital, machinery, equipment, etc.

Stix, Baer & Fuller Co., St. Louis

Aug. 28 filed 102,759 shares common stock (par $5). **Underwriter**—Goldman, Sachs & Co. **Offering**—Eight selling stockholders are disposing of 62,000 shares, and the company will offer 40,759 shares initially to its preferred and common stockholders. Price by amendment **Proceeds**—Net proceeds from the sale of the company's shares will be added to its "building construction and improvement fund." Offering date indefinite.

Stone Container Corp., Chicago

Oct. 24 filed 300,000 shares of ($1 par) common. **Underwriter**—Hornblower & Weeks, Chicago. **Offering**—Of the total, company is selling 200,000 shares and stockholders are selling the remaining 100,000 shares. Price by amendment. **Proceeds**—Of net proceeds, company will use $1,225,000, plus a premium of $12,250, together with accrued interest, for payment of a bank loan, and $493,500, together with accrued interest, for discharge of its 10-year 6% debentures. Any balance will be added to working capital.

Street & Smith Publications, Inc.

July 17 filed 197,500 shares of common stock. **Underwriters**—Glore, Forgan & Co. **Offering**—The offering represents a part of the holdings of the present stockholders. Indefinitely postponed.

Swern & Co., Trenton, N. J.

Aug. 28 filed 195,000 shares common stock (par $1). **Underwriter**—C. K. Pistell & Co., Inc. **Offering**—Company is selling 45,000 shares, and eight selling stockholders are disposing of the remaining 150,000 shares. **Price**—$10.50 a share. **Proceeds**—From 45,000 shares sold by company will be applied to working capital initially. Offering date indefinite.

● **Swift International Co. Ltd., Buenos Aires, Argentine**

Dec. 6 filed deposit certificates for 500,000 shares, par value 15 Argentine gold pesos a share. **Underwriters**—None. **Offering**—The shares will be offered for subscription to stockholders at the rate of one share for each three shares held. The subscription price will be supplied by amendment. Unsubscribed shares will be sold publicly or privately through brokers or dealers at a net price, after customary brokerage commissions, of not less than the offering price to stockholders. Price by amendment. **Proceeds**—Proceeds will be used to reduce outstanding bank loans, to finance additional investments in plant facilities and to provide additional working capital. **Business**—Holding company of subsidiaries engaged in meat packing and allied food lines.

● **Syco Manufacturing Corp., Syracuse, N. Y.**

Dec. 6 (letter of notification) 300 shares of 6% cumulative convertible preferred ($100 par). **Price** — $100 a share. No underwriting. For corporate purposes.

● **Sydney County Council, New South Wales, Australia (12/30)**

Dec. 9 filed an unspecified amount of 10-year sinking fund bonds, due Jan. 1, 1957. **Underwriting**—Kidder, Peabody & Co., New York. **Offering**—Terms of the offering by amendment. Price by amendment. **Proceeds**—For redemption at 102¾% on Feb. 1, 1947, of City of Sydney 25-year $8,170,000 5½% sinking fund gold bonds, due Dec. 1, 1955 The bonds originally were issued by The Municipal Council of Sydney to provide funds for the extension of its facilities supplying electricity to the City of Sydney. The electric properties of the Municipal Council were assumed by the Sydney County Council in January, 1936.

Taylor-Graves, Inc., Saybrook, Conn.

July 12 (letter of notification) 44,300 shares of ($5 par) cumulative convertible preferred stock and 44,300 shares common stock (par 50c). **Offering**—Price $6 a share for preferred and 75 cents a share for common. **Underwriter**—Amos Treat & Co. **Proceeds**—For payment of notes, mortgages and for general corporate purposes. Offering temporarily postponed.

Tele-Tone Radio Corp., New York

Aug. 1 filed 210,000 shares of common stock (par 50 cents). **Underwriters**—Hirsch & Co. **Offering**—Company is offering 75,000 of the shares registered. Eleven stockholders are selling 135,000 issued and outstanding shares, for their own account. **Offering**—Price $6.75 a share. **Options**—Selling stockholders are also selling to the underwriters at 7 cents per option warrant options to purchase 18,000 shares of the issued and outstanding common owned by them. They are also selling to Hallgarten & Co., for $1,500, plus $360 as a contribution toward the expenses of issuance, options to purchase an additional 18,000 shares of the issued and outstanding common. **Proceeds**—Net proceeds for the sale of company's 75,000 shares will be used for increasing working capital, with a view to entering the Frequency Modulation and Television fields at an advantageous time. Offering date postponed.

Toledo (O.) Edison Co.

Oct. 25 filed $32,000,000 first mortgage bonds, due 1976, and 160,000 shares of ($100 par) cumulative preferred. **Underwriters**—To be determined by competitive bidding. Probable bidders include The First Boston Corp.; Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc.; and Smith, Barney & Co. Price to be determined by competitive bidding. **Proceeds**—Net proceeds together with $4,500,000 bank loan and if necessary, the $5,000,000 to be contributed by its parent, Cities Service Co., will be used to redeem outstanding debt and preferred stock, involving a payment of $53,906,590, exclusive of interest and dividends.

● **United States Gypsum Co.**

Dec. 11, filed 399,477 common shares ($20 par). **Underwriting**—None. **Offering**—To be offered to stockholders of record Jan. 4 at $60 per share in ratio of one new share for each three owned. Rights will expire Jan. 31. **Proceeds**—Will be applied to the contemplated $42,000,000 plant improvement and construction program.

U. S. Television Manufacturing Corp., New York

Nov. 4 filed 300,000 shares (no par) 25c cumulative convertible preferred and 150,000 shares of common (par $1) to be offered for special purposes. **Underwriters**—Names by amendment. Price $5 per share for preferred. **Proceeds**—For working capital and expansion of business.

● **Universal Corp., Dallas, Texas**

Dec. 3 (letter of notification) 30,000 shares (no par) common to be offered to stockholders at $5 a share in the ratio of one share for each three shares held. **Underwriter**—Federal Underwriters, Inc., Dallas; and Trinity Bond Investment Corp., Fort Worth. For additional capital.

Upper Michigan Power & Light Co., Escanaba, Mich.

July 10 (letter of notification) 5,500 shares of 4¼% first preferred stock series B ($50 par). Offering price, $50 a share. **Underwriter**—First of Michigan Corp., Detroit. **Proceeds**—For enlargements and improvements of power plant facilities. Offering date indefinite.

Vandervort (G. W.) Co., Portsmouth, Ohio

Nov. 26 (letter of notification) 12,000 shares ($25 par) 5% convertible cumulative preferred. **Price**—$25 a share. No underwriting. To retire 7% preferred and to equip foundry.

Victory Gold Mines Ltd., Montreal, Canada

Nov. 13 filed 400,000 shares ($1 par) capital stock. **Underwriter**—None as yet. **Price**—25 cents a share. **Proceeds**—For developing mining property. **Business**—Acquiring and developing mining properties.

Wakefield Water Co., Narragansett, R. I.

Nov. 20 (letter of notification) $300,000 of first mortgage 2⅞% bonds. **Price**—$1,000 a unit. No underwriter. To pay off outstanding notes and for expansion of service.

● **Washington Broadcasting Co., Washington, D.C.**

Dec. 4 (letter of notification) 1,500 shares ($100 par) common. **Price**—$100 a share. No underwriting. For construction and maintenance of broadcasting station.

Wentink Industries, Inc., Grand Rapids, Mich.

Nov. 13 (letter of notification) 25,000 shares ($10 par) 6% cumulative preferred and 35,000 shares (no par) common. **Prices**—$10 a preferred share and $1 a common share. No underwriting. For purchase or construction of manufacturing building, purchase of equipment, tools and machinery and for operation of business.

West Coast Airlines, Inc., Seattle, Wash.

Sept. 2 filed 245,000 shares ($1 par) common. **Underwriter** — Auchincloss, Parker & Redpath, Washington, D. C. **Price**—$7 a share. **Proceeds**—Will be used for payment of various expenses, repayment of bank loans, purchase of equipment and for working capital.

● **West Star Mining Co., Coeur d'Alene, Ida.**

Dec. 10 J. Fred Markwell and Alexander Markwell as trustees of the company filed a registration statement for voting trust certificates for 2,500,000 shares (1¢ par) common stock with a stated value of 50 cents a share. **Underwriting**—None. **Offering**—Issuance of voting trust certificates for 2,500,000 shares of common stock. **Business**—Development of mining claims.

Western Air Lines, Inc., Beverly Hills, Calif.

Nov. 27 filed 1,200,000 shares ($1 par) capital stock. **Underwriter**—Names by amendment. Price by amendment. **Proceeds**—Offering consists of an unspecified number of shares being sold by the company and by William A. Coulter, President and Director. The amounts being offered by each will be stated definitely by amendment and the total number of shares presently stated will be reduced if the offering consists of a smaller number of shares. Company will use its proceeds, together with a $1,000,000 bank loan, toward payment of its promissory notes, aggregating $3,926,946. In addition the company has obligations amounting to $1,667,000 which will be paid following the sale of the stock. It anticipates the completion of its equipment and facilities program next year with a required expenditure of about $8,600,000.

White's Auto Stores, Inc. (1/15/47)

Aug. 29 filed 75,000 shares $1 cumulative convertible preferred stock ($20 par) and 50,000 shares common stock (par $1). **Underwriters**—First Colony Corp. and Childs, Jeffries & Thorndike, Inc. **Offering**—Company is offering 75,000 shares of preferred; the 50,000 shares of common are outstanding and being sold by four individuals for their own account. Price by amendment **Proceeds**—Proceeds from the sale of the preferred stock will be used to provide funds for a wholly-owned subsidiary, retire loans from banks and from White's Employees Profit Sharing Trust, and for additional working capital. Offering date indefinite.

Wisconsin Power & Light Co., Madison, Wis.

May 21 filed 550,000 shares ($10 par) common stock to be sold at competitive bidding. **Underwriters**—By amendment. Probable bidders include Merrill Lynch, Pierce, Fenner & Beane; White, Weld & Co.; Glore, Forgan & Co., and Harriman Ripley & Co. (jointly); The Wisconsin Co., and Dillon, Read & Co. **Proceeds**—Part of the shares are to be sold by Middle West Corp., top holding company of the System, and part by preference stockholders of North West Utilities Co., parent of Wisconsin, who elect to sell such shares of Wisconsin common which will be distributed to them upon the dissolution of North West Utilities Co.

Wyatt Fruit Stores, Dallas, Texas

Nov. 12 filed 5,000 shares (par $100) preferred stock. **Underwriter**—Rauscher, Pierce & Co. **Proceeds**—Will be used in part to equip three new cafeterias, to remodel its super markets and to increase working capital.

Zatso Food Corp., Philadelphia

Oct. 18 (letter of notification) $100,000 5% cumulative preferred stock (par $100) with common stock as bonus. Price, $100 per unit. For purchase of raw materials and for general conduct of business. **Underwriter**—Ludolf Schroeder, 1614 Cambridge St., Philadelphia.

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Prospective Security Offerings

(NOT YET IN REGISTRATION)
• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

(Only "prospectives" reported during the past week are given herewith. Items previously noted are not repeated)

(Continued from page 3117)

• **Buffalo Creek RR. (12/19)**
Bids will be received until noon Dec. 19 at company's office, 143 Liberty St., New York for lowest rate at which bidders will provide not exceeding $221,700 for financing equipment to be sold under a conditional sale agreement.

UNITED STATES GOVERNMENT,
STATE, MUNICIPAL AND
CORPORATE SECURITIES

BLAIR & CO.
INC.
NEW YORK

BOSTON BUFFALO CHICAGO CLEVELAND
PHILADELPHIA PITTSBURGH ST. LOUIS

• **Duquesne Light Co., Pittsburgh**
Dec. 9 announcement that the SEC has instituted corporate simplification proceedings against the Philadelphia Co. may lead to the formation by banking firms of groups to bid for common shares of one of the properties which would be divested. Hearing on the Commission order has been set for Jan. 21 and considerable time could elapse before simplification of this holding company will take place. The groups would be formed to bid for the common shares of the Dusquesne Light Co., which is 100% controlled by the Philadelphia Co., in turn a subsidiary of Standard Gas & Electric Co. Probable bidders include Blyth & Co., Inc. and The First Boston Corp. (jointly); Kuhn, Loeb & Co. and Smith Barney & Co. (jointly); Harriman, Ripley & Co.

• **Georgia Northern Ry.**
Company has applied to the ICC for authority to issue $350,000 1st mortgage 4% bonds due Dec. 1, 1971, of which $287,000 would be sold and proceeds applied to redemption of $287,000 1st mortgage 6% bonds, due 1960.

• **Pacific Telephone & Telegraph Co.**
Dec. 5 California Railroad Commission approved company's proposal to sell 328,125 shares (par $100) common stock, to be offered for subscription to preferred and common stockholders pro rata at par.

Pennsylvania Turnpike Commission (12/17)
Dec. 17 (noon) has been set for the sale of $46,000,000 refunding bonds. Investment banking groups reported preparing to enter competition, are: Glore, Forgan & Co., and Lazard Freres & Co., Inc. (jointly); Shields & Co., and Alex. Brown & Sons (jointly); Drexel & Co.; B. J. Van Ingen & Co., and Blyth & Co., Inc. (jointly).

Pittsburg, Bessemer & Lake Erie RR. (12/17)
Company will receive bids until noon (EST) Dec. 17 for the purchase of $12,000,000 series A first mortgage bonds due 1966, the interest rate to be fixed by competitive bidding in same multiple of ⅛ of 1% and a bid price of not less than 98 and interest. Bids will be received by E. C. McHugh, Treasurer, c/o United States Trust Co., New York. Probable bidders include Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.

• **Union Pacific RR. (12/19)**
Bids will be received until Dec. 19 (noon) by company at 120 Broadway, New York, for lowest rate at which bidders will provide funds for financing purchase of certain equipment to cost $6,916,200, to be sold under a conditional sale agreement.

Will the GOP Congress Fulfill War Commitments to Our People?

(Continued from page 3016)

high taxes and genuine government economy, not for a few years, but for generations. The end of recent boom conditions will make that course more burdensome.

However, this much is certain. The American people cannot make good on these sacred commitments if present spending and lending continue.

Almost $20 billion, or one-half of the roughly $40 billion current budget, is military expenditures and foreign handouts. If these items are not sharply reduced next year, Republican economy pledges will become hogwash.

For the rest of governmental costs are largely non-reducible. They include $11 billion for bond interest and veteran benefits already outlined. Of the remaining $9 billion, $2½ billion is a non-recurring item — terminal leave pay for GI's—with $6½ billion or so covering all regular government activities.

It does not seem probable that more than $2 billion can be lopped off of the $6½ billion cost of the departments and other regular expenses. Such a $2 billion saving on $37 billion expenditures would not restore monetary stability.

International and Military Spending Must Be Reduced

So, if Federal spending is to be materially reduced, the international spending program, military and civilian, must be severely pruned. If this is not done, the Republican Party will simply have talked its way into becoming a last-lap partner on an inflation joyride smash-up.

A real reduction in military and international spending will be bitterly contested. To prevent it, proponents of spending will repeat the political strategy by which we were led into World War II. Part of that strategy will be to distract Congress from truly facing the problem.

The spenders know that politicians prefer not to solve tough problems. So they expect to lullaby or bulldoze the new 80th Congress into an hypocritical routine of pious oratory about deficit spending—while spending goes on apace.

Any vigorous drive to achieve financial solvency will bring smear attacks from many quarters. Such efforts will be called "isolationist" and "reactionary." Economy proponents will become the target for the same name-calling propaganda that has smeared conservatives for 14 years.

The internationalists, military brass, and armament makers will not quietly give up their aims of global imperialism, long cleverly disguised in robes of false piety and justice. To date, they have financed their power ambitions by steadily diluting the savings of trusting American patriots.

Also the militarists here have fooled many people by the imaginary danger of attack used so successfully by German and Japanese militarists. It embodies this idea:

"To make militarism supreme, there must always be an immediate enemy. The people must be led to believe that this enemy may strike today. They must be convinced that the enemy is prepared to annihilate our country at the first opportunity."

A Realistic Approach

A realistic approach by the 80th Congress involves two steps as follows:

1. Promptly stop all further outlays for foreign lending, both direct and indirect.
2. Reduce military expenditures to a legitimate peacetime figure.

Obviously, as a layman, I am not equipped to appraise each factor involved in national security, or to set a figure for its financial cost. But there is a gap of many billion dollars between the cost of maintaining America's national security, bounded by the Western Hemisphere — and the present policing attempts two-thirds of the way around the world, plus maintaining a military juggernaut able to devastate the rest of the world in a few days. For example, I cannot believe our security requires a navy larger than that of the rest of the world put together.

However, if the American people are to be saddled with the oppressive burden of the present setup, then let us be honest about it. Let us tell them that they must toil unceasingly, like the Japs and Germans under their military masters—with the fruits of their labors, above bare existence, going to a colossal military establishment.

But let us not humbug the people longer that this militarism will protect them against communism, socialism, and totalitarianism. For the greatest force leading the Western Christian civilization toward communism and tyranny is the systematic robbery of the humble people by inflationary spending. Lenin himself often declared that the surest way to overturn the existing social order was to debauch the currency. We have been on that road a long time.

An impartial survey of New Deal foreign lending would prove that it also has been a great contributing force toward world communism.

Wherever communism advances in the world today, it has secured some of its physical strength from resources and equipment paid for by the taxpayers of America. Familiar examples are the Russian expansion made possible by lend-lease, and Yugoslavia's aggression fueled by UNRRA supplies. Likewise, wherever inflation is making the people radical-minded, American spending has contributed to that price inflation.

Requirement for Private Participation in Foreign Loans

Pending Congressional action to end all governmental foreign lending, I expect to introduce legislation to require full-risk private bank participation in further Export-Import Bank loans—such private participation to be for a minimum of 25% of the amount of any loans.

I am hopeful that this proposal will be welcomed by the Bank itself. In the General Policy Statement issued in September 1945, the Bank includes in its basic principles this statement: "As a matter of prudent management, and as required by law, *the Bank makes only loans which offer reasonable assurance of repayment.*" (Italics theirs.)

If this statement of policy is a true working principle of the Bank, my proposal should not be opposed by the Bank—and it will prevent the charge that the Bank is making political non-economic loans—the course of dollar-diplomacy that has, I believe, unfailingly led to trouble and war.

In urging an end to foreign lending, I do not propose that America stop all assistance to foreign lands. The acts of our war leaders have placed a responsibility on the American people for some part of the tragedy in Europe and Asia. Church and private relief to these lands should be freed from relentless bedeviling by Washington bureaucrats. Some public funds, to be administered by non-political organizations, probably must be appropriated, if reconciliation and recovery are to come. But we should have no more UNRRA political relief by carpetbagging New Dealers abroad.

I recognize that it will not be easy for the Republican majority to come to grips with this complex problem. To date, inflationary spending has been collaborated in by many key Republican leaders.

But the final outcome is easy to forecast. The 80th Congress must take genuine action to restore stability to our money system. Otherwise, the American patriots who fought the war or paid for it with their savings are to be betrayed by ruinous inflation, or, less likely, by outright repudiation of our debt to them.

Republican Congress Must Meet Monetary Issue

Congress can continue the present military expenditures (about 1500% higher in peacetime 1947 than in 1939) and foreign handouts until our free enterprise economic system is wrecked beyond repair—or the 80th Congress can cut expenses, begin paying on the debt, and then reduce taxes.

How we meet this issue is the test of our Republican campaign pledges. Watch our actions on military expenditures and foreign loans. Then you can determine whether pensions, insurance, savings, war bonds, and annuities are to be paid or repudiated.

When the 80th Congress meets, measure it by this axiom: "Don't pay serious attention to what political leaders say or what they promise. Watch what they do."

The foregoing is plain speaking. Such frank talk has long been largely taboo in Washington affairs. But the humble people who fought the war and bought the bonds cannot be expected to remain loyal to American institutions if they find themselves permanent victims of broken promises and monetary black magic. As one member of the 80th Congress, I propose to do my best to see to it that the inflation issue is faced honestly here and now.

Carson Pirie Scott Pfd. Publicly Offered

Public offering of 50,000 shares of $100 par value 4½% series cumulative preferred stock of Carson Pirie Scott & Co., one of Chicago's leading department stores, was made Dec. 10 by a group of underwriters headed by William Blair & Co. and A. G. Becker & Co., Inc. Price to the public at $100 a share. The issue has been oversubscribed.

The sale constitutes the first public offering of the company's securities in a history dating back to 1854, when the business was established at La Salle, Ill., by Samuel Carson and John T. Pirie.

Net proceeds to the company are estimated at $4,780,475, of which a portion will be used to redeem 19,900 outstanding shares of $6 preferred stock at $105 a share plus accrued dividends. The balance will be held available for general corporate purposes, pending specific allocation of varying sums to a program of expansion, modernization and improvement of store facilities.

As adjusted to reflect the new preferred issue and redemption of the outstanding $6 preferred shares, capitalization of Carson Pirie Scott & Co. will consist of 1,250,000 common shares without par value, all of which are held by descendants of the original partners and their families, and the 50,000 cumulative preferred shares being offered to the public today.

The expansion program, which is in the blueprint stage, is expected to cost approximately $4,200,000, of which approximately $1,200,000 will be provided by the owners of buildings leased by the company. Of the company's anticipated $3,000,000 expenditure, approximately $1,600,000 will be allocated to new construction, approximately $900,000 will be earmarked for store fixtures, approximately $280,000 for elevators and equipment, approximately $100,000 for lighting and the balance for miscellaneous items.

This program will increase store space by at least 90,000 square feet, the prospectus discloses, and provide for new facilities as well as the rearrangement of existing facilities to reduce operating expenses and improve store traffic flow.

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Our Reporter's Report

The pleasant experience of bankers handling the huge secondary offering of Gulf Oil Corp. stock lends voluble support to the contentions of those who hold that a rising trend in the seasoned market is an almost indispensable back drop for the offering of new securities.

This huge operation, one of the largest secondary undertakings in recent years, had been on schedule for about a fortnight back, but the coal shutdown and the consequent unsettlement which it caused in securities made it advisable to defer the offering.

Brought out this week, however, it encountered a decidedly receptive market with latest available reports indicating that it is well-over three-quarters sold, that is more than 300,000 shares out of the 399,860 shares have been taken by investors.

Equally as interesting is the discussion among dealers in the business indicating that the stock has been moving to investors of relatively moderate means.

Certainly with approximately 300 firms participating in the business, 147 of them underwriters, it would occasion no appreciable hardship if the syndicate were to wind up quickly through distribution of the balance of the stock among the firms involved.

When it is realized that this operation involved approximately $25,000,000 it becomes apparent that there is still plenty of money around seeking employment when the merchandise which bankers have to offer comes up to specifications.

St. Regis Paper Preferred

From conjecture going the rounds in investment market circles a quick operation is being anticipated in the case of the offering of the new St. Regis Paper Co., preferred stock, due on the market today.

Reports indicate brisk interest in this offering which involves 150,000 shares of new $100 stock which will provide funds for the retirement of outstanding preferred and that of a subsidiary company.

Insurance companies and trust funds are reportedly active inquirers for the new stock while it is understood that holders of some $4,000,000 of the outstanding issues to be retired have indicated their desire to subscribe for the new.

Philadelphia Electric Bonds

As expected the bidding for Philadelphia Electric Co.'s $30,000,000 of new first mortgage bonds proved both aggressive and close on Tuesday. This issue rounds out the utility's immediate new financing plans.

The successful bidder paid the company 100.879 for the issue carrying a 2¾% coupon. Three other syndicates sought the bonds on a similar interest basis, with the lowest of these offering a price of 100.2675, while a fourth group bid offering 102.2611 for a 2⅞% bond.

The winning group reoffered the issue at a price of 101.35 to yield a return of about 2.69%.

Westinghouse Electric

Westinghouse Electric Corp's new preferred stock, 500,000 shares of $100 par value, is also offered today. The sale will provide the company with funds for prepayment of outstanding bank loans.

The company had contemplated a 500,000 share issue of new common stock, but because of market conditions revamped its plans, substituting the preferred, with the marketing of the junior equity being put aside for future consideration.

Next Week's High Spots

The high spots in the new issue field next week will consist of new issues to be sold competitively by the Pennsylvania Turnpike Commission and the Pittsburgh Bessemer & Lake Erie Railroad.

The Turnpike Commission is offering $46,000,000 of revenue refunding bonds on which bids will be opened next Tuesday, bankers already having been invited to submit tenders.

The Railroad's offering, likewise for refunding purposes, will be sold the same day and will provide for the retirement of outstanding 5s of 1947 and for other corporate purposes.

With Herrick Waddell

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.— Joseph M. Murphy has become affiliated with Herrick, Waddell & Co., Inc., 1012 Baltimore Avenue.

Springer With Herrick Firm

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.— William C. Springer has become connected with Herrick, Waddell & Co., Inc., 418 Locust Street.

Prugh, Combest Adds

KANSAS CITY, MO.— John S. Woodson has become affliated with Prugh, Combest & Land, Inc., 1016 Baltimore Avenue.

With J. A. White & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO — Robert G. White has been added to the staff of J. A. White and Company, Union Central Building.

SITUATIONS WANTED

Order Clerk — Trader

Veteran—many years experience executing listed and over-the-counter orders—would prefer small trading inventory—knowledge of all securities. Box D125 Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

Over The Counter Trader Available

Nineteen years experience. Good following. Salary or commission, or both. Box M-1211, Commercial and Financial Chronicle, 25 Park Place, New York 8, N. Y.

TRADER

Bonds and/or Unlisted Securities

Experienced trader who also controls some commission business, desires new connection with member firm in trading dept. Can handle all orders, work with salesmen and originate situations. Box N 123, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

Dixon Co. to Admit Green

PHILADELPHIA, PA.— Dixon & Company, 1411 Chestnut Street, members of the New York Stock Exchange will admit Francis X. Green to partnership on Jan. 2, 1947.

Porter Leaves OPA

Announcement was made in Washington on Nov. 29 that the resignation (effective Dec. 4) of Paul A. Porter as Administrator of the Office of Price Administration had been accepted by President Truman, according to Associated Press advices. Mr. Porter's resignation on Nov. 15 is reported to have indicated personal reasons as his purpose in leaving the government service. Mr. Porter has not revealed his plans for the future, but it was indicated in an Associated Press dispatch Nov. 30 that there were intimations of his having been offered the Presidency of Broadcast Music, Inc., the radio broadcasting industry's music licensing cooperative.

The OPA's resigning chief told President Truman that liquidation of his agency was well under way, and expressed doubt that he could contribute further to the job of closing it out. The President gave unstinted praise to his former price administrator for "unselfish service at personal sacrifice" and commended him "for a job well done."

According to a Washington dispatch to the New York "Times" on Dec. 2 Mr. Porter announced on that day that Maxwell M. McCullough, his senior deputy, would serve as interim Administrator of the agency after his departure on Dec. 4.

DIVIDEND NOTICES

Allied Chemical & Dye Corporation

61 Broadway, New York

December 6, 1946

Allied Chemical & Dye Corporation has declared a special dividend of Two Dollars ($2.00) per share on the Common Stock of the Company, payable December 27, 1946, to common stockholders of record at the close of business December 16, 1946.

W. C. KING, *Secretary*

ARKANSAS WESTERN GAS COMPANY

Dividend Notice

Common Stock

The Board of Directors of Arkansas Western Gas Company has declared a quarterly dividend of twelve and a half cents (12½c) per share, payable December 31, 1946, to its holders of common stock of record December 15, 1946. Checks will be mailed from The First National Bank of Chicago on or about December 31, 1946.

L. L. BAXTER, President

Exide BATTERIES

THE ELECTRIC STORAGE BATTERY COMPANY

185th Consecutive Quarterly Dividend

The Directors have declared from the Accumulated Surplus of the Company a final dividend for the year 1946 of one dollar ($1.00) per share on the Common Stock, payable December 31, 1946, to stockholders of record at the close of business on December 16, 1946. Checks will be mailed.

H. C. ALLAN, *Secretary and Treasurer*

Philadelphia 32, December 6, 1946

LOEW'S INCORPORATED

"THEATRES EVERYWHERE"

December 6, 1946

THE Board of Directors on December 5th, 1946 declared a quarterly dividend of 37½c per share on the outstanding Common Stock of the Company, payable on the 31st day of December, 1946 to stockholders of record at the close of business on the 13th day of December, 1946. Checks will be mailed.

CHARLES C. MOSKOWITZ, *Vice President & Treasurer*

U. S., Australia, New Zealand Air Pact

Bi-lateral air transport agreements between the United States, Australia and New Zealand were signed on Dec. 3, under which the American services will be operated by Pan American World Airways System, the arrangements to become effective immediately. The agreements, according to a special dispatch from Washington to the New York "Times" follow generally standard lines of the Chicago Aviation Conference and the Bermuda agreement with Great Britain. The American route to Australia will proceed from the Pacific Coast to Sydney by way of Honolulu, Canton Island, the Fiji Islands, and an optional stop at New Caledonia and an optional extension from Sydney to Melbourne, said the New York "Times" Washington advices, which added:

The route to New Zealand will be the same as far as New Caledonia where it will branch to Auckland.

The Australian line will operate to San Francisco by way of an optional stop at New Caledonia, the Fiji Islands, Canton Island and Honolulu, with an optional extension to Vancouver. The New Zealand service will operate over the same route but will omit the optional New Caledonia stop. Australia and New Zealand are permitted to design a single air line.

DIVIDEND NOTICES

OFFICE OF LOUISVILLE GAS AND ELECTRIC COMPANY

The Board of Directors of Louisville Gas and Electric Company (Delaware) at a meeting held on December 6, 1946, declared a quarterly dividend of thirty-seven and one-half cents (37½c) per share on the Class A Common Stock of the Company for the quarter ending December 31, 1946, payable by check December 26, 1946, to stockholders of record as of the close of business December 16, 1946.

At the same meeting a dividend of twenty-five cents (25c) per share was declared on the Class B Common Stock of the Company, for the quarter ending December 31, 1946, payable by check December 26, 1946, to stockholders of record as of the close of business December 16, 1946.

G. W. KNOUREK, Treasurer.

New York & Honduras Rosario Mining Company

120 Broadway, New York 5, N. Y.

December 11th, 1946.

DIVIDEND NO. 377

The Board of Directors of this Company, at a meeting held this day, declared a dividend of One Dollar and Thirty Cents ($1.30) per share on the outstanding capital stock, payable on January 4th, 1947, to stockholders of record at the close of business on December 26th, 1946. This distribution represents the final dividend in respect of earnings for the year 1946.

WILLIAM C. LANGLEY, Treasurer.

Fundamental Investors, Inc.

The Directors of Fundamental Investors, Inc., have declared a year-end dividend from capital gains of $.80 per share payable on the Corporation's capital stock December 24, 1946, to holders of record at the close of business on December 12, 1946. Stockholders will have the right to reinvest all or part of this dividend at asset value.

HUGH W. LONG & COMPANY

Incorporated

National Distributors

48 Wall Street, New York 5, N. Y.

Los Angeles Chicago

DIVIDEND NOTICES

DIVIDEND NOTICE

WESTERN TABLET & STATIONERY CORPORATION

Notice is hereby given that a dividend at the rate of $.50 per share on the issued and outstanding shares without par value of the Common Stock of Western Tablet & Stationery Corporation has been declared payable on January 10, 1947, to the holders of record of such shares at the close of business on December 26, 1946.

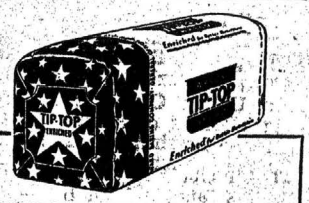
E. H. BACH, Treasurer

THE TEXAS COMPANY

177th Consecutive Dividend paid by The Texas Company and its predecessor.

A dividend of 50¢ per share or two per cent on par value, and an extra dividend of $1.00 per share or four per cent on par value, was declared November 22, 1946 on the shares of The Texas Company, both payable on January 2, 1947, to stockholders of record as shown by the books of the company at the close of business on December 6, 1946. The stock transfer books will remain open.

L. H. LINDEMAN, *Treasurer*



WARD BAKING COMPANY

★ DIVIDENDS ★

The Board of Directors declared the quarterly dividend of $1.37½ a share on Preferred Stock payable January 2, 1947 to holders of record December 16, 1946 and a Year End dividend of 80 cents a share on the Common Stock payable December 28, 1946 to holders of record December 16, 1946.

475 Fifth Avenue, New York 17, N. Y.

L. T. MELLY, *Treasurer*

CONTINENTAL BAKING COMPANY

Preferred Dividend No. 32

The Board of Directors has declared this day a quarterly dividend of $1.37½ per share on the outstanding $5.50 dividend Preferred Stock (in accordance with Section 1, Division A, of the charter as amended July 24, 1945), payable January 1, 1947, to stockholders of record at the close of business December 13, 1946.

Common Dividend No. 5

The Board of Directors has declared this day an initial quarterly dividend, for the fourth quarter of the year 1946, of 25¢ per share on the outstanding Common Stock, payable December 28, 1946, to holders of record of such stock at the close of business December 13, 1946.

Common Dividend No. 6

The Board of Directors has declared this day an *extra* dividend for the year 1946 of $1.25 per share on the outstanding Common Stock, payable December 28, 1946, to holders of record of such stock at the close of business December 13, 1946.

The stock transfer books will not be closed.

E. L. SABIN, TREASURER

December 4, 1946

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United Financial Employees Moves Office to Larger Quarters as It Seeks to Join AFL

Awaiting word from the AFL on its application for a charter, the United Financial Employees has moved from the small office it formerly occupied on the 13th floor to more commodious quarters on the third floor at 40 Exchange Place, assuming, as it were, the air of an organization about to do great things.

M. David Keefe, the President, returned only this week from a vacation in Virginia and it probably will be a little while before the union fully adjusts itself to the new relationships which the pending affiliation with a national body implies. It is understood, however, that affiliation will necessitate no drastic reorganization of the local union here. Mr. Keefe expects to combine the offices and functions of president and organizer or business agent in the new set-up in much the same way as he has done in the independent organization. Contracts which the union has concluded with the New York Stock Exchange and the New York Curb Exchange and affiliated bodies will remain in force after affiliation has been officially effected, it is also understood.

It was last Thursday that the New York Curb Exchange, the Curb Exchange Securities Clearing Corporation and the Curb Exchange Realty Associates signed their contracts, extending to Jan. 31, 1948, with the U. F. E., providing for salary increases for approximately 225 employees averaging 11% retroactive to Sept. 1, 1946 for the Clearing Corp., Realty Associates and personnel of the Exchange quotation department and to Nov. 1, 1946 for all other employees. (Comparable salary increases will be given to all Exchange employees not covered by the new contracts.) The Curb Exchange has likewise assumed the entire expense of the group hospitalization plan arrangement for all employees. All retroactive pay will be paid to the employees tomorrow, the Curb has announced.

The United Office & Professional Workers of America, CIO, will make its first serious bid to enter the brokerage field tomorrow from 1 to 6 p.m. when, at its request and with the consent of the management of Herzfeld & Stern, a State Labor Board election will be conducted among all office and clerical employees and runners of Herzfeld & Stern. The UOPWA has also announced that discussions with Brown Brothers, Harriman & Co. for a contract has proceeded beyond the point of wages. According to the union, the firm is agreeing to a 20% wage increase retroactive to November 1, for the group to be covered by the contract, that is, the guards whose pay will be increased from the present $1,920 a year to $2,340 a year, the messengers whose pay will be increased from $33.69 a week to $41.13 a week, and the watchmen whose pay will be increased from $35 a week to $42.63 a week.

The CIO union has also announced that last Friday it won a New Jersey State Labor Board election among the 250 employees of all classifications of the Trust Company of New Jersey of Newark, including ten branches in Hudson County, 131-69, and that last Thursday it won State Labor Board elections among the 41 employees of all classifications, including five supervisors for whom a special election was conducted, of the East Brooklyn Savings Bank at Brooklyn, 39-2, including the supervisors' vote 5-0. The union says also it is now in the midst of negotiations for new contracts with the Title Guaranty & Trust Co., the Amalgamated Bank of New York, and the Lawyers' Trust Corp. of New York whose present contracts expire on December 31.

Sees End of Artificial Interest Rates

Charles S. Garland, retiring IBA head, tells press a large volume of new financing is pending and a rise in interest rates would help U. S. economic conditions.

On Dec. 1, while awaiting the formal opening of the IBA Convention at Palm Beach, Fla., Charles S. Garland, the President of the Association, told reporters that there were good prospects of a heavy volume of new financing and expressed the opinion that there should be an increase in interest rates on government obligations to help economic expansion. He argued that the increased cost to the government in servicing the debt would be more than offset by the increased revival in business activity. He attacked the artificial character of the present pattern of interest rates imposed by the Treasury, and he urged that "when we get our house in order, and balance the Federal budget we should look for economic laws to again apply to business," but he did not look for any substantial rise in money rates.

Charles S. Garland

Mr. Garland refused to make a prediction as to what interest rate the forthcoming securities of the International Bank for Reconstruction should carry stating that much will depend on the nature of the obligations themselves, and the extent to which they are made legal for investment for trust funds and insurance companies by the various state legislatures.

With Merrill Lynch Firm

David T. Johnston is with Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York City, members of the New York Stock Exchange and other leading exchanges.

Snyder Discusses Finances With Mexicans

But their loan applications will go to Export-Import Bank. Treasury Secretary refers Peruvians to Fund officials.

(Special to the "Chronicle")

WASHINGTON, Dec. 11—In his press conference today, Secretary Snyder revealed that he had discussed with Mexican officials in Mexico City the financing of programs foreshadowed in the new President's inaugural address, but that he made no commitments whatsoever. Whatever loan applications the Mexicans make will be to the Export-Import Bank or the World Bank through the Secretary regular channels, said, and not to the American Treasury. It is obvious, however, that in discussing these matters with Mr. Snyder the Mexicans were talking with the Chairman of the National Advisory Council.

John W. Snyder

The Mexican officials asked Snyder to look into some of the plans they have for irrigation, roads, transportation, agriculture, hydro-electric plants and the like, a whole series of projects.

Mr. Snyder commented that he thought the President of Mexico had made a very excellent address at his inauguration, outlining "a constructive program for Mexico, and these projects tie into the plan of the President and will have a very strong influence on the development" of Mexico. President Aleman impressed Mr. Snyder "as having formulated a constructive plan for Mexico."

Peruvians Contacting Fund

Asked about a report that a Peruvian mission is coming to the United States, Secretary Snyder revealed that a Peruvian Minister had asked him concerning with whom he should take up World Fund matters, and that he had referred the Peruvians to the Fund itself. Peru's bad foreign bond record has been the subject of comment in Washington financial circles of late.

Ryan With Lee Higginson

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—John F. Ryan has become connected with Lee Higginson Corp., 50 Federal Street.

With Francis V. Nixon Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Richard Goorgian has become connected with Francis V. Nixon & Co., 607 South Hill Street.

With Flynn & Levitt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Robert B. Morrison has joined the staff of Flynn & Levitt, 411 West Seventh Street.

Walter Webb & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Arthur C. Herman has become associated with Walter-Webb & Company, First National Bank Building.

Eastman Dillon Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—David R. DeLano, Jr. has become connected with Eastman, Dillon & Co., 135 South La Salle Street.

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