INVESTMENT BANKERS ASSOCIATION CONVENTION ISSUE

In 2 Sections — Section 1

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EDITORIAL

As We See It

Two current topics are favorite themes today wherever two or three are gathered together in the name of public welfare. One of them is the possibility of serious inflation and the other is the problem of foreign aid, particularly to Britain and France. The two are definitely related and it would be well if the fact is well understood and constantly borne in mind. The Administration appears now to be going out of its way to assure Britain and France that there are no hard feelings about by-gone things, and that it believes future good relations between these two countries on the one hand and the United States on the other are far more important than argument about who killed cock robin. It is apparently prepared, moreover, to translate this feeling into tangible aid and in very substantial amounts although it has not gone overboard on the matter, as some others have.

Candor requires that we say plainly that so far as we can see neither Britain nor France deserves more of our substance gratis. They have not only got themselves into a mess against our best advice, but have done so without even doing this country the courtesy of informing us of their intended actions. It would be poetic justice if they were left to stew in their own juices, or so it seems to us. The trouble is, of course, that our own welfare, even our own safety, may depend upon retaining them as allies. Another trouble is, obviously, that they are too well convinced that we can hardly do without them and are much too greatly inclined to take full advantage of their presumed indispensability. That, how-

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Reserve Policy During Inflation and Deflation

By WILLIAM McCHESNEY MARTIN, JR.*
Chairman, Federal Reserve Board

Contrasting today's problem with the one which required curing overnight of mass unemployment during 1930's, Chairman Martin defends flexible policies pursued since 1953, and, in referring to current inflationary dangers, explains credit easing would compound the threat to economic stability and sustained growth. Attributes credit "tightness" to demand intensity, and focuses attention on our heritage and institutions which call for credit allocation through market process rather than selective credit "judgments — or guesses — of public authorities." Says present conditions call for alertness, as well as prudence and restraint.

Congress has placed a great responsibility upon the Federal Reserve System—a trusteeship, as I conceive it, over money. The Reserve System has always benefitted from thoughtful inquiry. These hearings are not merely a public forum—and that is all to the good. They provide a means of keeping the monetary machinery of the country abreast of the times. The Federal Reserve Act provides that we shall report directly to Congress and thus, through it, to the country.

W. McC. Martin, Jr.

The task of the Federal Reserve System, under today's conditions, is to determine the volume of credit that needs to be made available in order to keep the economy running in high gear—but without overstrain. Too much credit would intensify upward pressures on prices. Too little could needlessly starve some activities. We have to rely on human judgments in this determination. There are bound to be differences

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*Testimony by Mr. Martin before the Subcommittee on Economic Stabilization of the Joint Economic Committee Dec. 11, 1956.

The Investment Bankers Association of America Holds 45th Annual Convention

Meeting at Hollywood, Fla., Nov. 25-30, addressed by incoming President, Robert H. Craft; outgoing President George W. Davis; Maj.-Gen. J. Stewart Bragdon; J. Sinclair Armstrong; Arthur B. Homer; Eugene E. Trefethen; and Robert L. Garner. Texts of these addresses, also Committee Reports and other Convention developments, are presented in this issue.

The Forty-fifth Annual Convention of the Investment Bankers Association of America was held at the usual place, the Hollywood Beach Hotel, Hollywood, Fla., from Nov. 25 to 30. The Association elected as President for the ensuing year Robert H. Craft, President of The Chase Bank, wholly-owned foreign financing subsidiary of The Chase Manhattan Bank. President Craft succeeds George W. Davis, a Partner of Davis, Skaggs & Co., San Francisco investment firm. The five Vice-Presidents elected were: Andrew M. Baird, A. G. Becker & Co. Incorporated, Chicago; William S. Hughes, Wagenseller & Durst, Inc., Los Angeles; William C. Jackson, Jr., First Southwest Company, Dallas; W. Carroll Mead, Mead, Miller & Co., Baltimore; and William H. Morton, W. H. Morton & Co., Incorporated, New York.

Robert H. Craft

THE NEW PRESIDENT

Mr. Craft has devoted his entire business career to the field of finance. He was born (Feb. 9, 1906)

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IBA CONVENTION PICTURES—Candid photos taken during the 45th Annual Convention of the Investment Bankers Association of America at Hollywood Beach Hotel, Hollywood, Fla., appear in Section Two of today's issue.

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(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

This Week's Forum Participants and Their Selections

GEORGE C. ASTARITA
Manager, N. Y. Stock Exchange Dept.
Boettcher and Company
Colorado Springs, Colo.

Chrysler Corporation

Chrysler stock has not participated to any appreciable extent in the great bull market of recent years primarily for the reason that a lack of emphasis on styling has hindered the company's progress. Virtually all are in agreement that Chrysler products are tops in engineering, but that factor alone will not sell cars. To correct this situation, Chrysler this year has introduced the most highly stylized cars on the market. Not only should the 1957 models prove extremely successful but other factors will also tend to re-establish former earnings and dividends for Chrysler. During recent years, the company has embarked upon a program embracing reorganization into semi-autonomous divisions rather than a completely centralized organization. It has realigned its styling division with emphasis upon design as well as upon engineering. It has modernized, improved and integrated its manufacturing operations and it has strengthened its dealer organization. Changes of this nature take time to be reflected in operations and 1957 should begin to record fruition of these developments.

George C. Astarita

In addition, Chrysler plans to spend $1 billion on capital improvements in the years 1956 to 1960. This means that Chrysler intends to regain its former position in the automotive world and to go to new heights along with the expanding characteristics of the industry itself. The massive trend toward suburban living and the multi-billion dollar highway program, together with an ever increasing population, should serve to expand greatly the number of automotive vehicles upon the roads over and above that of the 65 million now registered.

Some idea of the potential existing in Chrysler can be gained from the fact that its capitalization amounts to approximately only 3% that of General Motors and 16% that of Ford. Chrysler sales per share of common stock in 1955 amounted to $398.00 compared with $104.00 for Ford and only $45.00 for General Motors. Surely, if Chrysler can improve its relative sales still more, as seems likely, and in addition attain a profit margin more in keeping with that of its competitors, earnings per share will record a sensational rise.

It is true that Chrysler cannot approach the profit margins enjoyed by General Motors and Ford, which average approximately 18% and 14% pre-tax, respectively. This, because Chrysler does not enjoy operations so fully integrated and assembly plants as close to major marketing areas. It would seem altogether possible, however, for it to greatly improve its pre-tax margin of less than 6% recorded in the years 1951 through 1955. Should it obtain a profit margin of only 7% in 1957, along with 20% of a 7½ million car year, its earnings per share could amount to more than $14. The writer can visualize the possibility of some $20 per share earnings for Chrysler within the next few years, provided, of course, the economy continues to expand and its products meet with the reception which might be expected as the result of their new styling. The stock, which sold above $100 per share last year and which now is available some 30 points lower, with the upward move apparently only starting, would seem to be an excellent vehicle for substantial appreciation in a stock market which may remain highly selective for some time to come. It is recommended for purchase primarily by individuals seeking appreciation and who therefore are willing to assume a businessman's risk. The stock is listed on the New York Stock Exchange.

DR. EVERETT J. MANN
Associate Professor of Business Administration
Emory University, Atlanta, Ga.

Hawaiian Pineapple Company

What kind of juice do you drink before your morning coffee? If you are a 55% average American, you down a beaker of orange juice; if you are in a 25% group, you prefer tomato; 11% of you will choose some other variety like grapefruit or prune whereas a 9% minority will reach for pineapple juice as a post-nocturnal pick-me-up.

Dr. Everett J. Mann

In view of the above statistics, think what a surge there would be in sales of pineapple juice if only 2% of today's orange juice drinkers suddenly shifted their preference to pineapple. There is tremendous market potential for a vertical increase in sales of frozen pineapple juice, whose production under the Dole name, plus that of other pineapple derivatives such as chunks, spears, rings, and pie filling, for the backbone of the HAPCO's business.

HAPCO shows a neat 10 year average earnings record of $1.72 a share, although its sales figures for the fiscal years ending May 31, 1949 to 1955 make rather unexciting reading. During those years, sales volume varied scarcely in a 10% range around a median of $55 million. For the 1956 fiscal year, sales figures may start to intrigue the investor searching for undervalued situations in what may be an overvalued market. In that latest year, HAPCO's sales of $72 million were up 22% over those of the previous year while profits galloped in at $1.64 a share, or at less than eight times the present price of 13. An impressive book value of $25.70 lies behind each of these low-cost common shares.

In addition to the vertical growth in pineapple sales, HAPCO is also expanding sales horizontally; after years of contentment with a one-product market and all the competitive disadvantages this implies, HAPCO has moved more aggressively in allied fields of endeavor. In November, 1955, the company acquired on highly favorable terms two new wholly-owned subsidiaries in the fruit and vegetable canning business. In December, 1956 the company started to market under the Dole label citrus fruit juices, made in Florida by an independent producer. When frozen citrus juices and fruits have been added, the Dole line will have a firmly rounded and fully packed look about it.

HAPCO is currently studying other new products with the promise that these will be added as soon as feasible without overstraining the company's working capital which now checks in at a spanking 2.6 ratio.

To cut down costs, the company is moving into some vertical integration in its plants. A can making plant has been built in Honolulu which, within a year, will be turning out HAPCO's entire need for cans. During the past fiscal year, starting up operations and delayed delivery on some of this machinery penalized earnings abnormally; once these initial difficulties are overcome, more economical operations can be expected.

Marketing problems in the highly competitive juice industry have been factors restraining HAPCO's development. In past years, the company's sales management may have left something to be desired, but this difficulty has been redressed through the employment of a highly experienced man as Director of Marketing, a newly created position.

HAPCO has paid dividends of 80 cents a share during the past three years while 10-year dividends have averaged $1.10. In September 1956 a 4% stock dividend was added. Equity capitalization consists of 1,650,000 common shares preceded by 23,726 preferred and $10,400,000 of long-term debt.

The astute investor who has become jaundiced with 3% dividend yields, price-earnings ratios of 20 or better, and who wants a growth stock which hasn't discounted its potential for the next 10 years, might find some unstunted growth in HAPCO's shares.

Looking forward to the day five years hence when millions more happy Americans will be dunking breakfast doughnuts in pineapple juice, dieting lady Americans forking up calorie-low pineapple salad at lunch, adolescent Americans gobbling pineapple sundaes, and robust Americans chewing pineapple pie for dessert, it is not inconceivable that investors will pay $40 for the privilege of buying a share of Hawaiian Pineapple Company. The stock is listed on the San Francisco Stock Exchange.

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Looking at Our Domestic Economy And International Repercussions

By HENRY C. ALEXANDER*

Chairman, J. P. Morgan & Co., Incorporated

Nationally known banker advances a seven point program we should undertake to make clearer our position regarding the Middle East, and counsels moderation and restraint in the domestic economy since international tensions "make it imperative that we avoid excesses and build up reserve strength." In listing measures to safeguard our security, national welfare, and freedom, Mr. Alexander advises: we cannot abdicate to the United Nations; a real "crash" program to aid Western Europe's economy, including opening the Suez; postponing doing too much too fast and on too much credit; we support Federal Reserve's efforts against rampant inflation, and not lessen the Federal Reserve's independence.

As I approach the subject of this discourse—and it would be true with almost any other subject—I cannot escape casting it in the darkening world scene of the past few weeks. What happens on that scene will be decisive in determining many questions about our future including our economics and our money — whether money will be tight or easy, dear or cheap, whether we shall have inflation or deflation or can pursue a sound, prosperous, and peaceful growth. Money is a mirror of economic and political affairs; it catches and reflects their every change. After all, money is only a medium for the exchange of goods and services. Its purchasing power is not fixed but is measured by prices; its quantity changes with our fiscal and credit policies, its base and price in terms of gold can change and have changed, its form is varied, it will nervously run into or out of a country, go into savings and come out of them — an elusive, temperamental substance. No wonder it confounds the philosophers and puzzles us all. But this much can be predicted with certainty about money—it responds sensitively and quickly to economic events and political decisions.

Henry C. Alexander

Large economic events and large political decisions, grave ones, seem to be in the making. How will our money respond to them? What will be their impact on our whole economy? Even more basically, what kind of shape is our economy in to weather whatever may be in the offing?

The economy in 1956 will break all records in our business history. Nearly all general business indices are pointing upward. We have maximum employment at high wages, we have our highest output, our highest consumption —and the prospect is that business will close the year at its highest level. I can read you the figures if you'd like; but my guess is you'll forgive me if I don't.

The dominant influence in 1956 has been the tremendous demand for capital goods, and there have been estimates that this will continue and even be stronger in 1957. Some of the consumer industries that were slowed by market saturation and inventory adjustment during 1956 may do better in 1957. Notwithstanding record activity, prices generally, although rising, have not spiraled and run away. This all makes up into a pretty attractive picture, and I think that much of it—most of it—is pretty solidly grounded in our research and technological achievements, in our push for greater productivity to offset higher costs, and broadly in that great American concept of better and better living for more and more people.

Doing Too Much Too Fast

In this beautiful picture of a zooming domestic economy, are there any troubles, any dangers, any questions at all? Is money too tight—or is living too loose? The old saying is that they who have nothing to be troubled at, will be troubled at nothing. Maybe it is just the banker's lot to trouble. But we do hear it asked whether we have been trying to do too much too fast and on too much credit. The answer is, I am afraid, "yes," and plainly so in the present state of the world. The uncertainties of a tense international situation make it imperative that we avoid excesses and build up reserve strength in our economy. We had better postpone some of our buying, building and borrowing. It is well to remember that, historically, a capital investment boom such as we are now having has been the culminating phase of the economic cycle. Yes, the time is here to spend less and save more. If we keep accelerating present pressures and loosen our restraints, prices will soar, we will get into maladjustments of production and consumption and excesses of debt —we'll launch the economy into a spiraling orgy—with the inevitable aftermath of collapse. In the present state of international affairs, we must not run the risk of adding an American reces-

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*An address by Mr. Alexander before the Executive Club of Chicago, Chicago, Dec. 7, 1956.

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Articles and News Page

Texts of IBA Convention Addresses

FULL TEXTS of addresses and Committee Reports delivered at the recent Annual Convention of the Investment Bankers Association of America at Hollywood, Fla., appear herein on the pages indicated:

Texts of IBA Committee Reports

Candid Pics Taken at Convention

CANDID PICTURES taken during the course of the Convention appear in today's 28-page Second Section.

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Population Growth Concepts And the Economy of Tomorrow

By VICTOR R. FUCHS*

Assistant Professor of Economics, School of General Studies, Columbia University

Columbia University Economist predicts U. S. birth rate will begin to decline shortly; nation's population will not be as large in 1975 as typically maintained; unlikely per capita will increase as rapidly in next 20 years as it did in the past; savings and capital for nation will not be at an increasing rate in the years ahead; and atomic energy and automation will not provide a revolutionary contribution to U. S. productivity as commonly believed. Looking at tomorrow's economy, Professor Fuchs comments upon the problems of deteriorating educational standards, inability of market forces alone to check private power concentration, and our chances of getting innovators. Avers income rate of change and duration is more important in determining birth rate than absolute level of income.

The relationship between population change and the economy of tomorrow has two aspects. First, there are the changes which have already taken place. We all know that the birth rate has behaved like a roller coaster in recent decades, and I shall very briefly trace some of the implications of this behavior for the economy of tomorrow. Then, there is the more interesting and demanding task of talking about the population changes which may or may not take place in the future. This will lead to a discussion of rates of change in income and productivity, and finally to an examination of the basic sources of economic growth.

TABLE I

Live Births in U. S. 1921-1955

	Total Number of Births (millions)	Average Birth Rate (per 1,000)
1921-1925*	12.6	22.4
1926-1930*	11.8	19.7
1931-1935*	10.9	17.2
1936-1940	11.3	17.3
1941-1945	13.8	20.0
1946-1950	17.6	24.2
1951-1955	19.6	24.7

*Based upon less than 100% coverage.

Let us consider the past changes first. In Table I I have attempted to summarize the basic information concerning birth statistics during the last 35 years. We see that the downward trend of the twenties was accentuated by the depression, that there was some recovery during the war years, and that the past 10 years have witnessed a boom of simply tremendous proportions, both in absolute and relative terms. It is interesting to note also that the most recent five years actually show an advance over the more immediate postwar period.

Forecasting the Business Future

What do these figures tell us about the future? First, they give businessmen some idea of the size of the potential market at various stages of life. If your product is needed by babies and young children, you probably are riding the crest of the biggest boom in history. If the teen-agers are your market, you can look forward to some wonderful business in the decade ahead. The figures show us why the marriage rate has been falling in recent years, and why it is likely to continue to be low for several more years. Looking still further ahead, we can see the basis for another tremendous housing boom in the 1970's.

As parents and citizens, the figures may shock us into realizing that an educational plant and staff geared to the demands of recent years will be woefully inadequate to cope with what lies ahead. Some people believe that the schools are already overcrowded, but it is easy to see that the full brunt of the recent population upsurge has not yet made its impact. In order to meet the coming need for teachers, for example, 50% of all college graduates in the next 10 years would have to enter teaching. The average rate in recent years has been less than 20%. Given continued high employment and demand in the private sector of our economy, it is difficult to see how we can avoid a serious deterioration in educational standards. That this may have serious consequences for the economy of the "day after tomorrow" is an ominous, if not obvious conclusion.

This game of projecting the future impact of recent changes could be pursued further, but rather than do that, I would like to turn now to the question of what will the birth rate be like in the years ahead.

Most recent discussions of the economy of tomorrow usually begin with the assertion that the high birth rate of recent years will continue. This is often stated almost as an article of faith, like belief in God or Country, and not open to question. More cautious souls fall back on reference to the Census Bureau projections, which, you must realize, are merely exercises in arithmetic. Very rarely do you see any theoretical discussion of why the birth rate has been so high in recent years, or any attempt to weigh the factors which may bring about changes in the birth rate. But it is precisely such considerations which must enter if you are going to make predictions about future population change. Neither statements of faith, nor mechanical projections with all assumptions stated but on preference among assumptions indicated, are satisfactory. Prediction, which I am now foolhardy enough to attempt, involves explicit or implicit recourse to theory.

Birth Rate to Turn Down

It is my belief that the birth rate will turn down shortly, and that the population of the United States will not continue to increase at as fast a rate as in the past 10 years, nor will it be as large in 1975 as the typical optimistic speechmaker would have us believe.

This prediction rests upon two theoretical considerations. The first concerns the timing of births. I believe that part of the high birth rate in recent years consists of "business borrowed from the future." Let me give you an example close to home—my home. I have three children, all born within the past five years. My wife was 26 when the third was born. My next door neighbors have three children, the wife is now 28. The family across the street has three children. She is 27. And so on. No wonder the birth rate has been high. For, at the same time that these girls in their 20s have been shuttling back and forth between the delivery room and home, their sisters in the age group 30 to 40 have also been completing their families, families which in many cases were delayed by World War II.

Unrealistic Census Projection

Please do not think that I am basing this case on a sample of a few families. Rather, I am using them to illustrate a theoretical point which is of some significance. The Census projections, which assume birth rates for each female age group independently of the number of children these women have already had, seem to be very unrealistic. This point has been developed at some length by Pascal Whelpton in an article which deserves careful study (The Conference Board "Business Record," August 1956). Whelpton estimates that the catching up of postponed births and the advancing of timing of births by younger girls appears to have swelled the number of births during 1946-1955 by between 3,500,000 and 4,500,000. He also presents a method of estimating future births, which

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*An address by Dr. Fuchs at the 6th Annual Dean's Day Homecoming, New York University School of Commerce, Accounts, and Finance, Dec. 1, 1956.

Observations . . .

By A. WILFRED MAY

YOU AND YOUR COMPANY*

The importance of the relationship of the stockholder to his company is being constantly enhanced through the vast increase in the number and diffusion of shareholders. This population's size now establishes it as one of the major segments of the community; while its makeup highlights the problems surrounding the stockholder's status stemming from the separation of corporate ownership from control.

A. Wilfred May

During the past four years, according to a recent census by the New York Stock Exchange, the number of the nation's stockholders has grown by more than 2 million to 8,630,000 people—a 33% increase. A full million of this increase occurred last year.

Manifesting the democratization process, two-thirds of all shareowners now have incomes of under $7,500 a year; with the median income at $6,200 compared with $7,100 in 1952. Women outnumber men.

Management Appraisal Available to the Individual Investor

The difficulties facing the individual investor in judging management, in which he has an actual or prospective stake, are remedied, or partly so, by several instrumentalities. The American Institute of Management, a nonprofit organization, rates managements and their boards of directors as a community service. Any individual may become an Associate Member, with access to its reports, at $25 per year. A nonmember may buy a copy at $1 of any of the three to four thousand individual company audits the organization produces. Based on questionnaires embodying 301 questions sent to 100,000 concerns, the respondents are rated in each of ten pertinent categories, including research and development, health of earnings, sales vigor, executive evaluation, etc.

You can also get impressions of management journalistically. Sometimes this is done on an individual company basis, via the *Fortune* "profile" type of write-up. Or there may be group ratings, as in *Forbes Magazine of Business*, which annually evaluates the executive direction of major companies, giving a definite score to the intangible qualities of management and its policies.

More informally and irregularly, individual volunteer representatives of the Minority Stockholder, as Lewis and John Gilbert, express opinions about management. Issued during their indefatigable attendance at meetings and in their own full *Annual Report*, these expressions are largely concentrated on alleged abuses, as those surrounding compensation.

The Yardstick of Comparative Tests

Neither the amount of profits *per se*, nor even their growth, should constitute the chief basis of appraisal. The comparative concurrent performances of other companies in the same industry should be scrutinized, for the record of profits, operating ratios, growth, etc. The extent of going-with-the-crowd is crucial.

The Company Report

The continuing basic source of stockholder enlightenment is the Annual Report. While this document now increasingly suffers from a tendency toward over-elaborateness, over-dramatization, or over-simplification following the individual public shareholder's desire for spoon-feeding and his inclination toward apathy; its potential benefits are great. The available statistics regarding operating results in various categories are indispensable for both market valuation and management appraisal. Also important in the annual report are items of information regarding improvement of products, the meeting of competition, labor relations, and the like.

In addition to applying comparative standards in comparing results and judging growth, you must keep them in the framework of the long-term view. In considering sales increases, watch out for the inflation windfall as the possibly controlling factor. Scrutinize the breakdown of products merchandised. Scrutinize the unfilled order figures; and the current and contemplated expenditures on new plant, and replacements, and on research. Weigh carefully the depreciation figures, getting help on this item if necessary. Watch for the taking advantage of special regula-

Continued on page 116

*Excerpts from a lecture in the series "Your Investments" at the New School for Social Research, Dec. 13, 1956.

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Future Course of Toll Roads And Investor-Banker Confidence

By C. CHEEVER HARDWICK*

Partner, Smith, Barney & Co., New York City

Investment banker disagrees with contention that Federal road program will prove detrimental to toll facilities, and finds more important the appearance of investors' uneasiness relative to toll road credits. Mr. Hardwick offers suggestions designed to reassure investors of continuous sound management of toll revenue projects, although emphasizing belief that evidences of "questionable management has been the exception rather than the rule."

I have heard the opinion expressed frequently in investment circles that the new Federal Aid Program will obviate the need for additional toll highways and also that it will prove detrimental to many of the toll facilities which are presently in operation or under construction. From what I have been able to observe personally to date, I am inclined to be in disagreement on both counts.

C. Cheever Hardwick

Federal Road Program No Threat

I am far more inclined to believe that in more cases than not, the Federal Aid Program will provide direct benefits for toll roads, and that if we include in the term "toll roads" such toll facilities as river crossings and their approaches, metropolitan by-passes and expressways in densely populater areas, their need should be advanced rather than retarded by the Federal program. There certainly has been no disposition evidenced thus far to abandon any soundly conceived projects of that nature which appear to meet the requirements for a self-liquidating enterprise.

The question that is of more concern to me at the moment is to what extent and on what terms the necessary funds will be available to finance the new motor vehicle toll projects which can be demonstrated to be economically justifiable and for which a definite need exists.

As you are all aware, present money market conditions are exceedingly tight. I doubt very much that it would be possible under existing circumstances to finance any major toll facilities by means of revenue bonds upon reasonable terms, if, in fact, such financing could be effected at all. However, money market conditions change, and this condition in itself may be regarded as temporary rather than fundamental in the planning of additional toll roads or other necessary public improvements. The concern to which I referred reflects a growing attitude of uneasiness relative to toll road credits on the part of investors which may prove to be a factor of equal importance, and of a more permanent nature.

Investor Uneasiness

Uncertainty in the minds of investors as to the effect of the new Federal Aid Highway Program on toll roads has undoubtedly contributed in some degree to that uneasiness and to the weakness in markets for toll road bonds. However, as the public has become better informed regarding the Federal program, that particular influence has, I believe, tended to diminish in importance. Incidentally, the interview with Commissioner Curtiss that was published in the "U. S. News and World Report," which received wide circulation, was, I think, particularly helpful in that respect.

The disappointing experience of certain toll roads in attracting truck traffic has also been a factor of importance and has caused many bankers and investors, and I suspect also some traffic engineers, to reconsider their economic appraisal of toll roads in general.

However, the most disturbing development, to my mind, is a growing lack of confidence on the parts of both bankers and investors in one of the most important aspects of any type of business venture, namely, management.

Trustworthy Toll Road Managers

One of the basic precepts of the authority method of financing and operating public service enterprises has always been the theoretical divorcement of management from politics. Unfortunately during the recent months a number of events have occurred which have resulted in a definite undermining of investor confidence in that respect which, in turn, may well prove to be of lasting detriment, in my opinion, to the financing of toll facilities and similar public enterprises in the future.

At the time of the financing of a new toll facility, bankers and investors are in a position to judge the then existing management and to determine whether or not the authority or commission to which they are considering lending millions of dollars is in capable and trustworthy hands. Thereafter all control of management passes from the hands of the investor except to the extent that provision for approvals by qualified engineering consultants relative to the expenditure of construction funds, the legal obligation to levy adequate tolls, the preparation of annual budgets and so forth are written into the bond indenture.

Theoretically, the constant watchdog for the investor is the trustee. However, the controls over management contained in the usual trust agreement of the past are limited and I suspect that there may be desire on the part of investors to strengthen and expand them in the future.

Restoring Investor Confidence

I am not prepared at the moment to discuss in detail the possible changes of that nature which may be demanded by buyers of toll road bonds in the future.

However, some of them might well lie in such categories as firmer control over the appointment of successor engineering experts; the appointment of independent engineers on behalf of the bondholders to approve the disbursement of construction funds; tighter control over revision of tolls; and perhaps even some manner of control over the quality of management.

I recognize that to many of you any such considerations must have the appearance of a distasteful arrogation of power, or at least an unwelcome interference with the normal functions of management.

However, in financial circles, good security is a matter of character, as well as intrinsics. Good faith on the part of the borrower, and a demonstrated desire to fulfill his commitments morally as well as legally are vital to the continued availability of credit upon favorable terms. At least one thing seems certain at this point in that respect. If such additional controls do prove necessary to obtain the revenue bond financing of certain toll facilities in the future, the responsibility will not lie with the bankers, the engineers nor the lawyers. The primary cause will be political interference with sound business management.

In closing I wish to state emphatically that I believe evidences of questionable management of toll facilities has been the exception rather than the rule; but I would also like to echo the warning expressed by President Wedeking. At the Spring meeting of this Association, Mr. Wedeking said, in part, ". . . the fundamental element of safety is to have Authorities of integrity to administer the job. One job poorly done by any toll facility Authority anywhere in the United States is a great injury to every toll Authority in the United States. We have got to have integrity in this thing. And the first time we fail to realize that, we have done our cause an irreparable injury. That is fundamental, gentlemen."

*An address by Mr. Hardwick before the 24th Annual meeting of the American Bridge, Tunnel and Turnpike Association, Inc., Wichita, Kansas.

With Hanan, Kiebler

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—John M. Stine has become associated with Hanan & Kiebler. He was formerly with La Montagne & Co. and prior thereto was a partner in Colvin & Stine.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

An increase in the output of automobiles, coal and electric power lifted total industrial production the past week and it continued to reflect a moderately higher level than the similar period a year ago.

Electric power production reached a record peak last week as cold weather in many regions prompted the use of electric heaters. The most noticeable year-to-year gains occurred in the South Central and Pacific Southwest regions.

A step-up in overtime schedules resulted in a 29% rise in automotive output and brought passenger car production to the highest level so far this year. However, the output of cars and trucks was 15% under that of the similar 1955 week.

The current employment situation reveals that unemployment claims declined fractionally but exceeded those of last year by 4%. There was some new unemployment in food processing, apparel and construction industries.

Total employment dipped 900,000 to 65,300,000 in mid-November from a month before, the United States Departments of Labor and Commerce reported.

Unemployment rose sharply 550,000 to 2,460,000.

Earnings of factory workers reached new records in mid-November. The joint report said weekly earnings advanced 21 cents from mid-October to $82.42 in mid-November. Hourly earnings rose 1 cent to $2.03.

The report said that although total employment went down in mid-November, it was still at a record high level for the month. Almost the entire drop occurred in agriculture with end of harvesting operations in many areas.

However, non-agricultural employment did not show its usual November pickup, but non-farm employment of 52,400,000 in mid-November still topped last year's total by 1,200,000, the report stated.

The growing crisis in steel plate supply is generating more pressure for some form of voluntary allocation. But counter-pressure against allocations is coming from steel mills and some top policy-makers in the Eisenhower Administration, states "The Iron Age," national metalworking weekly, this week.

Meanwhile, the pressure for higher steel prices mounted still further the present week following a 9½ cents per pound increase in the price of nickel. Stainless steel producers will be hard put to absorb this price advance. Odds favor a boost in stainless prices after turn of the year.

The tug-of-war in plates is an outgrowth of the Suez Canal shutdown and the cutting of a major oil pipeline. The resulting European oil shortage calls for a step-up in oil tanker construction, re-

Continued on page 101

a discriminating analysis of

37 TURNPIKE, BRIDGE *and* OTHER REVENUE BONDS

Because of the current uncertainty among investors concerning revenue bond issues, our Municipal Bond Department has prepared a special 32-page booklet, "Turnpike, Bridge and Other Revenue Bonds."

This study reviews the current status of 37 issues and reports on the operation of thirty-two projects financed by revenue bonds. Favorable and unfavorable factors effecting these issues are discussed. Included is a table showing bid prices during 1956, approximate yield and comparison of equivalent yields of taxable investments.

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Business Situation and Outlook

By EZRA SOLOMON*

Associate Professor of Finance, School of Business, University of Chicago

Adding up the total outlook for next year's third quarter, recognized Chicago Economist envisions it will increase to $433 billion with a corresponding rise in personal income—assuming present events do not lead to war; and, looking further ahead, would not be surprised if $500 billion economy expected in 1965 will be achieved in 1960—taking a minimum, inevitable, secular price rise into account. In scrutinizing a view held that industrial production decline could be expected in 1957, Professor Solomon contends: capital expenditures and formation is not too high or difficult to meet, inventory liquidation will not act as a deterrent to high production rate next year, and economy now is in a stronger position than it was a year ago. Examines monetary policy, built in price rigidity, and does not favor abandoning independent Federal Reserve general control.

Recent Developments

Since World War II, the American economy has been subjected, four times, to significant declines in one or more important segments of demand. Each time, offsetting strength in other segments of demand has prevented a serious decline in aggregate activity. Thus, instead of cumulative recessions, we have experienced what have come to be called "rolling readjustments." The fall-off in total activity during these readjustments has become progressively milder. The one we have just had even rolled uphill a little!

Prof. Ezra Solomon

Looking forward in later 1955, the outlook for 1956 presented a puzzling mixture of offsetting forces. Looking back in later 1956, economic developments in the year just past still present some puzzling aspects, especially with respect to monetary policy and prices.

The bulk of the recent readjustment took place within the industrial and construction sectors of the economy. Between the 3rd quarter of 1954 and the 3rd quarter of 1955, we had a dramatic increase in business activity. This was generated principally by rapid increases in consumer expenditures on construction and durable goods, and business expenditures on inventory. Increases in these three elements of demand, which together comprise about 10% of Gross National Product, accounted directly for over 50% of the rise in gross product, and indirectly for a good part of the remaining 50%. Demand from these sources reached a peak in late 1955 and then began to decline fairly rapidly. This decline was offset by an equally rapid increase in business expenditures for construction and equipment. What we have had is a rapid transfer of productive resources from the consumer investment goods sector to producer investment goods.

The interplay of these offsetting forces had a number of results, some of which were anticipated and some not.

(1) Over-all activity in the manufacturing and construction sectors has been remarkably stable since last September. Excluding July, because of the steel strike, the monthly index of industrial production has been within 1% of its average value of 142.5 during the past 12 months.

(2) Within the stable over-all total, there have been powerful readjustments in sales, production, employment, financing and profits. Automobile sales fell from a 7½ million rate in late 1955 to a 6 million rate, and production fell even more sharply. Residential housing starts dropped nearly 20%. On the other side of the picture, machinery and instrument manufacturers and the heavy construction sector enjoyed rapid increases.

(3) In the final quarter of 1956, recovery in the automotive sector to a 7 million production rate will push the level of industrial activity out of the stable zone it has experienced and into new high levels.

These developments could have been anticipated and were anticipated. In terms of Gross National Product, they implied only a modest rise in 1956 of $3 billion or so above the capacity level reached in the last quarter of 1955. On the basis of the revised estimate of $402 billion for the last quarter of 1955, this should have meant an average gross product of $405 billion in 1956. The actual level for 1956 will be about $411 billion. Most of the extra $6 billion has come from a widespread increase in prices that was not anticipated. Thes widespread increases occurred in spite of continued restrictiveness in monetary and fiscal policies. They took place in an environment in which there was no demonstrable excess in the level of aggregate demand relative to aggregate capacity. Both these matters require attention, as they have an important bearing not only on the outlook for 1957 but for the long-run future.

The General Outlook

The major uncertainty regarding 1957 is no longer an economic one. We have been in the shadow of war. We have to assume that recent events will not lead us to war; but all that has happened in the last two weeks, both at home and abroad, will have effects that we cannot assume away.

The economy today is in a stronger position than it was a year ago. At that time, there was clear-cut evidence of a number of weaknesses, especially in the outlook for autos, housing and farm income. There was also some reason to expect a slowdown in inventory purchases. If this slowdown occurred at the same time as the decline in the weak sectors, this could easily have lead to a downturn in activity.

Today, there is no such clear-cut evidence of an inevitable decline of any importance in any sector of demand. Even farm income is likely to rise in 1957. There are, of course, the usual uncertainties, and as usual, some people have already begun to interpret these on the bearish side of the range of possibilities.

According to this interpretation, the current level of industrial production is being supported by four temporary factors: (1) an unsustainable level of capital goods production, (2) the effect of the steel strike, especially on inventory policy, (3) a possibly temporary outburst of activity in the automotive sector, (4) a possibly temporary recovery in new orders in the textile sector. These factors are expected to disappear by January 1957. According to one of the widely-used professional forecasting services, we should expect a decline in industrial production after the first of the year. Paced by a fall-off of 10 to 15% in the capital goods sector, industrial production will fall from its year-end rate of 148 or so down to about 136 by next September.

Capital Goods

Let us examine this argument, beginning with the outlook for capital expenditures. Bearish opinion in this sector is based on the following observations. We have already added prodigiously to our productive capacity. Expenditures for new plant and

Continued on page 106

*An address by Professor Solomon before Executive Program Club of Chicago, Illinois.

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From Washington Ahead of the News

By CARLISLE BARGERON

It may be so but it is difficult to believe that the retirement of Herbert Hoover, Jr., as Under Secretary of State and the appointment of Chris Herter in his place presages a new spending spree in Europe and Asia. The current propaganda out of Washington is that that is what it means.

It follows upon the carefully laid groundwork that President Eisenhower is determined to do the Republican party over in his own image—which he, himself, has confirmed—that he will have trouble from certain members of his party but if the Republican party ever expects to get anywhere it had better follow his leadership blindly.

Carlisle Bargeron

It follows upon lectures from the same propaganda forces that this country has been negligent in its world leadership and must step in and act boldly.

I have thought that the propaganda about Eisenhower's making over the Republican party in his image referred mostly to domestic affairs such as "liberalism" to outdo the "liberalism" of the New Dealers. But the wave of propaganda about what Herter's displacement of Hoover means is, indeed, something else.

We are being told by the so-called liberal pundits, the newspapers and radio commentators, that Eisenhower, having left all things foreign to Dulles, didn't know how much our foreign policy had run down, how much our global leadership had lagged, until Dulles' illness when he, Eisenhower, because of Hoover's so-called ineptness, had to take hold personally and then for the first time, realized how faulty we had been. So Chris Herter, an internationalist from the bottom up, an ingrained internationalist from childhood, having been born in France, the man who had a lot to do with putting over with Congress the Marshall Plan, is returning to the scene and that this betokens an entirely different approach on Eisenhower's part to world affairs. It means, we are being told, a much broader Marshall Plan for Europe, a spending plan for the Middle East and a spending plan for Asia. It means, so we are being told, Aswan Dams everywhere.

I doubt that the exchange of Under Secretaries of State, in itself, means any such thing. That Herbert Hoover, Jr., was any hindrance in Eisenhower's foreign policies seems to me to be ridiculous. What is more likely, in my opinion, is that his resignation is being used as propaganda in a tremendous pressure on the part of internationalist forces to throw our Treasury open to foreign nations. And I am far from convinced that this pressure will not be effective on the President.

If it should be effective, if something of this sort is to be a part of a "bold" assertion of our global leadership, and a part of his program of making the Republican party into his own image, then he has underestimated the opposition he will have in his party. It won't be confined to the three or four Senators he has occasionally mentioned.

For example, I know of another Senator, Capehart of Indiana, who doesn't consider himself opposed to Eisenhower at all. In fact, he is a team player and although he was opposed to both World War I and II and a great admirer of Bob Taft, the two wars happened and Bob Taft is dead, and he believes in dealing with conditions as he meets them. In his recent campaign he frequently expressed admiration for Eisenhower. But he also got a great response every time he said he intended to continue his fight to put foreign aid on a loan basis.

Other Republican Senators said in their campaigns that they had every reason to believe there would be a more realistic approach to the problem of foreign aid at the next session of Congress. They recalled the tremendous pressure against continued foreign "give-aways" which they experienced at the last session. They pointed out that the President had created a commission headed by Clarence Randall to make a broad study of the question.

Now, while these gentlemen undoubtedly reason that the recent course of events necessitates some relief to European countries, such, for example, as passing up the interest payments on the British loan, it is scarcely conceivable to me that they will go, by way of supporting moderate or Eisenhower Republicanism, for any opening of the Treasury doors as the internationalist propagandists now tell us is in the making. In fact, if anything like this is in President Eisenhower's thinking, it is my conviction he will need more than a new and sympathetic Under Secretary of State. He will need a new Secretary of the Treasury.

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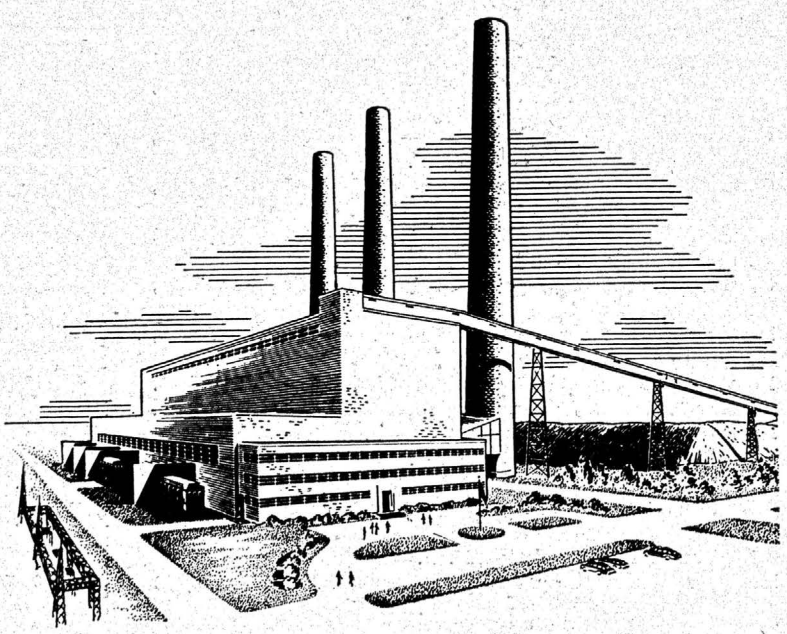

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Amount	Due	Rate	Yield or Price
$2,000,000	1963	5 %	3.50%
2,000,000	1964	5	3.60
2,000,000	1965	5	3.70
1,500,000	1966	5	3.75
1,500,000	1967	4	3.80
1,500,000	1968	4	3.85
1,500,000	1969	4	3.90
1,000,000	1970	4	3.95
1,000,000	1971	4	100
1,000,000	1972	4	4.05
1,000,000	1973	4	4.10
1,000,000	1974	4.20	4.15
1,000,000	1975	4.20	4.15
1,000,000	1976	4.20	100
1,000,000	1977	4.20	100

$143,245,000

4.40% Term Bonds due January 1, 1992

Price 100%

Plus accrued interest from January 1, 1957.

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The Bonds are to be issued to finance the costs of construction and acquisition of certain improvements and additions to and extensions of the Electric System of the City, consisting generally of a steam-electric generating station and related equipment, including facilities necessary to integrate said station into the Electric System, certain miscellaneous distribution and transmission facilities, and the purchase of certain transmission and distribution facilities from the Tennessee Valley Authority.

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National Bank of Commerce in Memphis, Memphis, Tennessee, Trustee of the Bond Fund and Construction Fund Account.

The Bonds may be issued as Coupon Bonds in $1,000 denominations or as fully Registered Bonds without coupons in denominations of $1,000 or any multiple thereof. Coupon Bonds may be exchanged for Registered Bonds without coupons and vice versa.

The Bonds are offered when, as and if issued and received by us, and subject to the approval of legality by Messrs. Wood, King & Dawson, New York, N. Y., Bond Counsel to the City of Memphis, Tennessee and Messrs. Caldwell, Marshall, Trimble & Mitchell, New York, N. Y., Bond Counsel to the Underwriters.

The offering of the Bonds is not made hereby, but only by means of the Official Statement of the City of Memphis, Tennessee, copies of which may be obtained in any State in which this announcement is circulated only from such of the undersigned as are registered dealers in such State.

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December 13, 1956

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AF-GL Views With Interest—Quarterly dealing with advertising and public relations— "Editor," Albert Frank-Guenther Law, Inc., 131 Cedar Street, New York 6, N. Y.

Atomic Letter (No. 23)—Comments on additional Canadian uranium contracts, atomic merchant ship program, progress in atomic chemistry with items on Westinghouse, El Paso Natural Gas, American Machine and Foundry, Foote Mineral Company and Newport News Shipbuilding and Drydock Co. —Atomic Development Mutual Fund, Inc., Dept. C. 1033 Thirtieth Street, N. W., Washington 7, D. C.

Building for the Future—Leaflet describing plan for accumulative investing in shares of Eaton & Howard Balanced Fund and Eaton & Howard Stock Fund—Eaton & Howard, Inc., 24 Federal Street, Boston, Mass.

Burnham View — Monthly investment letter — Burnham and Company, 15 Broad Street, New York 5, N. Y. Also available is current **Foreign Letter.**

Canadian Business Review—Monthly report on Canadian economic news and trends—Bank of Montreal, Montreal, Que., Canada, and 64 Wall Street, New York 5, N. Y.

Equities for Investment—List of 176 common stocks—Bruns, Nordeman & Co., 52 Wall Street, New York 5, N. Y.

Federal and State Transfer Taxes—Booklet giving current Federal and State Stock original issue and transfer tax rates —Registrar and Transfer Company, 50 Church Street, New York 7, N. Y.

Holidays in the United States, Alaska, Canal Zone, Guam, Hawaii, Puerto Rico, Virgin Islands, 1957—International Department, Manufacturers Trust Company, 55 Broad Street, New York 15, N. Y.

Income Bonds — Tax Status — Bulletin — Vilas & Hickey, 26 Broadway, New York 4, N. Y.

Japanese Stocks — Current information — Yamaichi Securities Co., Ltd., 111 Broadway, New York 7, N. Y.

Look Into 1957—Bulletin—Hirsch & Co., 655 Madison Avenue, New York, N. Y.

International Oil Shares—Bulletin—Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

Over-the-Counter Index—Folder showing an up-to-date comparison between the listed industrial stocks used in the Dow-Jones Averages and the 35 over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over a 13-year period — National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Pocket Guide for Today's Investor—Pamphlet containing lists of selected securities for income, growth and trading—Harris, Upham & Co., 14 Wall Street, New York 5, N. Y.

Post Election Outlook for Business and Financial Markets—Highlights from a forum — covering Oil Industry, Metals, Automobile Industry, Rubber Industry, Chemical Industry, Electric and Gas Utilities, and Electronics—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Public Utility Common Stocks — Comparative figures — G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Securities Diary — Simplified system for recording profits, losses, capital gains, interest and dividends — Edward L. Weaver Associates—Securities Diary, P. O. Box 166, Arlington 10, Va. $2 per copy.

Turnpike, Bridge and Other Revenue Bonds—Report—Dean Witter & Co., 14 Wall Street, New York 5, N. Y.

* * *

Aberdeen Petroleum — Report — General Investing Corp., 60 Wall Street, New York 5, N. Y.

American Export Lines, Inc.—Memorandum—Oppenheimer & Co., 25 Broad Street, New York 4, N. Y. Also available is a memorandum on **Republic Steel Corp.**

Anchor Hocking Glass Corporation — Analysis — The First Boston Corporation, 100 Broadway, New York 5, N. Y.

Barnes Engineering—Analysis—Lapham and Company, 40 Exchange Place, New York 5, N. Y.

Carrier Corp.—Data—Bache & Co., 36 Wall Street, New York 5, N. Y. Also available are data on **Gimbel Brothers, Trans-America, United Air Lines, Baltimore & Ohio Railroad, Glenn L. Martin, Koppers Co.,** and **Thompson Products.**

Christiana Securities Co.—Bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Clark Oil & Refining Corporation—Analysis—Loewi & Co., Incorporated, 225 East Mason Street, Milwaukee 2, Wis.

Colorado Gas Company—Bulletin—Lackner & Company, First National Bank Building, Denver 2, Colo.

Controls Co. of America—Memorandum—Lee Higginson Corp., 231 South La Salle Street, Chicago 4, Ill.

Emerson Electric Manufacturing Company — Report — Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

First Presbyterian Church of Mason City, Iowa—Bulletin—B. C. Ziegler and Company, Security Building, West Bend, Wis.

International Shoe Company—Report—Thomson & McKinnon, 11 Wall Street, New York 5, N. Y.

Knox Corporation—Analysis—Unlisted Trading Dept., Rm. 707, Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Koehring Company—Bulletin—De Witt Conklin Organization, 100 Broadway, New York 5, N. Y.

Lockheed Aircraft Corp.—Memorandum—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Mangel Stores—Analysis—Winslow, Cohu & Stetson, 26 Broadway, New York 4, N. Y.

McLean Industries, Inc. — Memorandum — Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

New York Air Brake Company—Analysis—Harris, Upham & Co., 120 Broadway, New York 5, N. Y. Also available are analyses of **Vending Machine Industry, Granite City Steel, Union Carbide,** and reports on **Howe Sound Co., U. S. Plywood Corp., Royal McBee Corp., E. I. du Pont de Nemours, Shell Oil, Drug Industry, Atomic Energy Stocks** and **Switch Suggestions.**

Pan American World Airways, Inc.—Bulletin—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Phillips Petroleum Company — Analysis — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Sheraton Corporation of America—Analysis—May & Gannon, Inc., 140 Federal Street, Boston 10, Mass.

Signal Oil & Gas Company—Analysis—Dean Witter & Co., 45 Montgomery Street, San Francisco 6, Calif.

Stubnitz Greene Corporation—Analysis—Van Alstyne, Noel & Co., 52 Wall Street, New York 5, N. Y.

United States Rubber Co.—Analysis—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Uranium Shares, Inc.—Bulletin—Cleek-Tindell Co., Inc., Paulsen Building, Spokane, Wash.

Wallace & Tiernan—Analysis—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

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DENVER, Colo. — Frederick C. Scadding is now with L. A. Huey Co., Ferguson Building. He was foremrly an officer of Columbia Securities Company, Inc.

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(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Charles J. Heasler, Jr. is with Lackner & Company, First National Bank Building.

Heads Drive for United Hospital Fund

H. Lawrence Bogert, Jr., partner in Eastman Dillon, Union Securities & Co., has been named chairman of the Investment Bankers & Stock Exchanges Division of the United Hospital Fund's 77th annual fund raising appeal.

H. Lawr. Bogert, Jr.

His appointment was announced by A. Halsey Cook, Vice - President of the First National City Bank of New York and chairman of the Professional, Financial and Insurance Group of volunteer solicitors for the annual fund appeal.

Mr. Bogert will direct the activities of 150 volunteer solicitors who have a division goal of $225,000 toward the appeal's $3,500,000 goal.

Contributions will be distributed to 80 voluntary nonprofit member hospitals of the fund in amounts based on the free and below-cost care each hospital gives to the medically needy.

Harris, Upham Expands Funds Facilities

Harris, Upham & Co., 120 Broadway, New York City, nationwide investment brokerage firm with 35 offices coast to coast and members of the New York Stock Exchange, has announced that Howard Dean has been appointed partner in charge of mutual funds sales to head the firm's "expanded sales and service organization designed to provide a clearer understanding of contemporary mutual fund benefits and, through independent research facilities, the specific evaluation of the more than 100 established mutual funds."

Mr. Dean pointed out that the expansion of Harris, Upham's mutual fund department on a national basis "has resulted from a continuing study showing conclusively, not only the popularity of mutual funds, but more importantly, the maturity of this investment method and the related need of a full scale research and service effort in its behalf."

W. J. Beahan Partner In Lebenthal & Co.

Lebenthal & Co., 135 Broadway, New York City, known as the oldest house in America specializing in odd lot municipal bonds, announce that William J. Beahan has been admitted to their firm as a general partner. Mr. Beahan became associated with the firm in 1950.

Lebenthal & Co., is headed by the only woman actively engaged in the municipal bond business, Mrs. Sayra F. Lebenthal. She started the business together with her husband, Louis S. Lebenthal, in 1925. After the death of Mr. Lebenthal in 1951 Mrs. Lebenthal became senior partner. Recently she was married to I. Arnold Ross.

With Cruttenden, Podesta

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Robert J. Paul has become affiliated with Cruttenden, Podesta & Co., First National Bank Building. He was formerly with Mountain States Securities Corp.

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Chemical and Pharmaceutical Industry Outlook for 1957

By JOHN E. McKEEN*
President, Chas. Pfizer & Co., Inc.

Chas. Pfizer head states chemical industry can look forward to moderate sales volume increase and relatively stable prices in 1957, but higher costs will produce profit-margin squeeze. Mr. McKeen believes more defense spending and larger foreign aid appropriations will decrease the likelihood that tax relief will help bolster profits; anticipates tight money market to continue for six or eight months which may temporarily dampen plant expansion in some segments of industry; and sees overseas plant investment as a way to cope with foreign chemical competition.

"It was the best of times, it was the worst of times; it was the age of wisdom, it was the age of foolishness. . ."


John E. McKeen

Those are words of contradiction. And when Charles Dickens used them to begin his "Tale of Two Cities" nearly a century ago, he was describing an era of contradiction — an era which saw the emergence of a prosperous British Empire, and chaos, strife and bloodshed in France. It was a world of political and economic paradox which has long since passed into history.

And yet those same paradoxical phrases from the past characterize our own world and our own times this very evening, for the world in which we in the chemical industry must live and conduct our business is also one of paradox and contradiction.

These *are* the "best of times." Never before have we, as an industry and as a nation, thrived with such wholesome prosperity. Yet, when we turn to the Middle East and to Eastern Europe, we must certainly confess that these are "the worst of times."

This is an "age of wisdom"—of technical wisdom at least. Science has created opportunities for a future of unparalleled abundance. But in the same breath we must also confess it as an "age of foolishness" — for we stand face to face with ideologies that would cast away all that peaceful science and industry can offer, in favor of economic and military plunder.

Where do we stand now—tonight? In this setting of contradictory world forces, answers are not always easy to uncover, but let us—together—attempt to do so.

It has been a good many years since the days when the chemical industry as a whole could be described as specialized; today, it is almost universal. It is now the basic supplier to almost every other industry, so that a pronounced uptrend or downtrend throughout our general industrial economy would, of course, be reflected in the long run by the chemical industry as a whole.

You are all aware, I am sure, of both the nature and the multiplicity of these inter-connecting factors. We supply the automobile industry with plastics, synthetic rubber, paints, and a host of other products. We supply agriculture with insecticides, fertilizers, soil conditioners, feed supplements, pharmaceuticals, and many other chemicals without which the farmer could not survive in today's economy. I need not multiply these examples, because it is not really the specific examples which matter in any case. What really counts is their vast number. In other words, we supply so many segments of the economy that as an industry we are not likely be seriously affected by the fortunes of any one of our customers; instead, an economic trend strong enough to exert a long-term effect on the chemical industry must first affect the economy as a whole.

*An address by Mr. McKeen before the 35th Annual Meeting of the Synthetic Organic Chemical Manufacturers Association, New York City, Dec. 3, 1956.

This proposition was well exemplified, I think, by what happened to the chemical industry during the first half of this year. During that period, automobile production and sales both declined, as did a number of other durable goods. Home building, too, dipped during the first six months of 1956. Yet chemical output continued to advance, and by May of this year it was at the highest point in history. The isolated soft spots in the economy had little adverse effect; instead, our industry was reflecting the "rolling readjustment" which at that time was acting to stabilize our economy as a whole. Even the cutback in industrial activity during the third quarter of 1956, as a result of the steel strike, failed to have any appreciable depressing effect upon over-all chemical production.

Pressures on Chemical Industry

Thus, to predict what course the chemical industry will follow in 1957, we must look for factors which exert pressure on industry as a whole. These are not hard to find. One of the major factors is the on-rushing increase in world population, which affects not only the economy of the United States but that of the whole world as well. In our country, it requires that we feed, clothe and house two-and-a-half million more Americans each year. That's slightly more than 285 new customers every hour. On a world-wide basis, the population is increasing at the explosive rate of 80,000 per day—as though a whole city as big as Springfield, Ill., were automatically added to the map every time the sun rose.

A second such factor is the steady rise in the Gross National Product since the last quarter of 1953. Not only has the G. N. P. reached a record $414 billion in the third quarter of this year, but since the end of 1955 it has been accompanied by declining inventories, an indication that even this huge output is not keeping pace with demand. It would also seem that consumers' disposable income, now climbing rapidly toward the $290 billion mark, is actually being spent at an increasing rate, despite the fact that personal savings have also resumed their uptrend this year.

All this helps to explain why the chemical industry expanded its plant and equipment by $1½ billion in 1956, and why the recent American Chemical Society survey shows that our growth rate in the greatest of all manufacturing industries.

The factors I have mentioned—which exert such a marked and easily traceable influence upon the entire chemical industry are of even more profound importance to the pharmaceutical field. They help explain why drug industry sales—which have been advancing steadily over the past 10 years, with the exception of a short dip in 1952—can be expected to continue to advance next year.

This rise in drug sales in part reflects the increase in population. A continued high level of disposable income also acts to favor the drug industry, perhaps more so than a casual glance would reveal. People who feel that their pocketbooks are pinched tend to visit their doctors less often. The result may be an increase in self-medication, but it certainly brings about declining sales of prescription drugs. The family which feels itself well-off, on the other hand, treats the family doctor as a necessity rather than a luxury—a curious reaction, certainly, but a well-established one.

The rise in the general level of health has done more than increase the population. It has also changed its age pattern. Modern drugs save lives in all age-groups, but their major impact has been felt at those ages where death lurks closest; in infancy and in old age. There are now far more young people and old people, in proportion to the middle-aged, than there were 10 or 15 years ago, and the disproportion—if that is what you call it—is increasing. Thus, the chemical and pharmaceutical industries will more and more be called upon to supply new and specialized preparations for these growing age groups—new pediatric formulations for children, new geriatric preparations for the elderly. In practical terms, this means an increasing emphasis upon drugs against the degenerative diseases, such as reserpine and other agents against high blood pressure, and protective medications such as vitamins and vaccines for children.

Inside the chemical industry itself, individual companies make their own future through the success or failure of their research programs. Everyone in the industry is aware of this dependency on research, and is thoroughly committed to it. Research investment in the chemical industry is now running at about 3% of sales. For the pharmaceutical segment, the figure is between 4 and 5%.

Even a factor so basic as the increase in population is, in part, due to research developments of the chemical industry—dramatically effective new drugs, resulting in a steadily rising level of health, and deep slashes in the death rates for most of the major infectious diseases. Thus successful pharmaceutical research creates more customers for its future products now in the test tube.

There is a great deal more to come. Recent research is opening up whole new ways of thinking about both preventive and therapeutic medicine, whose very implications remain to be puzzled out. In the meantime, we are far from having exhausted the concepts which were new to us only 15 years ago. In antibiotics, for instance, new and more powerful agents are still being uncovered. Only recently several were marketed which are especially effective in knocking out certain germs which have resisted attack by all other available drugs.

But antibiotics are far from the whole story. New research efforts have added whole new classes of drugs to the doctor's arsenal. Two familiar examples—and spectacular ones from the point of view of the market place—are the tension-relieving drugs and the cortico-steroids for treatment of arthritis.

Our laboratory and production research continues to assume more and more importance in other areas of the industry—in polyethylene plastics, to mention a single outstanding example. As you know, this is one of the fastest growing fields in the chemical industry, with some sources estimating production at 800 million pounds by 1960. New forms of these versatile plastics seem certain to appear from the wide variety of production methods now available, especially in view of the rising interest in such processes as low-pressure polymerization, irradiation, and the development of new catalysts. Growing interest is also evident in foamed plastics and in vinyls, both of which accounted for heavy construction investments in 1956.

I mention plastics in particular because this field has created a revolution in chemistry which has reached intimately into the daily life of every citizen, bringing our industry closer to the ultimate consumer than it has ever been before. In addition, plastics demonstrate what I have noted earlier — the many inter-connecting factors which tie the chemical industry together and bind it to the economy as a whole.

These few examples from just two segments of the industry are indication enough that research is our best insurance against economic stagnation and our best hope for continued progress.

Yet research, no matter how fruitful, becomes academic with-

Continued on page 100

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250,000	1960	4¼	4.75	250,000	1969	4½	5.40
250,000	1961	4¼	5.00	1,500,000	1970	4½	5.45
250,000	1962	4¼	5.10	2,000,000	1971	4½	5.45
250,000	1963	4½	5.20	2,000,000	1972	4½	5.45
250,000	1964	4½	5.25	2,000,000	1973	4½	5.50
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December 12, 1956.

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Automobile Sales Prospects And Salesmen's Opportunities

By L. L. COLBERT*
President, Chrysler Corporation

Believing there is a very good chance that 1957 auto sales volume could become the second biggest year, providing selling effort is increased considerably, Chrysler Corporation President attributes optimism about 1957 to the prosperity of the national economy, which is said to give every indication of continuing. Commenting on the opportunity that exists in the 1957 market, Mr. Colbert discusses the problem of intensifying salesmanship, and depicts the big problem of controlling inflation.

In my opinion the year ahead of us is the Year of the Salesman. With great products of many kinds to sell, products that are loaded with selling features and talking points, everyone connected with selling — and that means just about everybody in business life— is going to have a great opportunity in the year ahead. We all know, of course, that selling in 1957 is going to be far from a downhill pull. The forces making for a big national market next year look very favorable at this time. But big markets are not made by the underlying economic factors alone. It takes the genius of American merchandising to lay hold of a favorable market potential and then make the most of it by putting the real spark into people's motivations. It takes the massive pre-selling efforts of national advertising. It takes the person-to-person persuasion of the effective salesman. It takes the retail manager who knows how to create the atmosphere and the conveniences that make it easy and pleasant for the customer to buy. And all of these efforts can add up to a national tide of buying that will make the country better and stronger than it could possibly have been without those selling efforts.

L. L. Colbert

In the automobile business we do a tremendous amount of figuring to try to determine the size of the potential market ahead of us. We put a lot of statistics through our computers, we research our customers more thoroughly perhaps than any other business on earth, and in general we are happy about what we have been able to find out about their intentions. We never kid ourselves, however, that the future is a lead-pipe cinch. The economic facts show us only the size of our total opportunity. And everything we know about what lies ahead tells us that the big man in our future is the salesman.

*From an address by Mr. Colbert before the Sales Executive Club of New York, Dec. 4, 1956.

Forecasting 1957

Let me tell you about some of the questions we have asked ourselves about our market next year. We have been doing a lot of thinking and analyzing, for instance, in an attempt to answer the all-important question right now—how big a year can 1957 be? Can it rival the record year 1955? Or are there built-in factors which will limit it to the size of 1956?

Forecasting markets is a dangerous trade. In the automobile business especially, no one can ever feel completely comfortable when he plays the role of a prophet. And these days, with world events taking such an unpredictable course, it is even harder than usual to call the turn. But hazardous as it may be, you can't plan an industrial operation without forecasting. Given a reasonable working out of the serious economic and political difficulties abroad, this is the way our market for the year ahead looks to us right now.

In general, we believe 1957 approaches the potential of 1955 as one of the industry's biggest years. In 1955, seven million four hundred thousand passenger cars were sold at retail, and this as you know was the biggest year on record by a wide margin. In all of 1956 nearly six million cars will be sold at retail. This is more than a million cars under last year's total sales, but it will be enough to rank 1956 as the industry's third highest year. By all present indications the retail market for cars in 1957 should be bigger than 1956 by a substantial margin. By any standard, a year when more than six million cars are sold at retail is an excellent year for the automobile industry, and we think there is a very good chance that the volume of sales in 1957 could put it on the books as the second biggest year in the history of the business.

The basic reason for optimism about 1957 as an excellent year for the automobile industry is that the national economy is prosperous and gives every indication of continuing to be prosperous. Employment is at an all-time high. Personal incomes are at record levels and are rising. Personal savings have been running at a higher rate than at any time since the end of World War II. And business has been borrowing these savings and drawing upon other sources to finance investments in new plant and equipment at the highest rate in the entire postwar period. In addition to these indications of strength, Federal spending for defense is continuing at a very high level and expenditures for roads and schools are climbing.

While new high levels of economic activity were being reached during the past year, important parts of the economy, including automobiles and housing, experienced declines. But other segments more than made up the difference. We have had a very clear demonstration of the ability of this highly diversified economy, under anything like normal conditions, to make a rolling readjustment—to balance off losses in some areas with gains in others. And now, with inventories generally still needing to be built up, and with the international situation putting new demand pressures on basic materials, it appears that the big problem in the coming months will continue to be controlling inflation. And you and I should be solidly behind this effort as long as it is tied to a program of encouraging a big volume of sound business.

Cash and Credit Buying

We hear a lot these days about the shortage of money and about credit restrictions — yet it seems clear to us, after all the studies we have made, that there is tremendous purchasing power, ready for the right product—that there is credit available, not without check or restriction, but in quantity that should supply good risks on sound terms.

You will hear some people say that too much credit was extended in 1955 and on too easy terms—with the result of reducing the number people coming back into the new-car market in 1957. I am not going to comment on this matter at any length. The Federal Reserve is conducting a comprehensive study of instalment credit, and its conclusions are expected very soon.

I would like to point out, however, that our studies show that 35 to 40% of the people who bought new cars in 1955 paid cash. Furthermore, a substantial percentage of those who purchased new cars in 1955 on the instalment plan have already paid off these obligations, or will have them paid off sometime during the next year. What this means is that at least two of every three of the new car buyers in 1955 will not be limited by automotive instalment credit obligations from coming back into the market in 1957 — any more than those who bought new cars in the years before 1955 will be limited.

In addition to all these potentials for good business ahead, there is the very important fact, which I have already mentioned, that this is a year of wide-spread model changes in the industry. We believe these industry-wide changes should put an extra kick in next year's market.

Our own dealers have been telling us that there is a big difference between this and any other new-model introduction period they can remember. In previous years there has been heavy attendance in dealer showrooms on opening day, but it has always tapered off to normal in a week or 10 days. This year the showroom traffic has remained heavy week after week. At the moment we are embarrassed, and seriously, by a shortage of automobiles. Our dealers are burning up the wires asking for more cars. In the first 30 days after public introduction they sent us orders for more than 350,000 cars. We have established production schedules to fill this demand and very shortly we will be meeting our schedules.

As it is, after accomplishing a new model change which is more sweeping than anything we have ever done before, by the end of this month we expect to have shipped to our dealers more than a quarter of a million of the 1957 passenger cars.

Excellent Car Year Ahead

All signs point to an excellent year for the automobile business in 1957. The opportunity is very great—but to cash in on it, to bring 1957 within shooting distance of 1955, will take a solid selling effort all down the line. As I see it, in the automobile business there is going to be a big difference between the kind of selling we do in 1957 and the kind of selling too many people resorted to in 1955. I think the industry as a whole realizes that no lasting good can come from dangling gimmick deals before the customer — with nothing down, mink coats and free trips to Cuba as the come-ons—instead of sticking to our business of selling automobiles on their merits. That kind of razzle-dazzle selling won't produce in the long run what we and our dealers are working for. It is really not good for our business or any other. It neither builds confidence in the industry's merchandising system nor does it give the dealer structure the strength it needs for lasting service to the public.

We are entering a period when we are going to need continuous top performance in all the arts of selling. We are going to need the big initial boost that comes from effective pre-selling. We will need to let the customer know, and keep on telling him, about all the new and real values that are awaiting him. But we are going to need also a new emphasis on personal selling. We are going to need energetic canvassing of the market of a kind that hasn't been seen since before World War II. And we are going to need more demonstration rides, more follow-up attention given to old customers, more selling talk based on thorough and practical knowledge of the product.

We don't need to be told about the industry's deficiencies in these respects. We still hear about solid prospects, people whose cars are overdue for replacement, whose transportation needs have increased, who would be receptive to any salesman's attention, but who have not had so much as a telephone contact or invitation to inspect the new products. We hear of cases like this in New York, in Detroit, in San Francisco, in Atlanta, all around the circuit.

Sales Opportunity

In the period we are entering, the close relationship and harmony among all parts of the selling mechanism, from the sales planning office to the neighborhood dealer, is essential. This harmony is a matter of working understanding at all points of the system. For us in the automobile business it means living closer than ever to the merchants who represent us, bringing to them every assistance, every idea, every bit of information that will help them make their business a success.

It is not only the year ahead but the whole long-range future that presents to the salesman in every line of business a great opportunity and a terrific assignment. It is squarely up to him to match the impressive gains made by business in other fields—in production—in reseach—in the arts of pre-selling — and in methods of moving, handling and displaying goods. All these things have contributed to building the big American market. But to keep that market growing as it will have to grow to keep this economy healthy, we are going to need that extra effort from the individual salesman who knows how to find his prospect — how to transform an interest in a product into a decision to buy—and how to close a sale.

It is personal selling that will put the extra bounce in the buying and bring the added margin of business activity that makes the difference between a static and a dynamic economy. To maintain employment at the kind of levels we have known in recent years and to find investment outlets for the personal savings of our people is going to require selling skill of a high order—and lots more of it than we have had in the past. It is going to take hard and persistent work—canvassing people and moving them to buy through the application of the arts of persuasion.

Right along with the all-important increase of effort in the field of personal selling, we will continue to need top performance in all the other aspects of business that help to create new and bigger markets. This means continuous product innovation—efficient production to keep costs down and prices attractive—and sound management all along the line, especially the kind of management that knows how to look ahead and plan ahead. But by and large the pressure is off production and on distribution. It is the marketer—using the word in its broadest meaning — who holds the prime responsibility for keeping the country on the move, driving it ahead toward higher living standards and greater economic strength.

In this perspective, marketing will become increasingly the principal function of all business management—because the main business of business is our time is the creation of new markets, new customers, new standards of consumption. By the creation of those new markets, business management will also create the purchasing power that will support those markets and lead to the building of even better ones. Seen in this light, the job of building the big market of the future is nothing less than the building of a greater and a stronger country. This is your job and my job. And it is one we can take pride and satisfaction in doing well.

This advertisement appears as a matter of record only. These securities were placed privately through the undersigned and no public offering is being made.

$3,000,000

California Water Service Company

First Mortgage 4.60% Bonds, Series H

Due November 1, 1981

Dean Witter & Co.

December 12, 1956

Townsend, Dabney to Admit P. L. Winslow

BOSTON, Mass. — Townsend, Dabney & Tyson, 30 State Street, members of the New York and Boston Stock Exchanges, on Jan. 1 will admit Peter L. Winslow to partnership in the firm.

James Jackson, Jr. will retire from the firm Dec. 31.

Two With Marshall Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Millie E. Kalsem and Katherin D. McRae have become connected with The Marshall Company, 30 North La Salle Street.

Two With Smith, La Hue

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, Minn.—O. Georfrey Holmer and Frederick R. Trummer are now with Smith, LaHue & Co., Pioneer Building.

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Automotive Year Ahead

By HARLOW H. CURTICE*
President, General Motors

Maintaining 1957 will be another good year, exceeded only by 1955, for the automotive industry and G. M., Mr. Curtice views 1957 as "another record year for business generally," presuming maintenance of peace. General Motors head finds 1956 is the industry's third best year, and expects 6.5 million new cars will be sold in 1957 compared to 1956 estimate of 5.8 million, an increase of about 10%. Sees GNP increasing to $435 billion with substantially full employment.

Last January I said it was my opinion that 1956 would be another record year for business generally. The past 11 months have substantiated that forecast.

Harlow H. Curtice

Nineteen fifty-six has been a year of virtually full employment. Consumer disposable income has reached a new high level, and consumer spending has increased substantially.

The construction industry has bettered its amazing 1955 record, while capital expenditures by business have risen about 22% over 1955 to an estimated $35 billion.

Gains in 1956 have averaged substantially more than the anticipated rate, with the result that the Gross National Product is now estimated at an all-time high of about $412 billion.

The year 1956 has been an unusual one in certain other respects. Of principal concern to us has been the fact that the pattern of a rising general level of business activity was not reflected in consumer demand for automobiles.

The record indicates that this is the first peace time year in which new highs have been reached that were not spearheaded by the automobile industry. A year ago at this time I did not anticipate that 1956 would equal the record year of 1955. All the factors discernible indicated a domestic market for 6½ million passenger cars, or about 12% lower than 1955.

Estimates 1956 Sales

Sales in the first quarter were at this estimated level. However, beginning April 1, instead of the historical seasonal spring rise, we experienced a sharp decline in retail demand to the rate of 5½ million passenger cars annually. Since it is now a matter of history, it is unnecessary for me to tell you why. This drop in demand, however, led me to revise my estimate in May to 5 million, 800 thousand passenger cars for the year. And that is about in line with what the industry is going to achieve according to best estimates of production and sales in the month of December.

This total represents a decline of 20% from 1955. Even so, 1956 will be the third best year for retail passenger car sales in the domestic market in the history of our industry.

As for General Motors, we have succeeded in maintaining our market leadership in this highly competitive business. Sales of cars and trucks produced in our United States and Canadian plants should reach a total of 3 million, 725 thousand units. This compares with 4 million, 650 thousand in 1955. However, this will be our second best year of passenger car sales.

Dealers handling General Motors products have experienced a similar contraction in their new car and truck sales this year, but nevertheless they have operated successfully and profitably in the main. It can be considered a good year too for our 26 thousand suppliers of goods and services.

Predicts Record Year for Business

Looking forward, it is my opinion that 1957 will be another record year for business generally. Of major concern, of course, is the international situation. These are troublous times. World events, of necessity, have a powerful impact on the economic life of our country. Yet, we must assume that the delicate balance of peace will be maintained.

On this basis there is every prospect of a further rise in the Gross National Product to another new high next year. However, present indications are that the rate of increase, after making allowance for some rise in the price structure, will be less than that experienced in 1956. It would seem reasonable to expect that the Gross National Product for 1957 would possibly be as high as $435 billion.

It is my belief that our country can look forward to another year of substantially full employment. Consumer disposable income will continue to rise, possibly reaching a total of $300 billion for the year compared with the 1956 figure of $287 billion. With confidence prevailing, personal consumption expenditures should also continue to increase from current levels.

It has been demonstrated most conclusively that the prosperity and progress of the nation are not dependent on war or a peak level of defense expenditures. However, it appears quite certain that defense expenditures will be somewhat higher in 1957—possibly in the area of $42 billion.

Other government expenditures—Federal, state and local — can also be expected to increase somewhat from present levels.

The construction industry has set new records in each of the last four years, and this upward trend should continue in 1957. Housing starts should remain steady, but more non-residential structures will be built.

With the first projects under the new Federal aid highway program getting under way during 1957, highway expenditures should amount to approximately $8½ billion, an increase of at least three-quarters of a billion dollars over 1956.

The tremendous demand for capital equipment will continue in 1957, and expenditures are even expected to show an increase.

Additional Investments

General Motors capital expenditures this year will be just under $1 billion, bringing the total in the postwar period to $4½ billion. Our 1956 outlays represent the largest amount ever expended by us for capital purposes in any one year.

For the calendar year 1957 our capital expenditures are currently estimated at $700 million. This amount will be needed both to keep our facilities and products modern and to assure General Motors adequate capacity to keep pace with our appraisal of the normal growth of the market for our products. By the end of 1957 total expenditures by General Motors for capital investment since the end of World War II will have amounted to $5.2 billion. This is in addition to very substantial annual expenditures for special tools during this period.

I cite the General Motors record as an example of the contribution to the economy every industrial concern makes and must continue to make if it intends to keep pace with the progress of technology and with the demand for goods from an expanding population.

The automobile industry will, I believe, contribute more substantially to economic progress in the year ahead than it has in 1956.

The enthusiastic reception accorded the industry's new models represents one important favorable factor for 1957.

Another is the inventory situation. The supply of new passenger cars in the hands of dealers as of Jan. 1 will be low, whereas a year ago stocks were abnormally high.

Predicts 10% Auto Sales Increase

Viewing the outlook for the entire year, I consider it very possible that demand for passenger cars will show an increase over 1956 in the area of 10%. On this basis I estimate that the industry will produce and the domestic market will absorb approximately 6 million, 500 thousand passenger cars and 900 thousand trucks. Including Canada and for export to other markets, unit production in 1957 should approximate 8 million, 300 thousand passenger cars and trucks. This compares with an estimated total of 7 million, 400 thousand this year.

For General Motors 1957 should be another good year, exceeding 1956 and surpassed only by 1955. We come to market with truly superb lines of passenger cars, trucks and appliances. They are outstanding in every respect and represent the greatest value we have ever offered to customers.

To bring these 1957 General Motors models to market required an outlay of approximately $630 million. This is more than we have ever spent in any one year for styling, engineering and mechanical advances. It represents our determination to maintain the value leadership of General Motors products.

The enthusiastic public acceptance of our 1957 lines indicates that General Motors dealers will continue to maintain leadership in this highly competitive industry. The year should be a profitable one for them as well as for our suppliers of goods and services.

*An address by Mr. Curtice at the 42nd National Automobile Show, New York City, Dec. 6, 1956.

With United Investors

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colorado—Dewey R. Murphy is now with United Investors, Inc., U. S. National Bank Building, Mile High Center. He was formerly with Carroll & Co.

Joins A. G. Becker

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Illinois—William M. Moore is now with A. G. Becker & Co. Incorporated, 120 South La Salle Street, members of the New York and Midwest Stock Exchgs.

Goldman, Sachs Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—William C. B. Magoun is now with Goldman, Sachs & Co., 208 South La Salle Street. He was previously with Dean Witter & Co.

Fewel Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Lynda A. Hanna has been added to the staff of Fewel & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange.

Joins Draper, Sears

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Leonard K. Thomas has joined the staff of Draper, Sears & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges.

With Inv. Planning

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Walter F. Cronin is now with Investors Planning Corporation of New England, Inc., 68 Devonshire Street.

Carl M. Loeb, Rhoades To Admit T. Kempner

Carl M. Loeb, Rhoades & Co., 42 Wall Street, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Thomas L. Kempner to partnership.

Horney and Mayrisch With First California

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Odus C. Horney, Jr., Lenard Mayrisch, Jr. have become associated with First California Company, Inc., 300 Montgomery Street, members of the San Francisco Stock Exchange and other exchanges. Mr. Horney was formerly Vice-President of Blair & Co., Incorporated, in charge of the San Francisco office, with which Mr. Mayrisch was also associated.

White, Weld Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—David Wilder has been added to the staff of White, Weld & Co., 111 Devonshire Street.

With Southern Inv.

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—George W. Edwards is now with Southern Investment Company, Inc., Johnston Building.

Powell Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

FAYETTEVILLE, N. C.—James S. Gorham, Jr. is with Powell and Company, 120 Anderson Street.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Marvin G. Vick has become affiliated with Bache & Co., Johnston Building. He was formerly with Southern Investment Company, Inc.

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

NEW ISSUE December 12, 1956

784,402 Shares

Northeast Airlines, Inc.

Common Stock ($1 Par Value)

One-half of these shares are being publicly offered at the price shown below, and one-half of these shares are being offered, at the same price, by the Underwriters to holders of the outstanding Common Stock of record at the close of business on December 7, 1956, all as more fully set forth in the Prospectus. The Offer will expire at 3:30 P.M., Eastern Standard Time, on December 20, 1956.

Price: $9.50 per Share

Copies of the Prospectus may be obtained in any State only from such of the several Underwriters, including the undersigned, as may lawfully offer these securities in such State.

Carl M. Loeb, Rhoades & Co.

Allen & Company — Ladenburg, Thalmann & Co.

Paine, Webber, Jackson & Curtis — Wertheim & Co.

Francis I. duPont & Co. — Hayden, Stone & Co.

Johnston, Lemon & Co. — A. M. Kidder & Co., Inc.

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Cosden Rides Again

By IRA U. COBLEIGH
Enterprise Economist

Under the refining influence of R. L. Tollett, President, sometime C.P.A., lawyer, G-Man, and all-time oil man, Cosden Petroleum Corp. is now a pace-making Texas thoroughbred.

Only last week, a major and magnificent TV network program called "The Jazz Age" depicted with velocity, clarity and charity, the decade of the Roaring Twenties — its stocks and stills; its choregraphy, cars and coifs; its flappers and flasks; its pep, pace and panic. Midstream, there was a newsreel clip of the Prince of Wales (now Duke of Windsor) whose visit to our shores highlighted the social events of that dashing decade. The Prince on a polo pony was bigger swoonbait than Elvis Presley and his guitar today. And the Prince rode high, wide and handsome, in 1923, as house guest at the swank and horsey Long Island estate of J. S. Cosden; an estate built on sand, out of oil.

Ira U. Cobleigh

Josh Cosden started out in the oil business in 1913. His organization, Cosden & Co., moved ahead rapidly, and wonderfully, under the dynamics he personally supplied, until 1924 when control passed into other hands; and his name was rubbed out of the corporate title when the enterprise (in 1925) became Mid Continent Petroleum Corp. (which, as you know, waxed great, and cash rich; and was merged with Sunray in 1955).

Hitting the comeback trail, Josh Cosden formed the Cosden Petroleum Corp., which, while struggling manfully during the 30's, never really got rolling during the founder's lifetime. But the name still had magic; and when R. L. Tollett took over the helm in 1939, Cosden Petroleum began to move forward into a new order of magnitude. Mr. Tollett had spent his boyhood in the oil fields of Texas and, by determination and diligence in night school studies, became successively (and successfully) a C. P. A., lawyer and, for a four year hitch, a member of the FBI. Thus, when, in 1939, a Fort Worth (Texas) bank was seeking a new president for Cosden, R. L. Tollett met all the qualifications—in spades! He has remained president for 17 years.

In 1940, Cosden grossed $6,352,000 and netted $179,000. 1941 showed some advance in sales to $6,472,000, but net slipped into the loss column—$50,000 to be precise. Since 1942, however, the company has made a profit in each and every year; and gross has surged ahead tenfold over 1940. It should cross $65,000,000 this year!

Just what sort of an oil company is Cosden? As you know, it's quite fashionable to catalog oil companies as "integrated," "producers," etc. Well, Cosden is essentially a "refiner," upgrading crude into a broad variety of blended petroleum and petrochemical products. To a lesser extent, Cosden is also a "producing company" with current net flow from its wells of over 4,400 barrels a day, and crude reserves estimated at above 20 million barrels (plus over 18 trillion C.F. of natural gas reserves). Cosden also has its own special pipeline, not for crude or gas, but for products — such as benzene, naphtha, aviation gas and high octane motor fuels. This is a very unusual sort of pipeline since it can transport a diversity of products through the line, all at the same time. For example, a run of aviation gas can lead off, be blocked off by any fluid (or solid) of substantially greater density; then 100 octane gas can be put on stream—and so on. This pipeline of Cosden presently runs from Big Spring to Abilene, Texas (a distance of 108 miles) and will be extended to Wichita Falls next year.

Anyone knows that a refinery, to be most efficient, should be located near crude production; and have abundant water supply and cheap electric power. Well Cosden, with its main plant at Big Spring, has the water; the main refinery is within a 100 mile radius of 1/6th of the known crude petroleum reserves of the United States (the fabulous Permian Basin of Texas).

Cosden is a custom refinery; that is, it produces to specification and on order. It turns out, and delivers, gasoline for the Air Force; it supplies (from formula) the widely advertised high test, high octane motor fuels delivered at the pumps by a number of major national distributors; and its unique Rexformer unit (at Big Spring) was the first specifically designed one in the world to combine platinum catalyst reforming, and selective extraction. Low octane materials, at the rate of 4,000 barrels a day, can be fed into this amazingly efficient plant and, by a continuous recycling process, be converted into higher octane fractions. The end product may be a 104 octane leaded motor gas, or a super high test aviation gas. Refining facilities of this sort are the most sought after in the entire industry.

If we were merely to view Cosden Pete as a single unit refinery, we could, no doubt, endorse the enterprise as sound and strategically located. But Cosden has not stopped there. In July 1956 it acquired, for about $1¾ million cash, properties in the Jo-Mill (Sprayberry) Field of Borden County, Texas with recoverable crude reserves of above 1,400,000 barrels. On Oct. 1, 1956 it purchased from Onyx Refining Co., the Hawley refinery and related facilities 6,000 barrels a day capacity) located 10 miles north of Abilene, Texas. The consideration was 40,000 shares of Cosden stock. And on Nov. 14, 1956, through exchange of 352,000 shares of its common stock, Cosden Petroleum acquired the Col-Tex Refining Co. (at Colorado City, Texas), previously owned jointly by Standard Oil of Texas (62½%) and Anderson-Prichard Oil Corp. (37½%). This is a strategic addition — a refinery (only 10 miles from Big Spring) processing 8,000 barrels of crude per day, and turning out automotive gasoline, diesel fuel, kerosene, sand fracturing oils, asphalt and heavy fuels.

The shares of Cosden Petroleum delivered for the purchase of Col-Tex were forthwith sold (by means of a public offering and underwriting with accompanying fact laden prospectus) at $21.625 per share. Which about brings us up to date with the Cosden story.

Cosden today, with its three-unit refinery facilities, has a through put capacity of above 45,000 barrels a day; and it has attained the reputation for being a top flight custom refiner, and an expanding factor in petrochemical manufacture, turning out benzene, toluene and xylene. Cosden's output of jet fuels, and aviation gasoline, which amounted to roughly 20% of sales (before the acquisitions above recited) is being sold to the government for military aircraft.

Giving effect to exchanges outlined above, there are now 2,584,014 common shares of Cosden outstanding and listed on the New York Stock Exchange (symbol CPM). The current quotation is 22¼, at which price these shares, with a $1 indicated dividend, now yield 4.5%. Less than $10,000,000 in long-term debt lies ahead of the common.

If you were to project a growth curve for this animate, well managed and sales-minded petroleum enterprise, based on the rate of annual increases in gross operating income, and in net income, for the past ten years, you would wind up with an estimate price for the common of about $60 a share by Jan. 1, 1960. But who has a slide rule so reliable?

Suffice it to say that Cosden has been moving along smartly; that it has an energetic and effective management echelon; that its common has advanced from $1 in 1946 to a high of $25 in 1956; and that it split its shares 2-for-1 in 1956 after stock dividend of 20% in 1953; 25% in 1954 and 5% in 1955. In June of this year, W. R. Grace & Co. made proposals to take over Cosden. These never materialized and so the Cosden name is still preserved for this generation of investors. Cosden, indeed, rides again; and not as a plater but as a thoroughbred!

Dean Witter Arranges Private Placement

California Water Service Co., it was announced on Dec. 12, has placed privately, through Dean Witter & Co., an issue of $3,000,000 first mortgage 4.60% bonds, series H, due Nov. 1, 1981.

The proceeds from this financing are to be used to retire outstanding indebtedness.

White, Weld Arranges Fifteen Oil Secondary

A secondary offering of 62,500 shares of capital stock (par $1) of Fifteen Oil Co. was made on Dec. 13 by White, Weld & Co. at $13.50 per share. None of the proceeds are to accrue to the oil company.

B. J. Kenn Opens

FT. WORTH, Texas—B. J. Kenn is conducting a securities business from offices at 3109 Ray Court.

L. H. Meierant Opens

DALLAS, Texas — Lester H. Meierant is engaging in a securities business from offices at 2402 Boyd.

C. E. Murphy Opens

FT. WORTH, Texas—Clyde E. Murphey is conducting a securities business from offices in the Professional Building.

Kidder Peabody Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Thomas L. Corn is now associated with Kidder, Peabody & Co., Russ Building. He was formerly with Mutual Fund Associates.

Harry B. Hollins, Jr.

Harry B. Hollins, Jr., Partner in H. N. Whitney, Goadby & Co., passed away Dec. 7.

Consumer Credit's Responsibility For the Business Picture

By DR. H. E. LUEDICKE*
Editor "The Journal of Commerce"

In ascertaining whether consumer credit is a villain in the credit picture or a "red herring" to direct attention away from other far more urgent credit control problems, prominent business newspaper editor advances arguments opposed to standby credit controls, and terms such legislation a "pretty hazardous gamble" since it could very well tempt specific governmental regulation to attain anticyclical or secular economic growth rates in key industries. That there still remains the problem of an uneven impact of general credit controls, is pointed out by Dr. Luedicke. Author reviews: ability of instalment credit users to determine their own feasible repayment loads; the exaggerated arguments used by defenders and opponents of unrestricted consumer credit; and consumer credit's smaller rise compared to total private debt in 1955, and first 10 months of 1956. Doubts we will ever find a "yardstick" to measure point where such credit becomes excessive; or, that product quality and salesmanship can be replaced by credit.

Consumer credit has been on the defensive long enough. That is particularly true about instalment credit. Time and again it is being singled out as the villain in the credit picture that has to be put into chains of "controls" if inflation is to be avoided.

Heinz E. Luedicke

Interestingly enough, the drive for consumer credit controls coincide with a drive to liberalize mortgage credit and to make bank credit easier for small business. Obviously, when it comes to politics nobody has to be consistent. When it comes to economics and the development of economic policy, there should be logic and consistency.

There is by no means general agreement on the necessity for credit restraints today; but the dominant—and, I believe, irrefutable—view is that credit restraints must be kept until current inflationary pressures have subsided.

The Issue

That narrows the issue down to the controversy of *general* credit restraints versus selective credit controls; or of general monetary or *quantitative* controls versus selective *qualitative* controls.

Only the use of stock market credit is currently under qualitative control. Stock market margins are being administered by the Federal Reserve Board Those interested in mortgage credit like to create the impression that housing credit is also subject to direct controls. It is true that Federal agencies have the right to prescribe the provisions for certain types of mortgages — the VA and FHA mortgage. But it is stretching a point to argue that mortgage credit is under direct control just because the Government some time ago withdrew some of the stimulants to housing credit.

This is a rather peculiar upside-down approach that the housing people like to take; but it is only realistic to recognize that this approach is convincing to many members of Congress.

This puts consumer credit on the spot. Although it is sometimes argued that instalment credit is the "poor man's money," this is not a particularly effective political argument in its favor. Actually, this argument is frequently used to make out a case *for* consumer credit control because it is being used to demonstrate that instalment curbs may be needed to save the individual from his own buying excesses.

This discussion conveniently overlooks that users of instalment credit thus far have been quite capable of determining their own feasible "repayment loads" and that this has proved an effective way of limiting the use of such credit; by far preferable to the enforcement of arbitrary controls. Even during past recessions, delinquency of payments records and loss experiences have been favorable.

It is true, of course, that the sharp postwar expansion in consumer credit has not yet undergone a real test of adversity. It seems a bit unrealistic to go all the way in minimizing the possible impact of instalment credit during recessions when potential buyers who are burdened with repayment obligations are being taken out of the market. That factor may indeed operate only for short periods since the average maturity of outstanding debt is "less than nine months." But such a brief period actually may be a very crucial one in the development of economic trends.

Over-Stating One's Case

There is always a danger in over-stating one's case. It seems to me quite obvious that the *opponents* of unrestricted consumer credit are guilty of this. However, the *defenders* of consumer credit at times seem guilty of the same offense. Although the pros quite readily admit that there still are many facets of consumer credit about which we do not have sufficient knowledge for final judgments, at times they are trying to get too much mileage out of some partial facts and to wrap up the whole package of the pro-arguments a bit too neatly.

On the other hand, it seems that some of the strongest arguments in their favor often are underplayed.

Nothing can be more effective in bringing the whole subject of consumer credit into proper perspective than—its volume. To be sure, instalment credit now totals just over $30 billion. That is a substantial amount even in an economy whose total debt load now is approximately $700 billion, public and private debts put together.

However, far more important than the size of the debt is its rate of increase. In 1954, total debt expanded $21 billion. In 1955, the increase jumped to $51 billion.

Consumer Credit in 1955 and 1956

Consumer credit, in 1955, contributed only a little more than 10% to the total rise in debt. Corporate credit and mortgage credit posed the real problems in 1955. And they kept this key role in

*An address by Dr. Luedicke before the Indiana Consumer Finance Association, Indianapolis, Nov. 28, 1956.

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1956. When all the 1956 returns are in, it will be seen that the total increase in debt — despite credit restraints all through the year—was not appreciably smaller than in 1955. At any rate, the rate in mortgage credit this year will turn out almost as high as the $15 billion jump in 1955.

Consumer credit, on the other hand, showed a much smaller increase this year than in 1955. For the first ten months of the year, instalment credit was up only $1.5 billion and total consumer credit only $0.9 billion.

There is an important lesson in these figures:

(1) It takes more than the availability of relatively cheap consumer credit to sell merchandise, particularly automobiles. There is still truth in the old adage that you can lead a horse to water but you can't make it drink. And

(2) It is slightly nonsensical to look upon consumer credit as the tail that wags the dog. Consumer credit is the tail all right; but total debt is the dog that wags it.

It may not be very diplomatic to say this, but I am strongly impressed by the fact that you—as a group—do not really rate all the attention you are getting. Actually, I cannot help but feel that you are being used as a "red herring" to direct attention away from other, far more urgent problems of credit control.

The debt problem, from the standpoint of over-all economy, would be exactly the same today, even if nobody had invented consumer credit.

Danger of Standby Controls

Unfortunately, this is not the type of defense that will make many converts as far as the regulation of consumer credit is concerned. It sounds so very reasonable merely to ask for standby controls over consumer credit. Why should anybody object to such a mechanism if it is to be activated only to prevent the expansion of purchasing power when this would threaten to set new inflationary forces into motion?

Yet, there is good reason to object to the imposition of standby controls because it would be all to easy and tempting to utilize the regulation of consumer credit for general economic policy purposes beyond the fight on inflation.

The temptation would be strong to force installment credit control into a powerful contra-cyclical role in the economy.

It could easily be argued that consumer credit should be discouraged when the economy is booming, but should be encouraged when things are slow.

This theory is based on the familiar — but fallacious — view that consumer credit control can be used to influence the postponement of durable goods demand until a time in a cycle when it might prove a sustaining force, instead of an added pressure.

Today, with our mass production industries closely geared to installment credit sales, this kind of contra-cyclical manipulation looks like a pretty hazardous gamble.

Going even beyond such contra-cyclical use of consumer credit control, it has also been suggested to use it to influence secular industry growth rates. This is by far the most obnoxious of the various techniques of control which I have seen suggested as possible through instalment credit regulation.

The idea behind this scheme is roughly that controls could be geared to sustainable rates of production and sales in key sectors of the economy, like automobiles and other durable consumer goods.

In practice, control of this kind would probably have held automobile production and sales last year to significantly lower levels than were attained.

One Step From Total Control

This approach would involve Governmental regulation of the rate of growth of key industrial sectors. Whereas the other approaches, by and large, aim at keeping purchasing power within the limits of produced supplies, this technique would turn on setting limits on production. This clearly shows that instalment credit control of this type would be only one step removed from outright production control.

It is quite obvious that President Eisenhower did not have anything like this in mind when he asked, in his Economic Report of last January, for a Federal Reserve Board study of the desirability of standby consumer credit controls.

The danger is that one could never be sure as to what a subsequent Administration might do with such standby controls. That is perhaps the most important reason why the principal of such standby controls should be opposed strongly.

It is one thing to *recognize* both the significant cyclical and secular role of consumer credit in the economy. But it is an entirely different matter to *control* it with a view toward attaining specific anticyclical or secular goals.

Thus, it seems to me that a strong case can be made against the desirability of any consumer credit control, even in the form of allegedly harmless standby controls.

Another Argument

The case *against* consumer credit control — as well as against the whole principle of selective credit control—can be made through the use of still another approach; a more or less historical one.

In the early postwar period there was considerable discussion about the desirability and need of carrying over selective consumer credit controls for permanent peacetime use. The argument for qualitative controls at that time was based largely on the fact that huge bank holdings of Government bonds plus the Treasury policy of supporting the Government bond market at an arbitrary level made general monetary controls impossible. Today, with the Treasury no longer running the Federal Reserve and bank liquidity considerably reduced because of large-scale switching from Government bonds into loans, the case for quantitative credit controls is quite different and the need for qualitative controls therefore less strong.

There still remains the problem of an uneven impact of general credit controls on various sectors of the credit structure. This is a pretty tricky issue. Tight money has shown a tendency to reflect itself somewhat less in credit terms to instalment buyers than, for instance, in mortgage lending, but the different impact, probably, is largely due to the different magnitudes of these two credit sectors.

Last year, sales finance companies which accounted for the largest single share of net new lending to consumers, were responsible for $2.5 billion of the $5.5 billion expansion in instalment paper. But the finance companies borrowed $1.5 billion from the commercial banks to carry the increase in their operations. The result was that the commercial banks, both directly and through this indirect route, actually financed better than half of the increase in the consumer debt during the year.

An expansion of this kind adds to the money supply and to inflationary pressures.

Reviews 1955

It would not be desirable in a period when, as at present, inflationary pressures are considerable. It must not be overlooked, however, that in 1955 the general economic climate was quite different. At that time, we needed a lift and consumer credit helped to give it to us by enabling the automobile industry to have a banner year.

But it would be putting the cart before the horse to say that consumer credit was alone responsible for that development. Without the success of the 1955 automobile models, there would have been no such bulge in consumer credit. Hard selling was another.

The current year brought an almost automatic correction of the 1955 pattern. Since the automobile industry now seems to work within a two year model cycle, a continuation of the 1955 rate of expansion in automobile instalment paper during the current year would have been something to worry about.

It would have represented excessive stimulation of consumer buying and might have seriously upset the auto production pattern.

Fortunately, this did not occur and this happy experience, I believe, did more to justify uncontrolled consumer credit and to clarify its function than most of the things that, over the years, have been written in defense of it.

It is regrettable, of course, that we still have not developed any true yardstick to measure at what point consumer credit becomes "excessive."

No True Yardstick

I doubt very much that we'll ever find such a yardstick. The relationship of consumer credit to disposable income is rather meaningless; nor is its ratio to discretionary income much more helpful. One of our friends has come up with a formula, based on his observations, that whenever new instalment credit exceeds repayments by more than 2%, the red flag should be hoisted. Others are trying to develop a formula for the projection of domestic automobile sales and hence of retail instalment paper based on the number of families who pay off their automobile debt in any given year plus an allowance for the continuing upward shift in family income. These observers are currently placing domestic auto sales for 1956 at 6,500,000, with a possibility that they may reach 6,800,000 cars.

Much useful work is being done in exploring the complex nature of consumer credit. Everybody working in this field can rattle off at least half a dozen additional research projects that should be undertaken. No doubt, that is the sound way of going about it. Nevertheless, sometimes I cannot help but feel that we may be unnecessarily complicating a problem which is basically quite simple and not nearly as complex as its involvement in various phases of postwar credit policy would seem to indicate.

Forming Langley Co. In Miami, Fla.

MIAMI, Fla.—Langley & Company, Inc. is being formed with offices in the Alfred I. du Pont Building. Officers are George J. Langley, President; P. A. Langley, Secretary-Treasurer; and M. J. Melrose, Vice-President. Mr. Langley is President of Langley-Howard, Inc. of Pittsburgh.

Form Secs. Distributors

Securities Distributors, Inc. has been formed with offices at 37 Wall Street, New York City, to engage in a securities business. Officers are Ralph Wertz, President; Thelma Wertz, Vice-President and Treasurer; and Abraham D. Cohen, Secretary. Mr. Wertz was formerly with A. J. Grayson Co., Inc.

NEVER SAY DIE!

So you're giving up 'cause you're growing old,
Your eyes are dim and you feel the cold,
You lack the vim you used to brag,
Your shoulders slump and your footsteps drag!
But before you give up and quit the fight,
Are you sure, old man, that you're doing right?
Just think of the years you've struggled and fought
To acquire the skills with which you've wrought
The fabric of your life, your place in the sun,
Are you going to quit — and the race not won?
What of the *know-how* stored up in your mind,
The *experience* gained through toil and grind,
The *will* to hold yourself to the task,
To *finish the job* though you faint at the last!
What fledgling can offer what *you* have to give?
To acquire *your* gifts, a man has to *live!*

—W. G. L.

This announcement is not an offer of securities for sale or a solicitation of an offer to buy securities.

New Issue December 13, 1956

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Investment Banker's Role In Financing Small Business

By JAMES SHOEMAKER*
Partner, Schwabacher & Co., San Francisco, Calif.

Proposing establishment of some type of investment vehicle in which small business risks could be spread and thus financed at reasonable cost, West Coast investment banker explains why small business financing is difficult and expensive to entrepreneurs, and costly and time-consuming to the investment banker. Mr. Shoemaker points out a special kind of investor is required; "lock-up" activities are an investment banking function; and calls attention to unfortunate prejudice among bankers against stocks selling at less than $5. Recommends study of problem relative to small business financing, but doubts easy capital will prevent failures.

First of all, let's consider for a moment the fundamentals of investment banking, for a good deal of confusion exists about this function. There is a failure to distinguish between investment *per se* and this mechanism investment banking, which serves investors.

James W. Shoemaker

We in this business operate the mechanism, we are not investors, except involuntarily at times when markets disintegrate and we find ourselves with blocks of securities we cannot sell. Rather, we are merchants of stocks and bonds which our professional judgment and our individual standard of quality lead us to believe we can sell to our particular segment of the investing public. It should be kept in mind that firms and their customers differ radically—some sell only ultra conservative securities to conservative clients, some deal only in speculative issues.

Investment banking firms have a certain capital, some of which they commit in the underwriting of new issues of securities. The object is to keep this capital liquid, to dispose of these underwritings quickly, discharge the liability and commit the firm's capital to the next venture. Like any other business, investment banking is primarily concerned with the rapid, profitable turnover of its capital funds.

"Lock Up" Activities

Now someone will challenge this assertion and will cite the so-called "lock up" activities of several large investment banking houses. A "lock up" means the purchase of a company or properties to be held for a comparatively long period of time, maybe six months, a year, or even longer, before such assets are sold.

The profit may be large and may consist of actual enhancement in values of the total package or it may be represented by some remainder, the residue left after other assets have been sold and the original investment recovered.

Actually, a "lock up" is only an extension of the investment banking function. The banking house is willing to accept the risk of a long holding period in the hope of substantially larger gains than might be realized in its regular operation. One important factor must be present—the banking house must have excess capital that can be virtually frozen for a time and a capital ability to cushion any loss that might result from the venture. Some of us, as a matter of policy, feel that our customers are better served by more conventional operations, and the vast majority of investment banking houses simply do not have that kind of money.

For most of us liquidity of capital is an essential and such liquidity is as important to our customers as it is to us. People buy securities for two principal reasons — for capital gain and for income. Both reasons may dictate purchase but there is one other inducement in most purchases — and that is liquidity—the ability to reverse a wrong decision, a mistake in judgment, to act quickly on an unforeseen event that nullifies past judgments.

With these rather sketchy considerations in mind, let's see what happens when a man with an idea —or one with a struggling business—sets about financing his enterprise.

Success and Lack of Capital

I think over the years I have had about every conceivable proposal put up to me—the men with wonderful ideas and no money . . . A chap who wanted $2,500 to finance a reconditioning plant for TV tubes — cost to recondition about $1.37—cost to the consumer about $15. I really think this one would have been profitable. A man with some revolutionary ideas for the manufacture of automobiles—he said the Patent Office told him some of these ideas violated the laws of physics. So he spent about $100,000 building a prototype — drove the machine from California to the steps of the Patent Office in Washington. A man who wanted to secure $5 million for a company with small earnings and a net worth of perhaps $200,000. All it needed was several million spent on advertising—plus the really legitimate requests for capital.

As respects the legitimate requests. What usually happens is this. A company starts with a capital of a few thousand dollars and it grows. If it is successful, borrowing power is soon exhausted, as are the resources of the entrepreneurs, and perhaps their relatives and friends. Money is needed for plant expansion, for new machinery, for working capital — perhaps only for working capital but whatever the need, it is acute. Often nothing can handicap a company financially like success. So the proprietor goes to the investment banker for relief.

Now it frequently happens that the proprietor of this business is ignorant of the banker's function. I think that all too often there is a mistaken idea that the investment banker represents a well of risk capital — that he operates somewhat like a bank . . . he examines your credit and your prospects and if he is satisfied with what he sees, he puts up the money that you need as equity—just as the commercial banker after a similar examination makes a loan.

When the investment banker refuses to invest in stock of the enterprise, the proprietor is sometimes hurt and angry. He forgets, or does not know, that the investment banker's source of funds is the public . . . the savings, the accumulations of wealth that are owned by investors. The investment banker's function is to siphon those funds into industry, into investment, and in so doing he cannot immobilize his own capital.

Difficulties Present in Small Loans

The proprietor of this business is asking for a relatively small amount of money—and he cannot see why this modest request should create a problem—I mean by that, anything from $25,000 to $500,000. Unfortunately, this $25,000-$500,000 bracket is a no-man's land of finance — it's the area where capital is most difficult to raise, for several reasons. The cost of examination and underwriting are proportionately excessive, the risks are generally large, and capital once committed to one of these enterprises is almost impossible to withdraw—it is frozen as solidly as Little America.

It is also true that while risks are large in modest enterprises, the rewards can be immense. Probably all of us can think of examples where a few thousand dollars invested in a local company could have been multiplied many times. One company I know started with a capital of $5,000. There were four partners, two with the "know how and the ideas." Quarter interests are today worth some $6,700,000 each. I know another company where a man put in $5,000 about four years ago—his fractional interest was bought by the company for $100,000 two years later and is worth several times that today.

On the other hand, I know another company where a man put in some $200,000 a year ago and it's doubtful he could salvage a fraction of that sum for his interest today. Salaries alone ate up a good deal of this. So it goes —the rewards can be great in a small concern—and the losses can be substantial too.

Needs Special Kind of Investor

From all this it can be seen that the average small business requires a special kind of investor —a man willing and able to assume great risks, one who can afford to lose that part of his capital which he invests in such an enterprise, perhaps even get some tax advantage from such a loss . . . usually a wealthy individual.

These businesses when they start are not for the general public, or so we may mistakenly think. First of all, there is no income from the investment, or there should be none. If the company is at all successful, it will require all of the cash it can generate to increase its own business so dividends are out of the question. The individual who can afford to make an investment such as this—one who can afford to accept these speculative risks —is not concerned with immediate returns. Income, that is, cash income, only puts him in a higher tax bracket and he is able to retain only a few cents out of every dollar he receives in dividends. He makes this investment for one purpose only—capital gains—and appreciation. That is the sole inducement for the money risk.

One other factor I have mentioned enters into this investment —that is the ability to freeze a certain proportion of one's capital for an extensive period. If the money is invested in stock or notes of the company, some other buyer must be found for it and such buyers are hard to find. Let's take the case of the company that needs $100,000 or $200,000.

Prejudice Against Low Priced Stocks

Unfortunately, there is a native prejudice among investment bankers against stocks that sell for, roughly under $5, and particularly against those that sell for $1 or less. This, of course, rises from the fact that the gold, the uranium, the Canadian oil stock have usually been sold to the public in these price ranges and far too often these have been outright fraudulent promotions, so the stigma of shady dealing has attached to stocks marketed in this price bracket.

This is unfortunate as it does rob the honest entrepreneur of a source of capital. I know of a company in one of our Western cities, a very respectable company with a good record of dividends and earnings, whose stock sells for 80c and 90c. You may be able to risk $10,000 on a venture and if you lose you are not hurt. I may be just as willing and just as able to risk a few hundred dollars and the loss will not hurt me. And I might welcome this chance to risk my money.

Now if these small sources of capital could be tapped—and the $100,000 or $200,000 diffused among a fair number of holders, one of the objections to this type of investment would be overcome in some measure, that is, the market objection. However, if this ever comes to pass, the burden on the investment banker will be substantially increased because he must be doubly sure that the investor understands thoroughly the considerable risks involved.

Amazingly enough, people enter into the most hazardous capital undertakings with little thought, less caution, and no knowledge whatever of the risk they assume. The millions of dollars lost over the telephone to high pressure promoters of this, that, or the other is ample evidence of this— and a more lasting memorial is to be found in Scudder's Manual of Obsolete Securities—so far a dozen, fat volumes, and still growing, as uranium ventures and small manufacturing companies fail and investors discover that oil is elusive and the country refuses to accept free coinage of gold.

Time and Profit Involved

One other factor is important . . . perhaps of paramount importance in this small business financing—that is the time and profit involved, the investment banker's time and his potential on these transactions.

We try to give a sympathetic hearing and I'm sure others in our business do the same to all those who seek capital, whether the amount involved is large or small, but the time spent may well be about the same for a man seeking $100,000 as for one seeking many times that sum. Of course, in the light of experience, I would be the first to admit that the investment banker's time—at least in the public view—is the most worthless commodity in the world, exceeded only by the valueless advice he gives. People who consult lawyers, physicians, psychiatrists, dance instructors, reducing salons, and spiritualists expect to pay a fee, but consultation with an investment banker is as freely available as the virtue of a Polynesian maiden.

So the banker spends all of his time and tries to place this small issue with a few of his customers. He must investigate, perhaps employ an expert—what does he know about the market for variable inductors, or midget mica widgets? The investigation takes a good deal of time because the banker not only starts from scratch in any knowledge of the product and its market, but he also starts from scratch in any knowledge of the people who make up this company. It is far simpler to find out about the old established large company with a reputation of one sort or another than this small one.

Now he has completed his investigation. Let's say the amount involved is $100,000. He scurries around among his wealthy clients and tries to find some who are interested in putting $100,000 in this business. If he is successful his fee may be 5% or 10% or at most 15% of the money involved, and this may be in cash or in stock in the enterprise. He may pay his salesmen a large proportion of this fee, and after his overhead and if he has the effrontery to place some value on his own time he has probably done this job at a loss and frozen some of the capital funds of his customers for a long time to come—or forever. And one more point . . . no matter how willing and able his customers are to invest in this sort of thing, if the enterprise fails to live up to the banker's expectations, he has created a problem and perhaps lost a customer.

Offers Possible Solution

These are some of the reasons that financing the small business enterprise is so difficult and consequently, expensive to the owners of such businesses. It has seemed to me that our business has shown little imagination in meeting this challenge.

There should, I think, be some vehicle through which the risks of these enterprises could be spread . . . some medium of sufficient size to warrant large scale public financing at a reasonable price—a medium for investment in many such ventures. Something of this sort has been tried with some success by individuals, but with little success on a large scale public basis. Perhaps it isn't a feasible idea, but it is an intriguing one.

Sources of Funds

Now where can the small business secure capital? The cheapest money is bank borrowing when it is available—there is no fee but the interest which, of course, accrues and comes due with inexorable regularity. The next best source of funds are the friends of the entrepreneur—those who know him, perhaps have an intimate acquaintance with the potentials in this business, and so have a familiarity with the project and its proprietors that others can gain only after considerable study.

Next come outside funds, the investment banker. The banker is likely to suggest some form of security that can be repaid—to be accompanied by some form of common stock participation. The object here is, of course, to create a medium that permits return of the investment, one which does not entirely freeze the holder's funds—or freezes them temporarily, and as compensation for tying up this money, for the risks, for the denial of the use of this capital—the investor will ask a participation in the equity. Keep in mind that a rate of return on a subordinated note, a preferred stock, or whatever it may be is no compensation whatever for the money involved. The investor can buy American Telephone stock and get almost 5.5%. He can sell Telephone any business day and get his money—more or less than he put into it but he can get cash and get cash quickly. He cannot sell the securities of this company. So it takes more than an interest rate or a dividend rate to induce purchase. The chance for capital gains—the equity part of this investment, is actually the sole motivating influence for such a commitment.

Forms of Equity Participation

The equity participation may take many forms. It might be a straight conversion, although this is unlikely as a conversion defeats the objective of the repayment of funds. It may be a straight common stock bonus—it may be a warrant to buy shares of common at some mutually agreed price. This last is the most likely, and it can be accompanied and often is with a warrant or option to the management to buy stock at a similar price. This last provision enables management to retain its control. He is in no posi-

*An address by Mr. Shoemaker before the Harvard Business School Club of Northern California, San Francisco, Calif.

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tion to manufacture midget mica widgets and he does not want to be compelled to do so. He will, however, ask for representation on the Board of Directors — he wants to have a voice in how his money and that of his associates is being spent—he wants to have some say about company policy. The investors in an enterprise such as the one we are discussing obviously are men of means — they probably have had a successful business experience, their contribution in advice can be of material help to the Board.

Company managements frequently think that the demands of the investment banker are exorbitant — they think that the company they have worked to build is being taken away from them. As a practical matter, the participation of others in the management and control can well mean a substantial gain for the founders. I recall a company that came to us many years ago. I don't recall the net worth but it probably was not over a hunderd thousand dollars. All of the capital stock was owned by one individual. Over the years we have done two or three small financing jobs for this company, placing its stock with a selected group. The original owner's share of the common stock has been reduced from 100% to perhaps 20%, but his personal net worth has increased from $100,000 to a million dollars or thereabouts. He has prospered and so have the individuals who invested with him.

Another extreme is the management which attempts to hold its control with no investment in the business. I have in mind a company whose capitalization consists of a preferred stock and a common stock. The preferred was sold to the public. This preferred is entitled to a fixed rate of return and then shares any dividends paid on the common in the ratio of one for one. Whenever a preferred share is sold for $10, the management has the right to buy a share of common for 10 cents. The result is the public has put $200,000 or $300,000 into this enterprise and the management about $2,000 or $3,000. If the management chose to do so, they could walk away with little sacrifice. The preferred is callable at a fixed price, plus one share of common, but only at management's option. Now it's plain that if a capital again is to be made in this situation it will be made only at the option of the management. Earnings participations in themselves are of no value to the investor.

These b a s t a r d capitalizations which we sometimes run across in companies are, of course, devised to attract initial capital, but they have a way of becoming burdensome and embarrassing when the company grows and gets ready for public participation.

Obstacles to Financing

There is no pat answer as to how a new company or a small company can be financed.

The obstacles to such financing from the investment banker's standpoint are numerous and formidable. First of all, the very name 'investment' implies an absence of major risk—a sifting, an appraisal, a careful experienced weighing of the factors affecting investment. The i n v e s t m e n t banker's business is not a promotional business in an aggressive sense.

To the promotor or the proprietor of these enterprises, success is inevitable and risks negligible. Invariably they have the best product or the most unique product on a m a r k e t thirsting for this item. Sometimes it is. The investment banker, however, has seen some companies succeed and he has seen many others fail. His enthusiasm is difficult to kindle, tempered as it is by his experience. He knows the risks in such an undertaking are substantial — his business is to avoid as many risks as he can for there are a multitude of risks he cannot avoid. For these very considerable risks, his immediate cash compensation will be small —plus, perhaps, some equity as partial payment for his services. This stock may reward him handsomely some distant day—it may be worthless. If he could charge adequate compensation for his services, his charges would be so large a percentage of the money involved as to constitute an extremely exorbitant fee.

As a result of all these considerations, the investment banker is highly selective, and it is no reflection on his judgment that he rejects projects which are ultimately huge successes. So we come down to this problem of inducing venture capital to venture forth — and to venture forth at some reasonable cost. I doubt that the problem will ever be solved, and perhaps it is best that it remain unsolved although it does deserve more study than it has received. If capital was easy to secure and low in cost, failures would probably multiply geometrically. The financial struggle is, after all, a part of the overall battle to establish a new business and can be as equally rewarding in experience a n d i n maintaining control.

Present day social thinking and modern education tend to eliminate struggle and discipline and so soften the impact of this cruel and interesting world. I'm enough of a reactionary to believe that discipline has value and that struggle stimulates ingenuity—perhaps financial ingenuity.

Form Stratford Secs.

Stratford Securities Co., Inc. has been formed with offices at 225 West 57th Street, New York City, to engage in a securities business. Officers are Samuel P. Lewis, President; Joseph Schwartz, Vice-President; and P. E. Lewis, Secretary. Mr. Lewis was formerly with L. D. Friedman & Co., Inc., and Benjamin Zwang & Co.

. . because they went to their doctors in time

Many thousands of Americans are being cured of cancer every year. More and more people are going to their doctors *in time.*

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For the facts of *life* about cancer, call the American Cancer Society office nearest you or write to "Cancer" in care of your local Post Office.

American Cancer Society

Champion Elected President of Chase Manhattan; Rockefeller Becomes Board's Vice-Chairman

Important changes in the senior management of The Chase Manhattan Bank were made at a meeting of the bank's board of directors yesterday (Wednesday, Dec. 12). John J. McCloy, Chairman of the bank, announced that George Champion, Execu-


John J. McCloy


George Champion


David Rockefeller


J. Stewart Baker

tive Vice-President, was elected President, and David Rockefeller, Executive Vice-President, was named Vice-Chairman of the Board, both of them to take office on Jan. 1, 1957. Both Mr. Champion and Mr. Rockefeller were appointed members of the bank's board of directors effective immediately.

Mr. McCloy said that J. Stewart Baker, who has been serving as Chairman of the Executive Committee and President, has for some time wished to relinquish the duties associated with the presidency of the bank in order that a younger man might fill that position. He will, however, continue as Chairman of the Executive Committee. He and Mr. McCloy will continue as the chief executive officers of the bank.

David Rockefeller will replace his brother, Laurence Rockefeller, on the board and Mr. Champion will take the place of Percy J. Ebbott, former president and later vice-chairman of the bank, who retired last summer after 43 years of service. The board thus will continue with its maximum membership of 25 directors.

In announcing the changes, Mr. McCloy said, "As one of the management members on the board Mr. Ebbott has offered to step aside in order that younger men in the management group might take an active part as directors. We are pleased that he will continue to attend board meetings and to participate in its deliberations as Chairman of our Trust Advisory Board."

Mr. Champion, who joined the bank's staff as an officer in 1929, has been in charge of the United States department, the bank's national territorial organization, and is one of the bank's senior lending officers. He is a member of the Association of Reserve City Bankers and a director of the Travelers Insurance Companies.

Mr. Rockefeller is in charge of the bank development department, with responsibility for the administrative and planning functions of the bank as a whole. He joined the bank's foreign department ten years ago as an Assistant Manager and was Supervisor of the bank's business in Latin America before assuming a senior executive post. Under his direction the bank opened several branches in Cuba, Puerto Rico and Panama. From 1952 until 1955 he was a Senior Vice-President in charge of the metropolitan department including the New York City branches. He is affiliated with many philanthropic, educational and business interests.

First Boston Elects Seven Vice-Presidents

The First Boston Corporation has elected seven vice-presidents at its New York office, 100 Broadway, according to an announcement by George D. Woods, Chairman.

The new vice-presidents are: Fred G. Bentien of the Sales Department; Lewis R. Bulkley of the Trading Department; William R. Caldwell of the Syndicate Department; Charles E. Halcomb of the Trading Department; John S. Malick, head of the Investment Research Department; Philip V. Mohan of the Government Bond Department; and Victor W. Mori, in the Sales Department.

Mr. Bentien came to First Boston in 1929. Mr. Bulkley joined the firm in 1942; Mr. Caldwell joined First Boston in 1934; Mr. Malick was formerly a vice-president o fthe Fidelity-Philadelphia Trust Company.

Arthur Combe V.-P. of Aubrey G. Lanston Co.

Aubrey G. Lanston & Co., Inc., 15 Broad Street, New York City, announced that Arthur J. Combe has been elected a Vice-President of the firm. Mr. Combe has been associated with the firm since 1954 prior to which he was with the Guaranty Trust Company of New York.

Rotan, Mosle Co. To Admit J. H. Nealy

HOUSTON, Texas — On Jan. 2 Jess H. Nealy, Jr. will become a partner in Rotan, Mosle & Co., Bank of the Southwest Building, members of the New York Stock Exchange.

With Walston Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Edward L. Nilsen has become connected with Walston & Co., Inc., 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

Dean Witter Adds

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, Calif. — Mebus Bartling has been added to the staff of Dean Witter & Co., 34 North First Street.

This announcement appears as a matter of record only and is neither an offer to sell nor a solicitation of offers to buy any of this Stock.

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THE MARKET . . . AND YOU

By WALLACE STREETE

The inevitable profit-taking set in on the stock market this week, an eminently logical development after a week that produced the sharpest jump in the industrial average in a dozen and a half years.

Aircrafts and Steels Resilient

Aircrafts and steels were rather prominent on their ability to shrug off the realizing and snap back where slight inroads were made at times. The fact that the long-pending union of Bethlehem Steel and Youngstown Sheet was being pushed by the companies to force the anti-trust division to get it into the courts for a definite ruling helped keep interest alive in the ferrous issues. The aircrafts were able to capture investor interest mostly on the assurance that their business will continue at high levels despite soft spots elsewhere in the economy.

Year-end Tax Considerations Pervade

There were indications that not all of the tax selling had been cleaned up yet. In fact the evidence would tend to show that some of it was deferred with the market's strong rally last week to see how much of the losses could be minimized in the rebound. And the issues that were definitely laggard continued to sag under the weight of liquidation that resumed when it became apparent they weren't going to benefit from the strength elsewhere.

* * *

All in all, it made for many divergent moves and for thin markets in some of the less active issues. The debates over tight money were pretty much ignored by the market, particularly since it seemed fairly set not only that the advocates of tight reins on credit were going to stand their ground, but also that they would pull up another notch if credit expansion didn't start to slow down.

Rails were downright stubborn in their refusal to get going despite recurrent talks of their freight rate rise authorization being imminent. As has been the case for months, the occasional one-day sprees marketwise by the carriers simmered down rather rapidly and were still largely one-day phenomena.

Westinghouse—A Bargain?

There was some bargain searching through the list and such buying apparently was "good" buying, i.e. for the long pull rather than a fast turn. This was concentrated mostly on issues that have had long, private bear markets of their own. One such, Westinghouse Electric, reached $80 last year and the year before. This year its profits were clipped hard by the long strike in earlier months. But the stock has shown little recovery, hovering in the mid-50's and with a peak this year of only around $65.

* * *

Admittedly Westinghouse will offer a dreary report for this year but the tide seems to have turned and earnings could snap back markedly next year. One of the heavy charges against this year's earnings is that for the special promotion the company incurred to win back its markets after the strike shutdown.

* * *

Then there were special situations like Air Reduction where conversion of preferred into common shares both kept improved operating results understated statistically and the conversions, themselves, helped to weigh on the stock.

* * *

The bulk of the conversions have taken place now and the dilution of the common is approaching an end for Air Reduction. Despite the weight the company has been able to up its dividend rate modestly both last year and late this summer. The highly cyclical business has also been leveled out by stepping up the use of acetylene to make synthetic products including a plant of its own to utilize the gas for chemical manufacture. By upgrading its principal product, Air Reduction has succeeded in lifting profit margins sharply, with the prospect of doubling the margin next year over what it was two years ago.

Sleepers Attract Interest

Still another category that was in some favor at times were issues, like Anchor Hocking Glass, which have largely sat out the enthusiasm that affected other groups in the market. Anchor's low times-earnings basis, less than nine-times-earnings in fact, and its comfortable yield of around 5½% makes it, at least statistically, behind the market.

* * *

Anchor has done little in recent years, in fact has had an unusually placid market life since its split, half a dozen years ago. Its range this year has only been about what it was in 1955 and 1954, only a little better than a 10-point swing. And lately it has been far closer to the low figure than it has been poised for any assault on new peaks.

* * *

There was little interest in the stores issues since the Christmas buying has been, if anything, a little tardy although it is still too early for retail trade experts to definitely mark it down as a disappointing season. The various retail trade measurements were being watched carefully, however, and the first good news from this source could bring the store stocks into their seasonal popularity.

Uncertainty Over Suez

Despite some definite easing of tensions in the Suez situation, the issues involved were still given to uncertain action. Part of it was due to a continuing debate over whether the domestic ship building issues would get the most largesse from the tanker shortage, or whether the Middle East situation would clear up speedily enough so that the international oils like Royal Dutch and Gulf would snap back and be the better market performers. Neither group made much overall progress lately nor, on the other hand, were they unusually heavy when the going was rough.

* * *

The stimulus the domestic oils had derived from a shutdown of Middle East oil operations seemed to have run its course and except where special conditions warranted, the oils were given mostly to stalling around.

Motors Resting

Motors were also waiting on something more definite to come along. So far the acceptance of the new models has seemed to be fairly good and Chrysler, whose new cars seemed to be clicking, was the issue showing the better occasional market action. Chrysler has had rougher market action than the other of the Big Three leaving more room for a rebound if the new model year lives up to predictions.

* * *

Machine tool issues were anything but pace-setters although most 1957 forecasts point to good business throughout the year. Cincinnati Milling Machine officials predict without any hesitation that operations at capacity are due throughout 1957 by this, the largest maker of machine tools. So far the tight money policies have failed to put any great damper on business expansion programs and this, together with the projected increasing pace of business activity, is spelled out not only in good business next year for Cincinnati but for several years ahead.

[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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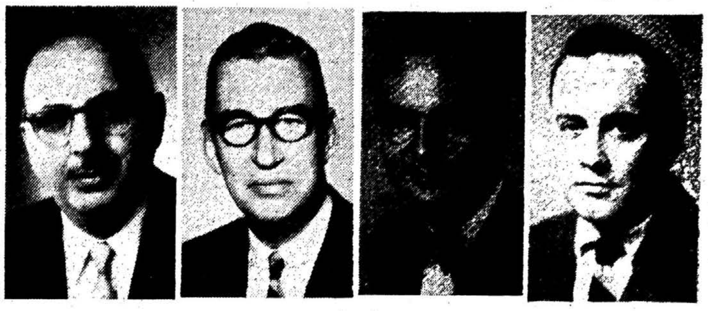
NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

Nathan A. Krumholz, of Siegel & Co., has been elected President of the Security Traders Association of New York, Inc. for 1957. Mr. Krumholz succeeds Edward J. Kelly, of Carl M. Loeb, Rhoades & Co.

John J. McLaughlin, of McLaughlin, Cryan & Co., was named First Vice-President of the security traders group; Bernard J. Conlin, of P. F. Fox & Co., Second Vice-President; Barney Nieman,



Nathan A. Krumholz John J. McLaughlin Daniel G. Mullin Bernard J. Conlon

of Carl Marks & Co., Inc., Secretary, and Daniel J. Mullin, of Tucker, Anthony & R. L. Day Co., Treasurer.

Elected to serve as directors of the association for two-year terms were John S. Barker, of Lee Higginson Corp.; Stanley E. Dawson-Smith, of Cruttenden & Co.; Sidney Jacobs, of Sidney Jacobs & Co., and Elbridge H. Smith, of Stryker & Brown. Edwin J. Markham, of Wertheim & Co., and James V. Torpie, of Torpie & Saltzman, were appointed trustees of the Gratuity Fund for a two-year term.

BOND TRADERS CLUB OF CHICAGO

Edward A. Roob, Salomon Bros. & Hutzler, President of the Bond Traders Club of Chicago, announces that the club's annual winter party will be held Monday, Jan. 28, at the Sheraton Hotel, Cocktails at 6 p.m. Dinner at 7 p.m.

Hotel reservations may be made with Charles G. Scheuer, Wm. H. Tegtmeyer & Co; general reservations with John D. Kipp, A. G. Becker & Co. Incorporated. J. A. Marquardt, Wm. A. Fuller & Co., is in charge of optimistic options and Milton J. Isaacs, Straus, Blosser & McDowell, prizes.

STANY TRANSFER TAX FORUM

In view of the many questions of interpretation which have been raised concerning the New York State transfer tax, a special meeting and forum has been arranged by the Security Traders Associtaion of New York for an open airing of this subject, as well as similar Federal tax problems. This will be held Thursday, Dec. 13, 4:30 p.m. at The Bankers Club, 120 Broadway (38th Floor).

Mortimer M. Kassell, Deputy Commissioner and Counsel of the New York State Tax Commission, and Leo A. Diamond, former special assistant to Chief Counsel, U. S. Bureau of Internal Revenue and presently of the faculty of the Practicing Law Institute, have consented to address this forum and answer questions from the floor.

Cashiers, partners, and any other individuals interested in this most important New York State Stamp Tax matter, and other allied tax problems affecting transfers of securities, are invited.

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Reforming Professional Services

By ROGER W. BABSON

Doctors, lawyers, optometrists, dental technicians, real estate agents are asked to reform procedures used so that their simple services can be secured without making an advanced appointment, and at fees less than one dollar, by recognized financial analyst. In the end, Mr. Babson opines, "all the professionals will benefit from such a procedure."

After returning from Florida this spring, I felt I would like some new reading glasses and called up an optometrist. I was told that I could not get an appointment for a month. After waiting a month for an appointment, and then eventually finding a parking space, I had a half hour with him. Thereupon he gave me a prescription for the glasses, which caused me to go to the next village and hunt again for another parking space. Certainly the time is coming when one call will complete such a transaction. Furthermore, there is no more reason why we should have to make an appointment in advance to have our eyes tested than to get a shampoo.

Roger W. Babson

Advance Appointments Unnecessary

During the summer I had trouble with one of my ears. I again was required to wait a week for an appointment. Although the ear doctor felt that the trouble was perhaps due to low blood pressure, he would not take my blood pressure but sent me instead to a local doctor. Again I had to wait a week for an appointment to have my blood pressure taken. I finally was advised to buy a hearing aid of some kind.

I am able to get a manicure without an appointment, but to have a corn cut I must get an advance appointment, and perhaps wait several days! The whole performance seems irrational to me. Doctors are now setting up offices in the same building, but this will not solve my problem. I want to be able to find all these simple personal services in one building, and some day I will be able to do it. And, furthermore, without advance appointment!

Experience With Dentists

For many years I have believed in the importance of having one's teeth cleaned every month, but this could not be done without an advance appointment. When talking to my associate workers of the importance of preventing decay by monthly cleaning, I found they were troubled by the same advance appointment difficulties. Thereupon, I decided to have a dental nurse in my own building to do this work, unattached to any dentist. To my great surprise I found this was against the law and I was obliged to go to the Massachusets Legislature to get a special act to permit it. Yet we are allowed to teach our servants or members of our family to inoculate us with insulin.

Recently I bought a new home through a local real estate agent. Within a few days I had telephone calls from other agents stating that they could get the property for less money. It would seem that in a town the size of Wellesley there could be some central clearing house where all houses for sale could be listed. The difficulty seems to be that people dare not list the house, or even consult two or three agencies, for fear of getting into a conflict as to who should have the commission.

The Legal Graft

In the little town of New Boston, N. H., there is no bank or lawyer, but a very intelligent woman has been helping local people in various ways, including providing forms for very simple wills. She has recently been notified by the attorney of the N. H. Lawyers Association that she will be prosecuted if she continues this. I personally went to see this attorney to plead for her and he said that the law applies not only to her but also to banks, real estate agents, brokers, and all others. I later found that my own local bank, which advertises for Trust Funds, must send you to a lawyer to make the Trust for you to use.

As a result of these experiences, I forecast that simple professional and other special services will some day be obtainable at one central ground-floor "store" under the charge of competent nurses or other trained persons. Certain simple services which we can now get only from doctors, lawyers, optometrists, opticians, dental technicians, chiropodists, manicurists, and real estate agents we will then be able to secure without making an advance appointment, and at fees of less than one dollar. When the nurse or her assistant locates any dangerous symptom, the "customer" will be urged to visit a doctor, dentist, lawyer, or other professional official at once and will make an appointment therefor. In the end, the public and all the professions will benefit from such a procedure.

Arthur Tresch Joins A. E. Masten & Co.

PITTSBURGH, Pa. — Arthur Tresch has become associated with A. E. Masten & Company, First National Bank Building, members of the New York Stock Exchange and other exchanges, as manager of the municipal bond department. Mr. Tresch was formerly with B. J. Van Ingen & Co., Inc., in Chicago.

Now Kimball Secs.

The firm name of Kimball & Co., 40 Exchange Place, New York City, has been changed to Kimball Securities, Inc.

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The Defense of Sterling

By PAUL EINZIG

Well known British economist explains why it is safe to conclude that sterling will be successfully defended against any further pressure in the new year. Dr. Einzig notes: politics has been cast aside in defense of sterling's present parity; fears of political crisis—resulting in a Socialist Government—is now a matter of the past; seasonal uplift in exports should be accentuated in view of Suez crisis causing consumer demand decline, inventory accumulation, and restrained wage demands; and effective Governmental measures undertaken including deferring interest payment on 1946 U. S. A loan.

LONDON, England — Although everybody was prepared for a sharp fall in the British gold reserve during November, the announcement that the amount lost was $279 million came nevertheless as a shock. It even shocked the Opposition into temporary silence, following on the announcement of the figure by Mr. Macmillan in the House of Commons. For once, Party politics were cast aside, and the official spokesman of the Labor Party was almost uncritical in his endorsement of the Government's measures in defense of sterling.

Paul Einzig

A fact that emerged forcefully from the statement and from the brief debate that followed it is that the Government is as determined as ever to defend sterling at its present parity. There is no question of seeking to take the line of least resistance by devaluing sterling. Such a step would doubtless bring temporary relief, for at its lowest level sterling would command more confidence, and foreign sterling balances would be replenished, short positions would be covered, and many deferred sterling payments would be effected. In spite of this, Mr. Macmillan will resist the temptation of solving his problem with a stroke of the pen. Instead, he is going to try to solve it the hard way.

The alternative to devaluation is to restore confidence by means of strengthening both the technical position and the fundamental position. The first aim is sought to be attained by reinforcing the diminished gold and dollar reserves. To that end, the Chancellor intends to use the Treasury's dollar securities for the purpose of raising a dollar credit, and he also intends to draw on the dollar facilities at Britain's disposal at the International Monetary Fund. He also applied to the Washington Administration for consent to defer the payment of interest on the loan of 1946. Between them these measures should go a long way towards increasing the means with which sterling can be defended.

Drain Not to Continue

Of course, if pressure on sterling were to continue at the same rate at which it was going on during November, the above measures would only secure a few months' respite. Fortunately there is no reason to expect the continuation of the drain on the same scale after the turn of the year. By that time the seasonal factor will have turned in favor of sterling. And the chances are that before very long the Suez Canal will be reopened for traffic, so that dollar oil requirements will become reduced to more normal proportions. In any case, as a result of the compliance of the British and French Governments with the United Nations demand to evacuate Egypt, there now appears to be a better chance for obtaining dollar facilities to finance abnormal dollar oil imports.

Unfortunately, the tension in the Middle East and in Europe is likely to continue, or it is likely to revive from time to time. Even so, it is not likely to be as acute as it was in November. It is even possible that, as a natural reaction to the realization that we were at one time on the verge of the third world war, there may be a genuine effort on the part of the opposing camps to improve their relations. As a result, the psychological factor of war fears is likely to affect sterling to a less extent in the near future than it had affected it in the recent past. Moreover, fears of a domestic political crisis as a result of a disagreement within the Conservative Party on the Government's Middle Eastern policy, which might have resulted in the advent of a Socialist Government are now a matter of the past.

Military expenditure is expected to decline as a result of the withdrawal of British troops. In particular expenditure overseas involving the use of foreign exchange will be lower. The release of reservists called up in connection with the Egyptian intervention will also help towards reducing military spending.

Exports to Increase

Much more important from the point of view of the prospects of sterling, however, is the change in the general economic atmosphere. As a result of political and economic uncertainties, consumer demand has declined considerably. In spite of the approach of the Christmas season, retail business is unusually slack. This is bound to lead to the accumulation of inventories, which again will induce industrial firms to put more effort into their export drive. So long as it was very easy to unload everything in the domestic market, most firms were rather half-hearted about their export markets. Hence the long delivery dates and uncompetitive prices. Now that domestic markets have become difficult, there will be large quantities of goods released for export, and producers will do their best to export them.

Even though the improvement of the international situation and the restoration of normal traffic conditions through the Suez Canal may encourage some revival of consumer demand, the economic outlook will remain sufficiently obscure to prevent a revival of the inflationary boom. The motor industry is expected to remain for some time under the influence of petrol rationing and the increase of import duty on petrol. Mr. Macmillan's warning about the possibility of higher income tax in the next budget should go a long way towards preventing a return of the buying fever that has been going on continuously for many years.

Wage Demands Restrained

The situation carries the possibility of a certain amount of unemployment and short-time working, and this itself is sufficient to discourage consumption by employees, which represents a large proportion of domestic consumption. What is even more important, the mere possibility of unemployment is sufficient to discourage excessive wages demands. Amidst prevailing conditions, the trade unions are not likely to press their claims too much. Most of them will be prepared to accept a relatively moderate rise. Had it not been for the difficulties caused by the Suez crisis, they would have held out for maximum demands, and would have been willing to face major strikes if employers had refused to concede their claims.

In any event, Mr. Macmillan foreshadowed a further reinforcement of the credit squeeze, should this prove to be necessary. In reality, in the changed situation there is every likelihood of a decline in the volume of credit through voluntary repayments as and when the inventories are liquidated and not replaced by repeat orders. The decline in consumer demand means a fall in imports of consumer goods. Together with the improvement of export prospects, this should accentuate the seasonal improvement of the balance of payments during the early months of 1957.

Taking everything into consideration it seems safe to conclude that Mr. Macmillan will be able to defend sterling against any further pressure in the new year. Apart altogether from the reinforcement of the gold reserve with the aid of dollar credits, it is likely to recover appreciably through the replenishment of sterling holdings and the improvement of the balance of payments.

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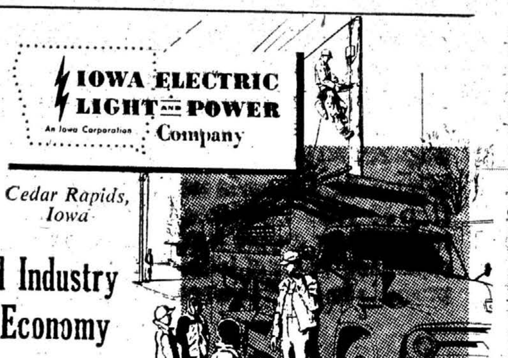

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NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

A resolution recommending to stockholders an increase in the capital stock of **Guaranty Trust Company of New York** from $100,000,000 to $120,000,000 through payment of a stock dividend at the rate of one share for each five shares held was adopted at a meeting of the company's board of directors on Dec. 5. Approval of the proposal would increase the company's capital stock from the present 5,000,000 shares of $20 par value each to 6,000,000 shares of the same par value. Guaranty directors at the same meeting declared a quarterly dividend of 80 cents a share on the capital stock of the company for the quarter ending Dec. 31, 1956, and an extra dividend of 80 cents a share, both payable on Jan. 15, next, to stockholders of record at the close of business Dec. 14, 1956. The result of this action is that dividends totaling $4 per share have been declared during the year 1956.

* * *

The appointment of Homer W. Lynch as a Trust Officer of **Manufacturers Trust Company of New York**, was announced by Horace C. Flanigan, Chairman of the Board, on Dec. 6. Mr. Lynch attended the University of Delaware and received his Bachelor of Laws degree from the University of Virginia. He practiced law in New York City for 25 years; he was formerly a partner of the law firm of Van Vorst, Siegel and Smith. He joined Manufacturers Trust Company in January 1956 and at present is assigned to the personal trust department, located at the bank's main office, 55 Broad Street.

* * *

The First National City Bank of New York announced on Dec. 12 the appointment of five Assistant Vice-Presidents, one Assistant Cashier and two Assistant Managers. The appointments are as follows:

From Assistant Cashier to Assistant Vice-President: Albert F. Frey, Cashier's Department; DeWitt A. Tornor, Bond Administration; Lewis C. Murdock, Domestic Division; William Slack, Fifth Avenue Office; William F. Sweeney, Bond Administration.

John W. Benton, of the Overseas Division, was appointed Assistant Cashier. Willard A. Flath, 28th Street Office, and Charles J. Stamm, Bronx Office, were appointed Assistant Managers.

* * *

Thomas J. Shanahan, President of **Federation Bank and Trust Company, of New York** announced on Dec. 12 that the directors of the bank have declared a regular quarterly dividend of 30 cents per share, plus an extra 5 cents for the fourth quarter of 1956, making a total of $1.25 cash for the year. In addition a stock dividend of 2½% was voted. The cash dividend is payable on Dec. 26, to stockholders of record Dec. 18. Stockholders will be asked to approve the stock dividend at their annual meeting on Jan. 8. This stock dividend will increase the bank's outstanding capital shares from 348,000 to 356,700 shares. The Federation Bank and Trust Company, with headquarters in the Coliseum at 10 Columbus Circle, maintains two additional offices in New York City, and one in Flushing, Long Island, New York.

* * *

The New York State Banking Department approved on Dec. 3 plans to increase the capital of the **Commercial State Bank and Trust Company of New York**, at 116 Fifth Avenue, from $2,103,300, consisting of 84,132 shares of the par value of $25 per share, to $2,145,375, consisting of 85,815 shares of the same par value.

* * *

The Chartered Bank of India, Australia and China which was incorporated in England by Royal Charter in 1853, will henceforth be known as **The Chartered Bank**. It is announced that simplification of the bank's title does not signify any change in its sphere of operations. The announcement, made available Dec. 6 also notes that the bank's branch system, under British management, directed from **London** serves: Aden, India, Pakistan, Ceylon, Burma, Singapore and Federation of Malaya, North Borneo and Sarawak, Indonesia, Cambodia, Vietnam, Thailand, The Philippine Republic, Hongkong, Japan and Hamburg, Germany. J. Scott is agent of the bank in New York.

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In line with the permissive ruling issued recently by the Federal Reserve Board, the **Meadow Brook National Bank of West Hempstead** with 26 offices in **Nassau County, L. I., N. Y.**, will pay 3% interest on its savings accounts. This is an increase of one-half of one percent from the rate currently being paid and will become effective Jan. 1 next. In making the announcement, Augustus B. Weller, President of the Meadow Brook Bank, said, "Three percent per annum is now the legal maximum rate for commercial banks to pay on their savings deposits. We believe it is a responsibility of the banks to pay this rate so long as it is economically possible for them to do so. It is our hope that in offering this additional incentive to the public to save, more funds will become available for the financing of the continuing growth of the area which is currently being partially blocked by the 'tight money' situation."

* * *

The Manufacturers and Traders Trust Company of Buffalo, N. Y., has been authorized by the State Banking Department to increase its capital, and at the same time (Nov. 23), has received authorization from the Department to merge the **Genesee Trust Company of Batavia, Green County, N. Y.**, into the Manufacturers & Traders Trust Co. under the title of the latter. As to the enlargement of the capital of the Manufacturers Trust, approval has been given to a certificate of increase of capital stock from $8,712,000, consisting of 1,742,400 shares of the par value of $5 each, to $8,999,500, consisting of 1,799,900 shares of the same par value. Earlier in the month, Nov. 19, the Manufacturers and Traders Trust received authority from the Banking department to open a branch office in a proposed shopping center to be known as Grand Island Plaza, located at Grand Island Boulevard and Base-Line Road, Grand Island, Erie County, N. Y., on Nov. 20.

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The board of directors of the **Liberty Bank of Buffalo, at Buffalo, N. Y.**, announced the election on Nov. 29 of E. Perry Spink as President.

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Approval on Dec. 5 of plans of the **Northern New York Trust Company of Watertown, N. Y.** to increase its capital stock from

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$962,500, consisting of 38,500 shares, par value $25 per share, to $2,000,000, in 80,000 shares of the same par value, was granted by the New York State Banking Department.

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The National Bank of Plymouth County of Brockton, Mass. announces the appointment of Mr. Reginald T. Cole to the office of Chairman of the Board and Chief Executive Officer. Mr. Cole had previously been President of the Bank.

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The board of directors of the **Citizens Trust Company of Summit, N. J.**, at their meeting on Dec. 4 declared a semi-annual dividend of 50 cents per share regular and 35 cents per share extra on the capital stock of the company, payable Jan. 4 to holders of record Dec. 14.

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The board of directors of the **Provident Trust Company of Philadelphia** have made seven new promotions among officials of the bank, William R. K. Mitchell, Chairman and Benjamin F. Sawin, President of the bank, announced on Dec. 10. The directors promoted Carl F. Flood and Norman E. Walz to positions as Assistant Vice-Presidents. Mr. Flood was formerly an Assistant Treasurer and Mr. Walz a Trust Officer. Henry C. Farr and Thomas V. Zug, formerly Assistant Trust Officers, have been promoted to positions as Trust Officers. Paul Francis Toolan has been appointed an Assistant Trust Officer, John Richard Boylan an Assistant Trust Investment Officer and Everett L. Miller an Assistant Treasurer of the company.

Mr. Flood, with Provident since 1933, is currently in charge of operations at the bank's Media office. Mr. Walz, who has served in the title, real estate and estate planning departments, is currently active in the solicitation of new trust business, prospect research and advertising and publicity. Mr. Farr, formerly Assistant Trust Officer, joined the company in 1929 and served in the audit and trust tax departments. He is currently serving in the trust administration department. Mr. Zug, formerly Assistant Trust Officer, joined Provident in 1933. He served in the trust accounting, audit, tax and statistical departments and is currently associated with the trust administration department. Mr. Toolan joined Provident in 1953 and has been specializing in legal matters. Mr. Boylan has been in the trust investment department since joining the company in August, 1954. Mr. Miller became associated with Provident in 1940 and is currently in charge of the tabulating section.

* * *

The **Western Pennsylvania National Bank of McKeesport, Pa.**, announced that on Dec. 7 it received preliminary approval to purchase the **First National Bank of Houston, Pa.** The 55-year-old bank, it is said, will be the 14th acquired by WPNB in the four years that M. A. Cancelliere has been its President and the fifth added in the last 12 months. It will increase WPNB's total resources, it is stated, to almost $157 million. Preliminary approval of the purchase was granted by the U. S. Comptroller of the Currency. The purchase now is subject to the approval of stockholders. The Houston bank has total resources of $2.9 million and deposits of $2.6 million. It will be known as the Houston office of the Western Pennsylvania National Bank. Present directors of the Houston bank, who will become members of WPNB's Advisory Board, are J. C. King, R. E. Plunkett, Harry M. Templeton, Ralph W. Peacock, J. Glenn Patsch, H. B. Paxton, Dr. W. T. McVitty and W. E. Speakman.

* * *

An increase in the capital of the **Riggs National Bank of Washington, D. C.**, is planned, it has been announced by Robert V. Fleming, Chairman of the Board. An item in the "Washington Post" and "Times Herald" of Dec. 4 by Oliver Goodman, Financial Editor, stated that Mr. Fleming reported that the directors of the bank have recommended a four-for-one stock dividend. The proposal will be acted upon by the stockholders on Jan. 8. From the "Washington Post" we also quote:

"The split, Mr. Fleming said in a letter to shareholders, will be accomplished by reducing the par value of the Riggs shares from $100 to $25. This will be the first stock split in the 60-year history of the institution as a National Bank. The stock dividend, Mr. Fleming added, will increase Riggs' capital from the present $7,250,000 divided into 72,500 shares of $100 par to $8 million divided into 320,000 shares of $25 par. . . . The stock melon means an increased capital for the institution and permits a higher limit on single loans. Riggs now has $7,250,000 capital and $15 million surplus. With $8 million capital and $15 million surplus, Riggs will be in a position to make single loans as high as $2.3 million (10% of combined capital and surplus). Mr. Fleming stated that the new shares represented by the stock dividend will be issued on the basis of 3/29ths of a share for each share held after the reduction in par value from $100 to $25.

"Approval of shareholders is considered a certainty. Stockholders of record Jan. 8, 1957, will receive on Jan. 15 both the additional shares resulting from the change in par value and the stock dividend. Mr. Fleming said that fractional stock dividend shares will not be issued. For the fractions, directors will appoint trustees who will issue certificates of participation. These certificates will be in units of 1/29th of a share and may be bought or sold until 2 p.m. on March 1. They will then be sold by the trustees in the open market at the best available price and the proceeds distributed, pro rata to the holders.

"The first dividend on the new capital will be declared on March 12."

* * *

The board of directors of **The Bank of Virginia at Richmond, Va.**, on Dec. 7 elected Herbert C. Moseley Executive Vice-President and a director of the bank; promoted six other officers; increased the bank's surplus account and declared a fourth quarter dividend of 25 cents a share. John B. Orgain, Jr. and Frederick Deane, Jr., both of Richmond, were promoted to Vice-Presidents. Four promoted from Assistant Cashiers to Assistant Vice-Presidents were Allan A. Campbell, of Norfolk; O. Watts Gills, of Roanoke; Moreland H. Smith, of Richmond and John J. Whitt, Jr. of Petersburg. Meeting in the regular monthly session, the bank's directors authorized the transfer of $400,000 from the undivided profits account to the surplus account. This action increases the previous surplus account of $3,200,000 to $3,600,000, which is an amount equal to the capital stock of $3,600,000. Capital and surplus now will amount to $7,200,000, according to Thomas C. Boushall, President, and this total, together with the more than $800,000 in the undivided profits account, will bring the bank's total capital funds to just over $8,000,000. The bank's reserves total an additonal $3,000,000, Mr. Boushall said.

Mr. Moseley's promotion from Senior Vice-President to Executive Vice-President fills the latter office in the bank for the first time in a number of years and brings to it an officer with 28 years' banking experience. Joining The Bank of Virginia on Jan. 1, 1945, Mr. Moseley's first assignment with the bank was that of Assistant Vice-President and Cashier of the bank in Petersburg. He was elected a Vice-

Continued on page 107

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Bank Credit Demand Outlook

By DR. ROGER F. MURRAY*
Associate Dean, Graduate School of Business, Columbia University

After summarizing and concurring in the general cautiously optimistic outlook views for 1957, and the past phrases often used regarding lending standards, Dr. Murray explores the more pertinent topic of demand outlook for bank credit. Anticipates no significant easing in money tightness until the turning point of credit demand, which is not in sight as yet, occurs. Observes such strong factors as: decreasing corporate liquidity; increasing business inventory in line with sales and unfilled orders; capital investment showing no sign of fading away; and rising state-local borrowing volume. Author, however, is suspicious of profit trend which may induce gradually diminished capital outlay, and of the inability to pass on higher operating costs. Concludes bank credit analysts should study "profit margins and return on investment in our institutions."

The Outlook Season

What used to be called the Advent Season can now be quite appropriately called the Outlook Season. From now until early in 1957, we shall all be deluged with appraisals, forecasts, projections, and interpretations of what the new year has in store for the world, the nation, and the banking business.

Roger F. Murray

I have no secret formula for penetrating the murky atmosphere of 1957, but I am quite positive that the consensus of forecasts will be to this effect: The year will start with a momentum that will assure a rising level of activity lasting at least through the spring, but there are signs of a leveling off and perhaps some downturn during the second half of the year. This forecast has been a popular one in almost every postwar year. It happened to be good for 1948 and 1953, but the perversity of economic developments has not made it particularly useful the rest of the time.

The pattern of restrained optimism reflected in this type of expectation has, however, been one of our greatest resources in the quest for economic stability. The same restraint exercised for the most part of the extension of bank credit has undoubtedly contributed to the prevention of speculative excesses despite a decade of booms and inflationary pressures.

An Occupational Outlook

I take it that a good state of mind for the loan and credit officer is this same cautious or restrained optimism with the emphasis a little more on the qualifying adjective than in the case of the prospective borrower. It has not been a problem to secure widespread agreement, almost invariably in word even if less consistently in deed, on the proposition that, although the outlook is generally satisfactory, this is no time to relax vigilance, impair lending standards, or depart from time-tested principles of sound lending. In short, the atmosphere is generally sympathetic to the kind of an occupational outlook characteristic of those who make it their business to lend money.

If I were to present what I expect is the widely held view of the credit outlook, therefore, it would be congenial to this group although not very novel or interesting. You would nod, either in assent or drowsiness, as I painted a picture of good business in the months ahead while giving you warnings that you do not need about my favorite topic for viewing with alarm. Any of you can give this speech as well as I can. So, let us consider that I have made this presentation and stirred you to new determination not to let a long period of prosperity dull your perceptiveness of developing weaknesses.

The corollary observation is that the position of the Federal Reserve is soundly taken. Under prevailing conditions, keeping a check on the availability of credit is essential if we are to avoid further upward pressures on prices for industrial goods and the further development of a capital expenditure boom which cannot be sustained. I assume that on balance some reserves will be supplied to the banking system to meet seasonal requirements and what is called normal growth. But these reserves will be supplied reluctantly, especially when the market is free from Treasury financing. When and whether the discount rate will be increased is a matter of technique which we can safely leave to the discretion of the authorities.

With this behind us and securely in the record, we are free to explore what appeal to me as more challenging and more fundamental aspects of the credit outlook.

The Demand for Bank Credit

For example, all of us are vitally concerned over the persistent demand for bank credit and the problems of rationing which we face. How long will it last? About all we can say is that the turning point is not yet in sight and that we had better be prepared for a tight money situation in the months ahead. I base this observation on two measures of the demand for funds which I find very useful in appraising trends.

The first measure, derived from the SEC's quarterly estimates of the working capital position of nonfinancial corporations, shows the trend in corporate liquidity. If holdings of cash and U. S. Government securities are expressed as a percentage of total current liabilities, we obtain a sensitive indicator of the trend in the demand for funds on the part of corporate business organizations. This liquidity ratio rose to 53.3% at the end of 1953 and to 55.4% at the end of 1954. It dropped moderately to 53.7% by the close of 1955. On June 30 it stood at 48.0% compared with 55.0% a year earlier, perhaps the most precipitous drop of which we have a record. Apart from seasonal factors which are of course present in this series, there are no signs of any improvement in the corporate liquidity picture. When, as, and if we see corporations ceasing to lose liquidity we can start looking for a moderation in the demand for business loans.

Inventory accumulation from June 30, 1955 to June 30, 1956 amounted to $9.0 billion according to the SEC estimates, while commercial receivables rose slightly more than payables. Federal income tax payments were another important drain on cash. At the same time, plant and equipment outlays were reaching record levels at a pace which continues to outrun the sluggish flow of funds from internal sources such as depreciation and retained earnings. The incessant demand for short-term and long-term funds on the part of business, is then neither obscure nor mysterious. In wondering about when the situation may change, we know where to look and what to study. In the process, it seems to me that there may be some very interesting applications to the art of credit analysis.

Factors in the Outlook

First, what about business inventories? Will corporate liquidity be rebuilt by a reduction in inventories? It does not seem particularly likely. No matter how you measure it (and there are several valid approaches), the level of aggregate inventories does not appear out of line in relation to sales and unfilled orders. No doubt some reductions in stocks are desirable and inevitable in individual industries. But with rising prices persisting in processed goods other than food items, there is no persuasive case for expecting a reduction in the aggregate dollar volume of inventories. On the contrary, some further rise, although at a reduced rate, would be consistent with the expectation of a generally strong business trend.

Second, what about the generation of cash internally? Will this ease the situation? Apparently not. While depreciation accruals are still rising, the rate of increase is well below the hectic pace of capital investment outlays. Retained earnings, moreover, are actually running below the rate of a year ago as the dividend payout has been rising while profits have levelled off. In the aggregate, therefore, the internal sources of funds available to nonfinancial corporations in 1956 will show little increase over last year's figures. Again, there are no signs visible to me that we can count on a material change in the situation. I think that competitive forces will keep profits under pressure as we shall observe in another connection.

Third, and of central importance, what about business outlays for new plant and equipment? The upturn in such expenditures which started in mid-1955 shows no sign of fading away. Whether you refer to the Department of Commerce and SEC series, the McGraw-Hill Survey, or the new series of appropriations by large corporations assembled by the National Industrial Conference Board, the projections all show a high level of business investment for the months ahead. Some observers feel that we have ahead of us a long period of very high activity because of (1) expanding markets, (2) the pressure of rising costs, (3) technological progress stimulated by large and productive research, and (4) the long-range planning for secular growth to which American industry has now made a firm commitment. The validity of these expectations as to business investment would appear to be the central question, the most important single factor in the outlook for credit demand.

Profit Trends

The fact that changes in the rate of business capital investment develop slowly in response to a wide range of influences means that we have time to study the situation and to watch sensitive indicators of the trend. The indicator to which all of us might well give more attention is the trend of profits. Earnings are not only a major source of funds but also the measure of whether new capital investment continues to be worthwhile. Technological progress and long-range planning will feed the capital expenditure boom only so long as a favorable trend of profits is in evidence and in prospect. It is a direct relationship, not a coincidence, that accounts for the occurrence of a major upthrust in outlays beginning in mid-1955 when corporate profits rose dramatically.

During the current year, however, plant and equipment expenditures have continued to climb without the impetus of strong growth in profits. Does this sound like the kind of boom which will last indefinitely and keep the business demand for funds at present peaks? The situation as it seems to be developing suggests to me a gradual erosion of the foundation for the present level of business investment. With the expansion of capacity, in more and more lines of business surpluses have replaced shortages. As a consequence, it has been difficult to pass along in the form of higher prices increased operating costs, amortization of the greatest costs of new plant and equipment, and the additional cost of borrowed money.

The aggregate volume of profits rose quarter by quarter from the start of 1954 through 1955, but the first two quarters of 1956 have shown stability rather than growth. Despite a good rise in sales in most industries other than the automotive group, profit margins in manufacturing did not improve and there has been a modest decline in the rate of return on net worth. Preliminary figures indicate about the same pattern of behavior for the third quarter. Concern over whether the rate of productivity gains is being maintained seems to be fortified by the failure of profits to show a firmer trend during this period of rising volume and heavy investment in new facilities.

However, a decline from the excellent profit performance of 1955 should not fill us with dismay. With the exception of 1948 and 1950, when inventory profits were important, the year 1955 ranks as one of the best measured by the rate of return on net worth, thanks to better profit margins and a continued high rate of capital turnover. Less favorable rates of return in 1956 do not portend a collapse in business investment, therefore, but they suggest that some of the urgency is gradually disappearing.

Application to Credit Analysis

High starting-up costs and other explanations can be advanced to excuse the failure of profits to show a more vigorous growth. Perhaps recent trends will be reversed next year. It is not possible to make a categorical statement that the 1955-1956 capital expenditure boom is about to subside. Rather we must wait and see, using the sensitive indicator of profits to guide our thinking.

In the process of observing the aggregate experience, just as we may advantageously watch the corporate liquidity ratio, there are some useful applications to the daily task of credit analysis. And we need all the help we can get in appraising the quality of loans and loan applications. Careful studies are helpful of the customer's performance in 1949, 1954, or whatever the date of his own period of recession may have been. Yet there have been no real tests of most business organizations during the postwar period and the record of the prewar years is too often meaningless.

There are a great many analytical techniques which may be applied to judging how a particular borrower may be expected to perform under less satisfactory general business conditions. I believe it is important to give careful thought to this matter of return on investment as one of the highly revealing measures of the health and strength of the enterprise. I have no strong preference as to the method of computation. In fact, after-tax earnings as a percent of tangible net worth is usually a quite satisfactory measure. This represents, of course, a supplement to the customary analysis of profit margins. In either case, we have only an indicator, only a signal to look further at the details of revenues and costs.

One purpose of emphasizing the return on net worth is, of course, to see how profitably management is employing retained earnings with or without the benefit of leverage provided by debt. Of greater importance, however, is the function as a highly sensitive indicator of the efficiency and strength of the organization, particularly when it is possible to observe the trend in periods of slackening volume. To the lender, the absolute level of the return may be less significant than the degree of stability demonstrated.

By Way of Summary

There are other ways in which close observation of profit trends can be useful, but I should like to return to the main point of this discussion. Unless and until there is some moderation of the strong trend of business expenditures on new plant and equipment, it is difficult to see how there can be any real easing in the money situation. My suspicions of the boom's basic vitality may be without foundation or may take a long while to be justified. In the meantime, there is no prospect for a material decline in the aggregate of real estate financing and a rising volume of state and local government borrowing appears inevitable for a long time to come.

Under the circumstances, the problem of restricting loan volume may well be with us for a while longer. However, I still doubt that we are in a new era of straight-line advances to higher and higher levels of prosperity without interruptions or irregularities. If it is correct that we have not yet achieved Utopia, there will be slack times in the years ahead. When they come, I am not really concerned about the magnitude of possible loan losses, but I think we should all be concerned about the probable loss of loan volume and earning power. The banks have fed a lot of business to other lenders and no one is going to feed it back again.

This rather doleful conclusion suggests that it is desirable to devote a good portion of our analytical time to the study of profit margins and return on investment in our own institutions.

*An address by Dr. Murray before the 2nd Annual Fall Conference of the Rochester and Central New York Chapter of Robert Morris Associates, Nov. 28, 1956.

Rosenbaum & Russhon New Firm Name

Effective Jan. 2, 1957 the firm name of Rosenbaum, Proskauer & Russhon, 1 Wall Street, New York City, will be changed to Rosenbaum & Russhon, Richman Proskauer retiring from the firm on Dec. 31.

Francis F. Rosenbaum, Jr., member of the New York Stock Exchange, will become a partner on Jan. 2.

Herbert Malkin Honored

Herbert Malkin, co-manager of the 1182 Broadway, New York City office of Hirsch & Co., was tendered a dinner by partners of the firm at the Wall Street Club in honor of his 25th anniversary with the firm. Mr. Malkin was presented with a gold watch.

Arthur Lipper

Arthur Lipper passed away Dec. 10 at the age of 80 following a long illness. The founder of Arthur Lipper & Co., of Philadelphia. Mr. Lipper had been in retirement for some time.

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Widespread Use of Automation Key to More Prosperous Economy

By RALPH V. COLES*
Assistant Vice-President and General Manager
Robertshaw-Fulton Controls Company

Controls company executive asserts it is inevitable that adoption of automation by smaller businesses as well as large industrial firms offers the only possibility for achieving GNP $560 billion target set for 1966, open wider markets and higher profits, and permit processes formerly not possible. Mr. Coles points out (1) 14% labor force increase in next ten years leaves deficiency which can only be met through industrial mechanization and automation in order to increase productivity by necessary 25% to meet expected demand; (2) smaller specialty manufacturers can, in many cases, justify automation in their operations, and be able to rent economically joint computers; and (3) many familiar products will require redesigning and entail a selling job to the public. Concludes this is the road to a "better and more prosperous life that lies ahead."

I suppose that before we talk about Automation it would be a good idea to try and define it. The word itself has now become a part of the English language, whether we like it or not. It was first used in 1947 by Mr. D. S. Harder, a Vice-President of the Ford Motor Company to describe "The automatic handling of parts between progressive production processes." It has come to mean a great deal more than that in these few years since 1947. It was once said of a servo-mechanism, which is a rather artful device that plays a big part in automation, that "it is nearly as hard for the practitioners of the servo art to agree on a definition as it is for a group of theologians to agree on sin." The same can now certainly be said of "Automation" itself.

Ralph V. Coles

This word is bandied about so loosely today in popular discussion of almost any new machine put in anywhere that many of us have been irritated to the point of attempting to produce sharp and exactly limited definitions of what automation is and what it isn't. Of course, these definitions seldom seem to coincide. I am sure Lewis Carroll must have been looking into his crystal ball at us today, when he put the following words into the mouth of Humpty-Dumpty. "When I use a word it means just what I choose it to mean—neither more nor less." **I prefer to think of it as including all technical devices leading to the development of machinery for judgment.** This does, of course, imply that automation is not a new phenomenon. Equally it implies that automation is not a single easily identified development, but a confluence of separate independent streams of technical progress. For a definition of the portmanteau kind take this one:

"A contemporary group of independent advances in the field of mechanization which characteristically employ discriminatory devices and automatic controls, including transfer machinery, automatic assembly, the whole field of control engineering and that part of communication engineering concerned with data processing, accountancy and calculation involving the use of electronic computers."

This may sound more like a list than a definition. But these techniques do have enough in common to include them all and to give them a common label. But you ask "how does automation differ from the mechanization that has been going on for centuries? What's new about it?" To some it does not differ. But, I think there should be a differentiation because there is a different basic philosophy underlying the two words.

*An address by Mr. Coles before the National Industrial Advertising Association, Pittsburgh.

Automation Is a Step Further

Mechanization can usefully be thought of as replacing man's physical effort by mechanical energy; **automation goes further and tends to replace man's judgment**—the discrimination still required for the precise adjustment of a process from most machine minders. What's new about it? Certainly it is not hard to discover examples of automation early in the history of mechanization. Watt's steam engine for example clearly illustrates the difference between the two. The engine using steam to convert the heat from a fire into mechanical energy to drive a shaft, is a prime example of mechanization to replace man's physical efforts. The familiar flyball governor invented by Watt in 1778 is a perfect example of automation. The engine rotated a shaft to which was attached a pair of arms with cast iron balls at their ends. As the shaft rotated the balls would fly outwards and upwards to centrifugal force. The angular movement of the arms through a lever was transmitted to the throttle tending to close the throttle as the speed and consequently the balls rose and opening it as the speed and the balls fell. In short, the engine was made to control itself, using the principle of feedback, at essentially a constant speed in spite of a varying load.

The jacquard loom that weaves a pattern according to the directions of a punched card is another early example of automation, this time without feedback that was developed before the end of the 17th century. Whether or not it is profitable to devine automation, it should be fairly easy to distinguish automation from mechanization; and certainly we are going to have plenty of opportunities to do so in the future.

An essential feature of automation is the idea of linking a sequence of operations into a continuous process without manual handling between operations. In this connection the industries where it was adopted first in any great degree were precisely those industries where the materials being processed were difficult to manhandle. Therefore, those industries processing liquids or gases become the first to adopt automation. First batch processes were instrumented by using temperature, pressure, flow and level indicators and the operator controlled the process by manipulating valve using these indirect indicators to tell him of conditions within the vessel. Then each of these variables were controlled automatically and the worker was released from his position of being an adjunct of the process.

Extension to Other Fields

In the newer continuous processes, such as oil refining, the material flows through a succession of stills, columns and reactors, undergoing a sequence of separate changes until it emerges as a new product or a selection of new ones. The condition of the material at any point in the continuous process becomes more critically important. The changes are taking place simultaneously as the product flows along the line, not successively in one place. So at any single point in the continuous process, the condition of the material has to be kept constant. At these points instruments were installed to keep the operator informed of the condition of the material and enable him to make adjustments if the conditions were not right. The use of automatic controls to carry out these adjustments by feeding back signals so as to correct deviations from the desired condition followed quickly and naturally. Most units of modern continuous chemical processes contain a wide variety of instrumentation and automatic controls. Oil refineries are approaching the point where 20% of their capital cost is actually for these controls. Costly units of plant may be operated continuously with no more than two operators on duty to keep an eye on the instruments and only take action if a major disturbance takes place; two operators simply because one might drop dead.

The extension of automation to the non process industries, that is to the engineering industries was the next step. Transfer machining or Detroit Automation as it is sometimes known embraces those portions of industry where, instead of a continuous flow of homogeneous material, the flow is one of discreet units. These units are moved and worked on automatically, the function of the machine tender is only supervisory. We may also include in this category all forms of machine tools that are controlled by tape or other techniques of programming. However, as we know, in the automobile industry, while certain parts of cars such as cylinder blocks and pistons are now made automatically, the car itself is still put together by hand.

Must Break With Tradition

Where automatic assembly is becoming economic in fields other than the automobile industry, this has happened only where products and processes have been completely redesigned. Tremendous strides have been made in the electronics industry in particular. Well publicized are Project Tinkertoy and the techniques of using printed or etched electric circuits and automatic parts insertion machines which have resulted in a completely new look both in the parts themselves and in the finished product. The old familiar rats nest of wiring is rapidly disappearing from our radio and TV sets as well as from military and industrial electronic instruments because it did not lend itself to automation.

To automate many industries entirely new concepts are going to have to be evolved. We are going to have to have the courage to try and break with tradition completely if we are going to succeed. This will require a selling job if we are to get the public to accept these new designs, for it is in the consumer goods field that the major mass markets lie, and it is these mass markets alone that will be susceptible to automatic assembly. The electronics industry is so new and has been subject to so much change since its beginnings that there was in fact little tradition with which to break. In other industries the traditions of scores of years exists.

The third basic form of automation lies in the field of computors and office machines. Here, I think the example of such a machine carrying out a calculation in minutes or seconds is familiar to all of you. Actually, that was the initial motive for developing the computor, to perform repetitive, but complex mathematical calculations and relieve the mathematician for more productive work. Subsequently, of course, its use has been extended to many routine office computations such as payrolls, inventory control and the like.

Four Reasons for Automation

It seems to me that there are four reasons why industry and commerce adopts automation. The first is economic: the product can be made cheaper by adopting automatic methods thus opening the possibilities of higher profits and wider markets. The second is quality. Day in and day out an automatic process will turn out a product of high quality much more consistently than a process controlled by a man. The third is safety. Many industrial processes are inherently dangerous. The reliability of automatic controls offer greater protection to both property and people. Industrial accidents are at a 43-years low, right now, and this has been

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Widespread Use of Automation Key to More Prosperous Economy

achieved in part with the help of instruments and automatic controls. The fourth is that it makes possible certain processes that were not possible before.

But, the greatest drive to adopt automation and mechanization is undoubtedly the first, the economic one, the need for greater productivity. Now I haven't armed myself with a lot of statistics but if you average the forecast of all the economists both government and private then we are going to see our Gross National Product expand by 40% in the next 10 years. And, in those 10 years our labor force cannot expand by more than 14%. We must therefore get greater and greater productivity from each worker.

Only Way to Increase Output

To achieve this 40% increase of output with only a 14% increase in work force, each worker must produce 25% more than he does today, assuming a constant work week. But, if we in the same period reduce the work week from a five day week to a four day week as one of our distinguished citizens recently forecast, then the output per man hour must be further increased by another 25%. This is a total increase per man hour of between 1.5 and 1.6 times —and this is to be done within the next 10 years. It is obvious that we can only accomplish this by adopting mechanization and automation to an ever increasing degree.

Fears have been expressed regarding the social and economic upheaval that will be caused by automation, that we are about to become a nation of machine minders, utterly dependent on our robots, in fact becoming robots ourselves and losing our identities, our creativeness, our spiritual values and even our ability to think for ourselves. This, of course, is the sheerest rubbish.

It often seems to be assumed that those of us working on scientific controls and automation are unaware of the social implications of our work, or are indifferent to them. I think this is quite untrue, I think it is more accurate to say that perforce, we are conscious of possible difficulties, and are in fact deeply concerned. Actually there is another side to this; many of us are conscious of a positive social mission.

As soon as it become scientifically possible to replace a human function by an automatic function, and this is not done, the blunt truth is that the man himself is being operated as an automaton. This applies equally as well to the clerical functions of industrial control as to the manual functions of machine minding or the control of condition in a chemical process. Admittedly in many cases there are huge problems to face in making the replacement. But it seems more moral to run the risks attendent on altering the industrial and social structure, great though these be, than to degrade human populations to the status of automatons. It is ironic that well intentioned people whose eyes are wide open to the impending dangers of an industrial scene bereft of "the human element" should remain so blind to this occupational indignity of 20th century man.

Possible Social-Economic Affect?

Recently I read an anecdote in the Wall Street "Journal" that does, I believe illustrate to some degree the point I am trying to make. "When Dwight Morrow was appointed Ambassador to Mexico many years ago, he decided to furnish his home in Cuernavaca with Mexican products, all the furniture to be hand made by Indian carpenters. When he found a chair that was not only comfortable but reasonably priced, he asked the man to make a dozen for him. "The Senor knows, of course, that if I make more than one, I must charge more, much more for each" said the carpenter obviously displeased. "More?" questioned Mr. Morrow, "in my country it costs less if one buys in quantity. Why do you charge more?" "Because Senor" replied the man impatiently, "it is so dull to make 12 chairs just alike."

But what of the possible effects of automation on the national social and economic picture? Fears that it may cause unemployment have been pretty thoroughly debunked in the long term. Certainly in a vibrant and expanding economy we need have no fears. In a time of slump it is possible that there may be some inherent dangers. In an inflationary period its effects can, I believe, be only good since it mitigates to some extent the evil consequences of overful employment, without causing widespread unemployment. But apart from any other considerations there is one overriding one that must push us on to adopt automation to an ever increasing extent. Whatever the risks to our social or economic fabric, whatever the risks or benefits to our spiritual individualities, the risks of falling behind other industrial countries is immeasurably greater. To paraphrase we have simply got to keep up with the international Robot-Joneses.

Actually the speed with which we can automate is strictly limited if for one reason only. Automation is itself subject to a form of automatic control, and this control alone will prevent any undue economic or social disturbance. The man that is released from a specific task by an automatic control or machine is not himself trained to care for and maintain the device that replaces him. A fairly comprehensive retraining course is necessary and must be given to skilled machinists and foremen and if it is given they can adapt themselves fairly smoothly. The older man may find the going tougher. Demand for electricians and maintenance engineers of all sorts is bound to increase as these more complex devices are installed. How much this increased demand will serve to offset the reduction in production workers is difficult to assess.

Need More Scientists

The extra technologists and systems engineers and mathematicians required must have higher scientific and professional education, a fact that is well recognized abroad. Due to a complete miscalculation as to the future requirements of engineers and technologists in this country since the war, far too few young people have been steered towards the scientific occupations. Less than half the engineers were graduated in 1955 as were graduated in 1950. But beyond that there is a steadily worsening situation in our high schools. One quarter of all American high schools offer no chemistry, no physics and no geometry. In schools offering science and mathematics courses the quality is deplorably low. The number of graduating teachers qualified to teach mathematics has fallen by over 50% in the last five years and of those graduating only 60% enter teaching as a career. Compare Russia — where in the last 30 years the educational system has been virtually built from the ground up. Illiteracy in people under 40 is virtually nonexistent, in those over 40 it is between 30% and 55%. Every student leaving the 10 year school system in Russia will have had 10 years of mathematics, six years of biology, five years of physics and four years of chemistry. Science and technology are held in the highest esteem of all subjects.

In England the government is planning to spend the equivalent of nearly a half a billion dollars to double the output of technologists and technicians and this plan includes not only the universities but the technical institutes and what are know as the technical schools which take children of the same ages as our high schools. This is to my mind the single most vital problem that America faces today.

And now what of the Future:

Major Industries

In large measure the industries that have adopted automation in a big way are the major industries who have a mass market. Most of these plants are concerned with munitions, motor cars, oil or petrochemicals. In these industries there is little need for versatility in production. Completely balanced plants can therefore be designed and built to manufacture a specific product or a series of very closely related products, flexibility has been sacrificed.

In the process industries new analytical instruments are being developed to measure product quality and composition, a trend toward end point control that is just beginning. Some of these instruments can still only be used on a sampling basis but some are already being adapted for continuous stream measurement, and many more will be developed in the future.

In these major industries we can visualize a master control system which, taking into account the optimum possibilities of the plant as well as the quality and rate of its final products, would either continuously reset other controllers throughout the plant to bring about the best results or would control all the variables itself. From the jobs of research and routine clerical work where it is now being gradually applied, the computer will enter much more directly into the production field. Both in the control of a series of processes and in coodinating the work of different "automated" departments in engineering, it may be used to work out the optimum stocks of material and control the work in progress.

The same ability of the computor may be used to maximize the output of a complex continuous plant, by finding the best possible combination of the many variables that may affect plant operation and controlling the plant to achieve this continuously. Such master controllers might even take into account not only the internal factors affecting the rate and quality of final output, but conceivably some data from outside as well, for example distributor stocks, and changes due to seasonal demands.

Why should we want to introduce a computor to direct or control a plant? The brain itself has the right qualities to handle the problems of planning and programming insofar as it learns, adapts, improves and recognizes quickly and efficiently. Why should we seek to replace man with automatic devices. The answer simply is that the brain cannot assimilate enough facts: it cannot sort the facts quickly enough; it cannot store the facts long enough; it is subject to emotional and nonsighificant noise; and it is not indefatigable. Computors have none of these five shortcomings in principle.

Small Businesses, Too

What of the smaller multipoint factories? Is there a place for them in this picture of large one product computor controlled plants, and can they apply automation techniques also. Very definitely. In fact, I don't think there is a single industry in the standard industrial classification lists that isn't now using instruments and controls to some degree. And, I am absolutely certain that they could use a great many more of them in the engineering industries, in the process industries and in other miscellaneous manufacturing activities. And it is not going to be necessary to have long runs of a given piece in order to justify some degree of automation. Take the case of the specialty manufacturer. He has to increase his productivity along with the rest of us. But say he has to make just five cylindrical parts and grind them down to a close tolerance external diameter. He does it now by cut and try. Skim off a little, stop the machine, "mike" the part put it back and skim off some more and so on until he gets the five parts just right. At least, half his time is spent starting, stopping and gauging.

For a relatively small expenditure he can buy a device that will gauge his piece continuously and show him without stopping the machine, exactly what the diameter of the piece is at all times. With electronic amplification, furthermore, instead of limits of one ten thousandths of an inch being the best possible accuracy, he can gauge to one one hundred thousandth of an inch and even to one one millionth of an inch. And, we have doubled his productivity into the bargain. If a slightly larger number of similar pieces is required the machine can take the output of this guage and use it to control the machine automatically. This will permit the machine to adjust the size of the cut in proportion to the deviation from the desired size, thus taking big cuts where they are permissible and speeding up the process by another 50%. We've now got a combined increase in productivity on this job of 3 times, whereas we said earlier we have only got to achieve 1.5 to 1.6 times. Of course, it is not all as easy as that.

Vital for Inflationary World

High productivity is recognized as vital in the inflationary economics of the world. Maximum productivity can be obtained from the one product plant relatively easily. Even in a multi-product plant maximum productivity can be obtained by ruthless selection of work and a total disregard for priorities. But this means total disregard for the needs of the customer and therefore loss of his goodwill. Conversely, if we make the interests of the customer the paramount consideration this would result in the collapse of the producers own productivity. In either event the firm would soon be out of business. Here we have a paradox that faces all smaller, multiproduct manufacturers. Production control must set out to give maximum service and to get maximum productivity. The cost of inefficient production control is always great; its cost in an automated plant might be bankruptcy. There are many industries where flexibility and versatility are essential, particularly those subject to changes in fashion, in season or technical design. Automation in the plant is not going to sidestep the multiproduct plant, the smaller manufacturer.

The automation engineer will solve problems of flexibility at the plant level. But product versatility demanded by the market and plant flexibility provided by the automation engineer have still to be programmed to satisfy the customer and achieve high productivity. Here is where a computor service can really be applied. Even the smaller factories will be able to rent time at a computation center, manned by experts who will feed into their "brains" all the factors affecting both works productivity and customer's satisfaction and provide a program giving maximum compatibility of the two. Actually, this can be done now on the giant computors but it is not yet economically feasible. In the field of automatic control an improperly designed or adjusted servomechanism may "hunt" oscillating about the condition it seeks to produce. Thus an automatic elevator which "hunts" may overshoot its floor, then stop below it, then go too high again as if in the hands of an inexperienced operator. Such hunting can be eliminated by proper design, often by just eliminating or reducing time lag in the control signals.

Computers To Predict Business Cycles

Economists are coming to realize that booms and depressions are the "hunting" of an improperly adjusted servo of society. It does not seem to me to be too farfetched to believe that a computor of sufficient capacity and capability when fed the appropriate information, will not only infallibly point out dangerous trends in our economy but will be able to affirm or deny the effectiveness of possible corrective actions.

I have already mentioned the development of instruments to measure product quality in the process industries. Nearly all of these new devices depend to some degree on electronics for their operation. In fact electronics has been termed the spearhead of automation. The development of the transistor is going to speed up the application of electronics to a tremendous degree. This little device potentially has almost indefinite life and therefore inherently greater reliability than the vacuum tube. Also it requires much less power to operate it and wastes much less of this power than the tube in the form of heat.

But electronics has certain inherent advantages over mechanisms in controls. One is its speed; another is its capability of almost infinite amplification. These characteristics have opened vast new applications for its use in sensing and measurement of very small changes and in high speed communication or transmission of intelligence. I would like to take one example of the use of electronics which I recently ran into and which you may find rather unexpected. I found it fascinating. This is one for the bees, but not for the birds.

Lesson of the Bees

Prior to 1851 honey production and beekeeping was centered around the bees' instinct to swarm. By swarming each colony produced about six daughter colonies in a year, and each colony produced honey in small quantities. At the end of the year all but one of the colonies resulting from one mother were destroyed and the honey and wax recovered. In 1851, L. L. Langstroth introduced the movable frame hive and by preventing swarming found that the yield of honey and its quality were greatly improved. The difficulty still lies in preventing swarming and for a century the only method known has been that of regular examination. This allows the appropriate action to be taken with the colonies containing the queen cells.

This regular examination entails opening and examining the hives, a laborious and dangerous operation, which disturbs the bees and tends to decrease the honey yield. It has been found that bees make certain significant sounds: The normal sound, is a constant note of low frequency. Then there is a warble tone of higher frequency made by the nurse bees when the queen's rate of laying seriously declines. This constitutes a warn-

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ing of an impending swarm. Lastly there is a hiss of relatively high frequency which occurs when the hive is disturbed and is a sign of health in the queen, and therefore of the colony.

A selective amplifier with three switches has been designed for the analysis and measurements of these sounds (The Apidictor). This is provided with a microphone pick-up which is inserted into the hive at the end of a probe, making the normal hive dismantling unnecessary, except at the beginning and end of the season. By reducing the disturbance of the hive the honey yield is substantially increased and the labor costs greatly reduced. Since there are about 30,000 commercial honey growers in this country automation through electronics appears to have found a new market here. I only cite this particular case as an indication that we must look everywhere and without preconceived ideas as to what sounds reasonable, to find appropriate places to use our new techniques of automation.

Consumer and Leisure Gains

And what has all this to do with you? We are going to have more and better things to sell to the consumer. The consumer is going to have more money with which to buy them and more spare time in which to enjoy them. He is going to have more time for leisure, for hobbies for do-it-yourself projects, for culture and for sport. Those of us whose customers are not the consumer but other industrialists are going to have to provide more and better raw materials, tools, controls and services and we are all going to have to be a great deal more efficient than we are today in using them. We can all help by promoting the benefits of automation and the help that it is providing in reaching this better and more prosperous life that lies ahead.

Freeman Officer of Aubrey G. Lanston

Aubrey G. Lanston & Co. Inc., 15 Broad Street, New York City, have announced that John P. Freeman, formerly associated with the Bond Department of the Bankers Trust Company, has been elected an Assistant Vice-President of Aubrey G. Lanston & Co. Inc., specialists in U. S. Government Securities. Mr. Freeman will devote himself to the further development of the money market dealings of the firm in bills and other money market securities.

John P. Freeman

Conning Co. to Admit

HARTFORD, Conn. — Conning & Co., 15 Lewis Street, members of the New York Stock Exchange on Jan. 1 will admit Joseph D. Sargent to partnership.

Now Kahlmus, Hughes

MERIDIAN, Miss. — The firm name of Kahlmus and Company, Threefoot Building, has been changed to Kahlmus, Hughes and Company.

James Caine Opens

RENO, Nev.—James E. Caine is engaging in a securities business from offices at 15 East First St.

Edward A. Purcell

Edward A. Purcell, senior partner of Edward A. Purcell & Co., passed away Dec. 8 at the age of 57.

Tight Money and Business Volume

By BEN H. WOOTEN*
President, First National Bank in Dallas

After outlining "tight money" effects and the little or no effect upon the economy, and tracing inflationary implications of periodic wage increases, leading Texan banker states it is difficult to prove convincingly that tight money has caused any serious trouble to date in the economy; and hazards the opinion that business activity and plant expansion will reach new peaks in the first half of 1957, money will be tighter than now, prices will be a little higher, and interest will likely make some further advances. Should money supply and demand stabilize, Mr. Wooten says, interest rates will cease rising but it does not mean credit use would fall off. Finds businessmen optimistic and expect 30% increase in volume in next decade; cost of money is more in line with cost of everything else; and negative forces of unsold inventories and curtailed production are not in sight; and Federal Reserve could be expected to take action if depressed conditions set in.

In considering the subject of "tight money," let's first see what we mean by "tight money." Without getting involved in too much technical economic jargon, we can simply say that a condition of "tight money" exists anytime the demand for loanable funds exceeds the availability of loanable funds at interest rates we have been accustomed to paying.

Ben H. Wooten

Defines Tight Money

One thing we note immediately about our definition is that "tight money" is a condition of relatives. At least two dimensions of relationship are evident: (1) It is a relationship between demand and supply; and (2) it is a relationship between one time and another time.

Whether we are aware of it or not, when we think and talk about money being "tight," we are actually comparing the availability of money or credit at one time with availability at another—and at all times we are measuring availability in terms of a demand relationship as reflected in interest rates.

"Tight money" does not necessarily mean that credit is unavailable. Almost all areas of credit have continued to expand; even mortgage debt, in spite of a decline in residential construction, has moved up.

Occasionally a would-be borrower does not qualify for credit. To him, credit is really "tight"; in fact there is none. He may blame his troubles on the "tight money" situation he has been reading about.

So much then for our definition of "tight money." Now let's turn to an elementary analysis of demand and supply forces whose relationship is responsible for the condition of money—whether "tight" or "easy."

Largest demand comes from governments—Federal, state, and local; business requiring loanable funds for working capital and for plant expansion; and from consumers seeking to finance durable consumer items such as houses, automobiles, appliances, and furniture.

In our generation, which includes World War II, the Federal Government has demanded more credit than any other segment of our economy. Although the Federal budget was balanced last year and there is prospect of a balanced budget again this fiscal year, we know that the government remains a major force in the money market as it rolls over from week to week its short-term maturities and as it occasionally must meet other maturing issues. In December, Treasury certificates bearing 2⅝% interest will mature in an amount exceeding $9 billion. In 1957, almost $37 billion worth of maturities will have to be refinanced by the U. S. Treasury, not counting the roll-over of 90-day bills in excess of $20 billion. True enough these maturing obligations release back an equal supply of money, but nevertheless, the government must bid against all other users to get the funds. As a result of "tight money," the U. S. Treasury is paying an average of about 1% more for refunding money than the maturing issues cost. It is estimated that the increased cost to the government and taxpayers will be approximately $800,000,000 for the year 1957.

State and local governments, confronted with the urgent need for more school buildings, hospitals, highways, expressways and the like, are a greater factor in the credit market than ever before. During the War, these governments were obliged to defer their normal construction program, and they have not yet caught up.

Business Spending

This year we have been witnessing record spending of funds for capital goods by corporate business, a condition which has contributed major impetus to the high rate of business activity we have enjoyed. The U. S. Department of Commerce reports that corporations spent a record sum of $13½ billion on plant and equipment during the first half of 1956. This was 25% more than was spent in the first half of last year. Corporations have also added substantially to their inventories. Book value of inventories increased during the first six months at an annual rate of $7 billion compared with $4.0 billion during 1955.

During the first six months of this year corporate business obtained over three and a half times as much in bank loans as was obtained in the same period of 1955. In fact for the last two years requests for bank funds by corporations, have increased steadily. It is interesting to note that the Department of Commerce reports that corporations other than banks, reduced their holdings of U. S. Government securities by $6.2 billion during the first half of 1956, and that they drew upon their cash and bank deposits to the extent of $1.7 billion.

Corporations have also tapped the capital markets for funds. Currently they are raising a record amount from the sale of new securities. Some of this money is for purposes of refinancing, but $3.5 billion out of $6.2 billion during the first half of this year

Continued on page 108

*An address by Mr. Wooten before the Sales Executive Club of N. Y., Nov. 27, 1956.

Bank and Insurance Stocks

By ARTHUR B. WALLACE

This Week — Insurance Stocks

There appears to be a renewal of bullishness around in connection with fire-casualty insurance stocks, this in the face of the prospect that 1956 will ring up one of the worst years in underwriting results in many years.

In the first place, these bulls continue to view matters from an industry point of view. This does not present a correct picture to the insurance stock investor as there are a large number of specialist units in the field that are not at all representative of the important multiple-line writers. Examples are Seaboard Surety and Fidelity & Deposit. These companies' writings are confined to relatively few lines, and they are lines that are comparatively small, certainly not comparing with most lines covered by the big multiple-line companies. Others are affiliates of finance companies. These carry the insurance coverage for the parent company and normally report exceptionally low expense ratios simply because the parent carries much of the expense, and there are no agents to pay.

If, however, we approach the subject from the point of view of the insurance stock investor, for the greater part we will be considering the large companies, for it is the stock of the larger units that individual and institutional holders own. They certainly cannot own the stocks of the affiliates of the finance companies; and the outstanding shares of the other "specialist" units are relatively few.

Therefore, if we examine the results of the companies whose stocks interest the regular run-of-mill insurance shareholder, we find that they have rung up extremely poor first-half showings. Fire losses continue to run about 10% above the like period of 1955. Rates, much as we find them at present, are going to continue for some time to be inadequate for the companies in the light of general industry conditions.

A third factor that has thus far, and, probably will continue to mitigate against favorable underwriting profits, is the increasing of loss reserves. This, of course, is a favorable development under normal conditions; but with the greater volume of losses being sustained, much of this increase in loss reserves will be used up.

Another item that contributes to the unfavorable underwriting showing is the householder's policy, otherwise known as the package policy. Such heavy advertising pressure to sell this policy has been exerted, that it has made many an insured conscious of areas in which he can collect for small losses where, before, it never occurred to him. Not only does this policy increase the number of claims for losses that were never thought of before, but it makes for greater expense. Many insurance officials regard it with disfavor.

One factor in the 1956 showing that may work out in the industry's favor is that in 1956 the insurance business encountered the coincidence of high losses in almost all lines of business and the lower rates. It is of course possible that 1957 will not see this coincidence, that some lines will do better.

However, it is historically true that a rapid tempo of industrial and business activity begets increasing losses. This is because there are more green and inexperienced workers, more fatigue among workers working longer hours, and, generally, more carelessness. So the coincidence mentioned is unlikely to lessen to any material degree.

Now, turning to the investment end of the business, we find that some of the bullish commentators consider that 1956 investment results are acting as an offset to the underwriting. And so it was. But what may the prospects be? If losses are to continue high the companies will have less investment money to put into securities. If losses decline, and this is not a widespread expectation among insurance men, the companies will still be faced with declining portfolio valuations in the present lower markets.

The year 1956 will show a very sizable shrinkage in portfolio valuation, compared with the 1955 year-end; and it doesn't matter much whether the company is a high-grade bond holder such as St. Paul Fire & Marine, or an outstanding equity holder, as Insurance Co. of North America is. In the former case, if interest rates harden further (and the recent Federal Reserve action in permitting the commercial banks to pay higher interest rates on savings deposits is an indication, certainly) high-grade bond prices will suffer more. In the latter case, many indications point to the end of the bull market in equities, and if these are borne out the equity holders will see shrinkage in their asset valuations.

The year 1957 does not look like a favorable one for insurance company earnings.

Two With F. I. du Pont

(Special to The Financial Chronicle)

LOS ANGELES, Calif. — Gerhard O. Koenig and Henry V. Thomas are now affiliated with Francis I. du Pont & Co., 677 South Figueroa Street.

H. R. Baird Opens

TARRYTOWN, N. Y. — Harold R. Baird is engaging in a securities business from offices at 163 Riverview Avenue. He was formerly with E. W. Axe & Co., Inc.

B. K. Passman Opens

WASHINGTON, D. C.—Bernard K. Passman is conducting a securities business from offices at 1424 K Street, Northwest. He was formerly with Coombs & Co.

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The Threshold of 1957

By ROBERT H. CRAFT*

Newly Elected President, Investment Bankers Association of America
President, The Chase Bank, New York City

In predicting unprecedented investment boom's prospect continuing into 1957, newly elected IBA President calls attention to paradoxical accompanying problems requiring careful handling, and emphasizes investment bankers' role in conservatively handling tremendous financing volume. Mr. Craft avers indiscriminate credit injection to support a boom is surest road to eventual depression; dismisses the myth as to the harmlessness of gradual inflation; makes clear credit policy cannot cope with disequilibrium fed from non-credit sources; and suggests Aldrich Commission type study to determine adequacy of tools available to Federal Reserve. Supports utilizing private for public participation in capital outflow.

Robert H. Craft

As we stand on the threshold of 1957, we find the American people enjoying the greatest prosperity and the highest standard of living the world has ever known. These facts are supported by almost any statistical criterion or other measuring rod you choose to use. The Gross National Product has reached the annual rate of $414 billion; this is double the figure of a decade ago and $25 billion above 1955. The Federal Reserve Board index has risen to 145% of the 1947-1949 level of production and the prospect is that it will go higher before the year is out. Disposable personal income is setting new records. Testimony to the well-being of labor is the fact that hourly wages and weekly earnings in terms of purchasing power are at an all-time high. Unemployment is at a practical minimum (3½% of the labor force) and this is in spite of a 2-million addition to the number of people employed since a year ago.

To be sure there are a few isolated soft spots. Residential building and automobile sales have been running at a rate 20% below a year ago, but the slack in residential starts has been taken up by a substantial increase in commercial building and automobile dealers report considerable interest in 1957 models. The slippage in agricultural income seems to be arrested and the surplus disposal program has tended to alleviate the farm problem.

A characteristic of the economy during recent years has been that adjustment in industry after industry has been absorbed by the general momentum of business and with little visible disruption to the over-all forward movement. Perhaps the most dynamic economic force of the past couple years has been the soaring capital expenditures for new plant and equipment and there is no letup in sight.

Problems Accompanying Boom in 1957

The prospect is that this unprecedented investment boom will carry well into and perhaps through all of 1957. Paradoxically, however, this over-all prosperity has brought in its wake a series of problems which require careful handling. To some extent the boom has been supported by a deterioration in the underlying financial structure. The fact that many industries have been operating at forced draft while new orders continue to pour in, has in itself contributed to an unhealthy situation, for this has meant a temporary decline in efficiency, lower labor productivity, increasing costs, and a squeeze on profit margins. Some firms, projecting continued pressures, have unwisely accumulated excessive inventories thus leaving themselves vulnerable in the event of a decline in sales.

But the main problem that confronts the economy is integrally related to the investment banking community. That problem is how to finance the demands of the economy without bringing about a ruinous inflation. We know that saving and investment must go hand in hand to assure a smoothly functioning economic and financial system. Unfortunately the rate of personal saving has not kept pace with the growth in incomes and savings have fallen far short of providing the funds that recently have been sought to finance capital expansion.

In addition to drawing on savings to finance expansion, business relies on depreciation allowances and retained earnings to take care of replacement needs. Recently depreciation allowances have fallen below rising replacement costs and competition has caused a levelling off of profits at a time when dividends have been steadily climbing. Hence retained earnings have begun to dwindle and working capital positions in some instances are being impaired.

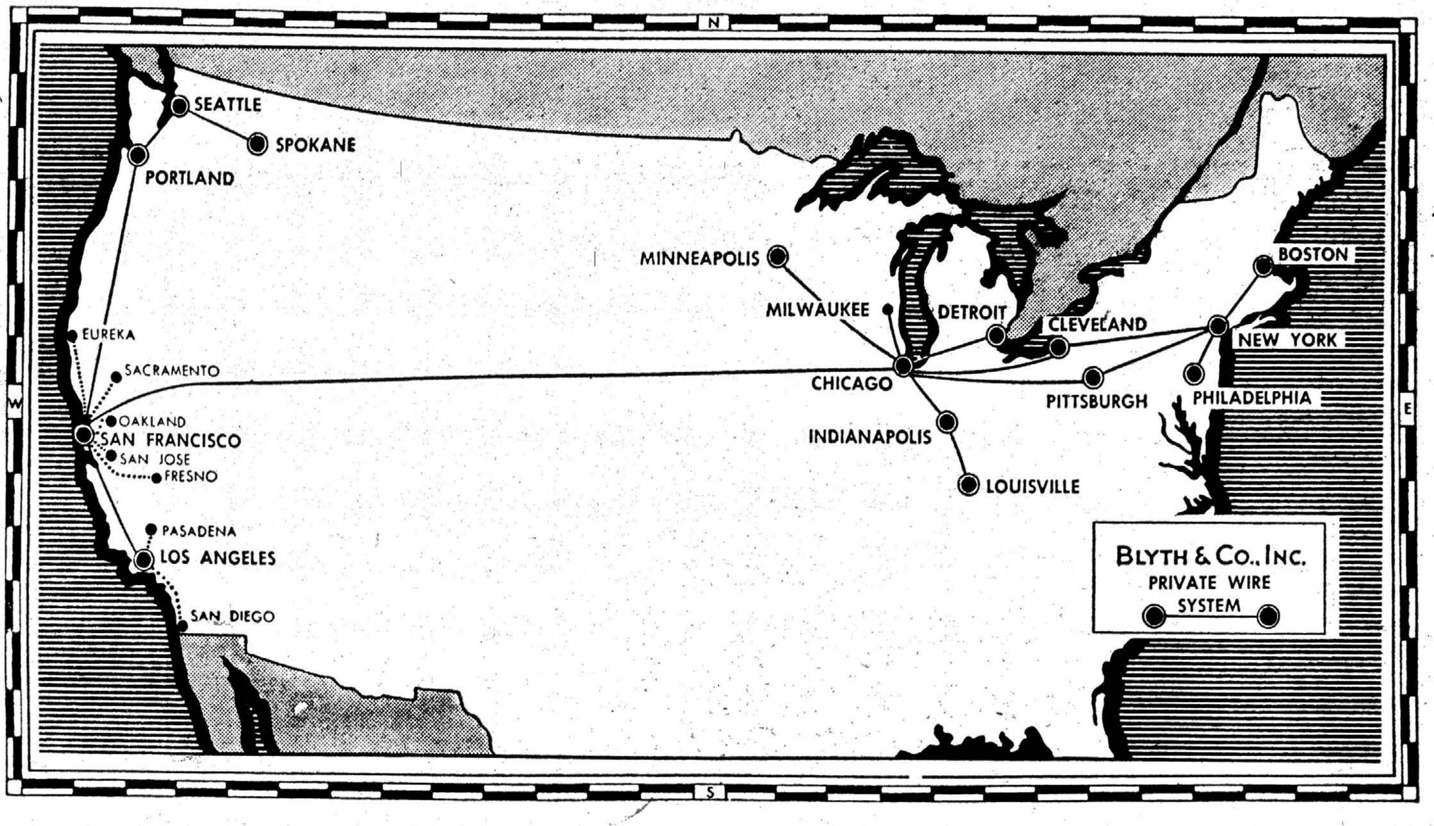
What we have been experiencing recently is a situation in which the demand for funds has substantially exceeded the available supply. The resultant rise in interest rates has caused reassessment, by the corporate treasurers, of the relative advantages of various methods of financing. As bond yields have risen, more firms have sought to finance long-term requirements at commercial banks on short-term borrowings. Demands of this nature have brought pressures on the banking system. In the absence of a willingness by the Federal Reserve System to supply additional reserves to help banks accommodate these demands of business, banks have been forced to liquidate government securities in large quantities.

Of course in this process the banking system has increased its risk assets and reduced its liquidity ratios to a point beyond which there is general reluctance to go. Thus in the absence of a supply of fresh reserves from the Federal Reserve System, a supply which is unlikely so long as inflationary factors persist, the banking system cannot be counted on as a limitless source of credit.

Private Debt Increase

A concomitant of a less than satisfactory accumulation of say-

*Inaugural address by Mr. Craft before the Investment Bankers Association of America, 45th Annual Convention, Hollywood, Fla., Nov. 29, 1956.



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ings has been the enormous increase of private debt particularly in the consumer and mortgage debt categories. Over-all consumer debt is at a new revised all-time high of $40 billion—a five-fold increase from the low level of the postwar 1946 year. Individual debt in the aggregate totals over $200 billion. If corporate debt is added, net private debt today stands at the formidable figure of $400 billion, compared with only $140 billion just ten years ago.

As indicated, the overwhelming proportion of this debt involves fixed time payments, a fact which reminds us that any natural decline in economic activity might tend to become cumulative because of the nature of the debt structure.

These are some of the problems of which we should be aware for it is in this area of debt and credit that future upsets are most likely to originate.

A more serious source of trouble to which the foregoing factors are contributing is the threat of another inflationary outburst. This is not solely a domestic problem but rather one that confronts all of the free world today. The continued tension in the Middle East and on the international scene generally adds additional fuel to the inflationary fires. Leadership in world affairs can best be supported by a stable currency and healthy economy at home.

From 1951 up to the latter part of last year we in this country succeeded in achieving a remarkable degree of stability in prices. In fact, during all of this period prices varied less than 2%. But just since January of this year pressures have mounted with the result that more than one-half of the increase in he Gross National Product this year is accounted for by an increase in prices. This means that our actual real rate of growth is less than 2½% instead of the 5% that the dollar figures indicate. When we go further and make allowance for the population rise of about 2% we find that the real per capita Gross National Product has changed scarcely at all.

Against Indiscriminate Credit Injections

Given these circumstances the Federal Reserve System has had no alternative but to restrict the availability of credit to accommodating only the legitimate needs of business. As long as demands of business are not being met out of true savings, it is axiomatic that the creation of additional money in an economy results in an incapacity simply results in an increase in prices. Indiscriminate injection of credit to support a boom is the surest road to an eventual depression, and the longer the boom is continued by this means the more severe the inevitable collapse.

Exposes Inflation Myth

Let us not fall for the common fallacies of inflation. Often it is said that inflation means a rise in profits, in stock prices, increased employment, and higher wages. The history of the French and German inflations furnish incontrovertible evidence that these are purely temporary phenomena —that in the longer run business after business is forced to close down because of inability to raise prices and generate earnings fast enough to meet the more rapidly rising costs of operation. Inevitably this brings about bankruptcies rather than rising profits, lower rather than higher real wages, and unemployment instead of increased employment. Terrible hardship is wrought on the pensioner, insurance policy holder, savings bank depositor, and anyone depending upon fixed income.

Actually no one can effectively hedge against inflation of that type and in the end everyone suffers. The thesis that a gradual inflation of the magnitude of say 2% a year is harmless, is likewise a myth for it is by this process, as President Eisenhower pointed out in a recent press conference, that a gradual erosion of purchasing power destroys the incentive to save. In the absence of proper capital formation the Government finds it politically inexpedient to avoid the creation of money. Thus eventually the same result is brought about. The best background for rising business, full employment, and a higher standard of living is a stable price structure. I think we can find no better example of this than the experience of the four years up to the beginning of 1956—a period of almost continually rising business activity, stock prices, employment, and profits. This of course was achieved against the background of less than a 2% fluctuation in the price level. Those are the conditions we should strive to preserve but right now we are up against strong pressures on the price level and to counteract these it is necessary to employ strong antidotes.

What Credit Controls Can Do

Let me make clear that credit policy is no cure-all for economic disequilibrium or price instability. If properly used, credit controls can be effective in arresting inflation which arises primarily from extension of credit, but it can no more stop inflation that arises from other sources than a lightning rod can put out a fire. The maximum effect can be achieved on the Government front only by a combination of appropriate fiscal, debt management and credit policies. Beyond this, in the private sector, there must be intelligent cooperation between labor and management and exercise of restraint on the part of the individual. Excesses in any one category either within or outside the Government call for application of moderating actions in whatever other categories can be employed.

Fiscal Advice

Much has been accomplished during the past several years on the fiscal front. A Federal Government budget surplus is a welcome change from the heavy deficits of the past but certainly the present surplus is at a very modest level in relation to over-all income, and if no further progress than this can be made during a period of unparalleled prosperity there is little prospect of ever making a really significant inroad on the national debt. Until a much larger surplus is provided for reduction of the Federal debt, the Congress should scrupulously prune expenditures and avoid tax reductions that would have the effect of reducing revenues. It is the responsibility of labor to avoid demands for wage increases which are out of line with productivity.

In fact if borrower or lender, management or labor, the individual consumer or other agencies of the Government do not exercise restraint voluntarily, the Federal Reserve System finds itself in that generally unpopular position of bearing the responsibility for forcing restraint by limiting the

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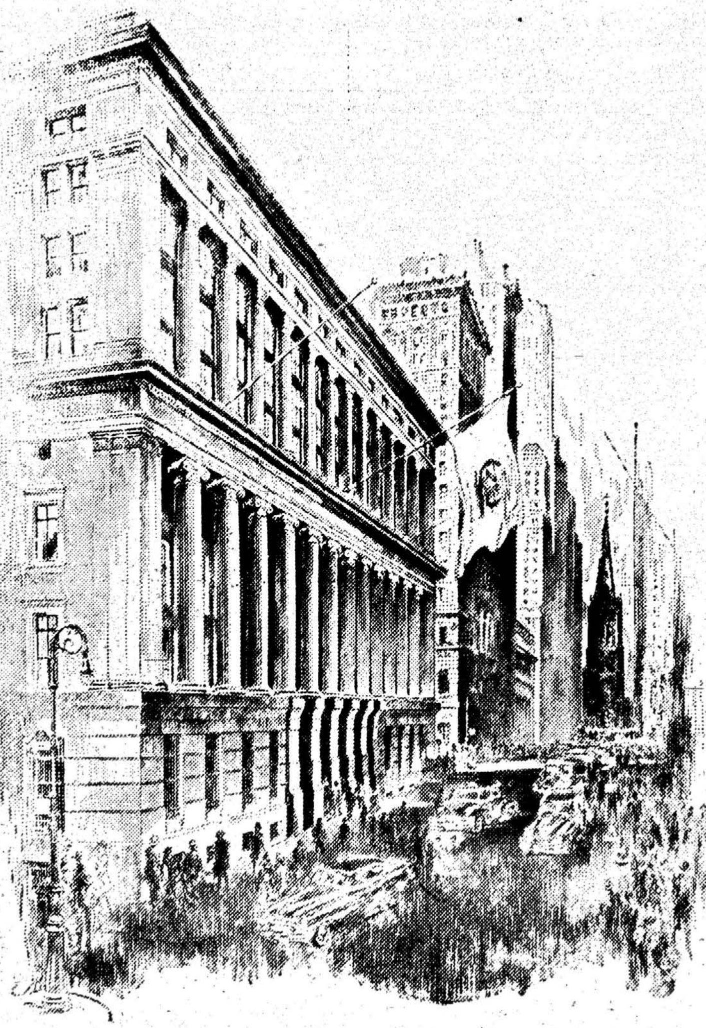

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Raising Our Performance Level

By GEORGE W. DAVIS*

Retiring President, Investment Bankers Association of America
Partner, Davis, Skaggs & Co., San Francisco

Retiring IBA head asserts "Accent on Youth" is the answer to a great need of the investment industry and reviews the program designed to foster proper and informed selling, to encourage the taking on of responsibility, and to make the profession a highly respected one. Mr. Davis explains the importance of the many IBA Committee industry studies to the smaller dealer and to salesmen; reviews closer relationship developed between the IBA and groups of younger men in various cities; and shows how beneficial IBA educational activities have been to the public and to the investment industry.

George W. Davis

First let me extend my personal greetings to all delegates to the Convention, to your wives and to our guests. The opening of this 45th Annual Convention of the Investment Bankers Association here at Hollywood marks another occasion at which we may report to you and discuss details concerning the progress and prospects both of our Association and our industry. We are also here to renew our many old and valued friendships and I'm sure to make many new ones.

"Hollywood," coming right after Thanksgiving — and Thanksgiving coming close on the heels of Nov. 6 and recent developments abroad, means that we foregather here truly thankful that we live in this great country and can continue to live and do business in an atmosphere which is as temperate politically as it is here climatically.

On the Federal legislative front, no legislation was enacted in the last session of the Congress which changed any of the Federal securities acts under which our business operates. There were, however, a number of proposed changes which reached various stages in the legislative process, such as the Bennett Bills, the Fulbright Bill, and the Priest Bill; and with the election now behind us I have no doubt but what they and perhaps other issues will be revived and provide further work for our special committees dealing with these matters.

In the municipal field several measures affecting the business were enacted into law — notably the Federal-Aid Highway Act of 1956, and amendments to the Water Pollution Control Act. These matters are all covered in detail in the report of the Municipal Securities Committee which was submitted to the Municipal Forum yesterday afternoon and copies of which are available to you.

At the State level Virginia adopted a new State blue sky law, and the Harvard Law School Study, looking toward the development of a model blue sky law or laws was completed. These model acts will likely be the subject of much discussion during the coming year as most of the State Legislatures will be in session. These matters plus the latest developments with respect to the variable annuities problem are covered in detail in the report of the State Legislation Committee which will be submitted to you on Thursday.

The SEC is continuing its program of reconsidering and revising various of its forms, rules, etc., and now has either out for comment or under consideration a number of matters of direct interest to all of us. These will be discussed in the report of the Federal Legislation Committee which will be made to the new board on Friday. The one in which I, personally, am particularly interested and on which we have been working with the Commission for some time is the matter of a Summary Prospectus. I am sure this problem can be worked out, and when it is I am certain that such a document will be a great help not only to investors but to retail distributors as well.

During the morning sessions of this Convention you delegates will hear, at first hand, summaries of this year's Committee reports on a great variety of industries and other subjects, as indicated in your Convention program. This information is essential to making the Convention helpful to you. Actually, however, I would suggest that it is even more important that this same information be distributed to your young salesmen who are not able to attend these meetings. Those men really need such background material: information not only to fortify them in their selling efforts and in building a clientele, but also to give them a better understanding of the economy of this nation.

Training Younger People

No work of this Association is more important to the smaller dealer and to his salesmen than the industry studies made by our various industry committees. Every sales-manager knows that new men, particularly in the corporate field, must be taught to sell on the perimeter basis: an industry first—and a specific company second. Although information regarding industries, states, municipalities, etc., may be purchased from the statistical services, no finer aid can be given the young salesman than to put before him the findings and conclusions of 15 to 20 IBA Committeemen from within his own business—all specialists in their fields.

Many of you will recall my comments made here a year ago concerning "Accent on Youth." I referred to the need of bringing younger men along, teaching them the art of selling, preparing them to accept larger responsibilities; and in anticipation of making Group calls around the country I agreed to discuss with men in the junior IBA's, Street Clubs, and 30-40 age groups, sales techniques and methods of interest to them. Furthermore, I wanted to encourage younger men to *know* their industries through making use of IBA Committee reports, and thereby building a sound foundation for their sales efforts.

One outstanding example of what can and has been done along these lines is the close relationship developed between the Investment Association of New York and the IBA. The Investment Association of New York is a group of some 400 of the younger men in the business in New York. Through the personal assistance and cooperation of every one of our national IBA Committee Chairmen, this New York organization set up the counterparts of IBA Committees within its own group — to study the same subjects and to submit factual material and suggestions for reports thereon. They also agreed to release verbally and in print committee information to their membership in New York simultaneously with its release

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*An address by Mr. Davis before the 45th Annual Convention, Investment Bankers Association of America, Hollywood, Fla., Nov. 25, 1956.

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Meeting the Nation's Steel Needs

By A. B. HOMER*

President Bethlehem Steel Company

In forecasting steel industry's need to increase steel capacity 70 million tons, or 50%, by 1971, to provide 200 million ingot tons, and in next five years an additional 20 million ton capacity to five million annual ton rate increase, Bethlehem Steel head details the difficult financing problems entailed in view of discrepancy between increased capacity costs and need to maintain adequate investment return. Mr. Homer suggests "a relatively small increase in earnings per ton spread over all products," and reinstatement of accelerated tax amortization to avert even high price increases or reduced expansion plans. Decries self defeating wage-price spiral and praises recently won three-year stabilized labor-cost period.

Arthur B. Homer

I am here not as the spokesman for the steel industry as such, but as the President of Bethlehem Steel Co.—a company which is, if I may say it with due modesty but with great pride, a considerable factor in the industry. What I say with reference to Bethlehem will probably apply in some degree to all the other major producers. We have problems in common and we are approaching solutions to those problems in the same general directions.

I think it is generally recognized today that the managers of large industrial companies have to keep in mind continually the interests of employees, customers, stockholders and the country at large. The art of good management might be defined as the practicing of methods which will satisfactorily discharge these responsibilities in the face of such seeming conflicts as may arise.

It is my observation that we have been making great progress in dealing with these occasional conflicts in the steel industry and that the interests of all groups are being better served today than ever before.

*An address by M. Homer before the 45th Annual Convention of the Investment Bankers Association, Hollywood, Fla., Nov. 27, 1956.

A Balance of Gains

We are getting nearer to realization on the part of all interests that a proper balance of gains is good for all and that excessive gain for immediate benefit to any one interest is bad for all. The professional manager of modern business sees clearly that serving all interests in an equitable manner is a major goal towards which he strives for the good of the whole.

While partial realization of this goal may have been accomplished, it is difficult at times to resolve some of the conflicts which arise in our competitive economy where power may be used to force a gain for the benefit of one interest and thereby lead to conditions which may be detrimental to all.

To anticipate and contend with such situations so that the end result will not adversely affect the interests of the whole is one of the most difficult functions of management today.

The nature of this management challenge can be well illustrated by reference to the steel labor negotiations which took place this year. These negotiations produced a crisis for the industry and culminated in a costly strike, the effects of which are still being felt throughout the economy. Later I will outline the problem we faced, but first let me put it into the framework of the industry's overall problem.

Responsibility to the Nation

Let me start off with the statement that the American steel industry must expand its basic capacity to serve the nation's needs. That is our responsibility to the country as a whole. The national population is growing and our per capita consumption of steel is growing. Our whole economy is surging forward and the steel industry wants to keep pace. Manifestly, it does *not* want to retard this growth process by *not* producing enough of the basic material upon which growth depends.

History indicates that the production of steel in our economy has a direct relationship to our gross national product—the measure of all goods and services produced. If the trends of growth continue in national production, in population and in per capita consumption of steel, the economy would probably require in 15 years an annual steel capacity of about 200 million ingot tons. This would mean an expansion of about 70 million tons, or over 50% in capacity in the next 15 years.

To expand to meet the nation's needs, including a safe margin for security purposes, is one of the problems the industry is facing. Expansion is proceeding at a rate of about five million additional ingot tons of steel a year through 1958. Some authorities estimate that within the next five years, the industry will need to spend well over $5 billion to create some 20 million tons of new capacity. These figures may not be precise but they indicate what we have to do to keep abreast of things. We naturally are concerned about doing the job and at the same time continuing to earn a satisfactory rate of return on the investment. Here we have a responsibility to another one of the interests about which I spoke previously.

Responsibility to Investors

I have no doubt that you are generally familiar with the situation. With today's facility costs inflated in relation to the average cost of existing plant, the industry is running out of opportunities to add additional capacity at costs which would justify the investment at present earning levels. Some of us are in better shape than others in this regard, but all of us who are going to expand will be faced sooner or later with the necessity of adding new fully integrated facilities — from raw materials to finished products—at costs ranging to $300/$400 per ton annual ingot capacity. To illustrate the implications of this let me cite Bethlehem's current situation as an example.

Current price-cost relationships provided Bethlehem with earnings in 1955 which resulted in the re-

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Kaiser Industries Corporation in Depth

By E. E. TREFETHEN, Jr.*

Executive Vice-President, Kaiser Industries Corporation

In describing the growth, structure, financing, balance sheet and operating statement of the Kaiser Industries Corporation—comprising steel, aluminum, gypsum, engineering and construction, cement, sand and gravel, in 14 states and 10 foreign countries—Mr. Trefethen expresses appreciation for investment bankers confidence, stresses all government borrowings have been repaid in full with interest, and reiterates "we have successfully retired from the passenger car business." Reports on: (1) greater profitable expectations for Willys in 1957; (2) important and unique role of Kaiser Engineers, particularly in oxygen converter process and nuclear energy; (3) plans of fully integrated West coast steel operations to meet more than present 55% of West's growing steel demands; and (4) getting ready for annual aluminum sales in excess of $1 billion.

When George Davis and Eaton Taylor invited me to make a presentation to you, I asked them, "What do you want me to talk about?" They said, "Kaiser Industries." I replied, "Are you sure you don't want me to discuss the out-look for the economy of the country or a theoretical philosophy about where we are going?" And they said, "No, we want you to talk about Kaiser Industries." This invitation to speak to you gives us an opportunity to tell you how important your part has been in our growth, **and in our future**. The basic industries we are in are growth industries where large sums of money are as essential as the raw materials, plants, and management. You have become partners of ours and we are grateful for your confidence and for your great contribution to our success.


E. E. Trefethen, Jr.

The story of Kaiser Industries, which is so close to my heart, is the story of our founder, our inspiration, our Chairman, Henry J. Kaiser, and of the team of men he built. It is a story of courage, vision, inspiration, hard work, and faith in the future that developed the sound foundations of our various basic businesses.

Historical Highlights

Henry Kaiser's industrial beginnings date back to 1914 when, in British Columbia, he organized the Henry J. Kaiser Company, Ltd. to conduct paving operations. This was followed in 1923 with the start of our sand and gravel business in California.

In 1927, we went to Cuba to build 200 miles of highway, laced by 500 bridges.

In 1931, heavy construction became our major business. In partnership with other contractors we built some of this country's biggest projects — Hoover — Bonneville—and the Grand Coulee Dam.

Another of the great Western dams — Shasta — triggered our entry into basic materials production in 1939.

There was a great shortage of cement on the West Coast, and when bids were called for cement to build Shasta, we made one—without even having a cement plant—one that meant a savings to the government of $1\frac{1}{2}$ million.

We were awarded the contract and in seven months had built the plant, started operations, and begun delivering cement.

This was followed by shipbuilding, and I am sure you all know our shipbuilding record during the war.

It is important to note however, that cement like sand and gravel, started prior to World War II and was followed by our other basic industries—Kaiser Steel in 1942—Kaiser Aluminum in 1946—and Kaiser Gypsum in 1948.

The past decade has really been our period of expansion — primarily in aluminum, steel, cement, gypsum, engineering and construction. This has been a great team effort involving financing of more than one billion two hundred fifty million dollars. Even today, our current expansion programs aggregate a little more than $420 million — incidentally, for your information, for which all financing has been arranged.

Kaiser Today

In a capsule, now after more than 40 years, Kaiser Industries Corporation and its affiliated companies today have total assets of close to $1 billion; total sales of close to $1 billion annually; 69,000 stockholders; 51,000 employees, 88 plants and facilities in 14 states and 10 foreign countries. In addition, through our charitable trusts and non-profit corporations comprising "The Kaiser Foundation Health Plan," we are operating 12 hospitals and 34 outpatient treatment centers and a school of nursing. This vast organization of 4,300 technicians and aids in conjunction with partnerships of doctors totalling some 500 are caring for the medical and hospital needs of over 530,000 Health Plan members. To our knowledge, this is the most comprehensive medical care program in the country. It is a very important part of our effort.

Kaiser Industries

Returning to Kaiser Industries Corporation—it is the culmination of almost a half century of corporate development. It is our top company which owns all of the stock of the Henry J. Kaiser Company and Willys Motors, Inc., and through the Henry J. Kaiser Company owns 80% of Kaiser Steel, 37% of Kaiser Aluminum & Chemical and 30% of Permanente Cement and its wholly-owned Kaiser Gypsum. In effect thereafter, Kaiser Industries Corporation is our engineering and construction business, our sand and gravel business, our Jeep business plus our interests in steel, aluminum, cement and gypsum.

Willys Motors

We have **successfully retired** from the passenger car business and Willys Motors is now geared exclusively to the specialized market for the Willys Jeep and related 4- and 2-wheel drive vehicles.

If Edgar Kaiser were here, he would say to you that the words I just used—"successfully retired from the passenger car business"—are an understatement. To have come through those terrific losses—paid all our bills—and turned the business, by the acquisition of Willys, to a profitable one was **some** little undertaking.

This shift has resulted in profitable operations in Willys . . . in 1955 and in this year . . . 1956. And we are looking forward to a particularly good year in 1957.

We are the third largest U. S. exporter of commercial vehicles, and enjoy a broad and diversified market—domestic and military as well as export.

Through a subsidiary . . . Kaiser Aircraft & Electronics . . . Willys operates the largest profile milling shop in the country. It is an important—a vital—supplier of machined aluminum forgings for the Boeing B-52 and jet-tanker programs.

Henry J. Kaiser Company

Our other wholly-owned subsidiary, Henry J. Kaiser Company, is an operating company as well as the principal stockholder in our major publicly-owned corporations. Its operating divisions include the San Francisco Bay Area's largest producer of sand and gravel and Kaiser Engineers, one of the world's largest engineering and construction organizations.

Kaiser Engineers

Kaiser Engineers has been and continues to be an **integral** and **decisive** factor in the development and growth of all Kaiser industrial undertakings.

During our entire history, the men of Kaiser Engineers have played a prominent part, from paving operations to the design and construction of the country's largest aluminum reduction plant . . . the Chalmette works of Kaiser Aluminum.

In addition to the part played by these men in our own development, they have offered and continue to offer to industry at large their varied skills and experience.

Kaiser Engineers today is tackling a backlog of more than $400 million . . . this representing the uncompleted portion of contracts with a total dollar volume of about $700 million.

Twelve thousand men of Kaiser Engineers are currently engaged in work for the Tata Iron and Steel Company of India . . . the Jones & Laughlin Steel Corporation . . . St. Joseph Lead Company . . . Marquette Cement Company . . . the Atomic Energy Commission . . . the Snowy Mountains Hydroelectric Authority in Australia . . . and many other clients in addition to performing contracts for our own associated companies.

I wish I had the time to tell you more of what they are doing . . . of how the Tata contract alone will raise India's total steel tonnage by almost 50% . . . of the exciting work being done by Kaiser Engineers in the field of

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*An address by Mr. Trefethen before the 45th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 28, 1956.

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SEC's Impact on Capital Markets

By J. SINCLAIR ARMSTRONG*

Chairman, Securities and Exchange Commission, Washington D. C.

Focusing attention on efforts made to minimize fraud, SEC Chairman deals with Commission's efforts to increase jurisdiction to detect and forestall rising unscrupulous sales, and emphasizes common responsibilities of — and action that must be taken by—securities industry in this objective. Mr. Armstrong discusses such problems as "fraud money" racket, "no sale" rule, unregistered securities, and illegal sales from Canada; reviews new summary prospectus trial ruling, and operation of newly enacted long needed amendments; details public's responsibility in exercising care and prudence; and lists the prerequisites to ensure Congressional intent of free securities market and free capital formation.

It is a great pleasure for me to address the Investment Bankers Association of America assembled in your 45th Annual Convention. As each of you in your daily business life is directly concerned with the administration of the Federal securities laws by the Securities and Exchange Commission, this opportunity to discuss with you the statutory objectives, the policies and programs of the Commission and the importance to the success of our free enterprise system of the proper functioning of the capital markets should contribute to an understanding of the respective responsibilities in the capital markets of the Commission, the securities industry and the investor.


J. Sinclair Armstrong

As to the objectives of the Congress expressed in the statutes, the Federal securities laws, enacted in the years 1933 through 1940, were intended to provide to public investors in new issues of corporate securities offered and sold in interstate commerce and in issues listed and traded on national securities exchanges certain basic business and financial information about the corporations issuing them; to provide regulation of the exchange markets so as to assure free, fair, open and orderly markets; to provide a limited regulation of the over-the-counter markets; to provide corporate simplification and physical integration and continued regulation of the financial structures of public utility holding company systems; to provide regulation of investment companies to assure adherence to standards protective of public investors, and to provide against manipulation, "pools," rigging of prices, insider advantages, and misrepresentation and fraud in the purchase and sale of securities. These are the statutory objectives.

As to the policies of the Commission in administering the securities laws, it was three years ago, in December, 1953, that Ralph H. Demmler, then Chairman, addressed your Association here in Hollywood. He outlined for you some of the problems facing the Commission and described our approach and philosophy. He stated, and I think most importantly, that "the Government should not interpose unnecessary obstacles to the raising of capital." Also, through his speech ran the theme of the importance of not sacrificing any of the basic safeguards for protection of the investing public which had been built up over the years. Rather we were then seeking to make those programs conform to the statute and be more effective. We still are.

*An address by Mr. Armstrong before the 45th Annual Convention of the Investment Bankers Association of America, Hollywood, Florida, Nov. 26th.

SEC Aids Capital Formation

Capital formation is tremendously important to the economy of our country. There is nothing in the Federal securities laws designed to impede the raising of capital. These laws if well administered should help, not hurt, the capital formation process.

Capital is formed only by the voluntary cooperation of the public, and the work of the Commission is one of the factors giving the public confidence in the integrity of the capital markets. You cannot have capital formation without willing investors.

These last three years have been productive of great progress in many areas of the Commission's work. The securities industry and Government may take great satisfaction from our cooperative efforts to solve some of the problems which three years ago seemed to present formidable obstacles and the resolution of which then seemed remote, but which have been solved or are on their way to solution.

In approaching problems, naturally differences of opinion occur between the Commission and the securities industry, and between different segments of the industry, as to administrative methods and procedures of business practices and conduct. But we all share one common interest, the investor. If the Commission or the securities industry fails to serve the investor, or serves him badly, the nation is the loser.

As to programs of the Commission in carrying out our general policies, by far the most important over-all program of the agency is our enforcement program. It is interesting to note that this, too, was foreshadowed in Mr. Demmler's talk here in 1953, though the problems have been greatly magnified since then. I will describe some of these briefly, and our efforts to cope with them.

Problem of Dishonest Broker-Dealers

First, the problem of new, inexperienced and, in some cases, dishonest brokers and dealers registering under the Exchange Act. The recent great activity in the capital markets has attracted many new brokers and dealers to the securities business. The number of registered broker-dealers increased from 3,900 in June 1949, to 4,600 in June 1956. Many of the new broker-dealers are inexperienced and unfamiliar with the obligations owed to their customers. Some have been drawn into the business in the hope of a quick profit rather than the establishment of a sound business reputation built painstakingly upon just and equitable principles of trade. A substantial number either lack adequate financial resources or speculate unwisely, thus getting into financial difficulties which threaten the safety of customers' funds or securities entrusted to them.

The Commision has no authority under the Exchange Act to bar a person from registration (absent proof of earlier violation of law) nor is there any financial or educational requirement. We have instituted expanded and more frequent broker-dealer inspections, prompt investigations of irregularities discovered in inspections or complaints received from the public, and prompt and vigorous legal action in the case of violations.

Second, the problem of "boilerrooms." An increasing number of securities of speculative quality have been sold to unsophisticated investors lured by representations of large profits under present market conditions and willing to buy securities on the basis of representations made over the long distance telephone by complete strangers. Prevention and detection of fraud in such sales has been a particularly difficult task necessitating the careful collection of evidence from widely scattered sources.

Our program has three thrusts —first, to bring broker-dealer revocation proceedings against broker-dealers found to be selling or purchasing securities by misrepresentation or fraud; second, to bring injunctive actions in the Federal courts to prevent such transactions, and to prevent broker-dealers from doing business in violation of any of the Exchange Act protective provisions or the Commission's rules; and third, where the violation is willful, reference of the case to the Department of Justice for criminal prosecution.

Public Must Be Educated

One particularly difficult aspect of the "boilerroom" problem is the gullibility of the public. The Commission has had a public information program under which Commissioners have talked at public gatherings, particularly to professional and civic groups, to the press and on radio and television, seeking to acquaint the public with the dangers of stock transactions with unknown persons calling on the long distance phone and holding out promises of riches if the person called will only buy the stock. The public is asked to tell the person calling to put a letter in the mail about the securities (this often ends the call because use of the mails gives Federal jurisdiction under the Exchange Act and the Mail Fraud Act) or to put the official prospectus or offering circular (which in the case of a new issue is required to be filed with, and is examined by, the Commission) in the mail.

The press, radio, and television news media have rendered great service to the American people by helping to get this message across. But, fundamentally, a government agency can do just so much in protecting the public, and in the final anlaysis the American people must learn to use ordinary care and prudence in investing their money. The Commission needs the help of the investing public which should report to us transactions in which misrepresentation and fraud has occurred and

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Some External Aspects of Canada's Expansion

By LOUIS RASMINSKY*

Deputy Governor, Bank of Canada
Executive Director, International Monetary Fund

After reviewing external aspects of recent Canadian economic expansion, Bank of Canada official depicts America's stake in world prosperity and the importance of foreign trade. Mr. Rasminsky explains secondary industries' aggregate investment has been several times as large as investments in the publicized primary resources; investment rate has been considerably higher than that of the U. S.; investment boom is primarily responsible for imports rising faster than increasing exports; U. S. capital market's accessibility makes Canadian borrowing sensitive to relatively small changes in interest rate spread between the two countries; growth potential rather than yield influences foreign investors in Canadian equities; and free rate has been helpful in maintaining monetary stability.

The growth of the Canadian economy in the last few years has attracted a great deal of attention outside Canada, as well as at home. Canadians have been both flattered and occasionally embarrassed to find themselves and their country suddenly rediscovered by your metropolitan and business press. A new Canadian saga has showed signs of growing up, based on dramatic and outstanding achievements which have greatly increased our output and potential output of certain basic resources — iron ore, petroleum, aluminum, uranium, water-power and so on. It is no wonder that these resources developments have attracted great attention, for not only are they important in themselves, but they provide the very stuff of which romance (at least economic romance) is made—daring magnitude, difficult pioneering in remote and forbidding country, wonderful engineering accomplishments.

Louis Rasminsky

The discoveries and developments I have been referring to have had a leavening effect on Canadian expansion. In some cases they have involved the opening up of remote areas and provided the opportunity to exploit other resources which would not have been able to stand on their own feet. They have brought along with them secondary developments of great importance: for example, oil and natural gas have contributed to the development of a sizable petrochemical industry. Perhaps most important of all, the uncovering of important basic resources has created, in the minds of Canadians and non-Canadians alike, a favorable attitude towards Canada's long-run prospects. This favorable attitude, and the willingness to back it up with hard cash, is reflected in the high level of investment which has been taking place in our country since the end of the war.

*An address by Mr. Rasminsky before the 43rd National Foreign Trade Convention, New York City, Nov. 26.

Larger Secondary Industry Investment

However, resource development can be exaggerated as a factor in our development. Growth in Canada during the last few years can, perhaps not inappropriately, be compared to the proverbial iceberg: the parts that one sees are most impressive, but the great bulk is below the surface and if not unknown at least invisible. In actual fact, aggregate investment in our secondary industries, in communications, in distributive and service facilities, in non-residential construction and in housing has been several times as large as investment in the exploitation of primary resources. What we have had is a general expansion, in which basic resources have played an important dynamic role, which has broadened and deepened the structure of the Canadian economy. Relatively undeveloped countries sometimes act as though the development of the primary products in which they have a natural economic advantage is incompatible with the development of secondary industry. Our own experience has been that the two can well go hand in hand, and that the broadening of the internal market produced in part by basic resource development brings in its train the development of secondary manufacturing industries and service industries as well.

Uninterrupted Capital Expansion

The recent Canadian expansion is, of course, by no means an isolated case. In fact, one of the most striking economic facts of the past few years is the great increase in the demand for capital to finance expansion in virtually all parts of the world. One of the manifestations of this has been the universal rise in interest rates as the supply of savings has had difficulty in keeping pace with the demand for loanable funds. Though the Canadian case is by no means unique, there are, perhaps, two or three special features in our position. One is that the Canadian economy has been expanding almost without interruption since the end of the war. At first it seemed to be a question of making up for the depression and the war, during which civilian progress was at a standstill and even maintenance reduced; during the 1950's there has been continuous and, in the last year or two, accelerating new expansion. Usually in Canada and elsewhere sharp bursts of expansion have been moderated or temporarily halted by cyclical down-turns. This has been true since the war in most other countries. In Canada, though we have not been completely insulated from the cyclical disturbances that have been experienced elsewhere, these have for the most part taken the form of a pause in the growth of output, as in 1954, rather than a down-turn.

A second remarkable characteristic of our growth has been its magnitude. In real terms, gross national product is currently running some 40% higher than it was at the end of the 1940's. This in itself, though impressive, does not seem much different from the growth of output in the United States. But the rate of investment in Canada has been considerably higher than it has been in the United states and most other countries. Ever since 1948 the proportion of our gross national product devoted to investment has exceeded 20%; this year it will amount to the very high figure of 25%. These rates are considerably higher than the corresponding figures for the United States. There appears to be this difference between the recent character of investment in Canada and the United States—that in our case a higher proportion of investment has gone into activities that either do not result directly in industrial output, such as pipelines and transportation, or into very long range projects which still are to be reflected in our production statistics such as oil, hydro-electric development, and so forth. It follows, of course, that a considerable share of the fruits of Canadian investment are still to be plucked.

Since the pause of 1954 the increase in output and investment in Canada has been very marked. Gross national product in value terms was 10% higher in 1955 than 1954 and is currently running at a rate about 10% higher than 1955. The increase in 1955 took up most of the slack which developed during the 1954 pause. The increase this year has absorbed more than the regular annual increase in the labor force resulting from population growth and immigration: good jobs have attracted more people into the labor force who would not be there under less buoyant conditions. The increase in gross national product this year includes a larger element of price increase than previously, and the current account deficit in our international payments has increased very substantially. Both of these developments reflect the growing pressure on our resources.

Imports Increased Faster Than Exports

The current account deficits which have persisted with the exception of one year since 1950 are the focal point in our balance of payments. They represent the extent to which we have drawn on the rest of the world for goods and services to enable us to maintain levels of investment and consumption which are beyond our own immediate capacity.

The current account deficits ranged from $400-$500 million a year until 1955, but the deficit is now running at a rate in excess of $1 billion a year. These are big figures by any standards, but it is worth remembering that as a percentage of total trade turnover they are smaller than they have usually been in past periods of rapid expansion.

Current account deficits are no novelty in new countries. Fre-

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Growing Foreign Investments

By ROBERT L. GARNER*

President, International Finance Corporation

The inescapable changing world's decisive impact upon our future, and the increasing importance of foreign markets, are referred to by Mr. Garner in depicting the investment banker's role in the growing field of foreign investments; the purposes and principles of the I. F. C.; and our self-interest in the economic future of underdeveloped countries. Advises general run of investors not to undertake foreign investments; foresees end to depressions comparable to those of the past; expects greater world trade and production growth; and urges promoting the spread of free enterprise system abroad.

Over the past decade you investment bankers have been busy —and generally profitably so—in financing American industry, utilities and public authorities.

Robert L. Garner

And despite some present problems in in the bond market and the critical situation in the Middle East and Europe, I believe you will in the coming years, handle a big volume of domestic financing. Assuming no major war, the U. S. economy will continue its growth. The pace will vary, but like a six-day bicycle race, it will keep going. I trust that there will be periods when we slow down a bit to consolidate our gains and catch our breath. But I believe that over the foreseeable future we will have no depression comparable to those which have occurred periodically in the past.

Also, assuming reasonable peace, growth in production and trade in the rest of the world is likely to be more widespread and rapid than ever before.

We have become a more mature economy, and—whether or not we approve — government has assumed responsibility for stabilizing the economic life of the country.

Our generation has seen great changes in our country and in our way of life. We have been forced to accept the fact that, as life has become more complex, government has necessarily extended its activities. The horse and buggy age required no traffic control. Now the traffic lights must be operated by the state, but we don't want it to drive our cars.

And what is going on outside our borders bears down on our future. Most of us would gratefully return to the good old days when we Americans were secure to live our own lives and settle our own problems, but there are few among us who still think that we can turn back.

We and our children cannot escape the destiny of living in a world in which what took place at the Marne and Verdun, at Bataan and the Bulge, and what is today going on in Hungary, Suez and Moscow is more decisive to our future than what happens in Pittsburgh, Detroit or New Orleans.

In much of Europe and throughout the Middle East, Asia and Africa the long-established order has been torn up by the roots.

In Russia and its border states feudal rule has been surplanted by a more effective and bloodier tyranny. Outside of the Communist countries, for the first time in history, hundreds of millions of people in the undeveloped areas are learning that there is something better than they ever knew.

Generations of Indians of the Andes, blacks of Africa, peasants of Turkey, Iran, India have lived little changed over the centuries. But our generation in the West has upset this way of life. Motor cars roll tourists to the pyramids. GI's went into the islands of the Pacific, Burma, China, with the trimmings of the American way of life. Hollywood films reveal throughout the world a picture of American riches.

Millions of people have had their first glimpse of something new and exciting — of airplanes and motor cars, of canned meat and nylon stockings. They have seen these things and they want them.

Western colonialism, for which few now dare speak a kind word, but which represented law and order, responsible government and a considerable degree of economic progress, is dead or dying. And in its place are new nations, unsure, inexperienced, often irresponsible. They represent a vacuum. And one of the gravest questions in the world today is how will that vacuum be filled—whether by the progressive development of these people with the friendly help of the West, or by the aggressive and brutal process of Communism.

Investment Bankers Face World Opportunities

Now let us get down to the question of what all of this change in the world means to you investment bankers, to your industrial and commercial clients, and to all of us Americans. What is our self-interest in the economic future of the undeveloped countries.

I shall make three basic points.

The Paley Report merely pointed up what is obvious, that we increasingly need raw materials from outside our borders — whether iron ore, copper, manganese, bauxite or the innumerable minor metals which, more and more, are necessary for our hungry industry. And the most abundant supplies lie in the less developed countries. Their continued availability depends not merely upon the technical development and expansion of the mines, but upon the financial and political stability and the attitudes of the countries themselves.

In the second place, the capacity of our farms and factories is greater than we now consume. We need to sell our products abroad and this situation is likely to exist indefinitely. The importance to us of foreign markets is not measured alone by the $14 billion of our exports, but must take into account even more billions worth of goods produced abroad by business enterprises owned wholly or in part by Americans. This is big business even for the United States.

Thus it does not seem in question that the United States, the greatest producing and consuming nation in the world, stands to benefit by expanding international production and trade and to suffer with its stagnation and decline.

And finally our best customers are not the undeveloped and poor countries but those most prosperous and highly industrialized. The more developed a country becomes the better customer it will be.

These are the economic facts which give this country a stake in developing the undeveloped world.

Interest in Investments Abroad

An increasing interest on the part of American business in expanding its operations overseas has been proved to us in the International Finance Corporation over the past few months, through discussions with a broad cross-section of American industry, including both the giant corporations and those of lesser size.

We are aware also of new interest on the part of financial institutions in investment abroad. One indication has been more participations in World Bank loans by commercial banks and insurance companies. Another is that several of the most conservative banks in New York have begun to put certain of their investment accounts into stock of some of the leading foreign corporations.

You know of the several new financial companies which have been organized for foreign investment, and we in the International Finance Corporation have been told by them and by many of the leading investment banking houses in Wall Street of their interest in going along with us in deals. All of this represents quite a change.

I wish to make it clear that I am not suggesting that Americans rush blindly into foreign business or investment. They should be approached cautiously and selectively. I am sometimes surprised by the enthusiasm of some supposedly hardheaded Americans who are carried away by the lure of opportunities abroad, without applying the judgments which they recognize as essential at home. The elements of good business are the same everywhere and what would not be sound at home is certainly not sound abroad. There are difficult conditions and greater risks and these must be carefully weighed against the possible rewards.

Foreign Investment Pros and Cons

Now let us consider briefly some of the pros and cons of foreign investments.

Obviously business across national borders has extra hazards and today, particularly in the economically less developed areas, unstable and erratic political and financial conditions have to be faced. Many currencies are being weakened by inflation. Laws and government policies frequently present difficulties. Nationalism is often combined with a general suspicion of foreign business. Standards of business conduct frequently fall far below what we consider appropriate. In many places there is scant experience in

Continued on page 79

*An address by Mr. Garner before the 45th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 29, 1956.

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Public Works Needs of America

By MAJOR GENERAL J. S. BRAGDON*

Special Assistant to the President of the United States

Reporting state and local governments are falling behind each year in meeting $200 billion backlog of roads, education, water and sewerage requirements, President's public works policy advisor states these governmental units will have to spend $20.4 billion annually—twice as much as now spent—in order to catch up by 1964. Maj. Gen. Bragdon outlines proposed "Measured Needs" method of determining public works requirements, in order to systematically meet them; details areas in which investment bankers can better serve local officials, and expressed concern for such critical problems as: water adequacy, stream pollution, public schools, highways, overlapping jurisdictions and uncoordinated public works planning.

It is a distinct pleasure for me to appear before such a distinguished audience. My pleasure however is tempered with the realization that, as bankers, this audience constitutes one which is most discerning. Traditionally, bankers have been recognized as men who by nature and training refuse to be misled by non-essentials and quickly bring their attention to bear on that which is elemental in any idea laid before them. This is as it should be. The financial standing of the United States would never have reached its present stature if you and the other financial leaders of the nation had not devoted your lives to clear and objective analysis of that which is new while retaining the best of that which is old.

John S. Bragdon

In a sense, however, I feel a distinct comradeship with the banker in his objectivity. As you know I am an engineer. Throughout my career as an officer in the Corps of Engineers and later in private practice, I too have had to deal with proposals and projects of wide variety and great diversity of value. I like to think that the professional engineer can and does match the banker in his impartial analysis of the problems with which he is confronted.

Relate Securities and Public Works

I would like to discuss with you a concept of the proper planning of the nation's public works. It is not necessarily a new concept, rather it is a new arrangement of certain tried and tested ideas. This subject is not as foreign to investment banking as might seem the case at first glance. You who participate in the flow of industrial, commercial, and governmental credit are, of course, interested in the various securities of our thousands of governmental units. Many of these securities are pledged to obtain funds to provide needed public facilities. You thus have a direct concern in the matter of insuring that these public facilities are properly conceived, well planned, efficiently constructed, and economically operated.

It is necessary, at the outset, for me to define the term "Public Works" as I shall use it. This term will be applied to the planning and construction of public or quasi-public facilities such as roads, schools, hospitals, airports, water supply systems, and other public service undertakings. It will not include certain maintenance and custodial functions commonly lumped as public works under many municipal governments. In short, I am excluding maintenance and operations of public buildings, roads and streets, publicly-owned utility systems, and other public facilities.

Within this context I will first remind you that the nation's public works are executed by thousands of units of governments throughout the length and breadth of the land. These public works serve millions of people. There is scarcely a person in the United States who does not in some way make use of public facilities almost daily. These public facilities have a capital cost measured in the billions of dollars. Even in this day of a $400 billion Gross National Product, a billion dollars is still a lot of money. This being the case these public works demand comprehensive long-range planning if they are to be as effective as they should. This is the theme on which I wish to speak.

Size and Variation of Public Works

It is not generally realized that vast numbers of large and small governments are engaged in public works construction in the United States. The number is almost legion. For instance, there are 40 Federal agencies alone in the construction field. There are 53 states, territories and possessions, and 3,049 counties. Beyond these are the special purpose districts, the municipalities, the townships, and almost 60,000 school districts in the United States. Altogether there are 109,000 governmental entities planning and executing public works today. Considering this fact alone one is somewhat staggered at the possibility for conflicts of jurisdiction and interests, variation in methods and ends, and diversity of financial stature. We believe that any system which can point the way toward more consistency among these governments deserves mature consideration.

I have already alluded to the place of public works construction in the nation's economy. All construction, public and private, is a significant element in the economy. Over the last 40 years our Gross National Product has climbed from less than $100 billion to its present level of approximately $400 billion. Total construction, although affected by war and depression, has always constituted 8 to 12% of the Gross National Product. Public works construction has varied between 1% and 6% of the Gross National Product, averaging about 3%, which incidentally is where it stands today. The composition of this public works element of our economy today is about 75% state and local and about 25% Federal with a very small portion identifiable as Federal aid to non-Federal programs.

The cost of public works in 1955 was $12.5 billion, the greatest total in our history, yet 1956 is breaking that record. We estimate that the current year's total will be between $13 and $14 billion.

State and Local $200 Billion Backlog

Despite this large national program there is still a great deal remaining to be done. One of the contributory factors to the great backlogs which exist is the astounding population growth of the United States. These people are the "customers" of public facilities. In the 320 years between 1620 and 1940, the nation's population grew to 131 million. Last year it stood at 165 million. By 1975 an estimated 211 million people will be living in the United States. In other words, in a 35-year period we will add 90 million users of public services, a number equal to two-thirds of the entire population growth attained in the prior 320 years. The needs of these people for public facilities are virtually unlimited.

In addition to the population growth, two wars and a depression have served to accumulate our great backlog. In the field of state and local public works alone, requirements today are estimated to be over $200 billion. There are, for example, $92 billion worth of roads and highways needed, $41.5 billion for educational facilities and $25.3 billion in water and sewerage facilities. These estimated requirements have three main components. Considering the estimate for water and sewerage requirements, quoted as $25.3 billion, we can identify $10 billion in backlog. These are the construction items needed in the past but deferred. Secondly, $6.2 billion of the requirement is due to obsolescence. This is the volume of replacement needed for those facilities which have served their useful life. Finally, there are those required for the growth in population. This component of water and sewerage requirements totals $9.1 billion.

Similar analyses may be made for the other fields of state and local public works. If we were to catch up by 1964, we should be spending $20.4 billion a year. The current rate is less than half of that. In 1954 the annual rate was only 42.3% of the "10-year catchup" rate. We are falling further behind each year.

Critical Educational and Highway Problem

Let us examine some of the individual fields of public facilities. First, consider the case for accelerating the construction of public schools. Most of you know that there has been an amazing upsurge in public school enrollment. The number of public school pupils held fairly constant between 1930 and 1950 at about 25 million pupils. Then the increase began. In 1955, there were 32 million pupils and it is estimated that there will be 42 million in 1965. This creates a critical short-range problem. The classrooms needed in the next five years total 470,000. 210,000 are needed for added enrollment, 180,000 to replace obsolescence, and 80,000 to relieve overcrowding.

This problem is being attacked

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*An address by Major General Bragdon before the 45th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Nov. 25, 1956.

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Report of IBA Governmental Securities Committee

At the 45th Annual Convention of the Investment Bankers Association of America, Emil J. Pattberg, Jr. of the First Boston Corporation and Chairman of Governmental Securities Committee, submitted the Report of his Committee.

Report presented by Chairman Pattberg points out why "1957 can be a challenging year for our authorities charged with monetary, fiscal and debt management policies" and, in particular, details future refunding developments which may nullify previous improvement in our debt structure. Believes successful handling of current delicate market indicates market's continual ability to fulfill its important function in an orderly manner; and shows, despite tight money year, commercial bank loans increased $6 billion to a new high, without satisfying all potential borrowers. Emphasizes sound dollar and improved debt management objectives.

The text of the Report follows:

Last May when this committee reported to you at White Sulphur, there were some question marks concerning the direction of the economy and the possible implications of the coming Presidential election. Would business level off as many economists had predicted? Would there be a pickup in the automobile industry and housing starts, or would the soft spots spread? Would the Federal Reserve System, in managing the nation's money supply, succeed in keeping clear of the pressures of the election campaign? And finally, would the election outcome signalize some drastic modification of official attitudes about debt management policies that were developed under the Republican Administration?

Emil J. Pattberg, Jr.

Most of these questions have since been answered. The election is history. The policies of the Federal Reserve System have been determined without regard to political expediency. . . . And the economy did not falter. Instead, the record breaking outlays for industrial expansion and construction, coupled with increased consumer spending, drove our economy to new heights of production, employment and income. The gross national product of the third quarter was at the rate of $414 billion, a new high record; and the final quarter of this year is expected to exceed any similar period in our history. In short . . . 1956 is a boom year.

During this period the savings of the country could not keep pace with the demand for money. Lending institutions, already extended by the expansion of loans and investments of the past two years, thus faced further demands for credit which could only be accommodated by the liquidation of U. S. Government securities.

Current Market Situation

With business activity nearing the limits set by manpower, materials and plant capacity, and with upward pressures developing on the price level, Federal Reserve policy continued to be directed toward restraint. In carrying out this policy the Federal Reserve did not make "tight money," but, rather, the System refused to close with inflationary dollars the gap between savings and the demand for capital. It is the responsibility of the Federal Reserve to maintain a stable climate for business to function in. Thus, the money market has functioned virtually on a natural supply and demand basis. The reality of "tight money" became apparent as the bond markets declined, interest rates rose and borrowers generally had to adjust their financing plans to the changing conditions of the money market.

In general, interest rates moved to the highest levels since the early 1930s. Two increases in the Federal Reserve discount rate this year lifted it to 3%, the highest since 1933. The prime rate for borrowing from commercial banks was increased in two steps to 4%. The cost of borrowing on mortgages has increased and although the stipulated rate on VA and FHA guaranteed mortgages has remained unchanged, it has been more difficult to find buyers, even when offered at substantial discounts.

Prices of corporate, municipal and government securities reflected the scarcity of investible funds. The extent of these declines may be illustrated by the fact that the yields on new issues of corporate AA bonds have increased by more than 110 basis points since early in the year, a price decline of some 18 points on a 30-year bond. Municipal issues showed comparable losses and the longest governments declined as much as seven points.

Throughout the past year, commercial banks were hard pressed to take care of their customer's loan requirements. Though much has been said concerning the difficulty of borrowing money, commercial banks did increase their loans by about $6 billion to a new high in dollar amount, and the highest ratio of loans to deposits since the 1930s. This occurred during a period when there was only a small change in the amount of deposits of the banking system and was accomplished primarily by the sale of an almost equal amount of government securities, many at a loss. In doing so, they reduced their secondary reserves, that is, cash and government securities, to a point where it is obvious that many banks must now be more selective in making additional loans. Similarly, savings banks and insurance companies have found it necessary to sell U. S. governments against loan and investment commitments.

In spite of these large scale operations, lending institutions on occasion were unable to supply all potential borrowers and some sizable offerings in the capital market were postponed or canceled.

Just as bank lending rates moved upward on account of the strain on the money supply, so did prices in the government securities market move downward. Because of the pressure of bank selling, yields on governments in the short and intermediate maturity areas have gone up more than those on longer bonds. On occasion we have had a rather strange yield curve with two-year obligations yielding the same as seven-year bonds. The spread between yield on long-term U. S. Government bonds and high-grade corporate securities widened as new Treasury financing was confined to short-term maturities while the supply of new long-term corporate issues continued at a high level.

Success of "Thin" Market

In the government securities market, the whole story of the "tight money" year was not just one of fluctuating rates. As we have indicated, commercial banks had to liquidate more than $5 billion of government securities during the first six months of 1956 to accommodate their customers. In addition, insurance companies and savings banks were net sellers during the period. It was up to the government market to absorb these offerings and to redistribute them among other non-bank investors. In performing this task, the Treasury market went through some trying periods. It is a "thin" market today only if compared with that of the war and early postwar period. Your committee feels, however, that the success attained in performing this delicate task is significant evidence of the market's continued ability to fulfill its important function in an orderly manner.

The Treasury in 1956 shaped its financing operations to a market limited in scope by the expanded demand for credit and capital in the economy and the restrictive policies of the Federal Reserve System.

During the year, the Treasury refunded over $31 billion of maturing marketable debt, exclusive of the regular weekly maturity of Treasury bills, and sold more than $6½ billion of tax certificates and special issues of Treasury bills to meet seasonal cash requirements. Although these totals were sizable, they were much smaller than they would have been, and required fewer offerings, had not the Treasury achieved so much in the way of debt extension and consolidation of maturities in prior years. Similarly helpful was the cash surplus in the spring of 1956 which permitted the Treas-

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ury to pay off $8 billion of debt during the first six months.

Increase in Short Terms

Because commercial banks, insurance companies and savings banks were net sellers of government securities, and also because the Federal Reserve System owned $19 billion of the maturing issues, the Treasury was forced to refund all but $2 billion of its $31 billion of 1956 maturities, into issues due in one year or less. These operations boosted one-year marketable debt by about $9 billion to a total of $61½ billion, exclusive of tax anticipation borrowings which in the past have not been offered exchange privileges.

Next Year's Treasury Problems

Looking ahead, the year 1957 poses formidable problems in debt management for the Treasury. Ten different maturities, totaling over $40 billion, are expected to be refunded during the year. This is in addition to the refunding of the weekly cycle of Treasury bills (currently outstanding in the amount of $21 billion). In the first half of 1957, tax anticipation securities in the amount of some $6½ billion are expected to be paid off. However, it will probably be necessary for the Treasury to do additional seasonal borrowing during the second half of the year.

In analyzing the problem facing the Treasury next year, it is to be noted that corporations and the Federal Reserve System together own a large percentage of issues that will mature in 1957. The policy of corporations to employ government securities for tax accruals as well as for the temporary investment of proceeds from the sale of their own securities, pretty much restricts their purchases of governments to the short-term market. On top of this, the Federal Reserve's policy has been to exchange its maturing governments into short issues.

Unless new longer-term investors can be found, the Treasury will have to place major emphasis on short-term refunding issues in 1957. If all of next year's maturities are replaced with new issues due in one year or less, the one-year marketable debt would balloon from $61½ billion to over $70 billion, plus seasonal borrowings. This would represent almost half of the Treasury's marketable debt.

Such a development would make future refundings larger and more frequent and would nullify part of the gains made in prior years in improving the debt structure.

Better Demand and Supply Balance

Even though the Treasury of necessity will have to tailor its 1957 refunding operations to the demand of the market, it is important, nevertheless, that improvement of the debt structure shall remain constantly a major objective of debt management. If there is a falling off in the demand for money at banks and in the capital markets, there will again be opportunities to sell longer issues. Even now there are some indications that the economy is adjusting to a better balance between demand and supply factors.

Nineteen fifty-seven can be a challenging year for our authorities charged with monetary, fiscal and debt - management policies. Some of the questions asked in 1956 may come up again, and new problems may have to be solved. Tensions in the Middle East and among Soviet Russia's satellites in eastern Europe could require a reappraisal of our national economic planning. It would be pointless of your Governmental Securities Committee to explore in detail the tremendous implication of the new international crisis. Yet we must recognize that the aggravation of tension is potentially a strong force for tapping the demand side of the capital market and for fanning the inflationary fires.

Emphasizes Sound Dollar

Whatever the economic problems turn out to be, confidence in the dollar is the cornerstone upon which they must be resolved. A sound dollar is an important factor in our ability to increase the rate of savings, so necessary to finance the further growth of our economy and to successfully handle the problems of Treasury debt management. The ability to accelerate the rate of savings will be measured to a large degree by fiscal policy, which determines how much the government will spend and what the tax rate will be. We recognize that in periods of international tension it is difficult to consider military and foreign aid appropriations from a viewpoint of economy.

However, we cannot lose sight of the fact that government spending and taxes are a determining factor in our ability to save and that these savings are the key to our sound economic growth.

Respectfully submitted,
THE GOVERNMENTAL SECURITIES COMMITTEE

Emil J. Pattberg, Jr., Chairman
The First Boston Corporation
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The National City Bank of Cleveland, Cleveland

Milton S. Bosley
National Bank of Detroit
Detroit

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Northwestern National Bank of Minneapolis, Minneapolis

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The Northern Trust Company
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Robert C. Morris
Bankers Trust Company
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First National City Bank of New York, New York

L. Sumner Pruyne
The First National Bank of Boston, Boston

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Two With Dean Witter

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SAN FRANCISCO, Calif.—Frederick I. Entwistle and Thomas F. Slack are with Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

With Sierra Corp.

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—Oliver K. Fry and John E. Reed have become affiliated with Sierra Corporation, Majestic Building.

1957 IBA Convention Meeting Dates Announced

The 1957 Annual Convention of the Investment Bankers Association of America will be held Dec. 1-6, 1957, at the Hollywood Beach Hotel, Hollywood, Fla.

The Association has also announced that the Spring Meeting will be held at the Greenbrier, White Sulphur Springs, W. Va., May 8-11, 1957, and the Fall Meeting will be held Sept. 25-27, 1957, at the Santa Barbara Biltmore, Santa Barbara, Calif.

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SAN JOSE, Calif.—Belmont M. Reid is now connected with Dean Witter & Co., 34 North First St.

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DENVER, Colo.—Glenn Noble and James C. Marks are now with Colorado Investment Co., Inc., 509 Seventeenth Street.

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LOS ANGELES, Calif.—Theodore G. Congdon has become connected with Dean Witter & Co., 632 South Spring Street.

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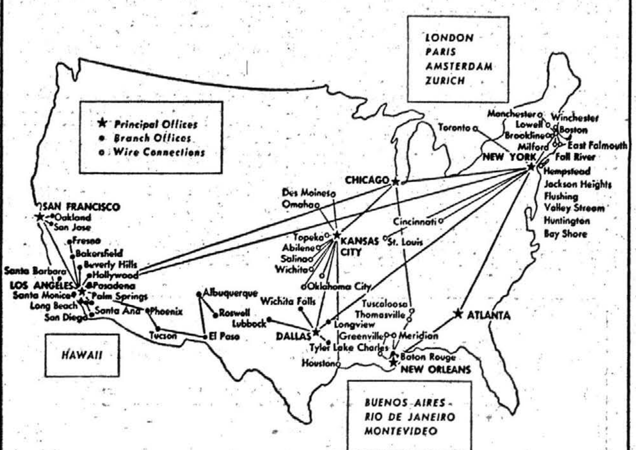

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Report of IBA Railroad Securities Committee

Railroad Securities Committee, headed by Samuel B. Payne, reveals estimates made showing the industry should spend $20 billion in next decade for new equipment and facilities, and that probably little over half of this will come from depreciation and retained earnings. Seeks improved investors confidence in earnings and safety margin, and better railroad access to capital market in order to meet remaining capital balance. Hopes in next few years some new capital needs will be raised from equities.

Samuel B. Payne, Chairman of Railroad Securities Committee, and of Morgan Stanley & Co., submitted the Annual Report of his committee to the 45th Annual Convention of the Investment Bankers Association of America, held at Hollywood, Fla.

The text of the Report follows:

On balance 1956 has been another relatively good year for the railroads. Gross operating revenues of Class I railroads will again exceed $10 billion, or an average of over $27 million for every day in the year. Net income probably will be close to the all-time high of $925 million reported in 1955. Income tax deferrals resulting from amortization of defense projects continue to contribute to the relatively favorable reported earnings.

Samuel B. Payne

Unfavorable factors in the railroad picture have been well-publicized. Some of them have been referred to in previous reports of this committee. Out-moded regulatory practices, competition from unregulated or losely regulated and directly or indirectly subsidized carriers, and higher wage and material costs are among the more important.

Favorable Future Factors

Today your committee would like to comment briefly on a few favorable factors for the future. In these troubled times it is well to recall a statement made earlier this year by General James A. Van Fleet (Ret.): "The railroads of the United States are a great basic military asset. They are as much a part of the military strength of the nation as our Army, Navy, Air Force and Marines, because none of these great armed services could long operate without the logistical support which railroads provide. No other form of transport, nor all other forms of transport combined, could take over the job of railroads, because they all lack some of the inherent characteristics on which the military value of railroads is based."

John W. Barriger in his recent book "Super-Railroads—For a Dynamic American Economy" expresses it this way: "No other means of transportation can haul so much, so far, for such little expenditure of man-hours, of fuel and of capital." In spite of this basic efficiency in the mass transportation of freight, the industry's proportion of total inter-city ton miles, after rising from 62% in 1940 to a World War II peak of 72% in 1943, declined to 49.5% in 1955. There are indications that the railways' proportion may have hit rock bottom last year and that in the future they will be able to moderately increase their share of the country's growing freight business.

New Improvements

A glance back at the past decade reveals the magnitude of change in railroading techniques. The diesel has almost fully supplanted the steam locomotive, bringing in addition to its flexibility, high power and low maintenance, a whole new approach to railroad operation. Long nonstop runs have produced faster, more reliable service and large expense reductions. The installation of large, thoroughly modern yards have speeded up freight service by materially reducing switching and terminal delays and have produced far reaching secondary effects, such as greater utilization of the freight car fleet.

Installation of modern signal systems known in the industry as "CTC" and radio communication networks are contributing to further transformation of railroad operation. These systems provide direct contact between dispatcher and trains, enabling the traffic to be moved with a minimum of delays. The new signal systems have had the effect of almost doubling the capacity of main line tracks while practically eliminating traffic congestion.

Many who acknowledge the effectiveness of these improvements have difficulty discerning other new tools to continue the increased railroad earnings resulting from dieselization, "push button" yards and CTC signals. In our opinion there are more new tools on the horizon which are expected to contribute substantially to further growth in railroad earnings.

Now in the process of standardization of procedures and initial installation are the latest products of electronic data processing and computing machinery. Initial applications of these machines have only scratched the surface. There is hardly a phase of railroading which will not be profoundly affected by them. Not only will these machines replace many functions now performed by hand and repeated at many different points en route, but they will have the capacity to do the volume of detailed work required in making definitive traffic and revenue studies.

Microwave radio control of signal systems and actual train operation are in the experimental stage now. Their successful application may result in very substantial savings.

The development of "piggyback" operations, whereby truck trailers are transported on railroad flat cars, is putting traffic on the rails which formerly moved all highway. The inherent flexibility of this combination is beginning to have an important beneficial effect on railroad freight traffic and earnings, on terminal costs and congestion and on increased utilization of equipment.

These are a few of the many applications of modern engineering to railroading. One of the most significant things about the railroad picture today is that it is basically a changing industry in which the application of new tools and concepts is continuing at an impressive rate.

A Challenge to Investors

Looking ahead to the future the railroads offer a challenge and an opportunity to us in the investment banking business. President James M. Symes of the Pennsylvania Railroad and other competent students of the railroad industry have stated that the railroads should spend $20 billion for new equipment and new facilities over the next ten years. Probably not much over half of this vast sum will be generated from depreciation and retained earnings. To the extent that the balance is raised it will have to come from placement of new issues of debt and stock. Unfortunately many railroads will have only limited access to our capital markets unless investor confidence is increased through sustained and more adequate earning power and margins of safety comparable to those found in other industries. Your committee feels that improvement in two areas will contribute greatly to this restoration.

In the light of today's competition within the industry, Congressional revision of the nation's policy and provisions for actually carrying it out are necessary in the national interest. An effective national support of strong, competitive, private ownership and operation of transportation must replace the outmoded policy now in force which places intolerable restraints on the system, particularly in its approach to rate regulation and accounting requirements.

New Equity Capital

Adequate appraisal of today's railroads is a most important responsibility of our own, and your committee feels that there is much we, as investment bankers can and should do to adjust our yardsticks and general understanding for the benefit of both the industry and the investing public. It is not unreasonable to hope that in the next few years the railroads again will raise permanent capital in the form of common stock for some portion of their new money requirements.

In this report we have been discussing the Class I railroads as a group. As investment bankers it is important for us to always remember that this group comprises some 116 different railroads, some of which have done considerably better than average, others not as well. It might be worth your while to take a close look at the figures over the last five or ten years for some of the better situated and well-managed roads. Their record is impressive.

Respectfully submitted,

RAILROAD SECURITIES COMMITTEE

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Report of IBA Municipal Securities Committee

Municipal Securities Committee reveals municipals sold in first 10 months of this year totals $4,678,509,670; estimates this year's total may exceed $5,-976,603,820 registered last year, and postponed 1956 transaction may make 1957 a record year. The report discusses such topics as the impact of various recent Federal statutes and extension of metropolitan areas beyond city limits upon municipal financing. Offers recommendations dealing with such matters as college housing program, amortizing tax-exempt-bond premiums held by dealers, and making it possible for investment firms to purchase municipals and pass tax-exempt-income privileges to shareholders.

William M. Adams, of Braun, Bosworth & Co., Detroit, Chairman of the Municipal Securities Committee, submitted to the 45th Annual Convention of the Investment Bankers Association of America, at Hollywood, Florida, the annual Committee Report, along with the appendices attached to it.

The text of the Report and the appendices follow:

Wm. M. Adams

Although the tight money supply and the resulting low municipal bond prices during most of the year have caused the postponement of a large volume of municipal financing, the amount of new issues of state and municipal securities sold during the first 10 months of this year has been large and indicates that the total volume for the year will be close to, or exceed, the volume for 1955. The volume for each of the past 10 years is shown in Table I.

The postponement of large amounts of municipal financing until next year and the apparent heavy demand for new financing reflected in approval of bond issues at the recent election indicate that next year may be a record year for volume of municipal financing.

The increasing volume of municipal underwriting over the past 10 years reflects a growing demand for new facilities which has created some new problems and aggravated some old problems in municipal financing. Efforts to remedy these problems constitute much of the work of this Committee, and some of them are summarized below.

TABLE I

	General Obligations	Revenue Bonds	Total
1956 (1st 10 months)	$3,308,231,225	$1,370,278,445	$4,678,509,670
1955 (12 months)...............	4,244,089,370	1,732,414,450	5,976,603,820
1954 (12 months)...............	3,753,810,796	3,214,831,100	6,968,641,896
1953 (12 months)...............	3,990,640,799	1,557,887,369	5,557,887,369
1952 (12 months)...............	2,937,966,967	1,463,350,500	4,401,317,467
1951 (12 months)...............	3,278,153,053	730,095,200	3,278,153,053
1950 (12 months)...............	3,093,680,965	599,923,200	3,693,604,165
1949 (12 months)...............	2,312,471,799	632,953,250	2,995,425,049
1948 (12 months)...............	2,440,230,349	549,501,600	2,989,731,949
1947 (12 months)...............	1,968,080,762	385,690,800	2,353,771,562

(1) Legal and Mechanical Problems; Nuisance Suits; Execution of Public Securities

We believe that much can be done to facilitate municipal financing and to minimize the cost of such financing by removing unnecessary legal obstacles and simplifying mechanical procedures. As the volume of municipal underwriting increases, the importance of removing legal obstacles and simplifying procedures will also increase.

One of the principal legal problems has been litigation challenging the validity of municipal bond issues. "Nuisance suits" have delayed municipal financing, increased the costs and caused disputes regarding the obligation of underwriters when such litigation is pending or threatened.

A model Law prepared by the IBA Liaison Committee of the Municipal Law Section of the American Bar Association would minimize the filing of "nuisance suits" by requiring that all suits relating to the validity of an issue of municipal bonds be determined in a single validation proceeding. We believe adoption of this model law would do much to minimize the filing of nuisance suits while protecting the right to challenge the validity of an issue of municipal bonds. Efforts to obtain adoption of this model law should be assisted greatly by action of the American Bar Association at its meeting in Dallas this year when it adopted the following resolution:

"RESOLVED, that the American Bar Association recommends to state legislatures the enactment of legislation which will provide in a judicial proceeding for the expeditious final adjudication of all questions which may arise in connection with the validity of proposed state and municipal bond issues and which will permit the consolidation of all suits affecting the validity of such securities."

Parts of the general problem of litigation are a number of incidents during recent years involving serious questions regarding the practice of requiring that, at the time of delivery of state and municipal bonds by the issuer to the purchasing dealers, there be furnished an unqualified approving legal opinion and a non-litigation certificate. The Board of Governors of the Municipal Forum of New York in May adopted a resolution recommending that, in order to standardize the practice regarding non-litigation certificates regarding municipal obligations, (1) each notice of sale or purchase contract include a provision that there will be furnished by the issuer a non-litigation certificate in specified form dated as of the date of delivery and payment of the bonds and (2) that such non-litigation certificate include a statement that "there is no litigation pending or, to the knowledge of the signers thereof, threatened affecting the validity of the bonds." This proposal was considered by the Committee at its meeting during the Spring Meeting of the IBA in May, and the proposal was referred to a special committee under the chairmanship of Mr. Cushman McGee (Pressprich Co., New York). The report of that special committee will be presented during the Annual Convention of the IBA.

Another model law prepared by the IBA Liaison Committee of the Municipal Law Section of the American Bar Association would facilitate and simplify the execution of public securities by authorizing the use of facsimile signatures in the execution of such signatures if at least one signature required thereon is manually subscribed. This model law has already been adopted, with some variations, in Alabama, Colorado, Louisiana and Texas. The American Bar Association also endorsed adoption of this model law at its meeting this year when it adopted the following resolution:

"RESOLVED, that the legislatures of the respective states be urged to adopt statutes which will authorize the execution of large public bond issues with facsimile signatures and at least one manual signature."

This year we have supplied copies of both of these model laws to members of all IBA group municipal securities committees and group legislation committees, and we have urged them to attempt to obtain adoption of those model laws in their respective states. We have also attempted to enlist the support of other associations which have a vital interest in such matters. Copies of the two model laws referred to above are attached as Appendix A and Appendix B.

(2) Metropolitan Area Problems

The shift of population from rural areas to cities and the spread of population out of cities into the suburbs have created metropolitan areas which extend beyond city limits. These developments have created metropolitan area problems, including determination of (1) the appropriate governmental unit to furnish certain services, such as transportation, water, sewers, schools and police and fire protection, (2) the division of political authority among the various governmental units within the area and (3) the means of financing the services provided in the area. It appears that there is no single answer to these problems, but that the solution in each metropolitan area must be tailored to the needs of that area. However, there are many common factors, and the problems can certainly be resolved more simply through cooperation of various interested organizations and agencies.

On April 29-May 2 a National Conference on Metropolitan Problems was held at East Lansing, Michigan, to analyze some of these problems and to consider various alternative solutions. This conference was sponsored by the following organizations:

Council of State Governments
National Municipal League
Section of Municipal Law of the American Bar Association
American Municipal Association
Investment Bankers Association
American Society of Planning Officials
Tax Institute
International City Managers Association
American Institute of Planners
Municipal Finance Officers Association of the U. S. and Canada
Public Administration Clearing House
Institute of Public Administration
Governmental Affairs Institute
Governmental Research Association
Council of Metropolitan Regional Organizations
Department of Political Science of Michigan State University
Government Affairs Foundation.

The IBA was represented at this Conference by Mr. John S. Linen (Chairman of a special subcom-

Continued on page 82

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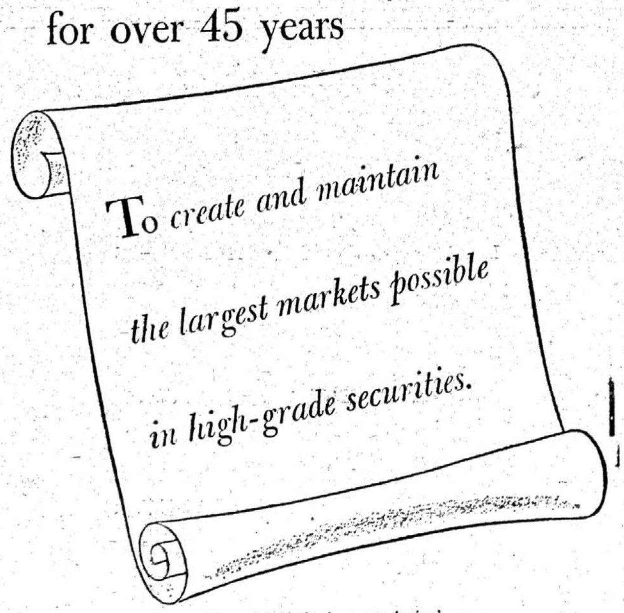

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Report of IBA Public Utilities Securities Committee

Utilities Securities Report estimates construction and financing requirements for electric, gas and telephone industries; warns that insufficient private utility service will induce further public encroachment, and submits "Creeping Socialism" is scarcely halted; believes handling of rights-issues should be compensated; and examines suggestions to encourage freer flow of investor funds funds into utilities.

Harold H. Young, of Eastman, Dillon, Union Securities & Co., New York City, submitted the Report of the Public Utilities Securities Committee, of which he was Chairman, to the 45th Annual Convention of the Investment Bankers Association of America, held at Hollywood, Fla.

The text of the Report and appendix follow:

The American economy continues its forward march; although there may be slowings and turnings, no one can doubt that the future of this society is sure to encompass expanded investment, greater markets and higher standards of living. In the public utility industry the factor of growth—in demand, in capacity and in investment needs—persists in surpassing the rate of growth not only of our population and the Gross National Product, but also, we suspect, of most other industries as well.

Harold H. Young

In Table I of this report, we present in capsule form the record of the recent past. Summarizing these statistics we note that in the electric utility industry, kilowatt-hour output of energy has doubled since 1949 and the 12-month period ended August shows an advance of 13.7% over the preceding similar period. Likewise at Aug. 31, 1956, installed generating capacity was recorded at 118,010,526 kilowatts representing a 7.3% increase over Aug. 31, 1955. Of even more direct interest to our profession, new money raised from the public in the first 9 months of this year exceeded $1.1 billion on top of the enormous amounts of $1.3 billion for the entire year 1955 and $1.7 billion for 1954.

Peering into the future, the "Electrical World" in its Sept. 17, 1956 issue makes the following prognostications of expansion requirements:

Forecasts (in Millions of Dollars) of Electric Construction Requirements

Year	Generation	Transmission	Distribution	Miscellaneous	Total
1956	$1,493	$619	$1,460	$210	$3,782
1957	1,834	703	1,584	203	4,320
1958	2,227	809	1,719	220	4,975
1959	2,344	864	1,865	239	5,312
1960	2,428	919	2,024	259	5,630
1965	2,944	1,261	3,045	390	7,640
1970	4,237	1,865	4,580	586	11,268

Gas Industry

A parallel expansion exists in the gas industry and brief statistics are shown in Table II appended. This industry continues to add more than 800,000 new customers a year and now serves in excess of 29 million. The year 1955 saw revenues of nearly $5.3 billion, an increase of 15.1% over 1954, and for the 12 months ended June 30, 1956, recorded a new high of $5.75 billion for an increase of 17.3% over the comparable period last year. Construction expenditures in the gas distribution and transmission industry for the entire year 1956 are estimated at a new high of $1.6 billion by the American Gas Association. This is double the annual average of 1946-50 and compares with reported expenditures of $1.3 billion in 1955 and $1.0 billion in 1954. The A.G.A. predicts a further acceleration in capital expenditures and estimates an aggregate of $5.6 billion over the next three years. Financing in 1955 amounted to $1.4 billion in new securities as compared with $2.4 billion in 1954.

Telephone Industry

The third utility, the telephone industry, likewise shows continuing growth. (See Table III.) At the end of 1955, there were 8,461,000 telephones in service of the independent companies and 48,029,000 in the Bell System. This reflects a gain of 6.5% during the year and 78% in the decade. Due in part to the problems of financing modernization, there has been a further reduction in the number of independents with 4,714 still operating on Dec. 31, 1955 as compared with 5,983 at the same date in 1946.

Total investment in telephone plant was up $1.5 billion in the year and stood at $17.8 billion at year-end. Operating revenues were $6.0 billion for 1955, an increase of 10.8% over the preceding year. On the part of 406 reporting independents alone, financing last year amounted to $137 million. American Tel. & Tel. and its subsidiaries raised more than $1,200 million. No estimates of future telephone requirements come readily to hand, but it can be imagined that little slackening will take place.

Growing Utility Service Demand

Without burdening our report further, we believe the point will be accepted that demands for utility service will continue to grow apace and needs for financing will prevail. Your committee has followed its policy of attempting to influence the development of a satisfactory investment climate for utility securities wherever an opportunity has arisen. Closer contacts have been built up with utility managements, opinions have been expressed on legislation, regulation and tax matters, and educational activities have been pursued. In line with this policy, the Committee sent letters to the Securities and Exchange Commission, to the Governor of Indiana and the Public Service Commission, to the Industrial Development Fo. of Puerto Rico, to a representative group of public utility company managements and to the chairmen of the state public utility commissions. The purpose has, of course, been to become more vocative as representatives of the investment community and to use our influence for improving the market for the utility securities so necessary to meet the spiraling capital demands of the utility industry. As illustrative of our endeavors, we append to this report a copy of a letter sent to the Chairmen of the various State public utility commissions of the country recently.

It goes without saying that should privately-owned utilities be unable to meet the demands for service, the proponents of public power will have every excuse to step into the vacuum. Despite four years of the present administration, evidence of further encroachment of the State in the power field can be found. The September issue of the Guaranty Trust Company of New York's "Survey" pointed up this problem in detail. The writer reports that "in the 20 years from 1933 to 1953, 'public' power increased from 6 to 20% of the country's total output of electric energy, and Federally produced power alone rose from less than ½ of 1% to 13%, with a further rise to 16% in prospect by 1960." Let us show a few figures from the Federal Power Commission's Electric Power Statistics, as follows:

Electric Production
(million-kwh.)

Year	Private	Public	% Public
1955	420,520	125,884	23.0
1954	370,970	100,716	21.4
1950	266,860	62,281	18.9
1945	180,926	41,560	18.7
1940	125,411	16,426	11.6
1930	86,108	5,003	5.5
1920	37,716	1,689	4.3

Creeping Socialism and Rising Capital Costs

We submit that "Creeping Socialism" is scarcely halted and certainly in the field of electric power remains a severe threat to the private enterprise system. Default on the part of the investor-owned utility industry to expand because of inability to raise capital can only encourage the public power advocates to step in.

Of course, one of the outstanding developments of the year just closed was the rise in the cost of capital, both borrowed money and equity funds. This phenomenon is too well known to require detailed discussion here but as a matter of record we might detail just the impact on the utility companies. At the end of October, 1955 Irving Trust Co. reported average yields of 3.11% for Triple A bonds, 3.16% for Double A and 3.27% for A bonds. The same averages one year later, at the end of October, 1956, were 3.66% for Triple A bonds, 3.76% for Double A and 4.0[illegible]% for the A bonds. The Irving Trust Co. compilation giving yields on preferred stocks showed average returns of 3.96% for the Group 1 issues at the end of October, 1955, 4.06% for the Group 2 issues and 4.24% for Group 3 issues. At the end of October, 1956 the corresponding yields were 4.42% for Group 1 issues, 4.46% for Group 2 issues and 4.69% for Group 3 issues.

In late October, 1955 a broad group of common stocks included in a compilation put out monthly by C. A. Turner of Chicago had an average yield of 4.7% and the average price-earnings ratio was 15.4. The same compilation at the end of October, 1956 showed an average yield of 5.0% and an average price-earnings ratio of 14.1.

Many utility companies have proceeded with financing plans more or less irrespective of the prevailing markets. They follow the theory that with growth trends as at present they are faced with the necessity of raising money annually and, accordingly, pay whatever they must each year as the time for financing rolls around. Some companies have shown more reluctance to face the situation and have tended to rely more on bank loans with the hope of doing permanent financing on a more favorable basis later on. We believe there is much to be said for doing each year's financing as the time comes, rather than to gamble on what the market may do at a later date. Some companies have altered financing plans to meet the existing situation and in at least some cases have abandoned plans to sell bonds in favor of selling common stock with the feeling that the common financing may be done on a relatively more advantageous basis at present.

New Demands by Investors

Thus far, the demand for utility common stocks has held up well but we invite special attention to the appendix to this report, mentioned earlier, in the form of a letter which our Committee sent to the Chairmen of the various public utility commissions. In this letter there is set forth a situation which we think requires very thoughtful consideration on the part of all people concerned. There is an increasing demand on

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the part of investors for utility stocks which promise increases in per-share earnings and dividends over a period of time. Straight income, even of a good amount, does not hold the attraction for investors which it once offered. We commend this letter to the special attention of the readers of this report.

The raising of equity money by utility companies some times takes the form of issuance of rights to stockholders. The handling of these rights by investment houses proves to be an expensive proposition. Some public utility companies have recognized this fact and have provided modest compensation for dealers who are of assistance to the company in obtaining the exercise of rights. This compensation is entirely apart from any commission which may be paid to underwriters for their function.

Compensation for Rights' Handling

Our Committee is working on the problem of trying to get more utility companies to pay compensation for the handling of rights. We made a strong presentation of our case to the American Telephone & Telegraph Co. when we learned that they were going to issue rights this fall. Our efforts were unavailing but we think that dealers should become articulate in this matter and bring to the attention of the officials of A.T.&T. the burden and expense involved in handling these rights and the justification for some fair compensation.

We believe that only as our case is pressed aggressively is there any hope of getting our point across. We plan to make a presentation of our case to other utility companies in the next year.

We wish to note one other phase of our committee activities in the year just closed. President Davis of the I.B.A. has stressed the desirability of giving aid and encouragement to the younger men in the business and getting them more familiar with the function and activities of the Association. With this thought in mind he asked the committee to cooperate with groups representing these younger men. The New York members of our Committee have worked with the Public Utilities Committee of the Investment Association of New York, a group of junior people in the New York investment houses. We believe that cooperation of this kind is highly desirable and hope that this type of liaison work can be further extended.

Respectfully submitted,
PUBLIC UTILITIES SECURITIES COMMITTEE

Harold H. Young, Chairman
Eastman Dillon, Union Securities & Co., New York

Clarence W. Bartow
Drexel & Co., New York

H. Theodore Birr, Jr.
First California Company Incorporated, San Francisco

Elwood D. Boynton
Hallgarten & Co., New York

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Boettcher and Company, Denver

Albert E. Schwabacher, Jr.
Schwabacher & Co.
San Francisco

G. Edward Slezak
The Milwaukee Company
Milwaukee

TABLE I

Electric Utility Industry

12 Months Ended	Electric Production (thous. kwh.)	Installed Generating Capacity at Period End. (kw.)
Aug. 1956	589,452,837	118,010,526
Aug. 1955	518,363,951	110,029,299
Dec. 1954	471,686,354	102,592,410
Dec. 1949	291,099,543	63,100,334
Dec. 1941	164,787,878	42,405,436
Dec. 1929	92,180,273	29,839,459

SOURCE: Electric Power Statistics, Federal Power Commission.

SECURITIES SOLD (thousands of dollars)

	9 Mos. to 9/30/56	9 Mos. to 9/30/55
Long-Term Debt		
Publicly	$661,500	$592,500
Subscription	59,779	37,737
Privately	27,500	67,150
	$748,779	$697,387
Preferred Stock		
Publicly	$134,265	$112,425
Subscription	32,836	23,243
Privately	10,600	20,750
	$177,701	$156,418
Common Stock		
Publicly	$63,362	$90,660
Subscription	141,254	140,440
Total Financing	$1,131,096	$1,084,905
Total New Money	$1,127,070	$952,407

SOURCE: Ebasco Services, Inc.

TABLE II

Gas Distribution and Pipelines

12 Months Period	Total Revenues (millions)	Construction Expenditures (millions)	Customers (thousands)
June 1956	$5,750	$1,628 E	29,190
June 1955	4,901	1,345	27,954
Dec. 1954	3,052	1,055	27,528
Dec. 1951	2,228	1,462	24,953
1940-6 Avge.	1,565	799	22,267

Forecast of Construction Expenditures

1957—$1,942 million; 1958—$1,745 million; 1959—$1,954 million.

SOURCE: "Gas Facts" and Quarterly Report American Gas Association.

TABLE III

Telephone Industry

TELEPHONES INSTALLED (thousands)

Year-End	Independents	Bell System
1955	8,461	48,029
1954	7,996	45,044
1949	6,086	34,776
1946	4,825	26,900

OPERATING REVENUES (thousands of dollars)

Year-End	Independents	Bell System
1955	$596,030	$5,425,442
1954	526,109	4,907,481
1949	286,572	2,970,690
1946	201,170	2,157,917

PLANT INVESTMENT (thousands of dollars)

Year-End	Independents	Bell System
1955	$2,042,822	$15,799,247
1954	1,795,029	14,567,746
1949	961,199	9,726,535
1946	655,878	6,440,847

SOURCE: Statistics of the Independent Telephone Industry—U. S. Independent Telephone Association.

APPENDIX

Copy of letter sent to Chairmen of Public Utility Commissions

DEAR SIR:

Our committee is vitally concerned with any matters affecting the free flow of funds into the securities of public utility companies. In this connection we have been observing a trend which may have some unfavorable implications and we wish to bring it to your attention.

We are finding that many individual investors are becoming apathetic about public utility common stocks as vehicles of investment. On the other hand, institutional investors have been more important factors in the utility equity market. Before writing this letter we took pains to susbtantiate our impressions by asking a long list of electric and gas companies to furnish us with figures as to changes in the composition of their stockholder list in recent years. We obtained a gratifying response. Lack of uniformity in the tabulations and the periods covered make it impractical to give any summary results but after studying the returns we can say without hesitation that they reveal a definite and general (although not universal) trend toward lower percentages of total common stock ownership in the hands of individuals and a higher percentage in the hands of institutions.

This fact, in and of itself, might not seem to be a cause for alarm until we analyze the reasons for the decreasing interest on the part

Continued on page 64

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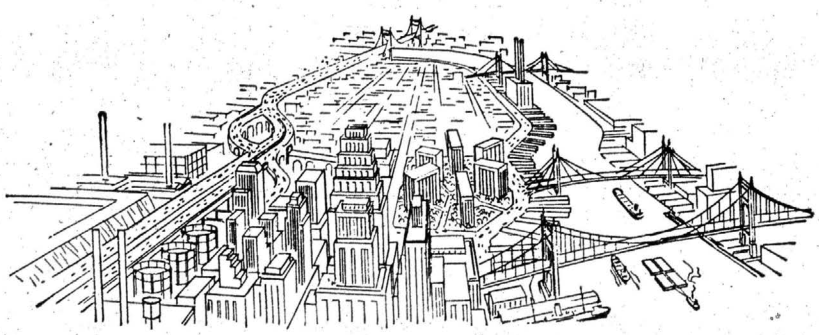

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Report of IBA Special Industrial Securities Committee

Committee's conclusion of a bituminous coal near- and long-term bright future is based upon an analysis which includes: increasing demand from electric, steel, and exports; an assumption atomic power will not substantially compete with electric power growth in next twenty years; awareness of natural gas and petroleum products' capture of a large share of the energy, heat and power market, and steps taken to improve coal's competitive position against those two fuels; and likelihood coal chemicals will remain by-product process for many years. Report envisions investment need of $1½ billion in new plant in next five years to meet mounting demand for new capacity; admits new financing problems persist despite spectacular productivity achieved; and believes it "highly improbable that the industry will again see excess capacity approach the 25% level at which operations generally become unprofitable."

In calling attention to the innovations made in the annual report of the formerly titled "Industrial Securities Committee," to the Investment Bankers Association of America, at its 45th Annual Convention, held at Hollywood, Fla., Edward Glassmeyer of Blyth & Co., New York City, pointed out that the word "special" was added and precedes the Committee's name, and past tradition was discarded by a decision to make a study of an industry undergoing dynamic change and possessing general membership-interest.


E. Glassmeyer, Jr.

Chairman Glassmeyer observed that, "early this year, stimulated by our President, George Davis, we cast about for some way to make a different kind of a contribution to our membership. I need not remind you that in prior years the report of the Industrial Securities Committee consisted of a statistical summation of the year's new issue activities and comments on the relative receptivity of the industrial bond and stock markets.

"We decided we'd be different, we changed our name by the insertion of the word 'special.' After several meetings our committee concluded that we should present a study of an industry to our membership. But what industry should we choose? We wanted one that was in a stage of dynamic change and therefore, of timely interest; that had great promise for the future, and, most important, that would be of broad interest to our membership. It did not take our committee long to decide that the bituminous coal industry met *all* these requirements.

"Let me say that this 54-page report is truly a committee effort. Each heading was assigned to individual members, although the report is presented as an anonymous whole. We have attempted to make this as *original* a study as we were able. By its nature, a good part of the material is factual or statistical, and to that extent our research fell back on recognized sources, but in large measure we have tried to express our *own* point of view.

"We conclude that the bituminous coal industry, long considered a depressed industry, is undergoing a vigorous recovery, due in large part to increasing demand from electric utilities and the steel industry. We've even looked into the future. Whereas domestic consumption of coal in 1956 was approximately 440 million tons we estimate that by 1980 this will increase to approximately 750 million tons. Overseas, the dynamic postwar recovery in western Europe and its growing shortage of power to create energy has given the export market for coal a tremendous boost. In 1956 approximately 60 million tons will be exported from the U. S.; we estimate that, in 1980, approximately 125 million tons will be exported. From a present level of production in the U. S. of approximately 500 million tons we estimate that, by 1980—less than 25 years hence—the U. S. production will approximate 875 million tons, a 75% increase. At the same time our reserves of coal are practically inexhaustible. The present economically recoverable reserves total in excess of 200 billion tons.

"We have confined our report to a coverage of the *industry;* and have purposely refrained from mentioning any specific companies within the industry. We wish to point out, however, that not all coal companies will share in this growth ahead, and many producers in this industry are faced with difficulties. It is the hope of our committee that our membership will *read* this report and, thus stimulated, that each of you will follow through with your own study of the relative merits of specific companies within the industry—and make your own decision as to those companies that will benefit most from what we conclude will be a fabulous growth ahead."

Respectfully submitted,
SPECIAL INDUSTRIAL SECURITIES COMMITTEE

Edward Glassmeyer, Chairman
Blyth & Co., Inc.
New York

P. Fred Fox
P. F. Fox & Co., Inc.
New York

Madison Haythe
Guaranty Trust Company of New York
New York

Charles L. Hewitt
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Julian A. Space
Johnson, Lane, Space and Co., Inc.
Savannah

LeRoy A. Wilbur
Stein Bros. & Boyce
Baltimore

Excerpts from the Committee's report on "The Bituminous Coal Industry" follow:

I

An Analysis of the Domestic Market

Since 1946 the character of the domestic market for coal has undergone a dramatic change. In this period, total domestic consumption declined from 500 million tons to 423 million tons. However, electric utilities increased their demand from 69 million to 140 million tons, or from 14% to 33% of total consumption. Coal used in the production of coke, largely for steel mills, also increased in this period from 83 million to 107 million tons, or from 17% to 25%. Consumption by Class I railways and for retail deliveries declined from 211 million to 69 million tons. Reference is made to Table I which sets forth the year by year breakdown of the markets for coal.

Future Potential Markets

Our analysis of future domestic markets for bituminous coal will be broken down into the following market groups: electric power production, aluminum production, steel, railroads, retail deliveries, and industrial demand.

Electric Power Production

The most significant trend in coal consumption, both for the past and for the future, is the rise in electric utility consumption (Table II). This reflects not only the tremendous growth in the nation's consumption of electric energy but also the increase in the percentage of electricity that is generated by steam boilers utilizing coal as fuel. Both of these trends can be expected to continue.

Coal now produces more electric energy than at any previous time in the past decade — more than all other energy sources combined, despite a steady decline in pounds required per kwh of power generated—and promises to increase its share as time goes on. The steady increase in the proportion of fuel-generated electric power reflects the virtual exhaustion of major hydroelectric installation possibilities except in the Far West. It is significant that the TVA has become the largest single commercial coal customer and that all its contemplated expansion will be steam powered.

We note certain other factors which could well combine to accelerate the trend toward increasing use of coal in the generation of electric power. Finding costs for oil have been rising steadily and eventually could be reflected in oil product prices. Natural gas prices, which have been moving up steadily in the field, could register significant increases if Federal regulation is ultimately changed to permit such prices to seek their economic competitive level. The competitive pressure of natural gas as boiler fuel may also be alleviated as gas storage fields in Northern and Eastern areas are further developed, thus permitting equalization of pipeline loads throughout the year without the necessity of selling "dump gas" during summer months or other off-peak periods.

Various estimates have been made of future electric energy requirements, all of which project the nation's energy requirements 20 years from now at two or three times present consumption.

In arriving at our estimate of future electric utility coal demand, we have utilized a projection of national kwh output made by the Federal Power Commission and have assumed that (1) 75% of the increase will come from coal-fired steam generators

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Report of IBA Oil and Natural Gas Securities Committee

Reporting no significant atomic energy developments in the past year occurred to competitively threaten the oil and gas industry, the Committee rendering its current analysis of this sector discusses recent financing methods available to the industry; questions utility rate-base method's applicability to gas, and warns we are failing to uncover natural gas sources rapidly enough; and believes Canada's major oil problem is finding markets for rapidly increasing production, even though Suez crisis may stimulate Western Canadian crude oil sales, and reviews shifting gas-oil picture in Canada, including the tax law change removing Canadian act companies' disadvantage vis-a-vis U. S. companies.

William C. (Decker) Jackson, Jr., of First Southwest Co., Dallas, Chairman of the Oil and Natural Gas Securities Committee, released to the 45th Annual Convention of the Investment Bankers Association of America, held at Hollywood, Fla., its Report covering the industry for the current year.

Excerpts from the Report follow:

Your Committee was indeed fortunate in being able to obtain material and advice for this report from Mr. Rushton L. Ardrey, Senior Vice-President of the Republic National Bank of Dallas, in charge of their Oil Department, who has permitted us to incorporate in this report his remarks contained in a paper presented to the Petroleum Conference on Economics and Valuation before the American Institute of Mining, Metallurgical, and Petroleum Engineers, in Dallas, Texas, March 29-30, 1956. We are deeply indebted and grateful to Mr. Ardrey for his assistance and cooperation in this respect.

W. C. Jackson, Jr.

* * *

This report might more properly be titled "Application of the Bank Loan in the Oil Business," since we are not considering the techniques of capital formation, or the normal investment bankers' role of raising additional capital through sale of securities to the public.

Conservation and proration practices arising from the discovery of the East Texas Oil Field in the early 1930's first precipitated the need for and the legitimacy of "oil payments" or "production loans." Only in recent years has natural gas come to the fore, and, in general, the same pattern of lending is applicable to that phase of the industry.

Added impetus to the use of "production loans" has resulted from the apparent inadequacy of the 27½% depletion allowance. This allowance was a compromise between the House and the Senate in 1926. It has been estimated that 81% of exploratory wells are dry, and that 36% of *all* wells drilled are failures. Congress was not unaware of the risks inherent in drilling and accordingly offered an incentive to the oil man toward the development of natural resources. This tax feature of the oil and gas industry has been a stimulus to the operator whose development program has appealed for years to the constructive oil banker. Even so, it has become quite patent that tax pressure and the increasing cost of finding oil have precipitated a tendency, if not a necessity, for the independent operator to sell out. In many instances the capital gains provision is the wiser course to follow, particularly if further advantageous intangible drilling costs seem remote. Should the depletion allowance be reduced or eliminated reason dictates that this tendency would be greatly accentuated.

Originally oil operators approached commercial banks directly for production loans. Later, as more banks entered into the field of oil financing, they actively solicited this business. The investment banker entered the picture through the placement of oil and gas loans, with one or more institutions, where this appeared to be the wisest financial course. Let us now consider the various types of bank financing available.

Loan Direct to the Oil or Gas Operator

The first type is the usual and erstwhile loan direct to the oil or gas operator. We shall attempt to be neither technical nor statistical in this report. Suffice it to say that before advancing funds to an individual or corporation against oil production it is absolutely necessary that a field test be made of the wells, and in estimating primary reserves the three methods used are the volumetric, the decline curve, and a combination of both. The decline curve is usually the most accurate for it is computed with experience from past production, as contrasted with entertaining necessarily a more cautious attitude toward the frequent whims and caprices of new or prorated production. Also, of course, a prerequisite is a reliable title opinion, without which there is nothing to discuss.

Once the proper engineering and legal opinions are at hand a decision is made as to the amount and terms of the loan. In reaching a conclusion, it is our opinion that the *present worth* of the property should be the primary determinant. Present worth may be defined as the future net operating profit of the property discounted on a 5% table. Assume, for the sake of discussion, that this figure be $1,000,000. While there is no thumb-rule applicable to the loan amount, we have found it practicable, in general, to apply a safety factor of 2 to 1. In other words, $500,000 would be the usual loan against such collateral value. However, there is no sacredness in the 2 to 1 ratio. An appreciably lower safety factor in the East Texas field could be more acceptable than a much higher one in some relatively new trend such as the Spraberry.

Estimated payouts and maturities likewise play an important role in the financing of production loans to oil and gas customers. Somewhat as a common practice, commercial banks have been prone to conduct oil and gas lending for their own account within a payout and maturity period of five years. With full cognizance of the aforementioned features of stability, it has been accepted that some long-lived production, despite depletion, could be worth in the open market virtually as much, say five years hence, as at present, presupposing neither change in allowable nor price. This engenders a rather progressive philosophy in the mind of the banker and longer maturities are not now uncommon. As for the loan, it could be conceivably more attractive creditwise on a 10-year payout than five, and insurance companies lend great assistance to the industry in favoring the longer maturities.

The final item of importance in this type of loan is the interest rate. While all sound businessmen must be unmindful of the cost of money, the very nature of the oil and gas business lends itself to the use of long-term if not rather constant credit. While attractive, indeed, to institutional lenders, the relatively high interest rates do not appear to be an objectionable cost to the borrower. A statement made recently quite epitomizes the attitude of the independent operator—"If it is a question of ½% on the interest rate, then the deal is no good."

The Oil Payment

Scarcity of cash and lack of credit conspired in the early 30's to complicate the affairs of man, particularly in the development of the East Texas oil field. The lease owner was often fortunate to induce the contractor to accept a turn-key job for what became known as the "oil payment." The Board of Tax Appeals has this to say concerning the oil payment: "It seems clear that the Supreme Court regards any oil payment right (a right to a specified sum of money payable only out of a specified percentage of oil or the proceeds received from the sale of such oil, if, as, and when produced) as an economic interest in oil in place, the holder thereof being the owner of the share of gross income from production represented by the payments to him and being entitled to the

Continued on page 76

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Report of IBA Investment Companies Committee

Fund industry answers timely questions concerning SEC's proposed Statement of Policy revisions, possibility of large-scale liquidation during bear markets, sales charges, investment plans, types of fund buyers, impact of MIP, and fund distribution by Stock Exchange houses. Scores Commission's proposals as far-reaching attempt by the SEC to go beyond the law.

At the 45th Annual Convention of the Investment Bankers Association of America, at Hollywood, Florida, William A. Parker, Chairman of The Parker Corporation, Boston, Mass., on Nov. 27 released the report, *"Answers to Possible Misconceptions about the Mutual Fund Industry,"* on behalf of the Investment Companies Committee, of which he is Chairman.

The text of the Report follows:

The SEC's Proposed Statement of Policy Revisions

(1) **Question:** What is the industry's answer to the SEC's recent proposed revisions to Statement of Policy?

Answer: The industry quarrels with many of the Commission's proposals, but there is one fundamental misconception of the Commission's duties which affects all the members of the Investment Bankers Association and not just the investment companies.

The Commission's proposals could be the most far-reaching attempt by the SEC **to go beyond the law** which it is charged with enforcing into the realm of **preventing the disclosure** of certain information even though such information be accurate and presented in such a manner as not to be misleading. In other words, the Commission seems to be saying that it does not believe prospective investors should have certain information, even though this information be accurate and even though it be not, *per se*, misleading. We believe that the Securities Acts are disclosure statutes and that the Commission and its staff have no right to impose upon the investment industry their own personal views of what is good for the investor to know and what is bad.

William A. Parker

From the hearings that have taken place and from discussions with the SEC staff by members of our industry, it is apparent that the proposed ruling to outlaw the showing of investment results based upon acceptance of capital gains distributions in additional shares — and similarly results of systematic investment programs based on reinvestment of income and acceptance of gains in additional shares — was motivated at least in part by the thought that past results looked so good that investors might be misled into thinking similar results would be obtained in the future. If, however (from the Commission's paternalistic point of view) one could prevent showing the results of accepting capital gains distributions in additional shares and the reinvestment of dividends, then the demonstration of past results would not be quite so harmful to the investor.

What will be the effect? When a prospective investor asks of the XYZ investment company what the past results would have been had he purchased $5,000 worth of shares and accepted all of his capital gains distributions in additional shares, under the Commission's proposals, you would, in **effect be required to reply to this customer that you can't give him this information** because such information is misleading even though it is true that he can accept such capital gains distributions in additional shares. For his own good you withhold this information from him!

In effect the **Commission's proposals are purportedly attempting to protect the investor from himself.**

If carried to its logical conclusion, adoption of the proposals could conceivably be the **first step toward some sort of notion that the Federal Government should pass on the merits of securities.** After all, if you are going to try to protect an investor from his own mistakes, perhaps the simplest way is to permit him to buy only those securities endorsed by the Commission. This notion was discussed when the 1933 Act was being drafted and it was rejected. The theory of the draftsmen was that if you give the public honest, fair and accurate disclosure, it is intelligent enough to make up its own mind as to what it wished to do. This, also, is the view, I believe, of the present Commissioners. However, the danger is not that they believe at this moment in passage of a Federal law which rules on the merits of securities, but this idea may be implanted in certain areas facilitating at some future time the transition from disclosure laws to those passing upon the merits of any and all securities.

The Bear Market Bugaboo

(2) **Question:** Will mutual funds be forced to unload large blocks of stock in periods of rapidly falling stock prices?

Answer: This question has been asked by critics of the mutual fund industry following every market break since 1937 and has been studied by experts. Two very extensive studies were made, one following the market break at the end of June in 1950 at the outbreak of the Korean War and again for the January 1955 break. Both studies proved that during the periods of both breaks mutual fund purchases of portfolio securities substantially exceeded sales.

Testimony in 1940 before the Senate Banking and Currency Committee included the following:

"There is nothing in the 16-year record of the open-end trusts that gives the slightest reason for the belief that 'runs' on them would take place. There were no such runs in 1929 or the early 'Thirties during the heaviest security liquidations that ever occurred in this country. There were no such runs during the violent market decline of 1937. The shares of an open-end company are not a bank deposit. It is conceivable that all the depositors of a bank might decide at the same time that it was wise for them to withdraw their funds. But it is inconceivable that all the holders of an open-end trust would simultaneously decide to liquidate their investment. The very market action that would cause some holders to liquidate would cause others to hold or increase their investment."

In every year for which data is available, sales of new mutual fund shares have exceeded redemptions, providing net additional cash for investment. Even in periods—especially in periods of general market liquidation — the mutual funds have had new money available for purchase of portfolio securities and have been buyers on balance.

Supporting figures for 1927-1936 were compiled by the SEC; from 1940 to date, compiled by the NAIC.

The "Load"

(3) **Question:** How do mutual funds justify the sales charge of 5 to 8¾%?

Answer: In essence, the sales charge is a distribution cost. It is the charge the consumer—the investor—is willing to pay to have brought within his reach a desirable commodity — securities — on what for him is the only reasonable and practicable basis. Just as eggs become accessible to most of us only when taken from the henhouse, candled, arranged on market shelves in carefully designed boxes labeled brown or white, large, medium or small, so to many investors stocks become available only as packaged by the mutual fund industry. This delivered package gives the investor (1) a number of stocks carefully screened to meet his particular needs; (2) access to an established management for whose exclusive services he could not afford to pay by himself; and (3) diversification to spread risk at a lower cost than if he picked his own stocks.

The Wiesenberger 1956 edition shows that if $2,250, the size of the average mutual fund purchase, were divided among 20 stocks of the same price, the accurate charge for purchase and sale would be about 12%. The large investor who normally buys in round lots has available to him discounts on volume purchases which result in a lowering of the sales charge to amounts ranging from 4% to 1% depending upon the size of the purchase.

But obviously no investor, large or small, would pay a distribution cost, large or small, unless he felt results would justify the expenditure. As has been wisely said, you never know what something costs you until you sell it. "Forbes" magazine recently stated in an independent review of the funds (July 1, 1956 issue): "Over any long period, the amount of the (sales charge) is probably much less important than the skill of management. If management brings home the bacon, then the (sales charge) . . . no longer looks so forbidding. If management cannot produce, then the fund is expensive even if its services are given away." Had management been unable to produce over the last several years, the funds would no longer be in business let alone being one of the fastest growing industries in the economy.

The Place of Investment Plans

(4) **Question:** Statistics given out by your industry indicate a tremendous number of investment plans being created. Is there a shift from the investor who normally purchases $5,000, $10,000, $20,000 and even $100,000 of investment company shares to the investor who is interested in saving say $50 a month?

Answer: While it is true that an unusual number of investment plans are being created, the entire volume in the industry has increased so that there has been no change from the type of individual that will buy outright. It is interesting to note the figures supplied by many mutual funds indicating the large number of sales in excess of $25,000 in the industry. It is not uncommon among funds to have in excess of 20% of their total sales represented by sales in excess of $25,000. A young salesman who confines his prospecting to men his own age will probably find that his average sale is small and that there is a tendency to have more interest in cumulative programs. An older and experienced salesman normally will make larger sales even though he may not be a better salesman because he is calling on older prospects. The difference lies in the "purchasing power" of the older prospects. Many securities salesmen believe it is easier to make a large sale

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than a small sale. The large investor is usually a more intelligent investor, accustomed to considering the facts, then making a decision.

Breakdown Classification of Fund Buyers

(5) **Question:** Are there any figures showing the type of buyer of mutual fund shares?

Answer: Yes, the NAIC made a study in 1955. This study showed some interesting figures. The general facts are that 67.6% of all regular accounts are owned by men and 32.4% by women. It further showed that 4.4% were individuals under 30 years of age; 11.7%, 30-39 years; 21%, 40-49 years; 24.4%, 50-59 years; and 38.5%, 60 and over. As one would expect, percentage varied in age groups of those purchasing under cumulative programs. 62.5% of the owners of cumulative programs were in the 30-49 age bracket.

Impact of MIP

(6) **Question:** Has the introduction by the New York Stock Exchange of its Monthly Investment Programs affected the sale of investment company shares adversely?

Answer: The New York Stock Exchange program has been a big help in the sale of mutual funds. It has served to focus attention on this method of investment and to extol its merits with the result that both the Stock Exchange Monthly Investment Programs and Fund Programs have benefited. While the two have a basic difference, they both serve useful purposes and therefore complement each other. The industry welcomes the MIP program and has cooperated in the promotion of the broadening of the "invest in America" theme.

(7) **Question:** How widespread is the use of investment companies by New York Stock Exchange houses in their retail efforts?

Answer: Checks with three major distributors of investment companies prove that after elimination of floor brokers, odd-lot dealers and specialized investment houses which do not deal in general securities, at least 80% and up to 95% of New York Stock Exchange houses offer investment company shares.

Respectfully submitted,
THE INVESTMENT COMPANIES COMMITTEE

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Burns Elected Head of National Bureau of Economic Research

Nation's outgoing economic chief returns to association with research organization. Haberler is elected Chairman.

Dr. Arthur F. Burns, who resigned on Dec. 1 as Chairman of the President's Council of Economic Advisers, has been elected President of the National Bureau of Economic Research. Gottfried Haberler, Professor of Economics at Harvard University, has been elected Chairman of the Board.


Dr. Arthur F. Burns

In making the announcement, Harry Scherman, Chairman of the Book-of-the-Month Club, and outgoing Chairman of the Board of the National Bureau, pointed out that Dr. Burns was returning to a type of work to which he had long been devoted. "He was director of research at the National Bureau for seven years before going to Washington," said Mr. Scherman, "and prior to that, for 18 years worked closely with Dr. Wesley Mitchell, who was director of research from the inception of the National Bureau. Before leaving the National Bureau in 1953, Dr. Burns was also Professor of Economics at Columbia University. He is returning to his university professorship as well as to the National Bureau.

"The call to Washington, four years ago, interrupted a large project that Dr. Burns was then engaged upon, in the general field of business cycles and economic stability. Actually, of course, the interruption was very much in the public interest. In his post as Chairman of the Council of Economic Advisers, Dr. Burns was able to apply the extraordinarily wide knowledge he had acquired at the National Bureau to important problems of national economic policy. But we are happy to have him return to his basic scientific research.

"We have elected him as President to enable him to pursue his studies of economic change and to embark on important new studies of economic policy for stabilization and growth. At the same time he will work closely with our present Director of Research, Dr. Solomon Fabricant, on general research policy guiding the other widespread areas of research on which our staff is constantly engaged."

Two With F. I. du Pont

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—John D. Reid and Ben A. Rubin have become affiliated with Francis I. du Pont & Co., 677 South Figueroa Street. Mr. Reid was formerly with Dempsey-Tegeler & Co.

Two With Hill, Richards

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Fred H. Massey and Billy M. Montgomery are with Hill, Richards & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Massey was previously with Morgan & Co.

With Hincks Bros.

(Special to THE FINANCIAL CHRONICLE)

WATERBURY, Conn. — Louis Mayette has become associated with Hincks Bros. & Co., Inc., 35-37 Prospect Street.

Joins Laird, Bissell

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, Conn.—Albert E. Carnevale is with Laird, Bissell & Meeds, 44 Whitney Avenue.

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DETROIT, Mich.—Fred L. Davis and Robert Denner have joined the staff of D. B. Fisher Company, Buhl Building, members of the Detroit Stock Exchange. Both were formerly with B. C. Morton & Co.

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Report of IBA Nuclear Industry Committee

Nuclear Committee suggests refocusing investment banking vision from the trees of nuclear industry to the forest of the nuclear economy, in view of nuclear energy becoming not only a growing industry but a new "economic prime mover." Report discusses such topics as: projected capital requirements for next 10 years; positive accomplishments to date and investment banking backing of three new companies active in nuclear industry; modifying Public Utility Holding Co. Act; and developing profit prospects for rare metals. Objects to Gore Bill for its potential involvement of AEC into public power controversy, and impairment of AEC's primary mission.

Under the Chairmanship of William S. Hughes of Wagenseller & Durst, Inc., Los Angeles, the Nuclear Industry Committee compiled and presented their report to the 45th Annual Convention of the Investment Bankers Association of America, held at Hollywood, Fla.

The text of the Report follows:

Foreword

This is the Nuclear Industry Committee's third report. In the very brief period since the Committee's formation, the investment concepts which will govern the commercial development of atomic energy have emerged from a haze of conjecture into an atmosphere wherein it is possible to discern the outlines of logical and feasible patterns within which our business may participate fully in the assured growth of a nuclear economy.

William S. Hughes

At the time of our first report an unhealthy speculation in uranium stocks pre-empted the investor's interest. Last year at this time the exceptional success of the Geneva Conference seemed to promise a rapid development of nuclear power on an international scale, and introduced the exciting possibility of controlled thermonuclear energy.

The events of the past year have been less dramatic but of a more substantial nature. The magazine "Nucleonics" in reporting on the Third Annual Meeting of the Atomic Industrial Forum in September commented on two significant trends: A mood of realism in facing problems in contrast to the unbounded and sometimes unfounded enthusiasm evidenced at earlier meetings, and the progress being made abroad, with constant reference to reactor sales just made by United States firms, or in the process of negotiation—"for the first time, most of the talk was on what was being done—not what was planned, desired, or hoped for."

It is of some interest to detail a few of these positive accomplishments.

The United States has built a total of 82 atomic reactors of all types and sizes and 127 more are already under construction or in the planning stage. Of the total of 209, more than one-third are power producing types. The strictly civilian power program now embraces 30 reactors, 18 of which will provide commercial power. These 18 plants, representing an investment of over $650 million, will go into operation between 1957 and 1962 and provide a total generating capability of 1,200,000 kw. Significantly, six of the 18 plants representing a total investment of some $200 million will be built by industry without dependence on government for any direct subsidy. The first of the civilian power plants, at Shippingport, Pa., will go into operation in 1957. Serving the Pittsburgh area with from 60,000 to 100,000 kw., this will be the first large scale nuclear power plant for civilian use exclusively in the United States.

In the international field the United States Government has negotiated research reactor agreements with 37 nations to promote civilian use of atomic energy; in connection with these agreements the government is supplying enriched uranium and is prepared to grant up to $350,000 for each such reactor. These nations, however, are becoming increasingly interested in **power reactor agreements.** As of June of this year, negotiations on power reactor agreements had been completed with seven nations and were proceeding with four more nations.

Industry, through its applications of radiation is realizing estimated savings of $250 million annually; this is exclusive of additional large savings accruing to agriculture and, of course, gives no consideration to the incalculable benefits inherent in application to medicine and better nutrition.

Despite this evidence of tangible accomplishment a body of opinion has been built up that regards the program as inadequate. A forceful demonstration of this attitude found expression in the philosophy underlying the Gore Bill introduced in the last session of Congress and defeated by the narrowest of margins.

The Gore Bill and Its Implications to the Public Utility Industry

This bill has been the subject of much controversy. For quite a few months past, the members of the Joint Congressional Committee on Atomic Energy have been somewhat apprehensive about the pace of atomic power development in the United States. The feeling has been and still is that more atomic power is needed if this country is to retain its present leadership in the world. This apprehension is also shared by a segment of private industry. On the other side of the ledger, as was evident during the hearings which were held in May on the first draft of the highly publicized Gore Bill, there were witnesses who stated that the United States could maintain its leadership under the existing program and that there was no need to expand the present program.

Those who recommended the accelerated program were no doubt influenced by the fact that, in spite of our lead in atomic power technology in this country, the United Kingdom and Russia are making faster strides in achieving actual operation of prototype and commercial atomic power plants. Commercial power in England was inaugurated in October of this year with the dual purpose (energy and plutonium) plant at Calder Hall. The British goal is two million kw. by 1965. The Soviet Union has a more ambitious program. The Russians claim that they will have between 2 and 2.5 million kw. by 1960, with considerable capacity coming into operation in late 1958. This is more than twice what our present program calls for.

While we are not engaged in a kilowatt race with the rest of the world, and while quality may be more important than quantity, this cannot be dismissed lightly. It would seem that Russia also has a program that calls for not only more nuclear capacity but one which also is well diversified in terms of reactor prototypes.

One basic objection to the Gore Bill which, perhaps, has received too little attention, is the potential involvement of the Atomic Energy Commission in the public power controversy. For sometime to come the operating costs of a nuclear power plant will, necessarily, be determined by judgment as to the value or expense of by-products. If the AEC is placed in the position of establishing wholesale prices for nuclear generated power, it would seem inevitable that the basis of its charges will come under attack by the supporters of both public and private power. Such controversy can become so vitriolic as to overshadow the more important activities of the AEC and impair, seriously, the effectiveness of that organization in its primary mission of maintaining the leadership of the United States in the advancement of nuclear research and development.

This uneasiness over the progress of U. S. nuclear power development manifested itself when the Joint Committee discussed the new Gore Bill last June. This bill, entitled "Atomic Power Acceleration Amendment of 1956," was a revision of the previous Gore Bill on which hearings were held in May.

The original Gore Bill, because of the preference clause in the Atomic Energy Act of 1954, would have made it possible for public power groups to buy preferentially the power that would be produced in such reactors. The new bill largely would have eliminated this by providing that the plants be constructed at sites of major production facilities operated by or on behalf of the Commission. It also provided that the electric energy produced would be used by the Commission in connection with the operation of such production facilities.

The new Gore Bill also would have eliminated the original arbitrary requirement that six plants be built. Instead, it would have authorized and directed the Commission to proceed with the construction of large-scale prototype power reactor demonstration facilities to demonstrate the practical value of such facilities for the generation of electric energy in industrial or commercial quantities.

The bill called for reactor designs which would involve, in concept and approach, significant and promising advances in reactor technology, and indicated that each such plant was not to exceed a capacity of 50,000 kilowatts of electricity.

One feature of the Gore Bill which deserved special commendation, and which aroused no criticism, called for reactor assistance to other countries in the design, construction and operation of power reactors.

Finally, the bill would have granted authority to Congress to

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appropriate $400 million for the AEC for expenditures as needed in forthcoming years.

The vote on the new bill in the Joint Committee was 14-to-0 in favor. Four Republican members of the 18-man committee refrained from voting. The Power Reactor Bill was defeated in the House after having passed the Senate.

Public Power Motivation

As Willis Gale, Chairman of the Commonwealth Edison Company, stated before the Atomic Industrial Forum meeting on Sept. 26, 1956, some of the advocates of the building of government-owned reactors were perhaps motivated by the desire to further public power. Mr. Gale added that on the other hand, certain of them were motivated by the sincere belief that it would be in the national interest to accelerate our atomic power program beyond the ability or willingness of private industry to take all the risks. His wise suggestion was that if Congress believes that the public interest requires the program be accelerated, then Congress should declare so as a matter of policy, specifying the extent of the expansion and that the necessary funds be appropriated. Mr. Gale suggested that as a compromise the number of government dollars spent for public power and private power be in proportion to the present amount of public power as compared with the present amount of private power.

A favorable development took place on October 5 of this year with the formation of the Carolina-Virginia Nuclear Power Associates, Inc., a non-profit corporation for the development of atomic power in the area served by four utilities operating in the Carolinas and Virginia. Such cooperative action will undoubtedly strengthen the position of private utilities when the subject of a further expansion of our nuclear capacity is taken up by the next Congress.

Representative Melvin Price recently indicated that he would introduce a bill, early in the next session, having as title I: "The Indemnity Proposal," and II: "The Accelerated Governmental Reactor Program." It is his view that the Joint Committee favors and will continue to favor maximum private participation in the atomic power program as provided for in the 1954 Act and that the Committee's chief concern is how best to insure rapid progress of the program.

It now appears a compromise may be reached in the next session of Congress and an accelerated reactor program may be developed that will probably include some form of government help to private industry.

Third-Party Liability Insurance

Although experience gained in reactor operation up to the present time strongly suggests that reactors can be made completely safe and will not endanger the communities they serve, there is the possibility, however remote, that gaseous and other fission products could be released by a run-away reactor over the countryside beyond the immediate vicinity of a nuclear plant. The only accident of this sort, at Chalk River, Canada, entailed no contamination of off-site property or personal injury.

It is significant that in the 12 years of reactor operation the AEC has compiled a remarkable safety record. During that period 25 nuclear reactors have been safely operated in AEC facilities (actually by private contractors) for a total of 607,000 hours (or almost 70 years per a single reactor), with no accidents involving contamination of off-site property or radiation injury sufficiently serious to cause lost time to personnel.

Senator Clinton P. Anderson, Chairman of the Joint Congressional Committee on Atomic Energy, submitted a bill that would permit the Federal Government to indemnify reactor builders and operators to the extent of $500 million above the amount of third-party liability available from private sources. The 84th Congress adjourned on July 27 without passing the bill. It remains the fervent hope of private and public industry that this bill will be passed early in the next session of Congress. Fortunately, this delay will not be of major consequence since no private reactor is scheduled to start operating this year. Fortunately, too, the utility companies have maintained confidence that such a bill will be passed and they have not been deterred in their plans to continue to move ahead.

Modification or Amendment of the Public Utility Holding Company Act of 1935

At a time when atomic power is not yet competitive, many utilities have pooled their resources for a given project and have created nonprofit organizations to build and operate a nuclear reactor and generate electric power.

The Potter-Pastors Bill was submitted to Congress to amend the Public Utility Holding Company Act of 1935 by exempting automatically from the Act any such non-profit organization which generates electric power solely from a facility licensed by the AEC under the Atomic Energy Act. This bill also was not passed by Congress.

In July, however, the SEC modified its rule to exclude from the category of "electric utility company" any non-profit research and development company owning or operating a nuclear reactor producing heat or steam only. This exemption is not automatic and requires the filing of an application. The SEC feels that this measure goes probably as far as the present need requires. It appears to cover the case of the Power Reactor Development Company of Detroit. It still appears, however, that the Holding Company Act of 1935 will have to be modified so as to exclude generating facilities as well.

Financial Developments

With very few exceptions the efforts of the investment banking business in directing capital into nuclear energy fields (other than uranium ventures) have been of a secondary nature. They have consisted largely of participation in the formation and public distribution of investment companies organized for the specific purpose of investing in established companies active in some field associated with the development of nuclear energy. One constructive result of these activities which should be of increasing importance in the future has been to give both the investment dealer and the investment public an elementary education in industrial atomics.

To our knowledge at least three new companies active in the nuclear industry, have received equity capital backing from several of the large, well known investment banking firms. The private placement approach is necessary due to the speculative nature of these companies, but at some future date their hoped-for growth and success may receive public financing.

For some time to come industrial atomic energy will continue to depend to a major degree upon Government guidance and sponsorship and Government-financed research and development. However, as an increasing variety of nuclear applications become commercially established the cumulative experience will enable industry, at first gradually but with an increasing rapidity, to free itself from this dependence and to establish long-term expansion programs with some degree of accuracy. During the initial period only the most tentative estimates can be made of the capital requirements to support the growth of non-government atomics, and they should be regarded only as orders of magnitude rather than financial forecasts.

Projected Capital Requirements

One such attempt has been made by the Atomic Industrial Forum in a projection confined to the nuclear reactor field for the period 1955-1965; this applied to the capital cost of reactor plants and related research and development, exclusive of nuclear fuels, for electric power stations, small power units and naval and aircraft power. This forecast indicated a range of cumulative new capital investment of $3 billion minimum to $7.5 billion maximum over the ten year period. It seems very likely that the maximum figure will prove to be the closer to reality in view of the indicated acceleration of nuclear installations by the public utility industry and the very promising outlook for nuclear powered ships including merchant vessels and tankers.

Some portion of the required capital will certainly be obtained by new financing on the part of private industry. The figures, however, have another significance for the investment business because their magnitude assures a large-scale development in the relatively near future of related enterprises in the fields of chemical processing, feed materials, radioisotopes, instruments and control appliances and other service and auxiliary business which are certain to require substantial amounts of both debt and equity capital from the public.

To date the great preponderance of capital going into nuclear research and development by corporations has been provided from internal sources. Most companies have established subsidiaries or specialized divisions and financed their activities by absorbing the costs as an operating expense or through advances from treasury funds. Any needed new capital incident to such operations is financed as part of the general expansion program of the company.

In the public utility field two large systems are constructing reactor plants entirely at their own expense without direct Government aid or subsidy. The nuclear facilities will be part of the generating systems, and the general credit of the companies is being used in obtaining financing.

Several utility and industrial companies have pooled their resources and formed non-profit corporations to construct and operate reactors. Part of the construction funds are covered through grants from the controlling companies; these grants are intended to cover the excess of cost of a nuclear plant over a conventional plant of comparable capability. The Regulatory Commissions and Income Tax Authorities have agreed to permit these grants to be written off over a five-year period so that a part of this cost is provided by the utility customer and through tax savings. The balance of construction costs, which may be considered as the equivalent to the investment that would have been needed for a conventional plant, is then financed in the usual manner through the sale of bonds and equity securities

Industrial facilities for the production of zirconium and beryllium are being expanded extensively on the basis of five-year contracts signed with the Atomic Energy Commission. Here, we are dealing with contracts covering volume and price for a sufficient period to make possible short-term private financing, and, indeed, in some cases equity financing as was recently done to finance a beryllium and zirconium contract awarded to two relatively small companies.

The opportunities for financing on the basis of longer term contracts may be greater than is superficially apparent. The AEC, as a basic policy, encourages such arrangements. For example, Charles G. Manly, Chief, Commercial Development Branch, Division of Civilian Application, United States Atomic Energy Commission, remarked to the

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Report of IBA Canadian Committee

Canadian Committee Chairman submits Report indicating high Canadian domestic savings welcomes capital in-flow for they are not sufficient nor properly distributed to meet large need for venture capital funds. Committee reviews Canadian money market development, and assist received from investment dealers and Government tax dividend credit provision. Probes role of U. S. capital in meeting Canadian trade deficit with U. S. A.

The Canadian Committee, under the chairmanship of David K. Baldwin of Nesbitt, Thomson and Company, Ltd., Montreal, submitted the Group's Report to the 45th Annual Convention of the Investment Bankers Association of America, held at Hollywood, Florida.

The text of the Report follows:

In terms of the size of her population, Canada, with only 16,000,000 people, is a very small country indeed. Her population comprises less than two-thirds of 1% of the world's population of 2½ billions. Despite this, however, Canada ranks sixth among the industrial nations of the world and fourth among the trading nations of the world. Canada's rate of economic growth has been remarkably high in the postwar years. Last year at our Forty-fourth Annual Convention, the Canadian Chairman, Harry Ratcliffe, highlighted in his report the main characteristics of the growth of the Canadian economy, and discussed the factors that have made this growth possible.

David K. Baldwin

Year's Growth Exceeds Expectations

During the last 12 months, Canada's economic advance has exceeded all expectations. This has been the result largely of an unprecedented level of capital expenditures involving a program projected at 28% above last year's record capital program. All sectors, provinces and almost all industries have been participating in this expansion. The Gross National Product at annual rates for the first six months of this year was almost 12% above that for the first half of 1955. From all present indications, the year 1957 will be one of continued expansion in Canada with a capital program as large and perhaps larger than that of this year.

Such vigorous growth as the Canadian economy has been experiencing must inevitably be accompanied by major problems related to the financing of such growth. It is proposed in this report to deal with the way in which Canada's economic growth has been financed from domestic savings and from imports of capital funds, and to discuss briefly some of the problems that have arisen in the course of this financing.

Must Supplement High Domestic Savings

Canada's economic expansion is resulting in a greater demand for capital funds to finance such expansion than can be financed from domestic savings. It is necessary, therefore, to import savings from other countries, and, as you are aware, the largest proportion of these imported savings has originated in the United States, while relatively smaller amounts have originated in Great Britain, Switzerland and other European countries.

Canada's domestic savings have nevertheless been at a very high level in recent years, and in total amount have been sufficient to finance all but a fairly small proportion of Canadian capital requirements. However, some part of Canadian savings are invested abroad, with the result that in recent years domestic savings remaining in Canada have been sufficient to finance but 75% of her capital requirements, while the remaining 25% has been financed from savings brought in from other countries.

One of Canada's problems insofar as her domestic savings is concerned has to do with the pattern of these savings in relation to the pattern of the demand for capital funds. By the "pattern of savings" in this instance is meant the proportionate amount of total savings that exists in the form of personal savings, corporation savings, and government savings, and further, the proportionate amount of such personal savings that is held by insurance and trust companies and other financial institutions.

The pattern of Canadian savings is that which one might expect from an economy at a fairly high stage of development insofar as its political, social and financial institutions are concerned, for it is these factors that influence the distribution of wealth and set the the pattern for both incomes and savings. It is probable that the pattern of savings in Canada is not too unlike the pattern of savings in the United States.

Venture Capital Needed

In examining the demand for capital funds in Canada, however, a different pattern emerges, for the productive side of Canada's economic activity is weighted to a fairly large extent by the development of natural resources and the launching of new industries. Such developmental activities require a large amount of venture or risk capital, more, in fact, than is available in the pattern of Canadian savings.

Thus, the situation exists that although Canada's domestic savings in total amount have been almost sufficient to meet the volume of capital funds required, the proportion of such savings available for venture purposes has been far from sufficient to meet the demand for venture capital funds. Canadians, therefore, have found it necessary to import a great deal of venture capital, while at the same time they have exported some portion of their own savings to other countries in the form of direct investments, government loans, etc.

U. S. Capital Is Welcomed

It has probably come to your notice in the last few years that some concern has been expressed in Canada regarding the volume and extent of United States investments in Canada. This concern, I would like to point out, is by no means felt by all Canadians, but rather by a relatively few who have received perhaps more publicity than was warranted. I am confident that I speak for the majority of Canadians when I say that we have been very glad to have United States investment funds in Canada in the past, and will continue to welcome them in the future, for we know that these investment funds come into Canada to work with us in the production of new wealth.

Even though we do welcome the inflow of capital funds from outside of our country, we still realize, however, that such funds should not replace the funds that are available from within Canada, but rather should supplement them. For this reason, it is recognized that Canadians should endeavor to make more efficient use of their own savings even though it may mean a conscious effort to modify somewhat the present pattern of such savings, for only when Canadian savings are being used as effectively as is possible, is Canada **fully** justified in welcoming funds from outside her borders.

Developing Money Market

I would like to mention briefly a number of the steps that have been taken in Canada during the last several years towards the more effective use of the savings generated within Canada. One of the most important of such steps has been the development of the Canadian money market, which has resulted in the more efficient use of short-term funds. A number of selected Investment Dealers, now numbering 12, has played a key part in the development of this market mainly through the establishment of an active secondary market for Government of Canada treasury bills. Also important in the development of the money market has been the establishment by the chartered banks of day-to-day loans which have provided the investment dealers in the money market with a ready source of call money at reasonable rates.

The volume of treasury bills in Canada has increased from $650,000,000 at the end of 1953 to the present total of approximately $1,665,000,000. While less than four years ago, treasury bills were purchased almost solely by the banking system, today a very

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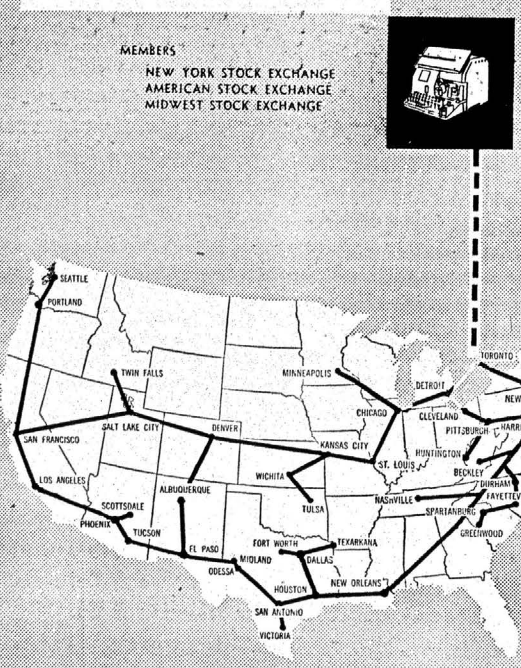

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Report of IBA State Legislation Committee

Chairman Gilbert H. Osgood, (Blunt Ellis & Simmons, Chicago) submitted State Legislation Committee report and appendices at the 45th Annual Convention of the Investment Bankers Association of America, held at Hollywood, Fla.

Committee Report urges group legislative committee to give consideration to adoption in their respective states of proposed model and uniform laws, and to report back to IBA Council instances of amendments to or adoptions of IBA-recommended state securities acts. The Committee statement discusses such developments as final draft of the proposed uniform state securities act; and views on investment clubs and variable annuities by Committees of the National Association of Securities Administrators.

The text and the appendices of the Report follow:

There have been several developments during the past year which will be of major importance in the work of the Committee during the next several years.

I

Uniform State Securities Act

The final draft of the proposed uniform state securities act prepared under the Harvard Law School Study of State Securities Regulation was adopted with a few changes in August by the National Conference of Commissioners on Uniform State Laws and was approved by the American Bar Association. The new uniform act was also subsequently approved in principle by the National Association of Securities Administrators at its annual meeting.

Gilbert H. Osgood

The new uniform act is designed in three separate parts embodying three separate types of regulation, plus a fourth part containing general provisions:

Part I: Covers fraudulent and certain prohibited practices.

Part II: Covers the registration of broker-dealers, agents and investment advisors.

Part III: Covers the registration of securities.

Part IV: Includes general provisions covering definitions, exemptions, administration, enforcement, criminal penalites and civil liabilities.

Thus, a state can adopt any one or more of the three types of regulation in Parts I, II and III, plus the applicable general provisions in Part IV.

It should particularly be noted that Part III covering the registration of securities provides three separate types of registration for securities. Registration by "notification" affords a simple streamlined procedure for registering securities of seasoned companies which meet a specified earnings requirement. Registration by "coordination" provides a special procedure for registration of securities which are registered under the Federal Securities Act of 1933, and this state registration for such securities would become effective automatically at the time that Federal registration becomes effective if specified conditions are met.

The Administrator of the act would be given broad authority to deny or revoke registration of dealers, agents and securities and to impose certain conditions upon registration of certain types of securities. The act authorizes the Administrator to impose a few requirements which are not generally required under present state securities acts.

In any state where adoption of the new uniform securities act is considered, we urge that the modified draft prepared by the IBA be used because the modified draft clarifies and makes more specific certain provisions of the act without impairing the uniform procedures under it or the basic requirements in it.

II

State Securities Acts Amendments

A complete new securities act was adopted in Virginia, to become effective Jan. 1, 1957. The original draft of the new Virginia Securities Act, included as part of a complete new Virginia Corporation Code, contained a number of objectionable provisions. A committee of Virginia dealers met with the drafting committee, and all of the principal objectionable provisions were eliminated. Members of the committee of dealers were Joseph Muldowney (Scott and Stringfellow, Richmond), Chairman; Edward C. Anderson (Anderson & Strudwick, Richmond); Walter W. Craigie (F. W. Craigie & Co., Richmond); John C. Hagan, Jr. (Mason-Hagan, Inc., Richmond); Edwin B. Horner (Scott, Horner & Mason, Inc., Lynchburg); Roderick D. Moore (Branch, Cabell & Co., Richmond); James H. Scott (Scott & Stringfellow, Richmond), and James E. Gallaher (Gallaher & Co., Inc., Richmond). We commend the members of the committee for their successful work.

In New York a bill embodying several important amendments to the New York Securities Law passed the Legislature but was vetoed by the Governor.

III

"Variable Annuities"

We have described the general nature of so-called "variable annuities" in previous reports. At the last Annual Convention of the IBA the Board of Governors recommended that the Association and its members take appropriate action to assure that (1) "variable annuities" are subjected to the same regulatory requirements as other securities under Federal and state securities acts; and (2) "variable annuities" and other securities be given like treatment under the tax laws.

On March 1, 1956, at the request of officials in the Treasury Department, representatives of the IBA met with officials of the Treasury Department to discuss the taxation of "variable annuity" companies. A memorandum was submitted to the Treasury Department pointing out (1) what "variable annuities" are, (2) the position of the IBA with respect to "variable annuities," (3) the tax shelter which would be created if companies issuing "variable annuities" were taxed as insurance companies, and (4) why companies issuing "variable annuities" should not be taxed as insurance companies.

Immediately following the Spring Meeting, IBA President George Davis on May 23 sent to all members of the IBA copies of the memorandum prepared by IBA Counsel regarding regulation of "variable annuities." That memorandum concluded that "variable annuities" are "securities" subject to the Federal Securities Act of 1933.

On June 19 the SEC announced that it had filed a complaint in the U. S. District Court for the District of Columbia to enjoin the Variable Annuity Life Insurance Co. of America, Inc. ("VALIC") from violating the registration provisions of the Securities Act of 1933 and the Investment Company Act of 1940 in connection with the sale of contracts described as "variable annuity contracts." The complaint alleges that the company's contract constitutes an investment contract and a certificate of interest or participation in a profit-sharing agreement within the definition of the term "security" contained in the Securities Act of 1933 and that the offer and sale of such contracts is subject to the registration provisions of that Act. Another allegation of the complaint is that the company, or in the alternative the funds which it administers, is primarily engaged in the business of investing, reinvesting and trading in securities within the definition of an "investment company" contained in the Investment Company Act of 1940 and that the company, or the funds administered by it, is subject to the registration provisions of that Act. A hearing on the complaint will probably be held within a few months.

In Connecticut, the Insurance Commissioner and the Banking Commissioner (who administers the state securities act) applied to the Hartford County Supreme Court for a temporary injunction restraining the American Life Insurance Association of Bridgeport from selling "variable endowment" contracts which the company proposed to sell. Under a stipulation this case has been taken directly to the Connecticut Supreme Court of Errors and it appears probable that the case will not be heard before December.

On June 22 the New Jersey Senate Committee on Business Affairs held hearings on bills, which had previously passed the New Jersey Assembly, to authorize the issuance and sale of variable annuity contracts by insurance companies in New Jersey. Counsel for the IBA testified at these hearings and urged that the bills not be passed unless (1) such contracts are subjected to the same regulatory requirement as other securities under Federal and state securities acts for the protection of investors and (2) such contracts are not given unfairly favorable tax advantages. The New Jersey Legislature continues in session this fall, but no further action had been taken at the time this report was prepared.

Position of N.A.S.A.

The Executive Committee of the National Association of Securities Administrators (the administrators of the state securities acts) this year reaffirmed the resolution which it adopted last year regarding variable annuities, as follows:

"The Executive Committee of the National Association of Securities Administrators, assembled in New York on May 11, 1955, after considering proposed legislation which would permit the issuance and sale of variable annuities by insurance companies, is of the opinion that the absence of legal safeguards provided by Federal and state statutes could prove to be very detrimental to the investing public. This conclusion is arrived at by reason of the basic similarity of the variable annuity plans to the sale of securities which must be made under the various Federal and state Blue Sky laws and regulations. The effect of such legislation would be to deprive a large segment of the investing public

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Report of IBA Federal Taxation Committee

Committee headed by Walter Maynard calls for placing a ceiling on Federal taxation of earned income at a rate of 50%; averaging of variable incomes; limiting capital gains tax to a 3% maximum of the sold asset's value; increase in nominal dividend credit; and a "high level" bi-partisan Federal Commission on taxation to undertake genuine tax reform.

Walter Maynard, of Shearson, Hammill & Co., New York City, presented to the Investment Bankers Association of America, at their 45th Annual Convention, held at Hollywood, Fla., the report of the Federal Taxation Committee, of which he was Chairman.

The text of the Report follows:

At the beginning of 1956 it seemed that there was a possibility that tax reduction might become an issue in the November election. The Democrats talked of advocating legislation which would have the effect of cutting great numbers of persons from the rolls of taxpayers. The Republican view seemed to be that tax reduction should take the form of a reversion to the tax rates contained in earlier tax bills while taxes were in the process of rising, i.e., having climbed up the ladder of taxation, we should climb down by the same route.


Walter Maynard

At the present time it is not clear whether or not tax reduction will be actively discussed in the first session of the new Congress. To date hearings have been scheduled only on technical matters and "unintended benefits and hardships." Developments in Europe and the Middle East suggest that, although the current fiscal year may well develop a substantial cash surplus, tax reduction will not be a live issue.

Nevertheless, since our tax laws are in many respects economically damaging, and since a tremendous job of education must be done, it seems that the matter of reform of the tax laws should be continually pressed by associations such as ours.

Areas of Reform

In a series of hearings on the subject of "Federal Tax Policy for Economic Growth and Stability" held by the Mills Subcommittee on Tax Policy of the Joint Congressional Committee on the Economic Report, great emphasis was laid by the witnesses on the fact that the punitive rates of personal income tax put tremendous pressure on taxpayers to create means of tax avoidance and to convert forms of income taxed at high rates into capital gains, taxed at relatively low rates. Therefore, it would seem that if our industry is to gain its principal long term tax objective—a reduction in capital gains taxation—it should also place its weight behind income tax reform.

The Income Tax

Income tax reform should come under two headings; first, a reduction in punitive rates, and second, a means of averaging income for those with highly variable incomes.

Addressing ourselves to the matter of rates, it is obvious that in an economy such as ours, which must grow and therefore avail itself of the full energies of its productive citizens, a bad situation is created when positive incentives are provided for a good part of these citizens to devote more effort to tax avoidance than to the earning of new income. Yet, this is exactly what happens when rates of income tax exceed 50%. Under these conditions arithmetically speaking at least, a man's time is better rewarded for figuring out means of reducing his tax liabilities than for earning an equal amount of additional income. Therefore, it would be completely logical for our association to take the position that a ceiling on Federal taxation of earned income should be placed at a rate of 50%.

Averaging of Variable Incomes

The past year in our business has again provided evidence that our industry is one in which profits vary widely from year to year. The inherent arithmetic of the progressive income tax is such that we will pay more in taxes over a period of years than if we had received the same total amount of income in equal annual instalments. Such a state of affairs is obviously discriminatory.

A remedy for this situation would be for taxpayers who pay taxes over a period of years, say four years, exceeding what would have been paid if the same income had been received in annual equal instalments, to receive refunds for the difference.

Capital Gains Tax

Our industry has long advocated a lower rate of capital gains tax on the ground that a purely voluntary, self-assessed tax of this nature immobilized or "locked-in" large amounts of potentially venturesome capital, badly needed in a rapidly growing economy such as ours.

Several measures could be taken which would have the effect of ameliorating the locking-in aspects of the capital gains tax—and none of them, it is believed, would reduce revenues from the tax.

The first measure of relief would be to lower the rate of tax. Mr. Humphrey and his predecessor Secretary of the Treasury have both stated that lowering the rate of the tax would increase revenues.

The theoretical objection to lowering the rate of the tax at this time would be, as stated earlier, that it would increase the already existing tremendous incentive to convert ordinary income into capital gains.

Other measures of relief which would not require a reduction in the tax rate would include provision for some sort of "roll-over," that is to say, a provision in which a taxpayer who wished to sell an asset in which a gain existed could reinvest the proceeds in a similar asset within a limited time without tax penalty. This is the type of provision which now exists in the case of owner-occupied dwellings. The logic behind this provision is that a large part of all capital gains are due to inflation and are therefore illusory. This particular form of relief would release all kinds of transactions in appreciated assets which now simply cannot take place at all because of the heavy tax penalties involved.

Another form of possible relief is a limitation on the proportion of the value of a property which in the event of a sale could be assessed as capital gains tax liability. Under present law, the owner of an asset which cost nothing, if he sells it, must give up 25% of his capital in the form of a capital gains tax. If the proposed limitations were set at 3%, he would retain 97% of his capital. The capital gains tax under these conditions would not, as it now does, totally prevent sales of assets which have been held for a long period and were acquired at a low price.

To give a practical illustration of the working of that idea, let us take the case of two holders of Bethlehem Steel stock. Both, seeing it sell at 170, conclude that this price is too high and that another investment would be preferable. Let us imagine that the first of these investors bought his stock at $10 per share. His tax liability in the event of a sale would thus be $40 per share, or 23% of his capital. In practice it is only extremely rarely that a taxpayer would under these circumstances make a sale. Let us assume that the other holder bought the stock a year ago at $160. His tax liability would be only $2.50 per share, or 1.4% of his capital and this holder would probably not be prevented by the tax from making a sale. Thus, the capital gains tax, functioning as a transfer tax, operates in an entirely different manner on two taxpayers who have identical reasons for wishing to sell identical merchandise. If the capital gains tax were limited to a maximum of 3% of the value of the asset sold, both of these potential sellers would probably feel free to sell, and revenues to the Treasury would be substantially greater than under the present arrangement.

An amendment to the lax laws embodying this principle would be a simple one. The basic maximum rate of 25% would be unchanged, administrative problems would be negligible, and yield to the Treasury from the capital gains tax would without doubt be materially increased.

Double Taxation of Corporate Divisions

It will be recalled that the present tax code provides for a credit to individuals of 4% of dividends of domestic corporations. This tax has been under attack as a "loophole" which of course it isn't—it is a small diminution of a discrimination. The Canadians have had considerable experience with dividend credits, and their experience has been so satisfactory that they have increased credits to a maximum of 20%. It is, after all, logical that a developing country needing capital should diminish discriminatory taxation against equities. We should logi-

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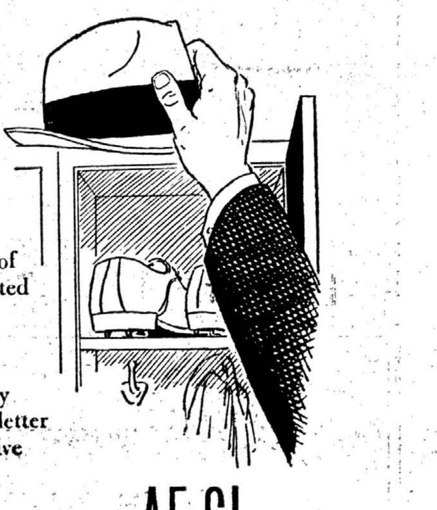

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cally press for an increase in the present nominal dividend credit.

Excise Taxes on Security Transfers

A change in the method of assessing Federal transfer taxes is now under consideration, which will have the effect of altering the method of computation to one based upon market values. While this thought has considerable logic, the effect of the tax under certain circumstances will be to increase present rates of transfer tax rather sharply. Efforts to ease this effect should probably continue to be made by your association.

"Unintended Tax Benefits"

While this meeting is going on the Mills Subcommittee of the House Committee on Ways and Means is holding hearings on certain "unintended tax benefits" in the present code. The financial community has an interest in some of these, especially the amortization of premiums on tax-exempt bonds held by dealers, and the use of short sales to postpone recognition of capital gains.

With respect to the first of these, dealers in tax-exempt securities are exempted from amortization of bonds disposed of within 30 days. The effect of this exemption is, under some circumstances, to enable dealers to realize a higher rate of tax-free income than if they were required to amortize. The reason for the existing exemption is the heavy cost burden which would be imposed on dealers if they were required to compute amortization on securities held for only a few days. Since price spreads in this class of security are characteristically narrow, the effect of requiring amortization would be to incease costs to users of this market, and this Association is resisting this change.

In the case of the use of short sales to postpone recognition of capital gains, the logic of the present situation is that the taxpayer now has complete freedom of choice as to whether or not by making a sale he will elect to become subject to a liability for capital gains taxes. He also may pick his time with complete freedom. The short sales device merely permits him to take advantage of markets which may exist at a particular time. Since the taxpayer already may choose whether or not he will incur liability, why should his freedom to determine the price at which he will incur liability be restricted? After all, he will in his own self interest endeavor to pick the particular price which will result in the greatest amount of capital gains tax liability.

Conclusion

In considering the prospects for achieving our goals of tax relief and tax reform, which your Committee believes are strongly in the public interest, it is evident that the obstacle that is by far the most difficult to overcome is that which can best be classified under the general heading of "politics." Our country has now had four years of Republican administration, but, because we have elected a Democratic Congress, a situation has been created in which, in the very nature of things, we are unlikely to get really constructive action in the tax sphere.

It would seem, therefore, that this would be a logical time for us to press for a means which would overcome the political obstacles to reform. Such a means could be found in the creation of a bi-partisan Commission with broad powers to investigate our whole Federal tax structure and make recommendations for improvement.

This Commission should be appointed by the President and be composed of persons of such emminence and prestige that their recommendations would be acceptable to the leadership in Congress of both parties.

The creation of such a Commission would have the effect of lifting the whole problem of tax reform above the arena of partisan politics, and it could be expected would produce recommendations on which a substantial bi-partisan majority in Congress could agree.

Your Committee is confident of the basic soundness of our position in tax matters, and believes that a high-level and impartial body, such as that which is suggested, would produce a program which the membership of our Association and other American businessmen could endorse.

The idea of impartial commissions of great prestige is not a new one; it has been used with great success by the British, and such commissions have produced reports which have had a powerful influence on thinking and legislation for decades. An example of such a report is the report of the Beveridge Commission, which laid the foundation for the entire structure of social security in England and in this country. We badly need such a Commission to overhaul our entire Federal tax structure.

Respectfully submitted,
FEDERAL TAXATION COMMITTEE

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Report of IBA Special Industrial Securities Committee

and (2) .8 pounds of coal per kwh will be used for additions through 1970 and .7 pounds per kwh thereafter.

These estimates represent average annual increases to 1980 of approximately 13 million tons for public utility electric generation alone. No allowance is made for a possible rise in privately generated electric power, which totalled 73 million kwh in 1954, excluding self-generation by the AEC. In 1954 consumption of coal by electric utilities was 115 million tons, and rose to 140 million in 1955. By 1980 utility consumption can be reasonably estimated to be in the neighborhood of 440 million tons.

Competition from Atomic Power

Estimating the long term trend of coal consumption by electric utilities is, of course, subject to uncertainty as to the probable extent of competition from atomic power. With this cloud, if only psychological, on the horizon, it seems ironic that the AEC is presently using nearly 10% of the nation's total output of electric power—more than 50 billion kwh in 1955. The AEC is now, indirectly, one of the nation's principal coal consumers. The Shawnee steam plant of the TVA alone, one of two serving the AEC installations at Paducah, Kentucky, burns 600 tons per hour, 14,400 tons per day. To date, facilities planned to produce atomic fuel require about 25 million tons of coal per year. The atom's counterbalancing influence as a source of primary energy for generation of equivalent amounts of electric

	KWH Increase (Billions)	75%	Additional Coal Requirements (Tons)
1955-1960	276.6	207.5	83,000,000
1960-1965	202.0	151.5	60,600,000
1965-1970	216.7	162.5	65,010,000
1970-1975	246.3	184.7	64,654,000
1975-1980	276.0	207.0	72,450,000
Total	1,217.6	913.2	345,714,000

power is still well in the future, on the basis of known facts.

If atomic-powered generating plants are to offer effective competition, costs per kwh must be competitive, an uninterrupted source of atomic fuel must be assured, and the safety factor must be such as to satisfy not only the local communities served but also the insurance companies. Although several large utilities are contemplating atom-powered plants, present estimates are that cost of power delivered from major installations (capital costs included but with the cost of atomic fuel still largely problematic), will range from 7 to 11 mills per kwh compared to 8 mills for plants in the mid-continent areas using conventional fuels, and only 4 to 6 mills for the most modern coal plants in the Ohio Valley. The cost of fuel will be determined by government accounting policies in allocating costs between commercial and military applications. It would seem, therefore, that atomic power offers an early competitive threat only to the extent that it may be subsidized by the government to accelerate its acceptance, with installations by large utilities such as Consolidated Edison to be regarded as primarily experimental for some years to come. The most optimistic estimates **now** contemplate that no more than 10-20% of total energy generation will be atom fueled by 1970-75, roughly 200 billion kwh, while Mr. Sporn of American Gas & Electric believes only 5.2% of total power output will be atom powered in 1975.

Even these optimistic forecasts are necessarily of a tentative nature and subject to revision as the situation develops, but they nevertheless suggest ample scope for using the vast deposits of our most plentiful mineral fuel. In the last decade, electric output has increased an average of 14.5% annually, and is currently 13% above a year ago so far this year. If in projecting future growth in electric energy consumption a rate of only 10% compounded annually were used, the FPC estimates cited above would have to be raised 154% for 1975; similarly, use of a 7% rate of annual growth would produce nearly a 50% increase in consumption over the FPC estimate for 1975. In the light of the indicated conservatism of the estimates, adjustment for nuclear energy competition at this juncture would appear unnecessary for our purposes.

Aluminum

Traditionally a user first of hydroelectric power and subsequently of current generated by gas-fired steam power, aluminum is now expanding in the coal producing areas which happen also to be close to major aluminum markets. With about 10 kwh required per pound of aluminum, electricity is a major cost item. By locating new reduction plants adjacent to electric generating stations which, in turn, are located practically at the mine, the aluminum producer can have the benefit of a fuel cost of only .132-.176c per kwh (assuming steam coal at $4.40 per ton and the use of .6 to .8 pounds of coal per kwh). This compares favorably with prevailing charges for gas of about .13c per kwh close to primary sources of supply and is lower than the cost of competitive fuels per kwh in any other region in the United States.

The lack of major unexploited hydroelectric resources in the country and the availability of cheap bituminous coal in the Ohio Valley has led four companies—Olin Mathieson and Revere Copper jointly, and Kaiser Aluminum, and Aluminum Company of America — to locate or plan to locate new basic aluminum plants in Ohio, Indiana and West Virginia. The total capacity of these plants is in excess of half a million tons a year. In addition to electricity produced by low cost bituminous coal, these plants will enjoy substantial transportation savings.

The aluminum industry contemplates doubling its present capacity of 1.7 million tons by 1970. As large hydroelectric sites are extremely scarce, the bulk of the electric energy required for this expansion of primary aluminum capacity probably will have to come from bituminous coal. The aluminum industry, in the future, may consume as much as 10 million tons of bituminous coal per annum.

Bituminous coal companies with mines in the Ohio River Valley have already benefited through the receipt of long-term contracts which provide for sizable initial deliveries of coal, and for substantial increases as planned aluminum capacity is expanded.

Steel

The steel industry represents the second largest consumer of coal in the United States. Its historical demand is shown in Table II under the category of coke. Approximately .9 ton of coal is consumed in the production of one ton of steel.

Consumption of **coking coal** has been characterized more by relative stability than growth despite the expansion in steel output. Advances in blast furnace techniques have reduced the amount of coke required per ton of pig iron and the introduction of an increasing proportion of high grade Labrador ore, beneficiated ore, taconite pellets and sintered ore may further reduce unit coke consumption. Variations in the amount of scrap used in open hearth operations also have a bearing on steel industry coal or coke consumption per ton of steel ingots produced, as does the development of electric furnace production of special grades and types of steel. As a result of these factors coal consumption per ingot ton of steel declined from 1.12 tons in 1946 to 0.93 tons in 1954.

The contemplated expansion of steel industry capacity which should range from 20 to 25 million tons in the next five years should create additional demand (assuming a requirement of .9 tons of coal per ton of steel ingot capacity) of 15-18 million tons.

Railroads

In 1946 Class I railways used 110 million tons of bituminous coal, 22% of total domestic consumption in that year. By 1955 their consumption declined to 15 million tons, a mere 3.6% of the total. This, of course, shows the effects of dieselization of the nation's railroads. It is doubtful if railways will ever again be a major market for coal. However, the coal industry's loss of the railroad market is a fact of the past.

Research is currently under way on the development of a coal-fired gas turbine, which, if successful, may bring some increase in coal consumption by railroads. In any case, future demand for coal by railways is projected at a minimum figure of 5 million tons a year.

Retail Deliveries

Retail consumption of bituminous coal has also declined sharply in the past decade from 101 million tons to 54 million tons and this market loss is probably permanent. The convenience of oil and natural gas is far too great to be offset by the lower cost of coal. Since the present level of residential coal consumption seems to be at a minimum, stabil-

TABLE I

Consumption of Bituminous Coal and Lignite

The change in the character of the market for coal since 1946 is shown in the following tabulation
(Thousands of Net Tons)

	Electric Power Utilities	% of Total Domestic	Class I Railways	% of Total Domestic	Coke (Beehive and By-Product Ovens)	% of Total Domestic	Retail Dealer Deliveries	% of Total Domestic	Other Industrials	% of Total Domestic	Total Domestic Consumption
1946......	68,743	13.7	110,166	22.0	83,238	16.6	100,586	20.2	137,603	27.5	500,386
1947......	86,009	15.7	109,296	20.0	104,800	19.2	99,163	13.2	146,623	26.9	545,891
1948......	95,620	18.4	94,838	18.2	107,306	20.6	89,747	17.3	132,393	25.5	519,909
1949......	80,610	18.1	68,123	15.3	91,256	20.5	90,299	20.3	115,270	25.8	445,538
1950......	88,262	19.4	60,969	13.4	103,845	22.9	86,604	19.1	114,522	25.2	454,202
1951......	101,898	21.8	54,005	11.5	113,448	24.2	76,531	16.3	123,022	26.2	468,904
1952......	103,309	24.7	37,962	9.1	97,614	23.3	68,393	16.3	111,479	26.6	418,757
1953......	112,233	26.3	27,735	6.5	112,874	26.4	61,295	14.4	112,611	25.4	426,798
1954......	115,235	31.7	17,370	4.8	85,288	23.5	52,616	14.5	92,477	25.5	362,986
1955......	140,470	33.2	15,473	3.6	107,376	25.4	53,762	12.7	106,234	25.1	423,315
Change ...	+104%		−86%		+29%		−46%		−23%		−16%

*/... average, based on total transactions last year

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ity of the retail coal market is about the worst that can be anticipated within the normal scope of the business cycle. Thus, the retail market for coal can be expected to remain at about 50 million tons per year in the future.

Industrial Demand

General industrial uses for coal, excluding the steel industry, amounted to about 25% of coal production in 1955. A considerable amount of research is currently under way in the field of coal chemistry. Union Carbide, for example, is experimenting with coal hydrogenation. While the technical feasibility of the process has been demonstrated, no large-scale operation has resulted to date. It is also possible to gasify coal underground, providing an almost unlimited source of gas, but the delivered price is not yet competitive with natural gas. In addition, a variety of products normally derived from crude petroleum can be manufactured from coal but at present relative costs preclude their production on a commercial scale. Coal chemistry thus has interesting implications through raising profit margins or improving the competitive position of coal by making it possible to sell the residual BTUs for boiler fuel in the form of char. This industry will, however, remain derivative for some time and cannot soon become a significant independent contributor to volume. Since a discussion of chemical uses for coal is the subject of a separate chapter, no further consideration is required here.

Conservatively, it can be estimated that future industrial coal consumption will be approximately 110 million tons a year.

Projection of Future Domestic Demand for Bituminous Coal

Against this background for major coal consuming markets, prospective demand for bituminous coal (exclusive of export) in coming years might be conservatively summarized as follows:

	1960	1965	1970	1975	1980
	(Millions of Short Tons)				
Electric Utilities	195	250	310	370	440
Railroads	5	5	5	5	5
Coke	125	130	135	140	145
Retail	50	50	50	50	50
Industrial	110	110	110	110	110
	485	545	610	675	750

II

An Analysis of Export Markets

The United States' exports of coal fall into three main categories—those to Europe, those to Canada and those to the rest of the world, principally Latin America. Over the years the sales to Canada and Latin America have not ranked large in terms of total production in the United States and have shown minor annual changes which have reflected shifts in world wide business conditions. The exports to Europe, on the other hand, have been characterized by wide fluctuations, with large shipments following both World Wars and at the time of the coal strike in Britain in the Twenties. As brought out in the following paragraphs, small growth in line with increasing industrialization can be expected for Latin America, while only negligible changes can be anticipated for Canada, since increasing over-all demand for energy will be taken care of largely by the newly discovered oil and gas resources. With coal shipments to Europe running at record highs, the major question in the overseas picture is whether this is another temporary "emergency" or whether the basis for a lasting export business has been laid.

* * *

Europe's Coal Needs

The postwar recovery of Western Europe is little short of miraculous. Factories which were not much more than rubble ten short years ago are in many cases turning out more goods than in the prewar years. Over-all manufacturing production for Western Europe was approximately 170% of the 1937 rate in 1955, according to statistics published by the United Nations. The rise in standards of living seems to have stimulated the wishes and desires of the people, and there appears to be a new spirit which augurs well for future growth. To support this growth, energy needs can be expected to rise rather sharply in the years ahead. The Energy Commission of the Organization for European Economic Cooperation, in a report released last June, stated that the consumption of all forms of power by the 17 member nations is expected to rise by approximately one-half to the equivalent of 1,200 million tons of coal by 1975. The Fifth World Power Conference, which was held at Vienna last summer, has been called "A World Parliament on Energy" since it was attended by approximately 2,300 delegates from 24 European and 26 overseas coun-

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The following table indicates the sources of electric power energy in the United States for the past decade.

TABLE II

Generation by Energy Service

(Millions of KWH)

Energy Service	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	Increase
Coal	111,654	136,985	152,910	135,451	154,520	185,204	195,437	218,846	239,146	302,441*	+171%
Gas	18,820	23,073	30,123	36,967	44,559	56,616	68,453	79,791	93,688	N.A.	
Oil	14,082	16,925	16,762	28,547	33,734	28,712	29,750	38,404	31,520	N.A.	
Waste	216	331	433	386	390	391	481	390	264	N.A.	
Total Fuel	144,772	177,314	200,228	201,351	233,203	270,923	294,121	337,431	364,618	433,683	+200%
Hydro	78,406	78,425	82,470	89,748	95,938	99,750	105,102	105,233	107,068	112,721	+ 43%
Total	223,178	255,739	282,698	291,099	329,141	370,673	399,223	442,664	471,686	546,404	+145%

*Estimated. SOURCE—Federal Power Commission.

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
% Fuel	64.8%	69.4%	70.8%	69.2%	70.8%	73.1%	73.6%	76.2%	77.3%	79.4%
Hydro	35.2	30.6	29.2	30.8	29.2	26.9	26.4	23.8	23.7	20.6
% of Fuel—Coal	77.2%	77.2%	76.4%	67.3%	66.2%	68.4%	66.5%	64.8%	65.6%	70.0%
Gas	13.0	13.0	15.0	18.3	19.1	20.9	23.3	23.7	25.7	30.0
Oil	9.7	9.6	8.4	14.2	14.5	10.6	10.1	11.4	8.6	
Waste	.1	.2	.2	.2	.2	.1	.1	.1	.1	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% Coal of Total	50.0%	53.5%	54.0%	46.6%	47.0%	50.0%	49.0%	49.5%	50.7%	55.5%
Pounds per KWH	1.23	1.26	1.25	1.19	1.14	1.10	1.06	1.03	0.99	0.95

TABLE III

Use of Bituminous Coal and Competing Fuels and Power in the United States

	Bituminous Coal (thous. tons)	Anthracite (thous. tons)	Petroleum Products (thous. bbls.)	Natural Gas (million cu. ft.)	Hydro-electric* (million kw-hrs.)	Total Bituminous Coal Equivalent (thous. tons)	Percent of Total on B.t.u. Basis: Bituminous Coal	Anthra-cite	Petroleum Products	Natural Gas	Hydro	Total b.t.u. trillions
1920-1924 Average	466,071	78.433	268,947	528,416	20,043	651,382	71.5	11.7	9.6	3.3	3.9	85,531
1925-1929 "	509,992	72,212	376,001	770,200	32,500	727,931	70.1	9.6	12.1	4.2	4.0	95,359
1930-1934 "	359,055	56,327	354,165	915,747	35,975	559,977	64.1	9.8	14.7	6.6	4.8	73,357
1935-1939 "	381,555	49,920	456,367	1,302,544	45,104	620,374	61.5	7.8	17.1	8.4	5.2	81,269
1940-1944 "	529,294	54,940	673,055	2,021,655	65,229	862,267	61.3	6.2	18.1	9.4	5.0	112,957
1945-1949 "	514,258	48,320	894,272	3,069,465	86,546	944,649	54.4	5.0	21.7	13.0	5.9	123,749
1950-1954 "	426,329	33,020	1,154,326	5,644,377	107,262	1,004,053	42.5	3.2	26.0	22.5	5.8	131,531
1950	454,202	39,900	1,082,871	4,428,079	100,885	975,992	46.4	4.0	25.2	18.2	6.2	25,571
1951	468,904	37,000	1,150,780	5,234,269	104,376	1,034,580	45.2	3.5	25.2	20.3	5.8	27,106
1952	418,757	35,300	1,171,069	5,761,325	109,708	1,008,855	41.5	3.4	26.2	22.9	6.0	26,432
1953	426,798	28,000	1,184,585	6,207,311	109,617	1,028,321	41.5	2.6	26.0	24.2	5.7	26,942
1954 Preliminary	362,986	24,900	1,182,325	6,590,900	111,723	972,519	37,3	2,5	27.3	27.2	5.7	25,480

*Includes utility and non-utility. SOURCE: Above table taken from Bituminous Coal Trends—1956 (National Coal Association).

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Report of IBA Special Industrial Securities Committee

tries. A large number of the papers that were presented concerned the conference theme of "World Energy Resources in the Light of Recent Technical and Economic Developments." The only conclusion that could be reached was that there was no doubt about Europe's future demand but considerable question about its ability to meet that demand.

As a matter of fact, the picture for Western Europe as a whole is a rather dismal one. According to the OEEC, Western Europe, on the basis of present plans, is expected to increase its own production of primary energy sources (coal, lignite, water power and natural gas) from 584 million tons of coal equivalent in 1955, which was broken down roughly between coal and lignite 74%, oil products 17%, hydroelectric power 8% and natural gas less than 1%, to only 755 million tons in 1975. In other words, its own production is expected to account for only 63% of the larger requirements, as compared with 80% last year. Without a development of new European sources of energy, the result would be an increasing dependence on imported fuels. The commission emphasized the exchange problem, since it believes that imports of coal, crude oil and petroleum products would rise from $1,900 million in 1955 to $5 billion in 1975 even if present prices were maintained, and it further points out that it anticipates higher prices. In addition to the exchange problems, the commission warned against the risks in the increasing dependence of Western Europe on outside supplies, particularly when they come from one small part of the world. Iran was undoubtedly in the minds of the commission, but the subsequent action of Egypt in nationalizing the Suez Canal has tended to underscore this warning.

* * *

Atomic energy would, of course, be a great boon to Europe and, because of higher generating costs than exist in this country and the acute exchange problems anticipated in future years, it could come much more quickly than is generally believed. It should be pointed out, however, that Sir Harold Hartley of Britain, Chairman of the Commission and President of the World Power Conference, has warned people over misconceptions concerning the development of atomic energy. While he looks for a rapid development after 1975, by that year he sees atomic energy equaling only the coal equivalent of 80 million tons, or less than 7% of total needs.

Therefore, barring unforeseen developments, the bulk of Western Europe's growing shortages of power to create energy will have to be made up by importations of coal and petroleum products. The fact that much of the latter can be paid for with sterling rather than with short dollars weighs in its favor, although any worsening of Middle East politics could work in favor of coal.

Prospects for U. S. Coal

So far attention has been directed principally to energy. Some thought should be given to the rapid rise in Free Europe's output of steel, which in 1955 approaches 90 million tons. Further increases in production are scheduled and, in view of the fact that one ton of coal is needed to produce one ton of steel, the demand for metallurgical coal should grow. With this type of coal in short supply abroad, it has been estimated that this source of demand alone could create exports of more than 25 million tons annually based upon present steel-producing facilities, or almost as much as the total tonnage supplied Europe by the United States last year.

It is obvious that Western Europe's demand for coal is dependent upon many developments which are difficult to gauge. Political events in the Middle East, exchange problems and the price relationship between coal and oil will all have a bearing upon the amounts of petroleum products and coal imported by Western Europe. Furthermore, favorable political developments could result in Poland's supplying a sizable share of the coal needed by Western Europe. Nevertheless, there appears to be enough evidence to point to an expanding demand for U. S. coal. Accordingly, recent and prospective exports shape up something like the following:

U. S. Exports
(In Millions of tons)

	Canada	Overseas	Total
1955	17	35	52
1956	15	45	60
1960	10	55	65
1965	13	65	78
1970	15	85	100

On an over-all basis it appears that U. S. exports should be at a level of approximately 60 million tons in the immediate future. As recently as Oct. 5, 1956, the press reported that Walter J. Tuohy, President of the Chesapeake & Ohio Railway, expects coal exports to jump 100% in the years ahead, and that exports totaling 100 millions tons annually now seem attainable. He is not alone in his optimism. In addition to the Chesapeake & Ohio, the other two leading coal carriers are also spending large sums to expand their coal-shipping facilities at tidewater. It should also be mentioned that these three railroads, a group of mine operators and the mine workers' union are making plans to form a shipping line to export coal to Europe. Such steps will be necessary to increase exports which were running at an annual rate of approximately 57 million tons in September, 1956, since rail and port facilities are being used to approximate capacity.

* * *

III

Competitive Fuels

From the 1920s to 1955 both bituminous coal and anthracite have been accounting for a declining percentage of the total production of mineral energy fuels and water power in terms of British thermal units. Although anthracite coal contributed less than 2% of the total production and consumption of energy fuels in 1955, bituminous coal still accounted for roughly 30% of the total energy fuels produced and consumed in the United States last year, despite the inroads made by oil and natural gas. Measuring the use of bituminous coal as a source of energy against only direct competitors (which would exclude such fuels as gasoline), bituminous coal's percentage of such total energy fuel consumption would be increased to between 35% and 40%. Consequently, bituminous coal still stands out as the dominant source of energy among all directly competitive mineral fuels and water power.

Limits to Hydro-Electric Power

Coal's oldest competitor is water or hydro-electric power, and although this type of energy production increased from 31 billion kwh in 1930 to about 112 billion kwh in 1955, hydro's share of the total electric power output declined significantly from 34% to slightly more than 20% in the 25 years from 1930 to 1955. Most of this loss in percentage participation by hydro was experienced in the last decade as power generation by other fuels made rapid progress.

* * *

Natural Gas Inroads

Standing out as coal's biggest competitors are natural gas and petroleum, with the former manifesting the strongest growth trend even though bituminous coal still remains the dominant contributor to the total energy used by coal and competitive fuels. Since much of the total production of crude petroleum and natural gas go into uses that are not competitive with coal, such as motor gasoline, certain diesel oils, lubricants and carbon black, the exclusion of such non-competitive fuel uses from the total energy market is required for a more realistic picture of coal's position. Direct competitors of coal as an energy source would include fuel oils, liquefied petroleum gases, natural gas and hydro-electric power. On such a basis, the nearly 6.6 trillion cubic feet of the approximately 8.4 trillion cubic feet of natural gas consumed in 1954 (the latest year for which such comparative data are available) accounted for 27.2% of the total energy developed by coal and directly competitive fuels in terms of British thermal units. The sharp growth in natural gas as a competitor to bituminous coal is indicated by the fact that this fuel contributed an average of only 6.6% of the total energy used in the 1930-34 period or less than a quarter of the current percentage level. It should also be noted that natural gas had a more pronounced growth trend in the postwar period inasmuch as natural gas as a source of energy contributed a still modest 9.4% in the 1940-44 period but a much larger 22.5% in the years 1950-54. The consumption of bituminous coal, on this same direct competitive fuel basis, was about unchanged at an average 359 million tons during the 1930-34 depression period compared with about 363 million tons in 1954, despite generally higher soft coal consumption in the interval. However, the percentage of total energy for which bituminous coal accounted declined steadily from 64.1% in 1930-34 to 37.3% in 1954.

* * *

Making Coal More Competitive

Notwithstanding the inroads which coal's largest competitors, natural gas and oil, have made on markets held by coal through the years, or the prospect of some expansion of hydro electric power or nuclear energy potentials in the future, coal has stayed competitive as indicated by the fact that it still remains the dominant source of energy among the directly competitive fuels. Furthermore, coal management aims to see that coal remains competitive. Steps being taken to improve the competitive position of coal include the mechanization of operations to lower production costs, the reduction of transportation costs, the improvement of coal's utilization and the development of more aggressive sales-engineering services and marketing aids.

In September, 1956, the market promotion activities of the National Coal Association were transferred to its affiliate, the Bituminous Coal Institute. The activities of BCI will concentrate on the more effective selling of coal through a program designed to encourage the increased use of bituminous coal and to improve the competitive position of bituminous coal in industrial, commercial, domestic and retail markets. One of its services will be to provide engineering assistance to coal consumers and others in order to promote the most efficient and economic utilization of the fuel. In this connection, engineering specialists have been placed in 12 district offices located in coal consuming areas with the task of demonstrating that present

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day coal, especially prepared for customers, and burned in automatic equipment, is superior to other fuels in most parts of the country.

An example of the new organization's aggressive approach was the installation of a BCI coal-heating exhibit at a recent convention of school officials. Persons responsible for the selection or recommendation of fuels used in school buildings were favorably impressed by the advantages of burning cost-saving bituminous coal the modern way and showed high interest in labor-free automatic burning equipment. Through such activities, BCI will strive to obtain the most effective results from the bituminous coal industry's substantial sales efforts to retain present markets or win conversions from other fuels, particularly oil and natural gas.

Another industry-sponsored activity is that of Automatic Solid Fuels Equipment, Inc., which is devoted to the production and marketing of automatic coal burning equipment for homes, commercial and small industrial businesses. This organization's effort may result in either retarding the loss of coal consumers to oil and natural gas, or if sufficiently successful, may gain new consumers in those areas where the competitive price of coal is outweighed by the intangible advantages of other fuels.

Recognition by the coal industry that promotional efforts are worthy of exploitation is an indication of the present aggressiveness of the coal industry's coordinated drive to maintain coal's competitive standing and position as the dominant source of energy among coal and its directly competitive fuels in the United States.

V

Financial Economics of the Coal Industry

Abundance of easily accessible coal reserves has been the primary conditioning factor in the financial history of the bituminous coal industry. This abundance encouraged the small entrepreneur and impeded the concentration of production in few and stronger hands so that the coal industry today is composed of many small mines and small companies. The resulting excessive capacity and production has in the past caused intense competition and narrow or non-existent profit margins. Complicating this picture is the fact that it often pays the mine owner to operate at a loss rather than abandon his investment by having his closed mine fill with water and collapse. Under these conditions coal securities have been highly speculative until recently.

From 1930-1939 the industry as a whole operated at a loss which totaled $296 million for these years. Only the burgeoning demand generated by World War II and its aftermath brought modestly profitable operations. But even in 1949, earnings totaled only $125 million for a net margin of about 4.7% on a product valued at $2.6 billion. This poor earnings picture slowed the technological changes necessary to put the industry on a profitable and efficient basis.

Gains in Cutting Costs

However, faced with steeply mounting labor costs and slowly declining demand, profound changes began to take place. Those coal producers able to find the necessary capital began investing in the modern labor saving equipment with the result that productivity rose steeply. As the stronger units in the industry began to make real gains in cutting costs, the small producer found it increasingly difficult to compete. This was complicated by the further concentration of markets as railroads and home heating became increasingly less important outlets and large consumers, such as utilities and the steel industry, took bigger and bigger bites out of total output.

After reaching a peak of 9,429 in 1950 the number of mines has declined steadily. Also, mergers and consolidations have reduced the number of operators. By 1953, mines of 3% of the companies accounted for 45% of the output. Capacity as determined by the Department of Commerce declined from 790 million tons in 1950 to about 550 million tons this year. This trend seems likely to continue. Only the larger units of the industry can afford to finance the large new mines necessary if costs are to be kept within competitive ranges.

The success of mine improvement programs became clearly evident in 1955. Eleven publicly owned bituminous coal companies, many of them among the stronger units of the industry, last year netted 6.2% on sales of $565 million. This compares to industry wide net margins of 4.7% in peak 1947 and 2.3% in 1945.

Future New Investment to Meet Demand

But in the immediate future the bituminous coal industry will be called upon to do more than merely make more efficient its present productive capacity. Demand for coal has snapped back sharply since the low reached in 1954. Last year the industry produced 470 million tons and seems likely to increase this to about 500 million tons this year. It is generally believed that productive capacity will have to be increased to about 700 million tons by 1960 and possibly to as much as 1 billion tons by 1975. This means that the industry will not only have to continue its present program of investment in labor saving equipment, but will have to develop important new capacity to keep pace with mounting demand. As previously noted, present industry capacity is about 550 million tons, about 10% above present production. It is generally believed that this margin will have to be increased somewhat. Also, about 20% of present productive capacity is expected to be used up over the next five years. Altogether, the industry expects to add about 250-275 million tons of annual productive capacity by 1960 in order to keep pace with demand.

The cost of new mining varies considerably. Generally, strip mining has been considered cheaper than deep mining with some new strip mines having been developed for as little as $3 per ton of annual capacity. This cost rises steeply, however, as the stepth of overlay increases. Furthermore, the cost of new deep mines has been declining as new technological developments, such as roof bolting, are employed and some more favorably situated deep mines recently developed have compared satisfactorily in cost with the more expensive strip mines. Strip mining production has leveled off in recent years and probably will not advance significantly above the 25% of total production for which it now accounts. Limited reserves for this type of mining will slow its further advance and the majority of future output will continue to come from deep mines. An overall average cost of $6-$7 per ton of annual capacity seems a fair estimate of new mining costs.

A new deep mine of 2 million tons of annual capacity backed by reserves of 80 million tons now costs in the neighborhood of from $15-$20 million. Of this, about $8 million is needed for equipment, such as continuous mining machines which cost about $100,000 apiece. The remainder represents the cost of coal lands and mine development. Big companies can still buy coal in the ground for as little as 2c per ton in certain isolated instances, although it is a more common practice to lease coal reserves on a royalty basis, and the going rate for these leases varies from around 10c per ton to around 25c per ton.

Invest $1½ Billion By 1960

On this basis the industry will be called upon to invest some $1½ billion in new plant over the next five years at an annual rate of about $300 million. If projections of demand over a longer period of time hold true, the annual figure will increase steadily in the subsequent 15 years and may reach as much as $500 million in the early 1970's.

For the coal industry this may seem a tremendous amount of money. But Standard Oil of New Jersey alone last year spent $670 million on capital improvements and coal, as a basic source of energy, is on a par with oil. Nevertheless, in view of the coal industry's rather sad financial past, it seems fair to ask from whence sums of such magnitude might come. Overall financial figures for the industry are scarce but a look at the balance sheets of some of the publicly owned companies is revealing and suggestive. A compilation of 11 such companies which last year accounted for about 18% of the industry's total output, reveals earnings of $35 million after taxes. This represents a net margin of 6.2% on sales of $565 million. In addition, depreciation and depletion charges yielded $26 million for a total cash flow of $61 million. After paying dividends of $17 million these 11 companies retained and reinvested $44 million in 1955. Since these companies include some of the strongest units in the industry, these figures should probably be projected on an industry-wide basis at a lower rate. In all probability, the bituminous coal industry is generating and retaining funds at a rate of $200-$225 million annually. As the burden of expansion will fall primarily upon the larger units in the industry, not all this flow of cash can be considered available for such purposes. Best guesses seem to indicate that about half the projected annual requirement of $300 million will be derived from internal sources and this will be about equally divided between earnings retained after dividends and depreciation-depletion charges. The rest, about $150 million will be sought in the capital market.

Financing Needs

A good part of this requirement seems likely to be satisfied by long term loans from institutional investors, especially insurance companies. Since our 11 companies showed long term debt accounting for only 10.6% of invested capital in 1955, the industry could probably take on fairly sizable loans without unduly overbalancing capital structures. However, some equity financing will probably be necessary as well as the public offering of debt securities.

Of course, the quality of these securities will vary widely from company to company. However, these factors might be pointed out to us affecting the climate of the investment market as regards coal securities generally. Steadily rising demand should provide a ready market for the increased production afforded by new funds. It seems highly improbable that the industry will again see excess capacity approach the 25% level at which operations generally become unprofitable. Furthermore, margins are likely to continue to show improvement. Average output per man day in all mines is estimated at 10.9 tons this year. The most recently developed mines have attained yields as high as 30 tons per man day, and the latest continuous miners have no difficulty in extracting coal at the rate of 4 tons per minute. Thus, the spectacular rise in productivity witnessed in recent years gives no indication of leveling off. And investment in labor saving equipment is in a sense self amortizing as higher depreciation charges are generated.

The foregoing is not meant to imply that the coal industry is without problems in facing its need for new capital. The most commonly voiced concern is in reference to depletion charges. Percentage depletion is charged off at 10% of sales, or 50% of net profit from mining before depletion, whichever is lower. Instead of taking percentage depletion, a coal company may elect to take cost depletion, which is based

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upon the book value. Because the book value is generally far below replacement value, cost depletion would be grossly inadequate to finance the acquisition of new reserves. In most cases the percentage depletion allowance is inadequate to finance the acquisition of new reserves either because the net profit severely limits the percentage depletion allowance or, in some cases, because the 10% rate is inadequate. If again we refer to our 11 companies, we find net property carried at $4.09 per ton of 1955 production and combined depreciation and depletion charges totaling 32c per ton. This means that net property last year was charged off at a rate of 7.8% annually. If this same 32c were charged against new mines costing $7 per ton, the annual rate would fall to 4.6%. Actually, of course, our 32c figure includes depreciation of equipment which would rise with the cost of such equipment so that it scarcely seems likely that the rate would fall to as low as 5%. At this rate, it would take 20 years to write off a mine.

Faster Write-Off Required

This is considered undesirably slow considering the inflationary trend of the times even though this is about the average projected life of new mines now. Like other old industries, profits in coal are to some extent the result of the low cost of past property acquisitions, and the industry would be healthier financially if it had a faster write-off schedule.

In the past, depreciation and depletion have not been as important in the coal industry as in some others due to the fact that coal has not approached the 52% tax payout common in other industries. Our 11 companies paid Federal corporate taxes at a rate of 28% in 1954 and 37% in 1955, basing the computation of these rates on the taxable income after deducting depletion. These rates reflect past losses to a large extent and may be expected to increase as these losses are charged against future income. This inclining tax rate will militate against net earnings to some extent and will, of course, make depletion and depreciation more significant as sources of funds.

Dividend Outlook

Lastly, we should consider the "dividend problem." The dividend payout of the coal industry has traditionally been high. In the decade 1930-1939 the industry paid out $134 million in dividends while sustaining losses totaling $296 million and during the war years (1940-1946) dividends of $160 million represented 73% of the $219 million earned in that period. Our 11 companies in 1954 paid out 66.5% of their earnings as dividends but in 1955 while cash payout rose from $8 million to $13 million the ratio fell to 49%. The coal industry will probably make every effort to maintain and increase dividends in the years ahead in order that their securities may enjoy a favorable investment environment. Nevertheless, it seems imperative that a larger share of income be retained to finance expansion and maintain satisfactory capital structures. Overall, it seems more than likely that lowered costs and increased demand will be sufficient to maintain and improve retained earnings despite higher taxes and probable higher dividends.

The eagerness with which investors have snapped up recent offerings of securities by members of this industry indicated that the investing public is not unaware of the improved circumstances of bituminous coal. Their eagerness seems fully justified in terms of the outlook, if not in terms of the past history of these companies. However, this very enthusiasm makes it unlikely that very many bargains will be around, and it should also be pointed out that the industry still faces many problems. Not all companies are sharing in the new coal boom and investors unaware of the difficulties faced by many producers in this industry should exercise considerable caution before committing their funds to it.

VI

Conclusion

The bituminous coal industry, long considered a depressed industry, is undergoing a vigorous recovery. The 1944-54 decade witnessed consistent deterioration of bituminous coal's position as dieselization of the railroads virtually eliminated a major segment of the market, and oil and natural gas made serious inroads into the industrial and retail market. The evidence now suggests, however, that the industry was going through a transitional phase. 1954 production of 392,000,000 tons probably represented the low point of the downward trend initiated in 1947.

The resurgence of bituminous coal production is due in large part to increasing demand from electric utilities. The nation's appetite for electrical energy appears to be insatiable. Electric utilities, which in 1955 consumed 140 million tons of bituminous coal, are estimated to need well over 400 million tons by 1980.

Although atomic energy will provide some fuel for electric power production in the future, even the most optimistic estimates contemplate that not more than 10-20% of total electric energy will be atom fueled by 1970-75. Since electric power growth may be well in excess of our present expectations if present trends continue, there have been no adjustments made in our estimates for any substantial competition from atomic power.

The second source of increasing demand for bituminous coal will stem from the steel industry's current prospective expansion program. While the demand for coal from railroads and for retail trade cannot be expected to show any growth, its present level is so low that further losses can only be minor.

The total domestic consumption of coal in 1955 was 423 million tons. It can reasonably be estimated at approximately 750 million tons in 1980.

The export market for coal has been given a tremendous boost from the dynamic postwar recovery in Western Europe and with its growing shortage of power to create energy. Political events in the Middle East, exchange problems, the coal-oil price relationship and the speed with which atomic energy can be generated, all have a bearing on the amount of coal to be imported by Western Europe. In spite of these uncertainties, it can be reasonably estimated that the U. S. export market for coal, which will total approximately 60 million tons in 1956, will exceed 125 million tons in 1980 — more than double the present market.

It is apparent that reserves of coal in the United States are gigantic whether reserves are considered as all the coal in the ground or only that coal which can be recovered by present mining methods. The present economically recoverable reserves alone would be sufficient to sustain production at the current level for some five hundred years. If the reserves which could ultimately be recovered at higher prices are taken into consideration, the country has enough coal to last two thousand years. It should be remembered, however, that these reserves include coal of all ranks, a substantial portion being subbituminous and lignite. However, increasing importance of these reserves of lower rank coal seems inevitable as gasification and hydrogenation of coal are developed.

There is little question that the trend to greater mechanization of mines will continue, spurred by higher wages, development of more efficient equipment and rising production demand.

Although efforts on the part of both producers and consumers of coal will continue to be made to limit the increasing cost of coal transportation by the railroads, it appears unrealistic to expect any possibility of a future reduction of this cost, which almost equals the average mine cost per ton.

There exists a difference of opinion as to how rapidly coal chemistry will develop in the near term. An officer of one of the leading coal companies within the last month has stated that foundations are presently being laid for a whole new source of liquid hydrocarbons which in turn will open up many new frontiers for chemical processing.

The reader of this report must inevitably come to the same conclusion of the committee—that the near and long term future of the Bituminous Coal Industry is a bright one.

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(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Leon H. Grayson has become connected with Mitchum, Jones & Templeton, 650 South Spring Street, members of the New York and Los Angeles Stock Exchanges.

Two With Shelley, Roberts

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif. — Bruce G. Hines and Ewdard D. Wright have become connected with Shelley, Roberts & Co., 9486 Santa Monica Boulevard.

Three With Sterling

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Eleanor G. Dreher, Hratch A. Kludjian and Elmo K. Moen have been added to the staff of Sterling Securities Co., 714 South Spring St.

With Sutro & Co.

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LOS ANGELES, Calif. — Theodore B. Holmes has become associated with Sutro & Co., Van Nuys Building. He was formerly with Shearson, Hammill & Co.

Walston Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Robert Witton has been added to the staff of Walston & Co., Inc., 550 South Spring Street. He was formerly with Shearson, Hammill & Co. and Daniel Reeves & Co.

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SEC's Impact on Capital Markets

the public been bilked. But the public must also learn not to buy the proverbial "gold brick." The tragedy from the standpoint of the public investor is that the widow, the wage earner, the person of small income is often the victim of the "boilerroom" salesman. The Commission will welcome every help from the public in reporting to us fraudulent transactions and in using common sense in their securities transactions.

Problem of "Claimed Exemptions"

Third, the problem of sales of unregistered securities based on claimed exemptions. A substantial but undetermined number of securities have been sold in violation of the registration and anti-fraud provisions of the Securities Act pursuant to claimed exemptions which, in fact, were not available. We believe that these sales have been made in the main under claims of exemption pursuant to the so-called "private offering" exemption and the intrastate exemption. In most of these cases the Commission has no means to discover facts showing the unavailability of a particular exemption until it receives, months after sales have been made, reports or complaints from unwary public investors who have been "taken" for substantial sums.

Further complicating the Commission's problems in this area has been the fact that an increasingly large number of securities claimed to have been issued pursuant to these exemptions have been transferred to United States citizens through Canadian, Swiss, Lichtenstein, and other foreign financial institutions, under foreign laws which preclude the Commission from tracing the transactions in which the securities have publicly been sold or determining the availability or unavailability of the exemption.

We have increased our efforts to make factual discoveries of sales made without registration at the earliest opportunity in order to determine the availability or unavailability of these exemptions and thus to take legal action.

Canadian Sales

Fourth, the problem of illegal sales from Canada. The Commission has been concerned about the illegal sale of issues in the securities markets of the United States by issuers and broker-dealers located in Canada. These transactions have appeared to reach public investors in the United States as a result of primary distributions effected on Canadian securities exchanges or through Canadian brokers and dealers. Although it is not possible, as a matter of jurisdiction, to reach a Canadian issuer or a broker-dealer, we are reviewing more closely the activities of broker-dealer firms in this country suspected of participating in the illegal marketing of Canadian securities or of American securities sold through Canadian sources in order to protect United States public investors more effectively. We receive fine cooperation from Provincial law enforcement officials, but the virtual nullification by a Canadian court decision of the 1952 securities fraud amendment of the Canadian Extradition Treaty has seriously, perhaps fatally, impaired our ability to protect the American people from securities frauds originating in Canada.

Fifth, the problem of the "front money" racket. Under the Commission's exemptive regulation for new issues not over $300,000 in amount, and sometimes under registration, "rings" have developed through which groups of promoters, dealers, attorneys, and engineers collaborate in the creation of a series of companies primarily employed to "manufacture" securities for public sale in the guise of legitimate promotions. Often these facts have not been developed or discovered until after public investors have bought securities which have little or no actual value. These various transactions frequently have been carefully timed so that it is difficult to relate one issue with another even though a particular issue may have been part of a scheme of the character mentioned. Under our recently revised exemptive regulation, the Commission now requires disclosure of the names of all such individuals, and our field office investigative work has been stepped up.

"No Sale" Doctrine

Sixth, the problem of evasion of the registration requirements through the "no sale" doctrine. By a long-standing interpretation, certain types of corporate merger, consolidation, reclassification of securities and acquisition of assets of another person, under which additional stock has been issued in conformity with the statutory provisions of the state of incorporation, have been deemed not to constitute a "sale" of a security subject to registration. This "no sale" rule, as it is called, has been used by numerous issuers, domestic and foreign, to distribute securities in violation of the registration provisions presenting similar problems as faced under the "private offering" and "intrastate" exemptions. We recently released a notice of a proposed revision of the "no sale" rule which is designed to preclude its availability in such cases.

Seventh, the problem of promotional stocks. In addition to the problems created by the sale of promotional uranium stocks, the Commission has been concerned with the sale of new insurance company securities in both exempt and registered issues, which have given the appearance of involving abuses or probable violations, necessitating thorough investigation.

The enforcement program has to be related to the complex and ever-changing pattern of the securities markets. The facts concerning the business, property, and financing of a corporate issuer must be ascertained and related to the representations made to investors. Investors must be identified and interviewed. Books and records of brokers, dealers, issuers and others must be examined and analyzed. Frequently, securities must be traced through intricate channels to ascertain whether they have been offered by an issuer or underwriter in violation of the registration requirements of the acts. The information thus obtained must then be developed in a form which will permit its introduction in evidence in legal proceedings.

The Commission has instituted a substantially increased number of stop-order proceedings and suspension orders with respect to new issues. Each of these has been preceded by an investigation and, in many instances, has required a formal administrative hearing. These actions have involved the establishment of facts and the obtaining of testimony. Securities, which, if sold, would have defrauded the public have thus been kept off the market.

Careful and painstaking work usually over a period of many months must precede civil or criminal action by the Commission in the courts. In a few cases the work of the Commission has led to restitution to public investors; in others, violations have been discovered in time to prevent serious injury to the public; and in others, violators have been forced out of business or prosecuted.

Relates Securities Industry to SEC

"Where does the securities industry fit into the Commission's enforcement program?", you may ask. After all, you are engaged in the securities business. "It is the Commission's job to police the business," you may think. That might be true if it were not for the common interest we share, the interest of the investor.

Certainly the securities industry has had great success with the investor in the last three years. Otherwise you would never have sold $33 billion of registered securities in that period. The figure pays tribute to the energy of corporate mangement and the skill the investment business has brought to the job of providing capital for industry. Equally impressive figures reflect stock exchange trading volume and, if data were available, there would be big figures for over-the-counter trading. The tremendous market activity speaks eloquently of the vast public acceptance of our capital formation and marketing processes and of the role which the securities industry has played. They might lull you into thinking that all is well, that industry and the public have learned the lesson of the 1920's, that the securities industry and the Commission may now relax.

Neither the securities industry nor the Commission can afford to relax. For in those big new issues and big trading figures are concealed many human tragedies, for which all of us, the securities industry, the Commission and the investors themselves, share responsibility. In those big new issues figures lurk many an issue brought to market by irresponsible promoters and underwriters who should be barred from participation in the vital capital formation process. In those big trading figures are concealed countless transactions in which peoples' savings have been stolen by unscrupulous salesmen, "boilerroom" operators, brokers and promoters and corporate "insiders." Many of these will undoubtedly be brought to justice. But the unfortunate, the tragic, aspect of law enforcement is that it takes the form of pursuit and punishment of wrongdoers and not the prevention of loss to the unwary. Most of the many millions of dollars which investors have lost will not be recovered, even though we may be able to punish the wrongdoers, to put out of the securities business those who, by sharp practice, cast discredit on the vast majority who abide by high standards and to minimize losses by warning the public.

Appeals for Re-Examination

Just as this is a time when the Commission clearly must increase its enforcement activities, so this is a time for the securities industry, and the industry's various segments—such as the stock exchanges, their member firms, the National Association of Securities Dealers and its members and other over-the-counter dealers to engage in self-appraisal and re-examination of their responsibilities.

Let me ask a few questions which will highlight the problem of enforcement as it affects

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SEC's Impact on Capital Markets

the Commission and the whole securities industry. I say "the whole securities industry" because obviously the problems are not specifically identified with this or any association or organization in the securities industry but affect all who engage in the securities business.

When brokers and dealers learn of a securities violation, do they always let the Commission know, so that we can promptly set in motion the complicated processes by which the lawbreaker can be put out of business or punished?

When a firm participates in the distribution of a large block of unregistered stock, is a careful investigation of the facts made to determine that an exemption is available?

When a sudden, big rise or fall in the price of a security is observed, which might suggest illegal manipulation, is the Commission informed so that we may take prompt action to determine whether illegal activity is in process?

Is false and unreliable information given to investment letters, tipster sheets or investment counsellors by persons participating in distributions so as to make it easy to unload blocks of securities on the unsuspecting public?

In underwriting offerings of new or unknown enterprises, do the persons distributing the securities always make sure that the promoters can be depended on to use the funds for proper and legitimate corporate purposes and not to line their own pockets?

Are phony mergers entered into for the purpose of creating a flood of stock in the hands of "insiders" who, through nominees and devious transactions, channel that stock to the public in purported reliance on exemptions?

Finally, from time to time we learn of concealed participations in "inside" transactions which give persons connected with the securities business an advantage over the public investor, and I ask if this will not inevitably hurt the securities business as a whole.

We of the Commission deeply appreciate the cooperation which industry organizations, including this organization, give us in dealing with these problems. We must necessarily hope for the further enhancement and strengthening of that sense of common responsibility which the securities business must share with us.

So much for our enforcement program. There are other aspects of our administrative program that have been continuing over a long period of time toward which your Association has made a vital contribution.

Long Needed Amendments

During 1953 and the early part of 1954, the efforts of the Commission and the securities industry, including your Association, to present a program to the Congress of certain long needed amendments of the Federal securities laws succeeded.

Of particular significance were the amendments which made possible the offering of securities prior to the effective date of a registration statement but retained the statutory prohibition against sales until after the effective date. Also important were the amendments which permitted the Commission to adopt rules providing for more informative types of securities advertising.

One amendment reduced from one year to 40 days the period during which dealers must deliver prospectuses for new issues unless the dealer is still engaged in the distribution.

These amendments have had the desirable effect of simplifying your day-to-day activities under the statutes and removing doubts which had existed prior to the amendments as to the legality of certain activities of dealers and underwriters in connection with the distribution of new issues. This result has been achieved and has worked well without diminishing in any way the basic investor protection.

One amendment of the Securities Act, which was urged most strongly by the securities industry, authorizes the Commission by rule to permit the use of a summary prospectus.

New Trial Summary Prospectus Rulings

This problem has received long and careful study by the Commission since the 1954 amendments. On Nov. 23, 1956, the Commission adopted a new rule (Rule 434A) which provides for the use of a summary prospectus by certain issuers under certain conditions.

In adopting this rule, we have proceeded slowly intentionally. A summary prospectus may be an instrument of great good in providing information to investors during the 20-day statutory waiting period. On the other hand, it may become an instrument which will bring discredit upon the whole process of marketing securities under our system if it is not handled with care. Its usefulness, effectiveness and desirability largely depend upon the sense of responsibility of the investment banking profession.

The Commission has always been convinced that wider public understanding and public knowledge c o n c e r n i n g corporations bringing new issues to market was desirable and would redound to the benefit not only of the purchasers of securities but also issuing corporations and their underwriters. We have been cognizant of the fact that the preliminary or "red herring" prospectus perhaps did not reach as wide a group of understanding readers as might be desired. Your Association has urged that it would be in the public interest to provide a shorter summarized document which could be mailed, printed in newspapers and otherwise distributed to the public during the waiting period, which would be more likely to be read and understood by the public and which could be widely distributed by the sellers of securities at a reasonable cost.

Though agreeing with your objectives, the Commission has also recognized the dangers of oversimplification and omission which inevitably accompany summarization and condensation. Furthermore we want no part of a movement which might seem to be in the direction of the short, uninformative and frequently misleading one-page advertisements and brochures which advertised for public sale some of the issues of the 1920's. We feel that any summary prospectus should be prepared by the corporation offering the securities, and must be filed with the Commission and reviewed by us for conformity and consistency with the basic facts which the summary prospectus purports to summarize. The Commission believes that initially, at least, a summary prospectus should be used only by corporations which have previously filed either a registration statement or annual reports with the Commission, so that its business and financial affairs have been previously disclosed to the public and its filings previously examined by the Commission.

The rule which has just been adopted authorizes the use of a summary prospectus by corporations which file on a general registration form (S-1) or the form for institutional grade debt securities (S-9) and which at the time of filing are required to file reports with the Commission because of registration of a previous issue for public sale or for listing and trading on a national securities exchange.

The summary prospectus rule has been adopted for trial. If we find it works well and serves the purpose for which it is intended, we may broaden the scope of the rule to other classes of issuers. On the other hand, if we find the contrary, we will consider revising the rule to limit its application.

It is our hope that the summary prospectus will be used to secure that broad dissemination of information about new issues which you and we have always heartily

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endorsed, and which is consistent with the original policy of the Act to get information to prospective investors during the waiting period. We hope that the summary prospectuses prepared will be fair, honest and adequate. Abuse of the rule must inevitably lead to the use of the suspension power reserved to the Commission in the amendment to the statute. If it becomes necessary for the Commission to exercise the suspension power with any frequency, it will be difficult for the Commission to continue the rule in effect, so we hope that the investment banking profession will do all in its power to make the summary prospectus rule work well in the interest of the public investors.

How to Achieve Free Market

Finally, how are the statutory objectives, the policies and programs of the Commission and the proper functioning of our capital markets affected by your responsibility and ours to see that these markets justify the continuing confidence of the American investing public?

The Congress made an extremely important legislative decision in the Federal securities laws which should always be remembered in considering the respective responsibilities of the Commission, of the securities industry and corporations and others subject to the securities laws and of the investing public. This decision gives emphasis to the word "free" when we use "free" in describing the securities markets and in speaking of the "free" enterprise system.

Freedom cannot thrive unless responsibility is assumed. Let us look at our respective responsibilities.

First—The responsibility of the investor. In the Federal securities laws the Congress clearly left to the public investor the ultimate responsibility for his investment decisions. The public, particularly in this era of great prosperity, must not blame Government or industry for bad or foolish investment decisions, unless Government or the securities industry have failed to shoulder their tasks. The person who loses money in uninformed or unwise speculation cannot, after he has lost, shift the blame from himself. There is no more of a hedge in the securities laws against stock prices going down than there is a guarantee that a "bull market" will go on forever.

Second — The responsibility of the securities industry and the corporations and others subject to the securities laws. Responsibility for the accuracy and adequacy of the information about corporations registering securities for sale or for listing and trading rests squarely on the corporations, their officers, directors, attorneys, accountants and other experts, subject to civil and criminal penalties for failure properly to assume that responsibility. Responsibility likewise rests on the brokers and dealers, stock exchanges, dealers' associations, holding companies and investment companies to abide by the standards of the Acts.

Third—The responsibility of the Commission. Our responsibility is both positive and negative. Affirmatively, it is our job to see to it that the responsibility of those subject to our jurisdiction is assumed by them, in other words, that the securities laws are complied with. But, on the other hand, we have no authority to approve or disapprove securities issues. It is the public investor that the Federal securities laws seek to protect, but the protection afforded is to put the investor in an informed position to make his own investment decisions, to assure him free and fair markets, but not to prevent him from making his own investment decisions and not to have a Federal agency make his decisions for him.

The Federal securities laws do not, and, I hope never will, give the Commission power to pass on the merits of securities. If the responsibilities of the Commission, industry and the public are shouldered, the Congressional objectives expressed in the securities laws wil be achieved, public confidence in the capital markets as a medium for investment of our people's savings will continue to grow, and the capital so vitally needed by our free enterprise industrial system will be provided.

The success of our free enterprise system depends on the proper functioning of our capital markets. Net corporate capital investment from securities sales is presently at a rate between $7 and $8 billion annually.

If the confidence and faith of the American public in the capital markets is to be maintained so that the essential supply of capital can be continued at the high rate anticipated by present estimates of industrial production, with their resultant high standard of living for our people, it is essential that the policies and programs of the Securities and Exchange Commission in supervising the capital markets in accordance with the standards of the Federal securities laws successfully go forward. The work of the Commission will help to justify and maintain investor confidence in the integrity of the capital markets and thus contribute to the success of our free enterprise system and the welfare of all our people.

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DES MOINES, Iowa—Dale D. Welch has been elected a Vice-President of First of Iowa Corporation Equitable Building. Mr. Welch will represent the firm in Dubuque, Iowa. Mr. Welch has been associated with the firm for many years, in Hastings, Neb.

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CHICAGO, Ill.—The Investment Women of Chicago will hold their 15th annual Christmas Party in Charter Hall at the Chicago Bar Association, 29 South La Salle Street, at 5:15 p.m. on Thursday, Dec. 13.

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Meeting the Nation's Steel Needs

spectable return of 13.4% on our total invested capital. That invested capital is represented by assets which include all our property, plant and equipment, i.e., steel works, raw material and transportation properties, shipyards and fabricating works. Those physical assets having an original book value of $1,726,000,000 are carried at $737 million net after depreciation, depletion and amortization, or only about $37 per ton of ingot capacity as of Dec. 31 last year.

The question arises as to how we are going to add new steel capacity costing only, say, $100 per ton today and perhaps $300 per ton or more tomorrow and maintain an adequate return on investment. This is a question which confronts the entire steel industry.

One of our officials put the matter this way the other day. Given a 90% operation, with the current price structure and a representative mix of rolled steel products, a million tons of ingot capacity would produce billings of some $85 million. Take a profit margin on sales such as Bethlehem had last year—8.5 cents net income per dollar of total revenues—and your net profit per ton is around $7 per net ton of ingot capacity, which isn't too good a result on an investment of $100 per ton and three times as bad if the investment is $300. Since we may assume that new facilities will be more efficient, the $7 figure could be raised somewhat, but the story would remain essentially the same.

Serving the Total Economy

What is the answer then? It seems clear to me that there is *no one* answer because all the interests mentioned become involved in the solution. One premise we should start out on and have clearly in mind is that whatever is done should be for the good of the whole. In other words, we are talking about expansion to meet growing needs and the objective is to serve better our total economy, which if done properly, should benefit all.

The investor should expect a reasonable return on any new investment and not be subjected to a decrease in the value of his money now in the business.

The customer should expect to be able to get more steel to meet growing requirements and at reasonable prices.

Labor should expect to gain from the creation of more jobs and increased productivity.

The country as a whole should benefit from greater growth, volume and earning power.

It is not logical to expect that our customers, and in consequence the rest of the economy, should be saddled with the whole financial burden of a necessary expansion. More realistic pricing is obviously part of the answer. But because new, high-cost facilities will be only a small part of total facilities, these necessary price adjustments for this purpose need not be drastic. A relatively small increase in earnings per ton spread over all products will maintain or improve the return on investment.

Government Responsibility

One great assist which our Government made was through the accelerated amortization route, permitting for tax purposes deductions of a large part of the cost of new facilities over a 5-year period in lieu of the normal depreciation rate. This has been very helpful in returning cash to keep the ball rolling, but under existing Government policies it is being denied to the steel industry for the future expansion program.

If accelerated amortization is denied, net *reported* earnings to the stockholders will, of course, be higher, but because Federal taxes on income will also be higher, *cash* earnings—the source of funds for expansion and dividends—will be lower. There are obvious limits to the amounts of bonds and equity securities that can be sold. Consequently, in the absence of substantial relief on the amortization front, steel management will either have to generate additional cash through higher earnings obtained by additional price increases or will have to reduce expansion plans.

The only other source of cash would be to reduce dividends—a policy which would be most shortsighed because it would foreclose the possibility of equity financing.

You can well appreciate that we are going to need understanding help on a lot of fronts. We have a colossal job to do, and we want to do that job within the context of our free system.

Management Responsibility

Each of us has a duty to combat inflationary pressures and we in the industry are deeply conscious of that duty. We intend to do everything possible to make our contribution through more efficient operation and thereby offset as much as possible the growing employment costs.

I want to expand this point because I feel it is of utmost importance. There are two areas where management in the steel industry has a very clear-cut responsibility for unremitting effort and progress, namely, increasing the efficiency of the operation and holding our unit employment costs reasonably stable. The latter means keeping increases in wages in reasonable relationship to increases in productivity.

I believe I can say for the whole industry that very tangible progress has been made in the postwar years on the technological front. Today, more and more effort is being put into research and the development of new and more efficient processes. In addition, some significant steps have been made in the right direction on the employment-cost front as well.

Man-Hours Output Study

Just recently, as many of you are aware, the Bureau of Labor Statistics released its study on man-hours per unit of output in the basic steel industry of the United States. This is the first formal look that we have had in recent years at productivity trends in the industry. This Government study comes up with the conclusion that the steel industry, since the war, has been making productivity gains which, while varying sharply from year to year, average out to about the same rate of advance as the economy as a whole is achieving.

In large part this increase reflects technological advances which have resulted from the money that has been invested to make more steel more efficiently.

As the study also points out, there is a human factor here which is impossible to pin down to any figure. This human factor is expressed, as the study puts it, and I quote, ". . . in the effort, skill, organization and application of both management and labor. Adoption of technological improvements is enhanced by a work force which has the capacity and willingness to learn, change and adapt." I certainly have no quarrel with that statement.

Very wisely, I believe, the Bureau of Labor Statistics didn't undertake the job of deciding how much of the industry's productivity gain is due to the human factor and how much is attributable to better machines and techniques. Deciding that one is not the proper function of BLS. But living with this problem is something that is very much on the minds of those responsible for decision in the American steel industry, for here is where management's responsibility to employees, owners, customers and the nation comes into sharp focus.

Wages and Productivity

The economist, Sumner H. Slichter, put it this way not long ago: "In recent years the engineers and managers have raised output per man-hour faster than ever before—about 3% a year for the economy as whole. But wages and fringe benefits in the years 1955 and 1956 have been rising at an even faster rate—roughly 5% a year. Evidence supports the view that the long-run movement of labor costs, and hence the price level, will be upward."

Let me assure you that this insidious trend of labor costs to exceed productivity gains was very much in the minds of the managers of the American steel industry as the time for negotiating this year's labor contracts approached.

In a private economy, there is no room for doubt that if wage costs rise faster than productivity, unit costs go up and the prices of goods will increase. The record of the period immediately prior to World War II and the period after the war shows that money wages rose faster than productivity with resulting increases in unit labor costs. The result is that the dollar has been cheapened and a large portion of the apparent wage gains has been wiped out.

Steel Labor Considerations

It seemed clear to those of us in the steel wage negotiations that we had before us a set of major considerations which involved the long-term best interests of employees, stockholders, customers and the country. These were:

To secure a long-term contract—five years if possible but no less than three.

To try to get employment costs in more realistic relationship with productivity, since not only employees, but also stockholders and consumers are entitled to share in the benefits of productivity increases.

We wanted to stabilize labor costs so that the companies could go ahead with expansion programs to produce enough to meet the needs of our customers.

We wanted to avoid the economic wastage of strikes every year. With the threat of strikes removed, our customers could count on steady supply and could stabilize their inventories. As suppliers, we wouldn't be faced with such sharp peaks and valley of demand, and our operating costs would benefit from a more constant rate of production.

Finally, we thought it a good idea from every point of view that the economic conditions of employees be stabilized so that they, too, could plan ahead.

These were the matters most on our minds when we went into negotiations with the Union. I submit that they should have been the Union's major considerations as well, for the seeming conflict of interest disappears when you take a good, hard look at it. As the manager of a large enterprise, I want our employees to make larger and larger "real" incomes, not just more dollars of steadily diminishing worth. I want our prices to customers to be as low as possible. And I want the enterprise to earn enough to give the owners a fair return. I do not believe there is any inconsistency in those objectives.

However, these objectives cannot be achieved if one party must be served at the expense of others. Our era calls for industrial statesmanship. It also calls for statesmanship on the part of labor leaders. I recognize that organized labor is having its growing pains, and that there are competitive and political pressures which complicate the lives of labor's leaders. These men have their very real problems too, but they also wield very great power, and with power

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comes responsibility or the result is very real trouble.

Labor Supply and Demand

One of the basic reasons for labor's strong position today was recently summed up by Dr. Lionel D. Edie in a study of population trends. He points out that during the decade of the '50s the number of people of working age will increase by only 6% while the number of people of nonworking age—under 16 and over 65—will increase by 36%. In other words, we have a supply-demand factor at work here which is bound to have its impact on wage patterns.

Dr. Edie states that this supply-demand situation is the reason why the labor unions are able to negotiate an excessive wage pattern in this period of the middle fifties. He says that this is a time when wages will increase in each year about 1½% more than will productivity. In turn, this means that the all-commodity wholesale price index will increase some 15% during the decade we are now in.

Given statesmanship and genuine responsibility on the part of industry, labor, and government, we can hope that this self-defeating wage-price spiral can be held to more moderate proportions. It is pretty close to a sure thing that if such responsibility is lacking, inflation may gain more ground than Dr. Edie predicts

Progress on Employment Costs

I am not sure just how economic historians of the future may look on the results of the 1956 steel wage negotiations, but I have a feeling that some victories for good sense were won. I know the idea of a long-term contract appeals to the man in the mill—and to his wife. And it seems clear that the necessity of restricting future wage increases in general to the nation's increasing ability to turn out goods and services now has wider acceptance. In addition, the idea that consumers, stockholders and the public generally ought to share in this increase, as they should, has gained currency.

We did win three years of peace on the labor front and I think we have made some points which will pay off in the future—for everyone involved. But our sense of concern about our responsibilities to all parties will have to be shared by union leadership if that is to come to pass.

We simply can't do the job alone. We particularly can't do the job alone if in addition to the pressures applied at the bargaining table we are subjected to pressures from government to settle on terms which are not consistent with the best interests of everyone involved. That has been known to happen.

The Postwar Record

Now I have had a good deal to say about management's responsibilities and about the problems we face. Perhaps I may have created some apprehensions that these responsibilities and problems are so serious as to defy solution—at least from the investors' point of view. If that is so, I do not want to leave any such false impression with you.

Problems are always with us, usually looking a lot worse in prospect than they do in retrospect. If we face greater responsibilities and problems we do so with the benefit of more experience, the accumulated knowledge of our predecessors, new management techniques, the cumulative and growing forces of science, more know-how all the way around.

Nothing succeeds like success and America's industrial management has a postwar record of successfully meeting its problems. I could cite you examples of many companies but it just so happens that I have a few facts with me relating to the Bethlhem Steel Co. It seemed reasonable that I choose an example close to home.

Bethlehem Steel As Example

Let me consider the problems which Bethlehem, in common with the rest of American industry, has faced since 1946. We have had booms and recessions, the liquidation of World War II and all of the implied readjustments.

We have had the Korean War and its aftermath, with inflation of the creeping and other varieties. We have had strikes, price controls and materials allocations, excess profits taxes, and constantly increasing pressure for high wages and greater fringe benefits which cause dangerously high employment costs.

We have had some investors' fears of excessive production capacity and, on the other hand, a constant pressure to meet the country's manifest need for more capacity.

You may well ask how Bethlehem survived. Well, during the ten-year period ending on Dec. 31 last year we invested in our plants and properties some $930 million and added $443 million to working capital and other assets. Funds for these purposes were provided through retained earnings of $614 million, net sales of securities and property of $244 million and non-cash charges against earnings for rapid amortization, depreciation and depletion of $515 million.

What have been the results of these great expenditures made in the process of coping with our many problems and heavy responsibilities? How have the investors fared? Most, if not all of you know, but I leave it for the record that during the same period sales increased from $788 million to $2 billion and $97 million, and, on an adjusted share basis, dividends were up from $2.00 to $7.25 and earnings from $3.93 to $18.09.

During this time, our annual ingot capacity has grown from around 13 million net tons to 20 million net tons, and we are still growing. As we have grown, our dependence on thousands and thousands of small suppliers and customers has also grown, illustrating the fact that big business and small business, far from being at cross purposes, are essential to each other's growth and prosperity.

And on another front we have kept very much in mind one of the prime responsibilities of management—that of maintaining a defense in depth of competent managerial talent. Our famous "Loop Course" for the employment and training of college graduates, which was initiated back in 1922, has long been recognized by the Bethlhem organization and by the colleges as one of the principal sources of Bethlehem management. That is not the only surce, however, as we bring into our organization each year many other college graduates and other young men who have the opportunity to develop in the organization. Promotion from within is one of our principal personnel policies, and it is supplying us with the continuity of managerial skills which an enterprise such as Bethlehem must have.

Future Prospects and Obligations

As to the future, our goal is to do equally well in meeting our problems and responsibilities.

We believe we have an obligation to promote the stability as well as the growth of the economy. At Bethlehem we feel that our contribution to this goal can best be made through carefully conceived and realistic plans for expansion. Our intention is to gear our expansion to the basic trends which govern the demand for steel products and to stick to our programs.

We do not intend to be high pressured into overly ambitions plans during booms, nor do we plan to cut back drastically if there should be periods of recession. New facilities coming into production will not at all times be geared exactly with demand. We anticipate times when consumers will think expansion is proceeding too slowly and times when investors may think we are moving too rapidly. That is to be expected. But we feel strongly that there is a complete identity of long-range interest for all parties concerned—the country as a whole, investors, consumers and employees—in the type of orderly expansion I have just described.

Long range planning for expansion on a basis which would be continued even if there were a recession implies another responsibility—that of keeping financially strong. That is where the investment community comes in You can help us in determining how much debt we can prudently handle and how much of the expansion should be financed by retained earnings or by the sale of equity securities.

I am confident that the management of our large industries, with the help of the investment community and with an equal sense of responsibility on the part of labor organizations and the Federal Government, will meet its obligations to all concerned in a successful manner.

Now I have finished the picture I have tried to paint for you and I hope I have not over-colored the good or the bad. I leave you with this one brief thought: the problems I have discussed are those associated with an expanding economy.

The Problems of Growth

Our difficulties on the labor front are in part the result of a new order of affairs which is still in the process of being perfected. In the United States, a free people are sharing in a material prosperity which has never before been seen on the face of this globe. Wiser management and organized labor have both contributed to this prosperity. And some of the balances still have to be worked out. These balances *will* be worked out, I firmly believe.

Investors with a faith in the virtues and rewards of free processes have made a fundamental contribution. I don't think their faith has been or will be misplaced.

I do think that you will all agree with me that the problems associated with decline, stagnation and a contracting economy are a lot more troublesome to solve than are those associated with expansion and growth such as we now face. If I had to choose I would prefer what we now have.

T. H. Smith to Join Cyrus J. Lawrence

Cyrus J. Lawrence & Sons, 115 Broadway, New York City, members of the New York Stock Exchange, announced that Thurston H. Smith will join the firm's investment Advisory Department on Jan. 2, 1957. In the past he was with Jas. H. Oliphant & Co.

With Gross, Rogers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Marvin G. Chamberlain has become associated with Gross Rogers & Co., 559 South Figueroa Street, members of the Los Angeles Stock Exchange. He was formerly President of M. G. Chamberlain & Co.

Harbison Henderson Adds

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif.—Latimer E. Doan is now connected with Harbison & Henderson, 385 East Green Street.

With H. C. Wainwright

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Perrin H. Long, Jr., is now with H. C. Wainwright & Co., 60 State Street, members of the New York and Boston Stock Exchanges.

With Cruttenden Podesta

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, Mich.—Henry J. Olah is now with Cruttenden Podesta & Co., McKay Tower.

McDonald-Moore Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Harold R. Chapel, Jr., has joined the staff of McDonald-Moore & Co., Penobscot Building, members of the Detroit and Midwest Stock Exchanges.

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Continued from first page

Investment Bankers Association Holds 45th Annual Convention

in Cedarhurst, N. Y., attended the Manlius School in Manlius, N. Y., and received his B. S. degree from the University of Pennsylvania.

Upon completion of his formal education in 1929, Mr. Craft was employed by the Guaranty Company of New York. In 1932 he joined the Guaranty Trust Company of New York, and after working in the investment advisory department, the trust department, and the Fifth Avenue office, he was appointed an Assistant Treasurer in 1938. He was named a Second Vice-President in 1943 and Vice-President and Treasurer in 1947.

He was Executive Vice-President and Director of the American Securities Corporation from 1953 until March of this year when he assumed his present post at The Chase Bank.

From 1953 until the present time Mr. Craft has been a Vice-President of the Investment Bankers Association of America and also Chairman of the Association's Foreign Investment Committee, which was established that year. He also has served the IBA nationally in the following capacities:

Member, Government Securities Committee, 1939-1947, 1948-1956, and Chairman of the Committee 1941-1943, 1950-1953; member of the Executive Committee, 1953-1956.

Mr. Craft was Consultant to the Board of Governors of the Federal Reserve System in 1952 and Consultant to the International Bank for Reconstruction and Development in 1954.

He is a trustee and member of the Executive Committee of The Bank for Savings in the City of New York and a Director of the Missouri Pacific Railroad Company. Mr. Craft is also a Director and member of the Executive Committee of the New York Heart Association and is Chairman of the Red Cross Campaign Fund in Scarsdale for 1956-1957.

Club and society memberships include: Economic Club of New York, Pilgrims of the United States, University Club of New York, Bond Club of New York, Wall Street Club, Blind Brook Golf Club, Purchase, N. Y., Scarsdale Golf Club and the Fox Meadow Tennis Club, Scarsdale, N. Y.

Mr. Craft is married to the former Janet Sullivan and lives in Scarsdale. The Crafts have two sons, Robert H., Jr., and George S., and a daughter, Carol Ann.

Speakers at the Convention

The principal speakers at the Convention were President-elect Robert H. Craft, who is also President of The Chase Bank; Major General J. Stewart Bragdon, Special Assistant to the President for Public Works Planning; George W. Davis, Davis, Skaggs & Co., San Francisco, outgoing President of Investment Bankers Association; J. Sinclair Armstrong, Chairman of the Securities and Exchange Commission; Arthur B. Homer, President of the Bethlehem Steel Corporation; Eugene E. Trefethen, Jr., Executive Vice-President of the Kaiser Industries Corporation; and Robert L. Garner, President of the International Finance Corporation.

[These addresses in full text, and Committee Reports, are given in this issue starting on page 24.]

Education Committee Reports On Year's Activities

The IBA Education Committee, through its Chairman, W. Carrol Mead, of Mead, Miller & Company, Baltimore, submitted its Report to the Convention covering the scope of its educational activities. Emphasis is placed on its Accent on Youth training campaign and plans to educate increasing numbers of students and adults as to investment's role and investment opportunities.


W. Carroll Mead

The Report states in part as follows:

Participation in the Conference on the American Securities Business, sponsored by the Industrial Council of Rensselaer Polytechnic Institute, represents one of the major activities of the Education Committee during the past year.

Nearly 600 high school teachers and administrators in the social science field attended this Conference held on the campus of the Institute at Troy, N. Y., Oct. 11-13. At luncheon and dinner meetings the delegates heard addresses by leaders in the investment field who discussed the activities of all major segments of the securities business:

"The American Securities Business in Perspective," Walter Maynard, Partner, Shearson, Hammill & Co., N. Y.;

"Underwriting—The Role of the Investment Banker," Edward Glassmeyer, Vice-President, Blyth & Co., Inc., N. Y.;

"The Role of Stock Exchanges in Our Economy," Edward T. McCormick, President, American Stock Exchange, N. Y.;

"The Over-The-Counter Market," Oliver J. Troster, Partner, Troster, Singer & Co., N. Y.;

"Funds for Schools and Other State and Local Governmental Projects," Walter W. Craigie, Partner, F. W. Craigie & Co., Richmond;

"Investment Companies," Charles F. Eaton, Jr., President, Eaton & Howard, Incorporated, Boston;

"A Classroom Project," Edward Schweikardt, Nyack (N. Y.) High School; and

"Education and Finance Face the Future," Harold E. Wood, President, Harold E. Wood & Company, St. Paul.

Others Present

In addition to the teacher delegates, college and university professors in the field of education were present, and many of them served as panel members for discussion groups. Approximately 200 representatives of the securities business took part in the meeting either as speakers, session chairman, moderators, panelists, members of various planning committees, or in administrative phases of the Conference.

The chairmen of the various sessions were: W. Carroll Mead, Chairman, IBA Education Committee, (Friday noon); Ruddick C. Lawrence, Vice-President, New York Stock Exchange, (Friday evening); William M. Adams, Chairman, IBA Municipal Securities Committee, (Saturday noon); George W. Davis, IBA President, (Saturday, evening).

All representatives of the industry that attended the Conference are highly enthusiastic about the entire project: the caliber of the speakers and program generally, the excellent physical arrangements on the part of the Industrial Council, and the opportunity that was provided to meet with educational leaders drawn from all parts of the country.

The teacher delegates came from all states of the Union, although more than three-fourths represented communities within a radius of about 300 miles: New York State (210), New England States (116), New Jersey (67), Pennsylvania (36), Ohio (25).

These teacher delegates in turn will report to 40,000 other social science teachers through various media: local, state, and national meetings and state and national publications.

* * *

All of us in every phase of the securities business are grateful to the Industrial Council of Rensselaer, for initiating the idea and the excellent provision of physical facilities and the effective conduct of the project. On behalf of the Conference Program Committee, we express our deep appreciation of all those that contributed to the success of this venture, either through planning and participation in the program or through financial support.

Institute of Investment Banking

Interest of member organizations in the Institute of Investment Banking is steadily growing, and in 1956 applications were received substantially in excess of the available facilities. There was an enrollment of 264 registrants this year as against 254 in 1955. In addition, there were some 60 to 70 applications that could not be confirmed. (Provision had been made for 230 registrants—100 first year, 70 second year, and 60 third year, the number that could conveniently be accommodated by the available facilities. In view of the large demand for places, however, an additional 34 applications, or a total of 264, were accepted.)

* * *

Executive Development Program

The executive development program (the two Seminars and the four Institutes) have been conducted without cost to the Association. The program is not intended to show a profit but merely be self-supporting. However, the registration fee should be high enough to show operation in the black. A reserve representing the excess of receipts over expenses in past years has been established. The 1956 Institute also showed an excess of receipts over expenditures. The reserve assures the continuance of the program without cost to the Association should enrollments dwindle in future years in reflection of generally unsatisfactory business conditions.

* * *

The 1957 Institute is scheduled for April 15-19, the week before Easter. Shortly after the Convention the Institute Planning Committee will start its work.

Invest-In-America

Real progress was made by the Invest-in-America movement during 1956, and 49 celebrations were held this year, as against the 22 cities chartered in 1955 — a more than 120% increase.

The IBA and the Education Committee have cooperated with Invest-in-America sponsors from the beginning, and in January, 1956, published a 72-page special Invest-in-America edition of the IBA Educational Bulletin. Commenting on the contribution of the IBA, Walter A. Schmidt, Chairman, Executive Committee, National Invest-in-America Committee, wrote to W. Carroll Mead, Chairman, IBA Education Committee, as follows:

"I again want to thank you very much for the cooperation which we have received from the IBA, both nationally and at numerous local cities. Surely the principal reason we have increased the 1956 activities from 21 cities to from 40 to 50 cities is because of the publication by the IBA of the Invest-in-America Bulletin. It was wonderful and I want you to know how much the Invest-in-America National Committee appreciate it."

Opportunity U. S. A.

Our Association motion picture, "Opportunity in U. S. A.," has now been in use since the Summer of 1952. Prints in the hands of our distributing agency continue to be booked well in advance (a year ahead) and the film maintains its circulation momentum, with 175 prints available for audience screening and 15 prints available for use by TV stations. . . .

The estimated TV audience is determined by formula and cannot be readily verified. It seems reasonable, however, that well over 20,000,000 people have seen telecasts of "Opportunity U. S. A."

In addition to the prints circulated through Modern, the following prints are in use: 108 prints owned by IBA members; 38 prints presented to school systems or held for Group use; 15 prints purchased by Ford Motor Company for their supervisory training program; 3 prints purchased by the U. S. Department of State. The film has been used extensively in the Invest-In-America program.

USIA to Adapt Opportunity U. S. A.

Last Spring the United States Information Agency made a formal request and the IBA granted a license to the Agency to produce foreign language versions of the picture for use as a part of its world-wide program. There is to be no cost to the IBA, all charges being paid by USIA.

This is a worthwhile contribution on the part of our Association to the effort being made by our government to explain the operation of the American economy to peoples all over the world. Similar adaptations have been made of many industrial pictures, including motion pictures sponsored by such organizations as General Electric Company, Standard Oil of New Jersey and the Ford Motor Company.

* * *

Accent on Youth

At Hollywood in his Inaugural, President George W. Davis placed great stress on the importance of youth to the future of the securities business and urged participation in Association affairs by the industry—younger men in the 30-40 age bracket.

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He stressed the importance of the work performed by the various IBA committees and urged that such reports be brought to the attention of the younger men, who are the potential industry leaders of the future.

* * *

Correspondence Course

More than 200 IBA member organizations have enrolled trainees for the home-study course. During the 12 months ending Oct. 19, 1956, there were 221 enrollees, which compares with 208 in the preceding 12 months. Many IBA members make repeated use of this training opportunity offered through the University of Chicago. Thirty-seven members have enrolled five or more employees—one firm as many as 32.

It is interesting to note that many non-member securities dealers are taking advantage of the program and that young men in the Armed Services are registering for the course under USAFI.

Attention is again called to the fact that satisfactory completion of this correspondence course is accepted by the New York Stock Exchange in partial satisfaction of the registered representative requirements. (An applicant may become a registered representative upon passing an examination or he may submit, in lieu of the examination, satisfactory completion of two courses offered by the New York Institute of Finance: one on the Mechanics of the Stock Exchange and one of Securities Analysis. The IBA correspondence course, Fundamentals of Investment Banking, is acceptable in place of the course on Securities Analysis offered by the New York Institute of Finance.)

Joint Committee on Education

Together with other organized groups in the investment community — ASE, ASEF, NAIC, NASD, and NYSE — the IBA is continuing its support of the Joint Committee on Education Representing the American Securities Industry. Since establishment of the Committee in 1948, it has awarded 74 Fellowships and 152 Scholarships.

Amyas Ames, Chairman of the Joint Committee, reports that the Committee is planning to modify its program by giving greater emphasis to the granting of Scholarships and conducting the annual Forum. Funds heretofore used to provide Fellowships are now to be made available to scholars for research projects. This change in policy is an outgrowth of the most gratifying success that has been experienced with the Forum operation and also the desire to encourage serious study of investment community operations.

On the recommendation of the Education Committee, the IBA Board of Governors at White Sulphur voted to give financial support to a new project of the Joint Committee—Research Into Material Collected in Connection with the Investment Banker Antitrust Suit—designed to make generally available in readily usable form a synthesis of the legal briefs and a summary of the statistical data developed by legal counsel and by the research staff of the defendant firms. Publication of the findings of this study are to be made available to professors and scholars, men in the field of finance who write monographs, textbooks and articles for professional journals and popular periodicals. In its present form the wealth of material prepared by legal and research staffs of the defendant firms is not only unwieldy but not readily accessible. Publication of the findings would also be most valuable to students majoring in finance and particularly graduate students. The planned publication is not designed to develop a textbook to replace "Fundamentals of Investment Banking." It would be helpful, however, for use in preparation of the expected revision of the official Association text. The research study and the present text will be complementary rather than competitive.

* * *

Council for Advancement of Secondary Education

The IBA, along with other organized business groups and many corporations, is supporting a project of the Council for Advancement of Secondary Education. The program is sponsored jointly by the Association of Secondary School Principals and the National Better Business Bureau. This program seeks to encourage and improve education about the American economy in the high schools.

In essence, this program represents an invitation extended by high school principals to the business community requesting assistance in developing teaching aids.

As a result of its research to determine what should be taught in the high schools about economics, the Council has published two reports: "Key Understandings in Economics" and "Economics and the Press."

Two teaching supplements are now in preparation and should be ready by September, 1957. One deals with the functioning of the American economy and the other contrasts American Capitalism with other economic systems.

Seven national educational associations have become interested in the work of the Council, and this will facilitate dissemination of findings and text materials.

* * *

Small Business Booklet

The Education Committee is cooperating with the IBA Small Business Committee in distributing the booklet, "Equity Capital for Small Business Corporations." The booklet was widely publicized in the press, and many requests have been received not only from the financial community but from the public generally. Early this year a copy of the pamphlet was sent to the entire mailing list of the American Finance Association. The booklet is now in its third printing.

Manual on Securities Salesmanship

The Accent on Youth campaign has stimulated the demand for the "Manual on Securities Salesmanship," prepared under the direction of George W. Davis. The booklet is now in its sixth printing. To date it shows a net income after expenses of well over $5,000. Many members repeatedly place quantity orders.

Textbook—Fundamentals of Investment Banking

"Fundamentals of Investment Banking," the official IBA textbook continues in use in both the classroom and correspondence courses offered by the IBA and is also used as a college text throughout the country. Well over $4,000 has been received in royalties from the publisher of the text.

A Brazilian edition of "Fundamentals of Investment Banking" is to be published under the sponsorship of Brazilian Investments Syndicate (Consorcio Brasileiro de Investimentos).

Recruitment

Our Association this year again is cooperating with the New York Stock Exchange and the Association of Stock Exchange Firms in sponsoring a two-page insertion, "To the Young Man Who Is Interested in Everything," in the vocational guidance booklet, "Career, A Guide to Business Opportunities." Copies of this statement are available at Hollywood.

Publications

Since consolidation of the IBA offices in Washington, the Education Committee has resumed publication of its two bulletins which serve as a clearing house for the exchange of member and Group ideas and experiences. Recent editions are:

IBA Educational Bulletin No. 7—Special Manpower Edition.

IBA Educational Bulletin No. 8—Annual review of member and Group activities in the fields of education, public relations, and promotion.

IBA Education Bulletin No. 8—Special Invest - In - America Edition.

Reproduction of IBA Member Advertisements No. 10—Devoted to Advertisements.

Reproductions of IBA Member Advertisements No. 11—Devoted to mailing pieces.

Forthcoming Bulletins

IBA Educational Bulletin No. 10—Annual review of member and Group activities in the fields of education, public relations, and promotion—to be available shortly after the 1956 Annual Convention.

Reproductions of IBA Member Advertisements No. 12—Devoted to Advertisements—to be available early in 1957.

Speech File, Radio and Exhibit Kits

A file of addresses, radio and exhibit kits is maintained in the IBA Washington office for use of members, and copies may be had upon request. Members are urged to submit appropriate items for inclusion in these three source files.

Available IBA Tools

The memorandum, "Available IBA Tools," lists the projects of the Education Committee and the literature and services available to member organizations through the Committee. A copy may be obtained from the IBA Washington office.

GOVERNORS ELECT

The following have been elected by their respective Groups to serve as Governors of the Association beginning on Nov. 29, 1956:

California

Dennis H. McCarthy, The First Boston Corporation, San Francisco.

Central States

Charles A. Capek, Lee Higginson Corporation, Chicago.

David J. Harris, Bache & Co., Chicago.

Eastern Pennsylvania

Bertram M. Wilde, Janney, Dulles & Co., Inc., Philadelphia.

Mississippi Valley

Walter J. Creely, Goldman, Sachs & Co., St. Louis.

New England

James Jackson, Jr., Townsend, Dabney & Tyson, Boston.

Francis S. King, The First Boston Corporation, Boston.

New York

Austin Brown, Dean Witter & Co., New York.

E. Jansen Hunt, White, Weld & Co., New York.

Hudson B. Lemkau, Morgan Stanley & Co., New York.

Pacific Northwest

Albert O. Foster, Foster & Marshall, Seattle.

Southeastern

Mark Sullivan, Jr., Auchincloss, Parker & Redpath, Washington.

Southern

H. Wilson Arnold, Arnold & Crane, New Orleans.

Clement A. Evans, Clement A. Evans & Company, Incorporated, Atlanta.

Texas

William C. Porter, Dittmar & Company, San Antonio.

Milton R. Underwood, Underwood, Neuhaus & Co. Incorporated, Houston.

GROUP CHAIRMEN

The Group Chairmen of the year 1956-1957 are as follows:

California

Dennis H. McCarthy, The First Boston Corporation, San Francisco.

Canadian

Andrew S. Beaubien, L. G. Beaubien & Co., Limited, Montreal.

Central States

William J. Lawlor, Jr., Hornblower & Weeks, Chicago.

Eastern Pennsylvania

William F. Machold, Drexel & Co., Philadelphia.

Michigan

Harry A. McDonald, Jr., McDonald, Moore & Co., Detroit.

Minnesota

C. Edward Howard, Piper, Jaffray & Hopwood, Minneapolis.

Mississippi Valley

Newell S. Knight, Mercantile Trust Company, St. Louis.

New England

Thomas B. Gannett, Hornblower & Weeks, Boston.

New York

Walter H. Steel, Drexel & Co., New York.

Northern Ohio

Clarence F. Davis, The First Cleveland Corporation, Cleveland.

Ohio Valley

Jack E. Nida, Merrill Lynch, Pierce, Fenner & Beane, Columbus.

Pacific Northwest

William J. Collins, William J. Collins & Co., Portland.

Rocky Mountain

James M. Powell, Boettcher and Company, Denver.

Southeastern

Charles H. Pinkerton, Baker, Watts & Co., Baltimore.

Southern

Arthur C. McCall, Alester G. Furman Co., Incorporated, Greenville.

Southwestern

Albro F. Stepp, City National Bank and Trust Company, Kansas City.

Texas

Taylor B. Almon, Rauscher, Pierce & Co., Inc., Dallas.

Western Pennsylvania

Anthony E. Tomasic, Thomas & Company, Pittsburgh.

Sites and Dates of Next Year's Convention

The Hollywood Beach Hotel, Hollywood, Fla., has again been selected as the site for the holding of the Association's 46th Annual Convention in 1957. The meeting will be held during the period Dec. 1 to Dec. 6, 1957.

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Continued from page 26

Raising Our Performance Level

here in Hollywood, thus providing their members with the opportunity of hearing and reading the same information submitted to you.

The younger groups in San Antonio, Kansas City, Toronto, Montreal, Boston, Chicago, Cleveland and elsewhere have evidenced great interest in what the IBA is doing for them, and I have assured them that at this convention, IBA would set up mailing facilities in the hotel lobby for the use of their delegates, whereby you may instruct the IBA staff to send selected committee reports or all of them to your young associates direct from Hollywood. No problem now of "over weight" on the plane home, nor of some research man at home "cornering" the report for his files. You may mail the reports from here direct to your salesman's home. A memo will go with the shipment saying that it has been sent to him at your request.

There is no question in my mind but that this "Accent on Youth" is the answer to a great need of our business, and that the personal effort of every senior executive should be directed toward that end. Whether it is getting information to the boys, or advising with them as to what to do and what policies to follow—it is one job that should not be delegated. As a man raises and trains his own children, so should he likewise mold the thinking and practices of his own sales force.

Educational Efforts

For many years education has been another one of the major activities of the IBA. During this past year IBA has gone all out to further its educational work, both for the benefit of the *public* and our own *men* in the business.

In my judgment, we have had outstanding leadership and administration of this educational effort. In addition, we have had enthusiastic cooperation from every side of the financial "Street"—Stock Exchanges and Investment Bankers alike—in advocating and selling the *fundamentals of investment*. Only last month at Rensselaer Polytechnic Institute at Troy, N. Y. the IBA, NASD, the Stock Exchanges, the Mutual Funds, and the Municipal experts turned out *en masse*, and during two entire days told high school teachers of economics from all over the United States how securities are "brought into the world," how they are selected, used and quoted, bought and sold—a work which can only radiate a better understanding of the fundamentals, and a tempering of the speculative aura attached to securities which has been all too prevalent for too long.

Beyond the special combined effort at Rensselaer, we have seen during 1956 the most concentrated effort of the past decade being made by securities people in offering investment education to the public through broadcasting, television, adult education classes, movies, and advertising. This action has been undertaken (1) to broaden the base of public ownership in American concerns, (2) to help provide the new funds needed for corporate expansion in years ahead, (3) to dispel misconceptions and fears, and to give new investors confidence in those in this business who lead them straight. It is the highest level of public relations ever attained in our business, and that the emphasis is being laid on *investment* principles rather than on *speculative* makes its continued success assured.

Sales Practices

Like any other undertaking, however, there is a great responsibility which goes with such public education. In my view, it is a duty of management carefully to supervise sales efforts so as to keep newly acquired investor relationships on that *investment* level and in line with the representations and assurances made in such publicity. Certainly, it would be inconsistent to advertise or to lecture along lines of "conserving savings"—"building for the future"—"choosing the proper kind of a securities firm," etc.—and then permit sales techniques to be practiced which do not come up to these representations.

Readily do I agree that a percentage of the public wants to speculate. Many will give lip service to their desire to *invest* but still they want to buy at 5 and sell quickly at 50. Speculation has been an important factor in the growth of America and in the creation of active markets, but as applied to securities, our sales forces are obligated to see that speculation is confined to the right places—to the right kind of people—and in the right proportions. Regardless of whether an account follows a speculative turn, the overtures and advice and recommendations should certainly initially be on the *sound* level.

Talking with many of the young men in our business throughout the country, I find that one of their major problems in acquiring a new customer is the proper handling of this matter of *investment* vs. *speculation*; that overlapping, debatable, contentious subject with which we are all familiar.

I have asked these boys—"Do you sell *security*, *income*, *marketability* and *growth*, which is in line with the nationwide advertising carried on by our financial industry, or do you begin your approach on *growth* and try to develop the sale on a capital gains appeal alone?" Another question: "Do you follow the concept that you should handle an account on a 'roll over' basis?" This, I have pointed out, can lay the basis for destroying your clientele. It would be far better to develop a dozen *new* accounts than to work a lesser number overtime and you will be much less likely to run into serious difficulties with the NASD and the SEC.

Educating Salesmen

It has long been the objective of the IBA to provide diversified facilities for the education of salesmen. Past administrations have evolved the IBA textbook, the correspondence course, the sales manual, the IBA movie, and the course at the Wharton School of Business. Whether these facilities had been or are to become trebled, the education of securities men is still a matter of personal direction — that process of creating effective sales programs, and well understood policies which will serve as guides for the salesman. In larger firms, where well established sales organizations exist, these policies and programs which are co-ordinated to advertising are well administered. A great many smaller firms, however, have to rely upon their IBA or Stock Exchange membership for aid in training their men, and because of limited sales managerial facilities, men who have been recently admitted to the business are too often left pretty much on their own.

Even though there is a responsibility on the part of management, there is also a responsibility which must be assumed by salesmen themselves. It is my contention that a man who has greater latitude in the conduct of his selling efforts also has a great opportunity to develop through his own self-discipline the investment practices which are fundamental to a long-term relationship with his clients.

Realizing that many of the young men around the country with whom I have discussed these matters are endeavoring to formulate such basic rules, I wish to paraphrase what I have said to them so that those of you who agree with me may amplify these points. Here is the summary of what I have put before them:

Advice to Sales People

(1) This is the *investment* business. The basic *principles* of investment must be "sold" with the distribution of securities. This is the "security-income-marketability and growth" equation—not the reverse.

(2) Today, salesmen have more dollar support in the way of advertising and public relations from our industry organizations, and from our respective firms than has ever been the case before. Investors must receive sincere and professional advice so that they may obtain from their investments that which has been represented to them in such financial advertising.

(3) Until recently there has been an almost unbroken advance in common stock prices. A young man's self-confidence in such circumstances can readily lead him to recommend "dreamy deals" as opposed to investments. In addition, many salesmen have advised their clients to invest 100% in common stock, whereas diversification is still a principle that should not be overlooked, particularly now when yields on many good bonds and preferreds are so attractive.

(4) Selling "Fundamentals of investment" is still quite frequently in conflict with the thinking of inexperienced people who *talk* investment but who are at heart "red-eyed speculators." Some young men may think it better to take the line of least resistance, and to make the Commission, letting the novice "do what he wants," but like doctors or lawyers, one in this business must advise properly or become the counterpart of the "quacks" and the "shysters."

(5) Many young salesmen speak proudly of their gross. Success for the salesman in the investment business cannot be measured by "gross" alone. A man who renders investment service should be compensated properly, but *real* success in this business is measured by the *time* clients have been on his list; the *quality* of his accounts as reviewed by experts; and the *referrals* which a man gets from satisfied clients.

The securities laws under which this industry operates refer to the requirement of our functioning in the public interest. The diversified educational programs of our association and members firms are truly conducted for that purpose, and those programs establish a "framework" for salesmen and firms to carry out in practice the basic principles which are being publicized.

A great deal of good can come from the senior men in our business amplifying the foregoing points, and getting from young men in the business their complete cooperation in making this profession of ours a highly respected one.

Conveys Thanks and Appreciation

In closing, I wish to extend my sincere thanks to all of the Governors for the assistance which you have given to the Executive Committee and to me. It was a real pleasure to have you and National Committee Chairmen with us in California last September at the Governors' meeting, and we on the Coast hope that they will come West again.

For the entire membership I wish to convey thanks to the National Committeemen for the constructive efforts they have made on behalf of the Association and the industry.

May I also thank the Group Chairmen who have been so extremely cordial and helpful as we have gone into their areas to visit with them and their associates.

The IBA staff has been and is outstanding. They operate with great efficiency in all phases of our Association work. This is my opportunity to thank them personally and collectively for the assistance they have given me throughout this year, and to assure you that there is a well organized and continuing operation in Washington which is effectively serving us all.

This year of IBA activity has been a highlight in my experience. I am grateful to you all for the privilege of having served you.

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Report of IBA State Legislation Committee

in variable annuity plans of the safeguards imposed on the security industry for the protection of its investors. In view of the above, the committee feels that it would be inopportune for any state to approve such enabling legislation before exhaustive study by the National Association of Insurance Commissioners and the National Association of Securities Administrators."

In this connection, it should also be noted that the Variable Annuity Committee of the National Association of Securities Administrators reached the following conclusion in a report which it submitted in November, 1955:

"The Committee is of the opinion that if the sale of variable annuities is to be permitted, the plans should be subject to the same degree of regulation under the states' securities laws and Federal laws that are now provided for the regulation of the sale of investment securities."

We commend those committees of the National Association of Securities Administrators for their realistic approach to the problem.

IV

Gifts to Minors

The IBA has been cooperating with the New York Stock Exchange, the Association of Stock Exchange Firms and the National Association of Securities Dealers, Inc., in efforts to obtain adoption of a model law designed to facilitate the gift of securities to minors. The model law has already been adopted, in some cases with minor modifications, in 14 states and the District of Columbia (California, Colorado, Connecticut, Georgia, Louisiana, Michigan, New Jersey, New York, North Carolina, Ohio, Rhode Island, South Carolina, Wisconsin and Virginia).

The model law has been embodied with some modifications in a new uniform state act which was approved this year by the National Conference of Commissioners on Uniform State Laws. We urge that the uniform act be used in efforts to obtain adoption of this legislation in other states.

V

Legal Investment Laws

Important amendments this year to the Legal Investment Laws of Louisiana, Mississippi, New Jersey, New York and Virginia are summarized in attached Appendix A.

VI

Investment Clubs

There has been much confusion as to the status of investment clubs under state securities acts. A special committee of the National Association of Securities Administrators submitted a report at the last annual convention of that association suggesting that an investment club should be exempt from registration under a state securities act only if it meets certain specified requirements. A copy of that report is attached as Appendix B, but it should be noted that determination of the applicability of a state securities act depends upon the provisions of that act rather than the suggestions in the report. However, the report may be helpful in determining the appropriate applicability of state securities acts to investment clubs.

VII

Gross Receipts Tax on Stock Transactions

A bill proposed to the City Council of Chicago this year would have imposed a 3% city tax on gross receipts of brokers on stock transactions originating in Chicago. At hearings before a subcommittee of the City Council the proposal was vigorously opposed by representatives of the financial community, including Mr. Robert Podesta, a member of this Committee, who appeared as Vice-Chairman of the Chicago Association of Stock Exchange Firms. Action on the proposal has been deferred indefinitely.

VIII

Model Laws Regarding Execution and Validation of Municipal Bonds

This Committee attempts to cooperate closely with the Municipal Securities Committee in legislative matters relating to municipal bonds. The Municipal Securities Committee has urged adoption of two model laws prepared by the Liaison Committee of the Municipal Law Section of the American Bar Association. One of these model laws authorizes the execution of state and municipal bonds by the use of facsimile signatures if at least one required signature is manually subscribed. The other model law provides a bond validation procedure designed to require that all litigation affecting the validity of a municipal bond issue be consolidated in a single proceeding thereby minimizing or eliminating the filing of subsequent nuisance suits. We urge that efforts be made to obtain adoption of these model laws.

IX

National Association of Securities Administrators

Counsel for the IBA and the Chairman of the Committee attended the annual meeting of the National Association of Securities Administrators at Rockland, Maine, on September 9-12. The Chairman of the Committee addressed the meeting Sept. 10 on the subject of providing equity capital for small business. Aside from the opportunity to establish a personal acquaintance with the individual state securities administrators, much constructive work can be done at this meeting in discussing with individual state securities administrators proposed amendments and administrative problems under the securities acts of their respective states.

In this connection, the Committee would like to express its appreciation for the cooperation which it has received from the National Association of Securities Administrators as an organization and particularly Mr. Harry Dinwiddie (Director, Securities Division, State Corporation Commission, Richmond, Virginia), Mr. Robert Lammy (Securities Commissioner, State Corporation Commission of Kansas) and Mr. Thomas Reavley (Secretary of State of Texas) in considering problems under the securities acts of their respective states.

X

Preparations for 1957

Forty-five of the state legislatures will be in regular session in 1957. Legislative Committees of several IBA groups have already organized definite programs for the coming year. We urge that the members of all group legislation Committees give consideration to adoption of the various model laws and uniform laws referred to above in this report in their states.

We urge that in any state where amendments to state securities acts or adoption of any one of the model laws or uniform acts is contemplated in 1957 the Committee contact IBA Counsel and begin its work immediately so as to have proposals in final form prior to the legislative sessions.

Respectfully submitted,
STATE LEGISLATION COMMITTEE

Gilbert H. Osgood, Chairman
Blunt Ellis & Simmons, Chicago

Gustave A. Alexisson
Granbery, Marache & Co.
New York

Harry Beecroft
Beecroft, Cole & Co., Topeka

Robert Z. Bronn
Kalman & Company, Inc.
St. Paul

W. W. Keen Butcher
Butcher & Sherrerd
Philadelphia

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Columbian Securities Corporation, Topeka

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Mullaney, Wells & Company
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Dennis E. Murphy
The Ohio Company, Columbus

Bern Norpoth
Bosworth, Sullivan & Company, Inc., Denver

Ralph Owen
Equitable Securities Corporation
Nashville

Charles C. Pierce
Rauscher, Pierce & Co., Inc.
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Robert A. Podesta
Cruttenden, Podesta & Co.
Chicago

Robert O. Shepard
Prescott, Shepard & Co., Inc.
Cleveland

Harry Theis
Albert Theis & Sons, Inc.
St. Louis

Samuel L. Varnedoe
Varnedoe, Chisholm & Co., Inc.
Savannah

William J. Wallace
Mellon National Bank & Trust Company, Pittsburgh

Elbridge S. Warner
Hayden, Miller & Co., Cleveland

APPENDIX A

Amendments to State Legal Investment Laws

This appendix contains summaries of some of the amendments in late 1955 and in 1956 to state legal investment laws which are of particular interest to the investment banking industry.

LOUISIANA

Section 22:844 of the Louisiana legal investment law for insurance companies was amended effective Aug. 1, 1956, to authorize investment in securities of any open-end or closed-end management type investment company or investment trust registered under the Federal Investment Company Act of 1940, which men of prudence, discretion and intelligence acquire or retain for their own account. The amendment provides that no company shall invest more than 5% of its admitted assets in such securities.

MISSISSIPPI

An act adopted in Mississippi effective April 5, 1956, authorizes fiduciaries to invest under the prudent man rule, specifically including but not by way of limitation investment in shares or interests in common trust funds,

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Report of IBA State Legislation Committee

securities of any open-end or closed-end management type investment company or investment trust registered under the Federal Investment Company Act of 1940 and in bonds, preferred stocks or common stocks listed on a national securities exchange registered with the SEC.

NEW JERSEY

An act effective Dec. 27, 1955, authorizes New Jersey savings banks to invest, in addition to other investments authorized by law, in revenue bonds meeting specified requirements, subject to specified limitations as to amount. One of the requirements is that the utility, on account of which such revenue bonds shall have been issued, shall have been in operation (whether or not owned by the issuer of the bonds) for at least five years prior to the investment.

NEW YORK

Subdivision 13 of section 8 of the New York legal investment law for insurance companies, authorizing investment of reserves in common stock meeting prescribed requirements, was amended effective April 11, 1956, to raise the permissible amount of investment in such securities from 1/10th of 1% of admitted assets of the insurance company as of the preceding Dec. 31, to 1/5th of 1% of such assets.

Subdivision 8(a) of section 8 of the New York legal investment law for insurance companies, which previously authorized investment of reserves in evidences of indebtedness issued, assumed, or guaranteed by the Dominion of Canada or any province thereof, if not in default, was amended effective April 11, 1956, to authorize investment in "securities and investments in Canada which are substantially of the same kinds, classes and investment grades as those eligible for investment under this section."

VIRGINIA

Subdivision (4) of section 26-40 of the Virginia legal investment law for fiduciaries, authorizing investment in stocks, bonds, notes and other evidences of indebtedness of any county, city, town or district in Virginia upon which there is no default, was amended effective June 29, 1956, (1) to authorize investment in such obligations of any "authority or other public body" and (2) to eliminate a requirement that such obligations "are either the direct legal obligations of, or those unconditionally guaranteed as to payment of principal and interest by, the county, city, town or district in question."

The Virginia legal investment law for fiduciaries was amended effective June 29, 1956, by adding a new section 26-45.1 to authorize fiduciaries to invest under the prudent man rule, specifically including but not by way of limitation authorization to invest in corporate obligations and stocks, preferred or common, and securities of any open-end or closed-end management type investment company or investment trust registered under the Federal Investment Company Act of 1940.

APPENDIX B
National Association of Securities Administrators
Report of Investment Club Committee

In the last few years investment clubs have gained great popularity. It is estimated that there are now more than 10,000 clubs in operation with a total of over 100,000 members. The securities industry is interested in these clubs because they provide a source from which new and informed customers can be obtained.

About 1,600 clubs are members of the National Association of Investment Clubs, which was founded as a non-profit organization in Detroit in 1951. Its President, George A. Nicholson, Jr. pioneered the formation of such clubs. They have material for the formation of clubs including agreement forms, by-laws, accounting, reporting, and stock analysis forms and issue monthly news letters to members and charge fees for their memberships, forms, and services. This material is part of the kit which the New York Stock Exchange distributes to its members. It contemplates the formation of clubs as unincorporated associations with memberships nontransferrable and limited to 15, one vote per member, unanimous consent to admit new members, monthly meetings, majority votes on investments, no margin accounts, no pledging of assets, and a 10 year term. Members may invest variable amounts being credited with units valued periodically. A member may withdraw receiving the proportionate value of his investments (assets are sold, if necessary, and commissions charged him) less 1% penalty.

A scrutiny of the state securities laws would indicate generally that the investments of members in an investment club (whether incorporated or not) are securities within most state definitions. The issuance of securities of an investment club (even though it is evidenced only by an accounting entry) might take place in the following situations:

(1) Original formation of club.
(2) Periodic investments by members.
(3) Reinvestment of income and capital gains.
(4) Acquisition of a new member.

Just in which of the above situations the sale of a security under a state law takes place is a difficult question.

An effort was made to see what exemptions existed in state laws as to securities of unincorporated investment clubs. Of the 48 states, seven do not seem to require securities registration. There appear to be no express exemptions in a clear majority of the other states covering the above four situations.

If a small group of people simply join together to buy securities, a court might hesitate to say that such a joint venture came within the purview of a blue sky law. We believe, however, that it is entirely proper for a state blue sky law to lay down certain ground rules to make sure that investment clubs operate within an area in which regulation is not justified, and to provide a reasonable amount of scrutiny or regulation if they stray beyond. A purpose of this report is to define the limits of such an area. Regulation generally follows and seeks to correct abuses. Investment clubs are new and such abuses as may exist are not well known; therefore we do not intend to be dogmatic in our conclusions.

Our study thus far indicates that an investment club should be exempt from registration only if it meets with the following requirements:

(1) It shall be limited to not over 20 members. (In a larger organization full member participation tends to disappear, and there is greater delegation of rights and responsibility, and loss of some of the joint venture elements. A husband and wife might be counted as one member.)

(2) Periodic contributions generally should be equal.

(3) If a licensee or his employee is an organizer or a member, there shall be disclosure to the state agency. Some requirements of such disclosures might also be set up as to existing clubs.

(4) The management of funds shall not be in the hands of a licensee or his employee.

(5) Securities shall not be bought on margin, nor any money be borrowed, nor assets pledged.

(6) Unanimous consent of members shall be required for any major investment policy change.

(7) No member should receive any fee or remuneration for services in the operation of the club.

(8) The books of the club should be open to the inspection of members at all times.

The above enumerated steps are regarded as a minimum. The final conclusions of this Committee should not be reached until further study is made.

Respectfully submitted,

John F. Hueni, Chairman
Michigan

N. J. Kiraly, Vice-Chairman
Ohio

Robert Lammy
Kansas

Joseph Mosby
Missouri

Jerry Thomas
Florida

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Report of IBA Public Utilities Securities Committee

of individuals. Here we have to rely on our own observations but we believe we have enough of a cross-section of investor opinion to be on firm ground in our conclusions.

We increasingly find investors expressing the desire to buy common stocks which offer possibilities of capital gain and evidencing less interest in current income. Two factors in particular account for this. In the first place, investors are influenced by the fact that the Federal income tax structure permits them to retain a bigger percentage of capital gains than of dividend income. In the second place, there is a wider appreciation of the fact that over a period of years the purchasing power of the dollar has been deteriorating and the trend continues. Accordingly, many investors insist on stocks which promise an increase in value at least sufficient to offset the attrition of inflation.

A straight income-producing investment has less appeal than it had only a few years ago. Many investors feel that public utility stocks fail to offer protection against inflationary trends and shy away from them. There is increasing scrutiny of the ability of individual utility companies to show at least modest increase in earnings and dividends from time to time. Stocks which have good records in this regard are, generally speaking, faring better in the market than those whose operations are characterized by stability and whose earnings and dividends have remained relatively static.

The question might be raised as to why worry about loss of private investor interest so long as the slack is being taken up by institutions. Unfortunately, the programs of the institutions are not consistent nor continuing. Rather, they are subject to change with variations in many unrelated factors and a course being generally pursued today may be altered or abandoned tomorrow.

Furthermore, many institutions which formerly bought only or mainly senior securities have been large buyers of common stocks in recent years. In building common stock portfolios, some of these new buyers have been attracted by the more conservative types of stocks, utilities among them. As these institutions become more experienced with handling common stock portfolios it is entirely possible that they, too, will become more interested in the capital gain type of investment.

We are writing you and the other commissions, not about any specific situations you are now considering, but to attract your attention to the broad general problem as we see it. We feel that if the utility companies are going to raise successfully the hundreds of millions of dollars in common stock money which construction programs will require in the years ahead, sympathetic consideration on the part of regulatory authorities will be required.

We are eager that the commissions see the picture, as we see it, of greater investor insistence on prospective increases in earnings and dividends. We believe that regulatory authorities are sensitive to the need of granting rates high enough to attract new capital successfully. We sincerely hope the trends we describe will be given adequate attention in your deliberations.

Very truly yours,
HAROLD H. YOUNG,
Chairman, Public Utilities Securities Committee, IBA.

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Municipal and Corporate Securities

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The Threshold of 1957

availability of credit to that amount which is required to maintain economic stability and thus not permit misuse of credit beyond that point. In the circumstances with which it has been confronted, the Board has done a creditable job.

Aldrich Commission Study

Perhaps with the tools available at its disposal too much is being asked of the Federal Reserve System. At least with the vast changes that have taken place in our financial institutions during the past generation it is appropriate to inquire whether the credit control mechanism is adequate. The growth of our insurance companies, private and public pension funds, savings banks, savings and loan associations, investment trusts, and other concentrated reservoirs of funds deserve examination. Actually the financial mechanism has not been subjected to exhaustive study since the Aldrich Commission of 1908-1912 completed its work, and as has been suggested by others, establishment of a monetary commission of that nature to conduct a comprehensive study would seem to be timely.

With the current limited availability of bank credit, with the approval of the voters earlier this month of over $2 trillion of public financing, and with the postponement of financings during the past several months because of the condition of the money market, there has been built up a staggering backlog. To handle this tremendous volume will tax to the fullest the resourcefulness, ingenuity, and personnel of the investment banking business. It is for these reasons and during this critical period that we as investment bankers can make an outstanding contribution to economic stability.

Handling Coming Financings

Corporations and other prospective borrowers should be counselled to avoid financings that would add to inflationary pressures. Those projects that can be postponed to a period of lower economic activity will relieve the inflationary strains at present and contribute later to cushioning any economic decline. The question of equity as against debt financing should be weighed carefully to insure maintenance of proper debt-to-equity ratios for even with the high level of stock prices these are getting out of line in some instances.

But it seems to me that we as investment bankers, playing such a vital role as we do, have a responsibility that extends considerably beyond the furnishing of capital to industry and the underwriting, distributing and trading of securities. It seems to me that with this responsibility for providing the lifeblood of our economic society there goes also a responsibility for more active participation in public affairs both local and national in which we as bankers are better equipped to function and better qualified to shape public opinion than so many others who for so long have been more articulate than we. Some of our national committees have made outstanding contributions in this direction. In the field of public relations, the Invest-In-America program has been broadened and made more effective with the result that our story increasingly is getting before the public.

Educational Programs

The IBA-Wharton School program has come to be recognized as the most authoritative and accredited short course in investment banking. Last fall's session at RPI designed to inform educators about the practicalities of investment banking was an outstanding success. Much more should be done in these fields of education and public relations so that we can disseminate more effectively an objective presentation of the securities and investment banking industry on a more widespread basis, and in the process undermine the get-rich-quick, fly-by-night operators that have been such a scourge to our business. Fortunately the SEC and NASD are giving penny stock peddlers a hard time, and the advertising and educational programs of this and other trade associations and of our member firms have had a great deal to do with hastening their demise.

In taking a broader participation in national affairs I am not suggesting that this organization propagandize in fields in which we are inexpert but rather I do suggest that we have a serious responsibility not only to stand up and be counted but to speak out and be heard on legislative and other problems that affect our business or in fact that affect the free capitalistic system.

Our competent staff in Washington closely follows developments in which we should have an interest. These are quickly brought to the attention of the appropriate committee chairmen and I have had assurance from the leaders of our industry that they will cooperate in every way possible to provide us with whatever specialized personnel may be required to deal comprehensively and objectively with any specific problem of this nature. Beyond that I urge you at the group level to continue the fine educational progress that has been made during recent years.

Wants Conservative Approach

My purpose earlier in citing the potential weaknesses in the economy was not for the purpose of spreading alarm. As a matter of fact there is nothing on the horizon to indicate a serious downturn in business in the short run. Rather at this juncture I believe we should carefully avoid falling into the common error of looseness and over-exuberance that have characterized human approach to problems in past periods of prosperity. Let us, in fact, encourage conservative approach in the conduct of our own affairs. Let us encourage the exercise of caution and restraint in the interests of preserving the integrity of the dollar and in order better to assure long-range sound economic progress. Let us vigorously oppose and speak out against unsound economic practices both within and outside government. Let us as investment bankers independently and through this association utilize more fully the great skills and techniques that are available to us within the industry and apply them to the shaping of public opinion in those areas in which we are uniquely qualified to function.

This brings me to my final point —the responsibility of the investment bankers in world affairs. American business management has been too preoccupied domestically in the postwar period to take an active role in business abroad. By and large the same has been true of the investment banking community. In the absence, however, of a satisfactory flow of private American capital and industrial skills there has been no alternative but for the government to fill the gap. In many respects the foreign aid program has accomplished a great deal both militarily and also economically: without it many underdeveloped countries that are free today inevitably would have fallen victim to communism.

Private International Financing

Nevertheless, it is no secret that our foreign aid program falls short of all its objectives. For that very reason, in fact, the President has appointed a commission for the purpose of conducting an exhaustive examination of the foreign aid program. It is to be hoped that a constructive plan for utilizing private channels on a sound basis can be devised, for it is only in this way that the advantages of the private enterprise system can be brought tangibly to the attention of countries now receiving government aid.

By substituting private for public participation the encouragement of nationalism and socialism can be eliminated. Tax and other incentives recommended by the President would go a long way toward stimulating an increasing flow of private funds.

Some of the agricultural surplus disposal plan funds have been specifically earmarked for private usage. If junior capital can be furnished in this way, a basis is provided on which private resources are more apt to be enticed. There is no better way, in my judgment, to fight communism than through capitalism. I had intended to discuss more fully the prospects for foreign private investment but this subject has just been quite adequately covered by my former colleague, Bob Garner. Formation of the International Finance Corporation, which he heads is a salutary development that should help immeasurably in encouraging the flow of American capital. It provides the basis for us as investment bankers to enter the foreign field with highly skilled and experienced partners. At a later date I will have more to say about the possibilities of increasing the flow of American capital abroad but for the moment I would like to suggest to you that while we have not lived up to our responsibilities in this field neither have we grasped the opportunities that are available in this exciting area.

Two With Marache Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Vernon R. Herring and Charles A. Lanning have been added to the staff of Marache, Dofflemyre & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Herring was formerly with First California Company.

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Public Works Needs of America

with vigor. Nevertheless if the 1955 construction rate were maintained for five years it would provide only 325,000 classrooms. Fortunately the rate of school construction is increasing. If the rate of increase can be maintained we might take some of the edge off what now constitutes a critical national problem.

The situation in highways is equally well known by the general public. It is not so well appreciated that obsolete roads are costing the United States needless waste of lives and dollars. The enactment of the Highway Act of 1956 addressed itself directly to eliminating this waste. The new Interstate System with its limited access characteristics will result in an estimated 72% fewer deaths and 76% fewer accidents on that System alone. And that is only 41,000 miles out of a national total of over three million miles of highways, roads, and streets. The Automobile Manufacturers' Association has estimated that the Interstate System may save $2.1 billion annually in savings in fuel and tires, in accident losses, and in commercial vehicle time.

The Federal Highway Administrator, the Bureau of Public Roads, and the State Highway Departments are working at top speed to get the tremendous highway program rolling. Projects on the Interstate System authorized since July 1, 1956, total $2 billion 528 million. Thirty-one States have been authorized to call for bids on Interstate projects since July 1. The general public may get a bit impatient during the next year or so while the program is accelerating but you, I believe, will understand that a program of this magnitude cannot burst into full bloom immediately.

Growing Water Scarcity

As this nation grows, as with all other civilizations, it is indelibly linked to and dependent upon the availability of water—a primary, essential element of life and progress. Water is required not for only human existence and for production of food and fiber, but also in extensive quantities to produce energy and for practically every manufacturing process. Perhaps in no phase of public works is long-range planning a more basic requisite than in the development of adequate and suitable water supplies. It is no longer a simple matter of merely going out to a water course and staking out a claim or drilling of a well. We must reach farther and still farther for our supply and take positive steps to conserve those supplies already developed. Water and our future are inseparable.

Aside from our growing population, our per capita use of water has about tripled in the last 55 years. It is estimated that by 1975 it will be four times what it was at the turn of the century. The increase in use of water during the next 20 years is estimated at 191 billion gallons per day or an amount equal to the supply of 120 New York cities. These statistics, grim enough in themselves, do not reflect the alarming nature of the shortages currently being experienced in some areas of the country which are not as fortunate as others. In many areas demands are increasing more rapidly than the supplies that can be provided. Today, one out of every eight cities faces a water shortage. In the state of Texas, while the population increased 130% from 1890 to 1950, water consumption in the same period increased an astounding 13,500%!

It was truly said by the President of the United States that we must study where every drop of water falls and what we are going to do with it, from the Continental Divide to the sea. Knowing that the supply is not inexhaustible, we must therefore plan *today* to use every means availabe to us to store and use water more efficiently, to clean up our rivers, to develop economic means of refining sea water, or face inevitable water shortages.

Not only are we stepping up our demands for water but we are not coping with the growing problem of pollution. Polluted water may be considered as wasted water. Upstream pollution of our streams and rivers denies those downstream the rightful and needed use of water. If proper waste treatment is followed upstream, water re-use is permitted downstream. You may be surprised at the large requirement for adequate waste treatment. The United States Public Health Service reports that less than one-fourth of potential sources of pollution now have adequate treatment. Specifically there are 12,000 municipal and 10,000 industrial sources of pollution today. Out of this 22,000 total, only 4,400 have adequate capacity for treating their water wastes. Treatment at the remaining 17,200 locations is either inadequate or non-existent. In the face of the increasing demand, re-use of water is essential.

These and the other public works needs have been further complicated by the unequal distribution of our population growth. The rapid growth of metropolitan areas in the United States has been a postwar phenomenon which has drawn the attention of sociologists, economists, and students of government as well as bankers and engineers. Between 1950 and 1955, the United States population increased 11.8 million persons, a sizable growth. Yet, 97% of this increase has occurred in the 173 standard metropolitan areas which now contain 57% of our total population on only 7% of the land area. Only 3% of our five-year growth has been in the rural areas. This growth in cities and their suburbs demands a continuing expansion of public facilities in these areas. This is a particularly difficult problem.

Overlapping Jurisdictions

As if this were not enough, in metropolitan areas we have the further problem of overlapping jurisdictions. Consider for a moment the normal political subdivisions of central cities and their suburbs — counties, towns, and townships—all within a common community. Their laws, taxes, and fiscal capacities can and frequently do differ widely.

Superimposed on these are many special purpose authorities or commissions which may follow arbitrary or physical features and span the political boundaries. For example, there are roads and streets, including tunnels and bridges. These must be area wide. Next, we might have an intergovernmental transit authority operating bus lines and subways. Then there are usually one or more school districts, sometimes virtually autonomous. Sanitary districts often must follow the dictates of terrain and cannot stop at political boundaries. If our imaginary city is on the coast or the Great Lakes or some of our vast inland waterways, there may be a comprehensive port authority. These are but a few examples which readily come to mind. One major metropolitan area in the United States has 960 such governmental entities. I point to this problem merely to emphasize its complicating effect on the achievement of coordinated planning of public works.

The Council of State Governments has recomended that the various states establish legal authority for general metropolitan units which would provide them with (a) authority and flexibility for adequate functioning; (b) the ability to finance themselves, and (c) an organization responsible to and deriving its operating authority from the people of the entire area concerned. We strongly endorse this key recomendation of the Council.

Constant Dollar Per Capita Debt

Investment bankers, of course, will recognize at once the impact of sound financial management on effective capital expansion. From our point of view, balanced public works expenditures can be maintained at a stable level only by proper financial management. One of the elements of proper management is the balance between expenditures from current revenues and those from borrowing. It seems logical to us that in times of abundant revenue a larger proportion of public works expenditures should come from current revenues. This would retain the borrowing capacity of the local government for greater use in those times when revenues are decreased. The capability of various levels of government to carry out public works program in light of their fiscal resources varies widely. I am persuaded however, that, in the main, their present public debts are not obstacles to a healthy sound development of such programs.

In 1932, the Federal and the state-local debts were about equal, at $19.5 billion each. By 1955, the Federal debt grew to $275 billion and the state-local to $39 billion. On a per capita basis, the 1955 debts were $1,660 and $200, for Federal and state-local respectively. Since the value of the 1955 dollar is only about one-half that of 1932, state-local debt, in terms of constant dollars, is about the same now as it was 25 years ago, while the Federal debt is six and one-half times as great as it was. Of course, it is realized that state and local sources of revenue are reduced when Federal demands become as great as they have.

The Investment Bankers of America are contributing in a significant way to the healthy and sound development of municipal credit.

We are aware of the role which many of you play as individuals in your home communities in advising local officials of the steps to take in order to assure the best use of municipal credit.

Areas Requiring Help

As time goes on you as an Association will undoubtedly find other areas in which the special knowledge and special talents available to you can also serve local officials. I will mention only a few:

(1) The easing of statutory and constitutional debt limits so as to permit a wider pledge of the local governments' faith and credit;

(2) the elimination or delimitation of the powers of uneconomic units of local government;

(3) the positive and active encouragement of sound financial management practices by state and local officials;

(4) the encouragement and assistance of local efforts in self-analysis of economic potential on a long-range basis.

In each of these areas your wealth of experience can contribute to the financial health of state and local governments.

Explains Method Fixing Public Works Scope

With this background of the size, diversity, and complexity of public works needs and the problems of financing them, I would like to now explain briefly a rational and practical method by which any level of government may determine its public works needs and program properly to meet them. This system has been developed in response to the President's purpose of strengthening this forward planning. It is

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the major duty which he has assigned to me.

We term this planning system the "Measured Needs" method. It may occur to you that the imposition of a single system on all levels of government would be difficult if not futile. Variations between different localities and variations between various fields of public works might seem to prohibit a rational approach such as the measured needs idea. The cure for this is simple; one must recognize at the outset that there is a variation as to location and timing of programs. Any criteria adopted for the measuring processes must be flexible and subject to progressive modification as a community grows in strength and in accomplished planning.

With this flexibility in mind the overall sequence of development of measured needs into annual programs would be: Determination of Measured Needs. These needs will be stated in broad and general terms projected as far into the future as is practical. Preparation of Balanced Long-Range Plans. These long-range plans would cover a span of perhaps 15 or 20 years and would represent a thorough analysis of the measured needs and their relative urgencies. Development of Multi-Year Programs. A multi-year program may be called a mid-range plan or, in the case of state and local governments, a capital improvement program. It should cover a period of approximately five years and be stated in terms of specific projects. Derivation of Annual Programs. This would cover the budget period, whether annual or biennial, and constitutes the selection of projects from the current multi-year program.

Breaks Down "Measured Needs" System

This is the outline of the System to which I have referred. Let us examine it a little more closely.

The first step is the development of measured needs for each functional field of public facilities under the jurisdiction of the government concerned. This is done on an objective basis without regard for the potential resources necessary to meet these needs. The resulting document would be a collection of quantitative needs expressed in volume of physical units without reference to priority. Gross requirements minus existing usable facilities would represent current or outstanding needs. To accomplish this measurement requires two types of tools; general criteria and specifc criteria.

The first tool in measuring needs, the general criteria, is basic to all functional fields. These criteria include past and projected population growth as well as past and projected economic growth. Depending upon the level of government concerned, these data will be required for the nation as a whole, a region, a state or a local community. The responsible parent unit of government will secure these data in most instances from Federal sources. My office is currently developing these general criteria in conjunction with the Bureau of the Census and other statistical agencies.

Next are the specific criteria, the development and use of which is a cooperative intergovernmental action. Let us illustrate by using the field of municipal water supply. The unit of measurement in this instance might be "gallons per person per day." The Federal Government, as a beginning, will furnish a range for guidance, say 140 to 200 gallons per person per day. Within this recommended range, a state government might select a similar upper and lower limitation such as 120 to 185 gallons per person per day and send these to constituent local governments. A local government, based on local condiitons, climate, and available water resources will choose one criterion for their forward planning in water supply. This might be, say, 160 gallons per person per day. The results of such cooperative action will include uniformity of planning goals in similar communities, a basis for comparison of the relative urgencies of separate functional fields, intensified progress toward meeting the needs of the people, and due recognition of local peculiarities and local needs. The same sort of progressive refinements of criteria will apply in all the various functional fields.

Having established aggregate measured needs through application of these criteria is, in itself, only the starting point. It has involved only the factor of deviation from accepted standards. As the planning process proceeds other factors will be brought to bear. In the development of balanced long-range plans we will consider a second factor, the essentiality of the services to be provided. Progressing into multi-year programs or mid-range plans, a third controlling factor emerges that of the urgency of the need with respect to timing. All needs are not the same with respect to the date by which they must be met. At the budget stage the principle controlling factor will be financial capabilities.

This is not intended to imply that urgency in time and financial considerations are not considered in the long-range plan phase of this sequence. Even in preparation of long-range plans, financial capacities are considered but it is not, at that point, a controlling factor. Finally throughout the process public policy and public opinion must be considered and their influence accepted.

In progressing from measured needs into balanced long-range plans, the parent unit of government will establish the relative urgencies of the respective public works field. Why is this determination necessary? The sum total of needs in all fields will undoubtedly exceed the possibilities of fulfilling them. Thus pressures are created and brought to bear on the responsible executive of that parent government. He will receive urgent pleas from functional departments under him and demands from citizen groups outside. There must be given him an objective overall means whereby he can meet these pressures to the best interest of all the people. This he does by measuring the needs against applicable criteria, and then by weighing each function against the others. This latter step is essentially one of analytical judgment but consideration must be given to the essentiality of the service, requirements of law, land availability and other elements of local conditions.

Scheduling Priorities and Financing

The preparation of balanced long-range plans is accomplished after the parent government has collected aggregate needs and assessed their relative urgencies. Long-range planning at this point will involve two distinct but related levels. First, in a funcional agency or deparment such as a State Highway Department or a City Sewerage Department, the segments of needs in that functional category are weighed one against the other and functional priorities established. This results in a priority list of these functional segments supported by a feasible long-range program of construction and broad financial requirements. This having been done, the comprehensive planning unit of the parent government can proceed to weigh the relative urgencies of the functional fields

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Public Works Needs of America

and their segments one against the other. From this we derive a coordinated, composite list of the segments of all needs arranged in priority sequence and a balanced comprehensive program for their construction. Again, this would be supported by broad financial plans.

A balanced long-range plan should be divided into subordinate phases each of equal time duration. Within the long-range plan of a functional agency or department, the phasing will be done by consideration of the agreed functional priorities. In the overall long-range plan of the parent governmental unit, relative urgencies between functions will apply. Thus the first phase of a balanced long-range plan should include those projects which have the highest relative urgency by virtue of deviation from standards, the essentiality of their service, urgency wtih respect to time, and prospective financial capabilities. For example, a long-range plan of 15 years' duration might be divided into three 5-year phases. The amount of work in each phase for the various functional fields would not, of course, be equally divided. The first phase might include a predominance of schools and highways, whereas water and sewerage construction might represent the major portions of a second or third phase.

The first phase of any balanced long-range plan will automatically become the multi-year program or capital improvement program. In the development of the multi-year program, identification of individual construction projects and their estimated costs will be much more detailed than in the earlier documents.

Finally, we come to the development of the annual or biennial public works budget. The public works portion of this budget, of course, must be fitted into the total budget by the executive and his finance director or burget officer. It is at this point where the dollar economy of proper planning in the field of public works begins to be effective. It is here that proper planning prevents waste.

There is, as you know, better than most, an inordinate amount of competition among governmental programs for the available dollar resources. If the executive and his financial advisers have available balanced and phased long-range plans for public works as an instrument for guidance, they can first determine most intelligently the total amount which should be applied to public works in any given budget and, secondly, they can allot with assurance the proper amounts to the functional fields of public works construction. Unless there is this guidance in the form of a comprehensive plan, there is grave risk that public works will not be given an adequate share of resources and that such share as it is given may be wrongly spent.

Organizing for Comprehensive Planning

To implement this planning concept entails the establishment of comprehensive public works planning units at all levels of government. Progress toward the establishment of such units has been slow. Arizona and California authorized planning units in the last sessions of their legislations and Maryland already has one, the only State which has maintained such a unit over the last two decades. For local governments, particularly those involved in the "Metropolitan Area Problem," such planning agencies are most necessary. In a metropolitan area, the coverage of the planning unit must obviously be the whole area. In other local governments there may be separate units, or several communities might band together in anticipation of future common interests or to attain efficiency and economy through joint effort. Once these comprehensive planning units are in being, close liaison should be maintained between them. In general, technical assistance, information, and recommended criteria would flow downward from the higher levels of government and information on public works needs would flow upward from the lower levels of government to the higher levels. It is not intended, however, that detailed long-range plans be submitted by local governments to the State government or by the States to the Federal Government unless there is financial aid or cost-sharing already established in law for a particular functional field.

Within the individual government structure, the organization for comprehensive planning should be reasonably similar at all levels. Such a planning unit should be so located in the organization structure that it is immediately responsive to the direction of the Chief Executive. It will work in conjunction with the operating departments which originate and develop functional plans and the finance officer who develops basic financial programs. The unit should maintain constant liaison with the planning units of adjacent governments and seek and use the advice of competent groups of civic-minded citizens.

The substance of this method has been presented to our Advisory Committee of state and local representatives and they deem it reasonable, feasible and desirable.

President Endorses Systematic Programs

The principles I have voiced are not in themselves new. Many of your own local governments have already put them to work. As a nation, however, we have failed in fully utilizing them and in obtaining the benefits available to us. There are good reasons for this — the pressures of wars, both hot and cold, over the past decade and a half have forced us to other endeavors. We can no longer afford to neglect these basic principles. Proper planning habits must be fitted into our daily routine and become a part of it. No one realizes better than I that it will take time to attain the goal of comprehensive planning throughout the governments of our States and communities. I know as you do that it will take the devoted efforts of all responsible public officials to reach this objective. They can be greatly aided by the support and efforts of the Investment Bankers Association and other such forward looking organizations. Fortunately, we are not faced with starting completely from scratch; much has been done, much is being done, and many parts of the framework do now exist. There are many municipal, metropolitan, regional and State planning agencies concerned with and contributing to one or more aspects of comprehensive planning.

This is a matter in which the President has a deep interest. As you know, his Administration has and will continue to seek that which is best for 168 million Americans. Not long ago the President suggested that this concept of systematic attention to the public works needs of the people should be presented to as many groups of responsible government and business leaders as possible. It was with that in mind that I was so pleased to accept your invitation to address you. That is why I must leave you rather hastily and hurry on to St. Louis for an address before the American Municipal Association.

I know of no group more deeply concerned for a sound and prosperous America than the Investment Bankers. Yours is a policy of enlightened self-interest which recognizes that that which makes for a strong nation is best for you as individual businessmen and as a group.

Let us start up the road to adequate public facilities in the nation.

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ORLANDO, Fla.—Lee L. Timby has joined the staff of Goodbody & Co., 127 North Main Street. He was formerly with Grimm & Co.

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ST. PETERSBURG, Fla. — Herbert J. Wasson is now with Gerard R. Jobin Investments Ltd., 242 Beach Drive, North.

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Report of IBA Canadian Committee

large proportion of bills is held by non-financial corporations.

Tax Dividend Credit

The government has played an important part towards directing savings to the purchase of equity securities by the provision of a 20% tax dividend credit that is applicable to the income from preferred or common shares of Canadian tax paying corporations. In addition to this, Canadian investors are not subjected to a capital gains tax.

It is in the field of education that the greatest possibilities lie for the redirection and more efficient use of Canadian savings. The Investment Dealers' Association of Canada is playing a very important part in this field. A comprehensive system of courses under the guidance of a full-time Director of Education provides for instruction in investment principles and practices for the employees of Investment Dealers and Stockbrokers. In addition, lecture courses sponsored by the I. D. A. are held each year in most of the universities of Canada for the purpose of spreading investment knowledge to the Canadian public. The I. D. A. in cooperation with the University of Toronto has made available to the Canadian public a correspondence course entitled "How to Invest Your Money." The I. D. A. also provides speakers and the use of a film on investments to various organizations and groups across Canada. While the effectiveness of such educational methods is difficult to measure statistically in terms of their influence on the pattern of savings in Canada, there can be no doubt that they do play an important part in helping to make Canadians more conscious of the opportunities that are available to them to invest in the future of their country.

Balance of Payments

I would like now to discuss the part that Canada's imports of capital funds from the United States play in offsetting Canada's sizable deficits in trade with the United States. The volume of trade between our two countries is greater than that between any other two countries in the world. This trade, however, is far from balanced, for Canada imports much more from the United States than it exports to her. During this current year, Canada's imports from the United States will probably be somewhat in excess of $1,000,000,000 greater than her exports to the United States. It is largely because of this imbalance in trade that Canada is so sensitive to U. S. import tariffs and trade restrictions.

Ordinarily, Canada's recurring trade deficits with the United States would result in the depletion of Canada's holdings of gold and United States dollars, and the Canadian dollar would soon go to a sizable discount when valued in terms of United States dollars. That this has not been the case has been due to the heavy flow of capital funds from the United States to Canada. These funds have been sufficient not only to offset the trade deficits, but have also resulted in the Canadian dollar remaining at a premium in terms of United States dollars.

Trade Deficit Persistence

It is a matter for speculation as to how long Canada can continue to incur such large deficits in her trade with the United States, with the deficits being offset by the inflow of United States capital funds. There are no immediate signs of major changes that will affect this situation. It is anticipated that Canada's economic expansion will continue at perhaps an increasing rate, and that for some years to come Canada will require heavy imports of manufactured goods from the United States as well as substantial amounts of capital funds.

Nevertheless, it is likely that over the longer term, Canada's exports to the United States will more nearly offset in value her imports from the United States. This prediction is based on the growing need in the United States for Canadian raw materials, including iron ore, petroleum, uranium, lead, zinc, nickel and many other materials. In addition, it is likely that Canada will gradually become less dependent upon the United States for manufactured goods, for with her growing population and expanding domestic markets, Canadian manufacturing industries will eventually be able to supply a much larger proportion of Canadian requirements of both consumer and capital manufactured goods.

It is also likely that over the longer term, the financing of Canada's capital development will become less dependent on the inflow of capital funds from outside her borders. The volume of Canadian savings is increasing at a fast rate as a result of population growth, increasing productivity and rising income levels. It is anticipated that Canada will eventually be in a position not only to finance directly a much larger proportion of her own capital development, but will also take an important place among the net capital exporting countries of the world.

Present Problem

Coming back to the present and current problems, it is observed that while Canadians have little cause to be concerned regarding the volume of capital funds that have been entering Canada, perhaps they have had a little more cause for concern in the tendency for much of the investment funds entering Canada to represent outright ownership or control of the enterprises that are being financed. Statistics indicate that more than one-half of all the

Continued on page 70

The Canadian Balance of International Payments, 1951-1955

(Millions of dollars)

BETWEEN CANADA AND ALL COUNTRIES

ACCOUNT—	1951	1952	1953	1954	1955
Current Receipts:					
Merchandise exports (adjusted)	3,950	4.339	4,152	3,929	4,332
Mutual Aid to NATO Countries	145	200	246	284	222
Gold production available for export	150	150	144	155	155
Travel expenditures	274	275	302	305	328
Interest and dividends	115	145	165	147	160
Freight and shipping	351	383	318	313	385
Inheritances and immigrants' funds	77	85	91	89	86
All other current receipts	249	281	319	298	393
Total Current Receipts	5,311	5,858	5,737	5,520	6,061
Current Payments:					
Merchandise imports (adjusted)	4,097	3,850	4,210	3,916	4,540
Travel expenditures	280	341	365	389	449
Interest and dividends	450	413	404	423	477
Freight and shipping	354	375	374	356	408
Inheritances and emigrants' funds	70	94	91	94	101
Official contributions	9	16	25	11	24
Mutual Aid to NATO Countries	145	200	246	234	222
All other current payments	423	405	465	479	532
Total Current Payments	5,828	5,694	6,180	5,952	6,753
Balance on merchandise trade	—147	+489	— 58	+ 13	—208
Balance on other transactions (excl. official contributions)	—361	—309	—360	—434	—460
Official contributions	— 9	— 16	— 25	— 11	— 24
Current Account Balance	—517	+164	—443	—432	—692
Capital Account:					
Direct Investment:					
Direct investment in Canada	+309	+346	+426	+392	+410
Direct investment abroad	— 20	— 77	— 63	— 81	— 67
Canadian Securities:					
Trade in outstanding issues	+ 38	— 94	— 31	+ 63	— 17
New issues	+411	+316	+335	+331	+166
Retirements	—184	— 89	—146	—203	—184
Foreign Securities:					
Trade in outstanding issues	+ 15	+ 12	+ 22	+ 7	+ 16
New issues	— 3	— 20	— 23	— 33	— 48
Retirements	+ 3	...	+ 1	+ 2	+ 17
Loans by Government of Canada:					
Drawings	...	...	...	...	...
Repayment of postwar loans	+ 34	+ 33	+ 37	+ 42	+ 39
Repayment of war loans	+ 34	+ 23	+ 50	+ 30	+ 30
Change in Canadian dollar holdings of foreigners	—192	— 66	— 18	+ 34	+ 89
Change in official holdings of gold and foreign exchange (increase, minus)	— 56	— 37	+ 38	—124	+ 44
Other capital movements	+128	—511	—185	— 28	+197
Net capital movement	+517	—164	+443	+432	+692

(SOURCE: "The Canadian Balance of International Payments, 1955," Dominion Bureau of Statistics)

The Canadian Balance of International Payments, 1951-1955

(Millions of dollars)

BETWEEN CANADA AND THE UNITED STATES

ACCOUNT—	1951	1952	1953	1954	1955
Current Receipts:					
Merchandise exports (adjusted)	2,326	2,346	2,458	2,355	2,598
Gold production available for export	150	150	144	155	155
Travel expenditures	258	257	282	283	303
Interest and dividends	57	85	101	69	82
Freight and shipping	164	174	164	169	199
Inheritances and immigrants' funds	32	38	41	42	45
All other current receipts	191	224	253	233	314
Total Current Receipts	3,178	3,274	3,443	3,306	3,696
Current Payments:					
Merchandise imports (adjusted)	2,842	2,817	3,046	2,800	3,280
Travel expenditures	246	294	307	320	363
Interest and dividends	382	344	334	345	393
Freight and shipping	276	302	296	261	287
Inheritances and emigrants' funds	55	77	74	75	78
All other current payments	328	289	290	312	336
Total Current Payments	4,129	4,123	4,347	4,113	4,737
Balance on merchandise trade	—516	—471	—588	—445	—682
Balance on other transactions	—435	—378	—316	—362	—359
Current Account Balance	—951	—849	—904	—807	—1,041
Capital Account:					
Direct Investment:					
Direct investment in Canada	+270	+319	+346	+288	+306
Direct investment abroad	— 4	— 42	— 33	— 46	— 54
Canadian Securities:					
Trade in outstanding issues	+ 20	—104	— 80	...	— 62
New issues	+404	+315	+322	+299	+127
Retirements	—159	— 75	—132	—184	—169
Foreign Securities:					
Trade in outstanding issues	+ 18	+ 9	+ 20	+ 6	+ 27
New issues	— 3	— 5	— 18	— 3	— 8
Retirements	+ 2	...	+ 1	+ 1	+ 2
Change in Canadian dollar holdings of foreigners	— 53	— 37	— 1	+ 19	+ 66
Change in official holdings of gold and U. S. dollars (increase, minus)	— 39	— 80	+ 42	—121	+ 42
Other capital movements	+ 59	—458	—223	+ 18	+128
Net capital movement	+515	—158	+244	+277	+405
Balance settled by exchange transfers	+436	+1,007	+660	+530	+636
Total financing of current account balance	+951	+849	+904	+807	+1,041

(SOURCE: "The Canadian Balance of International Payments, 1955," Dominion Bureau of Statistics)

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United States Direct Investment in Canada, 1947-1955

(Millions of dollars)

	1947	1948	1949	1950	1951	1952	1953	1954	1955†
Gross Inflows of New Capital—									
Petroleum industry (exploration, development, refining, transportation, and merchandising)	12	23	59	116	140	178	172	187	192
Mining n.i.e.	2	5	10	30	37	98	140	66	69
Pulp and paper	11	14	3	9	31	7	1	23	32
Manufacturing n.i.e.	...	...	...	...	...	71	52	41	67
Utilities n.i.e.	...	...	...	...	...	2	6	2	2
Merchandising n.i.e.	41	37	42	88	101	5	31	9	18
Financial	...	...	...	...	...	1	13	15	17
Miscellaneous	...	...	...	...	...	2	4	7	12
Sub-total	66	79	114	243	309	364	383	350	409
Return of capital	8	18	30	43	39	45	37	62	103
Net capital inflow for direct investment	58	61	84	200	270	319	346	288	306
Net other identified capital movements affecting the investment of United States residents in United States-controlled enterprises*	—35	20	17	17	34	129	—2	28	45
Net capital inflow	23	81	101	217	304	448	344	316	351
Retention of profits and other factors including revaluations, reclassifications, and similar accounting adjustments	97	178	187	114	166	188‡	330	218†	509‡§
Net increase in book value	120	259	288	331	470	636	674	534†	860§

*New issues, retirements, borrowing, investment abroad, etc., affecting the tolal value of investment in Canada by United States residents in United States controlled enterprises; also includes classification adjusments in respect of direct investment transactions representing significant investment in non-United States controlled enterprises.

†Preliminary.

‡This figure is affected by unusually large reclassifications between direct and portfolio investments and by possible revisions of the 1954 totals.

§Provisional estimate subject to revision.

NOTE—In addition to investment in new construction and new machinery and equipment included in gross domestic investment as published in the National Accounts, the above figures reflect investment in other forms and the acquisition of existing assets and resources of Canadians. For these and other reasons the series are not strictly comparable.

(SOURCE: "The Canadian Balance of International Payments, 1955," Dominion Bureau of Statistics)

Value of United States Investments in Canada, Selected Year Ends 1930-1955

(Millions of dollars)

Classification—	1930	1945	1949	1951	1952	1953	1954	1955†
Direct investment	1,993	2,304	3,095	3,896	4,532	5,206	5,740	6,600
Govt. and municipal bonds	1,205	1,450	1,534	1,898	1,835	1,870	1,822	1,649
Other portfolio investments	1,368	1,106	1,106	1,269	1,382	1,535	1,641	1,575
New investment funds	...	...	...	...	...	...	117	170
Miscellaneous assets	94	130	170	195	249*	257	302	355
Total book value	4,660	4,990	5,905	7,258	7,998	8,868	9,622	10,349

*New series not strictly comparable with earlier years. †Provisional estimate subject to revision.

Manufacturing and Mining Enterprises in Canada, Concentration and Control, End of 1953

	Petroleum exploration development, —and refining—		Mining other than petroleum exploration & development		Manufacturing other than petroleum refining		Total manufacturing —and mining—	
	All Enterprises	Large Enterprises	All Enterprises	Large Enterprises	All Enterprises	Large Enterprises	All Enterprises	Large Enterprises
Book values—				(Millions of Dollars)				
Controlled in Canada	582	191	726	319	4,290	1,572	5,598	2,082
Controlled outside Canada	1.186	831	898	676	3,839	1,877	5,923	3,384
Total	1,768	1,022	1,624	995	8,129	3,449	11,521	5,466
Percentage distributions—				(Per cent)				
Total Industry	100	58	100	61	100	42	100	47
Controlled in Canada	33	19	45	32	53	46	49	38
Controlled outside Canada	67	81	55	68	47	54	51	62

Large enterprises include all manufacturing and mining companies with an aggregate investment in Canada of $25 million or more at the end of 1953. There were 13 such enterprises in the petroleum classification, 14 in other mining, and 55 in other manufacturing.

(SOURCE: "The Canadian Balance of International Payments, 1955," Dominion Bureau of Statistics)

Non-Resident Ownership as a Percentage of Selected Canadian Industries, Selected Year Ends, 1926-1953

Industry classification—	1926	1930	1939	1948	1951	1952	1953
Percentage of total owned by all non-residents:							
Manufacturing*	38	40	42	42	44	46	47
Mining, smelting and petroleum exploration and development*	37	44	40	39	51	54	56
Steam railways	55	56	57	45	40	38	37
Other utilities	32	36	27	20	18	18	17
Total of above industries and merchandising	37	39	38	32	32	32	32
Percentage of total owned by U. S. residents:							
Manufacturing*	30	33	34	35	36	38	38
Mining, smelting and petroleum exploration and development*	28	34	31	32	45	49	52
Steam railways	15	21	18	21	18	17	16
Other utilities	23	30	20	16	16	16	15
Total of above industries and merchandising	19	24	22	23	24	25	25

*Investments in exploration and development of petroleum by companies engaged principally in refining and production of petroleum products are included in manufacturing.

(SOURCE: "The Canadian Balance of International Payments, 1955," Dominion Bureau of Statistics)

Foreign Capital Invested in Canada, Year Ends 1952-1954
(Classification by Type of Investment)

(Millions of dollars)

	Owned by all Non-Residents			Owned by United States		
	1952	1953	1954	1952	1953	1954
Government Securities:						
Dominion	858	744	659	737	608	515
Provincial	816	930	964	782	886	914
Municipal	354	413	433	316	376	393
Sub-total	2,028	2,087	2,056	1,835	1,870	1,822
Manufacturing:						
Vegetable products	382	426	449	286	325	342
Animal products	83	89	95	72	78	82
Textiles	117	115	121	61	59	62
Wood and paper products	769	837	937	619	630	773
Iron and products	623	699	723	580	649	669
Non-ferrous metals	599	694	722	480	543	567
Non-metallic minerals	538	606	695	499	538	622
Chemicals and allied products	339	366	402	259	276	293
Miscellaneous manufactures	87	93	116	60	66	79
Sub-total	3,537	3,925	4,260	2,916	3,214	3,489
Mining and smelting	1,076	1,422	1,656	976	1,315	1,522
Public Utilities:						
Railways	1,429	1,420	1,418	644	620	624
Other	639	680	726	550	590	625
Sub-total	2,068	2,100	2,144	1,194	1,210	1,249
Merchandising	447	530	577	317	388	418
Financial institutions	648	776	1,066	395	484	696
Other enterprises	133	151	149	116	130	124
Miscellaneous investments	447	467	561	249	257	302
Total investments	10,384	11,458	12,469	7,998	8,868	9,622

(SOURCE: "The Canadian Balance of International Payments, 1955," Dominion Bureau of Statistics)

Continued from page 69

Canadian IBA Report

enterprises in Canada engaged in manufacturing and mining are controlled outside of Canada.

It has been a matter of common regret in Canada that opportunities have not been greater for participation by Canadians in the ownership of many of the Canadian companies that are wholly-owned in the United States. One of the main obstacles in the past to the provision of Canadian equity participation in these industries has been a tax convention that has resulted in a tax penalty to United States companies that were less than 95% owned in the United States. This tax convention has recently been revised, and when it has been ratified by the United States Government, a number of United States companies with subsidiaries in Canada will be in a position to provide the Canadian public with an opportunity to participate directly in the equity of these Canadian subsidiaries.

In closing, I would like to remark on the very close relationship that exists between Canada and the United States in all spheres of activity. Although it would be possible from time to time to place one's finger on minor differences in some few selected fields, these differences appear relatively unimportant and are far outweighed by the many more instances of cooperation and harmony that exists between the two countries. These latter qualities are particularly apparent in the investment field, and it is to be doubted whether a closer and more agreeable relationship could exist between any two groups than that which exists between the Investment Bankers of America and the Investment Dealers' of Canada. [Editor's Note: The tables reproduced herein were prepared by the Committee.]

Respectfully submitted,
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Some External Aspects Of Canada's Expansion

quently they arise because the pressure on resources is so great that goods and services are diverted from export markets to domestic expansion, with the result that exports fall or at least fail to achieve a normal growth. I should like to stress that this has not been the case in Canada. Exports are actually running at a rate nearly 50% higher than in 1950. Indeed, to some extent the large increase in foreign demand for our exports has been the direct cause of internal expansion. The fact that we have been able to increase our exports so much while the expansion was going on must be attributed in part to a run of good luck for which we can claim no particular credit other than taking advantage of our opportunities. Since 1950 we have had the equivalent of between eight or nine normal wheat crops in seven years, with firm prices and good demand in all but a couple of years. Forest products have been almost continually in good demand — newsprint has been at capacity demand or better since 1947. Since the Korean War there has been an apparently insatiable demand with generally high prices for nickel and aluminum and more recently copper. Nor is this all; when agricultural markets began to sag off a few years ago we began to enjoy the first fruits of some of our long-period resource development. From a few million dollars a year, iron ore exports have grown to over $100 million. In spite of the exceptional rise in oil consumption in Canada, the prairie discoveries have enabled us to hold fuel imports at a level only a little over 1950 levels, and at the same time provide exports—which were negligible before 1955—at a current rate of over $100 million per annum. And uranium production is only on the verge of assuming import proportions.

Import Rise Due to Investment

Our rising current account deficits are therefore wholly due to a greater rise in imports than in exports. Our imports are running 70% higher than in 1950, with practically all the increase due to increased volume rather than price. The basic cause of the rise in imports is the intensity of demand for investment and other purposes. The physical limits of productive capacity are quickly reached in a small and relatively new economy, and when this happens the whole weight of demand is thrown on external sources.

The principal increases in our imports can be directly traced to the investment boom. A commodity classification of imports by purpose which has recently become available shows that between the first half of 1955 and the first half of 1956, when our total imports went up by almost 30%, imports of investment goods rose by as much as 43% while consumer goods were up only 18%. This distribution of imports is gratifying, of course, because it means that the bulk of the large increase in imports has gone to broaden the structure of the Canadian economy and provide for increased output in the future.

Other Side of the Medal

I would now like to comment briefly on the other side of the medal, i.e., the financial counterpart of these deficits, our net capital imports. There is an unavoidable tendency to think of the balance of payments in personal terms. If a person runs a deficit and goes into debt presumably he has arranged for this in advance or has to scrounge up cash along the route. At all events, he has to make some formal provision for his indebtedness. The balance of payments in a free economy like the Canadian has no such planned program. It is the aggregate of individual decisions independently arrived at day by day. The net capital borrowings which accompany a current account deficit occur side by side with the current transactions.

In the case of Canada a very large share of the capital inflow takes the form of direct investment. Since 1950 this has amounted to over $2,300 million or about two-thirds of the total net long-term inflow. Direct investment is not a debt settling operation, but a dynamic independent development. The initiative is taken abroad rather than in Canada, and it often carries with it skill, technical know-how, market connections and access to the very large pools of money required to finance major projects under modern conditions. Capital investment of this type frequently takes the form of imports of capital equipment, machinery, etc., to be used in a Canadian project. Direct investment should therefore be regarded, in a sense, as a cause of the current account deficit rather than as a means of covering it.

Foreign Purchase of Canadian Securities

The other main channel of capital investment in Canada has been the purchase by non-residents of Canadian securities. The largest element in this has been the net sale of new issues by Canadians to investors outside Canada. On balance from 1950 to mid-1956, sales of new issues have exceeded retirements by over $1,400 million, exclusive of large retirements of Government of Canada issues to which I shall refer in a moment. Most of the new issues sold by Canadians abroad have been provincial and municipal securities, though recently a number of large new corporate issues have also been sold in outside markets.

The ready access enjoyed by many Canadian borrowers to the capital market of the United States makes them quite sensitive to relatively small changes in the spread between long-term interest rates in the two countries. When this spread is relatively narrow, as it was for example in 1954 and the first part of 1955, Canadian borrowers are loath to assume the exchange risk involved in issuing bonds payable in U. S. dollars. In periods such as the past year, however, when the demand for capital in Canada in relation to the supply of loanable funds has been such that long-term interest rates have risen even more than they have in the United States, considerable borrowing by Canadians takes place on the American capital market. The sheer size of some of the recent corporate issues has probably been a factor dictating recourse by Canadians to outside capital markets. In this respect there is an analogy with the situation I referred to regarding direct investments in resource industries where very large sums of money have been required to finance particular projects.

Increased Canadian Equities Listed

Non-residents of Canada have also increased their holdings of common and preferred stocks in Canadian corporations. The very large two-way trade in outstanding Canadian securities has resulted in a net capital inflow between 1950 and mid-1956 of over $500 million, excluding the trade

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Some External Aspects Of Canada's Expansion

in Government of Canada securities. An increasing number of Canadian equities have been listed on stock exchanges outside Canada. Growth potential rather than yield appear to have been the important consideration influencing foreign investors in Canadian equities, and this is exemplified by the formation of diversified investment funds incorporated in Canada but designed to give American investors an opportunity to share in capital appreciation.

Canadian Capital Invested Abroad

Although the inward movement of capital has been preponderant, one should not conclude that capital movements between Canada and the rest of the world are a one-way street. For example, Canadians have since the beginning of 1950 repatriated from abroad Government of Canada obligations to the amount of about $700 million. We have also added to our foreign assets abroad in various ways. Our investment in Canadian controlled companies operating abroad has been increased by over $350 million (not including retained earnings). We have provided funds to the I.B.R.D. for its lending operations by paying up our entire capital subscription (and becoming the only country other than the U. S. to do so) and by the Canadian public subscribing to several World Bank bond issues in Canada. We have also added substantially to our official holdings of gold and U. S. dollar balances. Our investments abroad are small in relation to foreign assets in Canada, but it may come as a surprise to you to learn that even excluding official reserves and bank balances, Canadians are heavier investors abroad on a per capita basis than are Americans.

I propose now to say a few words about the behavior of the Canadian dollar since official fixed rates of exchange were suspended in 1950. Since then, the policy has been to allow the rate to be determined by market forces, including, of course, the effects of fiscal and monetary policies, with official interventions limited to the maintenance of orderly conditions in the exchange market. Since 1952 the Canadian dollar has been quoted within a relatively narrow range —from equality with the American dollar to 3 or 4% higher. Perhaps the most conspicuous feature has been the rather paradoxical behavior of fairly persistent strength in the face of substantial current account deficits. In fact, there have been several occasions when a rise in the Canadian dollar has coincided with an increasing current account deficit. This, of course, goes to demonstrate the important part that capital inflows have played all through the piece.

Justifies Free Exchange Rate

Nevertheless, for a free rate the Canadian dollar has been remarkably stable. There is reason to believe that at most times short-term capital movements, such as changes in balances held in Canada and abroad and commercial payables and receivables, have contributed to this stability. These short-term capital movements have shown a tendency to be inward and so support the Canadian dollar when it was tending to fall and outward when it was tending to rise, thus limiting the rise. This is in marked contrast to our experience with a fixed rate of exchange under exchange control when short-term capital movements were a factor of instability. During the present year, however, there appears to have been an inward movement of short-term funds notwithstanding a rise in the value of the Canadian dollar. The need for liquidity and the rise in the volume of imports—as reflected in an increase in outstanding payables—seem to be the factors mainly responsible.

The Canadian exchange arrangements since 1950 have not been fully in accord with the provisions of the International Monetary Fund, of which Canada is a member and to whose work we continue to attach great importance. The Fund provisions provide for a fixed exchange rate with fluctuations limited to 1% on either side of the par value. I would like to take this opportunity of saying that the attitude which the Fund has adopted towards the Canadian case has not been in the slightest degree doctrinaire or rigid. On the contrary, it has been helpful and understanding. Without for a moment suggesting that what works well in Canada is necessarily suitable for other countries, the Fund has fully recognized the special aspects of the Canadian situation which have led to the present exchange arrangements.

Free Rate Found Helpful

In the conditions under which it has operated, the free rate has been a helpful factor in the efforts made to maintain monetary stability in Canada. Since 1950, Canada has offered many attractive fields for investment. Under fixed rate conditions, the government is required to buy all exchange offered, and if the inflow is large and rapid it is difficult to take offsetting action to prevent this leading to an increase in the domestic money supply. Sums which seem quite small in American terms may be extremely large for Canada, and large capital inflows in an economy at full stretch under fixed rate conditions have therefore a great inflationary potential.

The free rate provides some assurance that capital inflows will take place in real terms rather than in the form of money. Perhaps I might expand this latter point a little for it is an important one. Under fixed exchange rates a person can acquire a title to assets in Canada simply by selling foreign exchange at the pegged price. The central authorities are required to buy all exchange that is offered in order to maintain the fixed rate, and they must find the Canadian dollars with which to purchase the exchange. Under the free rate system, on the other hand, the person who wants to buy Canadian dollars has to compete in the exchange market with other purchasers for a supply which is provided not by the central authorities but by corporations and individuals who wish for one reason or another to sell Canadian dollars and acquire foreign exchange. The pressure of market forces on the rate has the effect of bringing supply and demand into balance without, as I have already indicated, official intervention except as a contribution to orderly conditions. One effect of this mechanism is to ensure, in conditions of large capital inflow accompanied by pressure on domestic resources, that the inflow of capital either forces other capital out, through its effect on the rate, or takes the form of goods and services introduced into the Canadian economy from abroad as a supplement to Canadian savings.

Questions Capital Inflow Rate

The inflow of capital which has been such an important factor in postwar development in Canada has inevitably caused Canadians to think about its long run consequences, and some of its implications have caused a good deal of soul searching. One very natural concern is whether we have accepted capital from abroad in excess of our capacity to service it. The present burden of foreign debt, as measured by comparing it with gross national product or total exports, is less than it has been at many periods in our history. The increase in foreign debt has been much more than matched by an increase in national assets. Much of the investment has gone into things like petroleum and iron ore which either displace imports or result in exports.

Another question which is sometimes raised in whether the rate of development—in which foreign capital has played an important role—has been excessive, and whether progress at a somewhat slower pace—and with a greater admixture of local capital—might be preferable. I do not pretend to know the answer to this question. To a considerable extent the rate of progress is determined by the availability of resources, and the terms on which the public authorities or other owners are prepared to see them developed and used.

Another related subject of discussion is the extent to which American investment has tended to concentrate in certain resource and industrial sectors to the exclusion of Canadian participation. Since it is mainly direct investments which are referred to there is some fear that the exclusion of Canadian participation may be permanent in character. The increase in the foreign ownership of Canadian business has occurred in spite of a very high rate of Canadian savings and the fact that, unlike previous periods Canadians no longer now invest to any considerable extent in U. S. equities. A number of steps have recently been taken which should have the effect of encouraging greater participation by Canadians in equity investment in Canada. For example, for some years now, Canadians have been permitted to claim as an abatement of their income tax liability an amount equal to 20% of the dividends received from tax-paying Cana-

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dian corporations. Also, there has been some discussion as to whether the Canadian institutions which are the chief mobilizers of Canadian savings are playing as large a role as they might in providing equity capital to Canadian business. Finally, steps have been taken to revise certain of our arrangements regarding the taxation of dividends paid abroad in order to remove any possible tax disincentive that American companies owning subsidiaries in Canada might have to offering some of the stock in such subsidiaries for public subscription in Canada.

Wants U. S. World Trade Leadership

I should like to conclude these remarks by referring again to foreign trade. In spite of the great development of our internal market, foreign trade remains of great importance to us. With a total trade turnover exceeding $10 billion, Canada has become the fourth largest trading country in the world. With a population less than 10% of yours, our imports are over 40% of those of the United States.

Our greatest interest in foreign trade is reflected in our policies. We have done away, as you know, with all exchange controls and import restrictions and maintain a relatively open economy with only a moderate degree of tariff protection. We have pressed other countries to remove the obstacles to trade. We have been encouraged by the progress made in removing quantitative trade restrictions, particularly by certain European countries during the past few years, though we think that this progress did not altogether keep pace with the improvement which occurred, at any rate until very recently, in the world payments position. We are also aware of the forward steps taken by the United States in increasing the opportunities of other countries to compete in this market, though here, too, the rate of progress has at times been disappointing. Continued leadership on the part of the United States is essential on account of your position in world affairs. Any evidence of backsliding or of failure on your part to accept the same degree of competition that you urge upon others, is seized upon in foreign countries as a reason for continuing old restrictions on imports or imposing new ones. The American stake in world prosperity, as represented by your trade interests, your extensive investment interests and above all perhaps by your over-all political and security interests, cannot be exaggerated. I have every confidence, that, with the help of groups such as this, your policies will further and not frustrate your interests.

Continued from page 28

Kaiser Corporation in Depth

nuclear energy . . . of its exclusive license in the United States for the oxygen converter process for steel production.

Kaiser Sand and Gravel

The other operating division of Henry J. Kaiser Company—Kaiser Sand and Gravel—is the largest producer of sand, gravel and crushed rock products in the San Francisco Bay Area, and earns more on its sales dollar than any other competitor.

It has been our "bread and butter" business since its beginning in 1923. Its stable earnings and its trained personnel were important factors in getting us started in our other industries. Actually the nucleus of each of our management teams came from Kaiser Sand and Gravel.

Kaiser Steel—Kaiser Aluminum—Permanente Cement

Now let me tell you something about Kaiser Steel, Kaiser Aluminum, and Permanente Cement and their importance to Kaiser Industries Corporation. Each operation has common foundations—strategic reserves of raw materials, fast growing markets, competitive operating cost advantages and your aggressive management.

Kaiser Steel

Kaiser Steel, the twelfth largest steel company in the country, operates the only fully integrated steel plant on the West Coast. 81% of its common stock is owned by Henry J. Kaiser Company.

With an almost continuous expansion program underway since 1945, the plant at Fontana, 45 miles from Los Angeles, has developed into one of the most diversified in the country.

The whole Kaiser Steel operation, I believe, is unique in the steel industry by reason of the integrated relationship of the company's raw materials, processing and production facilities and their proximity to its western market.

To understand Kaiser Steel's position, you must understand some Western statistics.

The population in the West continues to increase at the rate of 40% each decade . . . two and one-half times the national rate, and as a result, the Western steel market has boomed.

Not even a substantial expansion of production facilities has been able to keep pace with this phenomenal growth.

Only 55% of the total finished steel used in the West was supplied last year by Far Western steel plants.

This adds up to a double responsibility for Kaiser Steel.

First . . . we must take care of at least our share of the Western growth; and, second, we must supply at least our share of the Western needs for steel now being supplied from the East and Midwest.

Two years ago I sat down with Jack Ashby, Kaiser Steel's Vice-President and General Manager, and his staff and we asked the question: "How can we sharpen ourselves to meet these demands?"

The answer appeared to be a simple one. We established our No. 1 Program . . . not to be the biggest in the industry—but to be the best!

We determined that Kaiser Steel could and would be No. 1 in customer relations, in earnings, in growth, in rate of operations, in union and human relations—in our relations with our stockholders and investors — and in many other fields.

We have achieved some of these objectives. We have come a long way towards accomplishing our other goals.

Supplant East and Midwest Steel

As a result, we are better prepared today to participate in the Western growth, and to supply our share of the tonnage now being supplied from the East and Midwest.

We are in the midst of a $113 million expansion program which will raise both ingot and finished product capacity by approximately 40%. This single expansion will place in operation more new steel producing and steel finishing facilities than were built into the original Fontana plant during the entire war period 1942-1945.

And because the country, and particularly the West, will not stop growing, and the need for steel is ever-increasing, we currently have under serious consideration further expansion involving a fourth blast furnace and oxygen steel-making facilities which will increase the ingot capacity of Kaiser Steel by another 30% to almost 3 million tons.

We have the fundamentals necessary to support this expansion—our raw material reserves . . . the favorable costs of producing and delivering our output to the Western market.

The Eagle Mountain mine, located 164 miles from Fontana and owned by Kaiser Steel, represents the largest known iron ore reserve in the West. This ore, now averaging 52% Fe, will average up to 60% Fe by Spring of 1957 when we complete our beneficiation facilities.

In addition, Kaiser Steel owns very extensive coking coal deposits in Utah and New Mexico, and substantial limestone reserves in Southern California.

These large reserves of basic raw materials, coupled with their close proximity to our Fontana plant, result in our having what we believe to be the lowest-cost hot metal in the industry.

Our freight advantage over our principal competitor located in Utah is substantial . . . $13.60 per ton in Southern California, and $7.83 per ton in Northern California.

These fundamentals put Kaiser Steel's earnings per sales dollar among the highest in the industry.

For the first six months ending Sept. 30 of Kaiser Steel's current fiscal period, its net income as a percent of net sales was about 14%. After eliminating tax benefits derived from filing consolidated tax returns with Kaiser Industries, the net income as a percent of net sales was about 10%. Cash flow is running at the rate of about $50 million per year.

In our opinion, all of these factors provide us with a solid and continuing base to meet the chal-

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Kaiser Corporation in Depth

lenging growth that lies ahead in the Western steel market.

Kaiser Aluminum & Chemical Corporation

Henry J. Kaiser Company owns approximately 37% of the common stock of Kaiser Aluminum & Chemical Corporation.

The aluminum industry is a fast growing, dynamic, exciting industry loaded with opportunities and Kaiser Aluminum has grown at a faster pace than the industry itself. Compared with an annual growth rate of approximately 3% in gross national product, the United States aluminum industry since 1910 has been increasing at the rate of 10.5% compounded annually, and for the past five years 16.9% annually. Kaiser Aluminum's growth in the past five years has averaged 26% annually.

We started in the aluminum business in 1946, and in 1955 we produced 27% of the total U. S. primary aluminum output. Net sales have grown from $45 million in 1947 to $330 million—and— if we only continue our share of the market, we must get ready for annual sales in excess of a billion dollars.

Industry estimates of aluminum consumption by 1960 average three million tons—a gain of approximately 50% in five years. These estimates may well be conservative. The need for further expansion in the aluminum industry to some extent depends upon the industry's success in breaking into such major tonnage markets as the automotive and container fields. Current progress in both fields is tremendous. When the breakthrough comes, further expansion will be essential and will raise future requirements beyond current forecasts.

The aluminum wheel alone, for example, will require 250,000 tons . . . more than the entire annual output of our Chalmette reduction plant, the biggest in the United States.

The aluminum engine block will require the same amount of tonnage. Even a greater potential is in sight in die cast doors, tops, frames, and hoods.

And just think . . . only 10% of the container field will require 200,000 tons!

The aluminum industry is loaded with opportunities.

Better Located Aluminum Production

No other aluminum producer is any better located to serve this vastly expanding U. S. market—the world's largest market—than Kaiser Aluminum. And in a moment, I'll tell you why we believe this to be the case.

Our current expansion program will increase our primary aluminum capacity by about 35%, alumina capacity by about 54%, and will also provide additional sheet and foil facilities. With the completion of this program, Kaiser Aluminum will move its raw materials from mine to processing plant, to fabricating plants along a direct all-water route terminating at the center of a market accounting for 70% of the United States aluminum consumption.

Kaiser bauxite is mined in Jamaica and is transported in bulk ore carriers 1,100 miles to its alumina processing plant at Baton Rouge, less than one-half of the haul from South American mines. A second alumina processing plant is now under construction at Gramercy, La. Both plants, located near the mouth of the Mississippi, will be fed by three 35,000 ton ore carriers now under construction in Germany.

Just downstream in New Orleans is Kaiser Aluminum's Chalmette reduction plant, the largest in the U. S. This plant is in a position to deliver its finished products along the Mississippi, Ohio River System. Upon the completion of its Ravenswood, W. Va. reduction plant, alumina from Louisiana will be transported along this river system and the output of the Ravenswood reduction plant will be processed into sheet and foil at the Ravenswood rolling mill now under construction. Kaiser Aluminum can equal, and in my judgment, better competition in the economy of this mine to market movement.

To cover the more Western markets, Kaiser Aluminum operates two reduction plants and a rolling mill in Washington, and foil facilities at Permanente, Calif.

Kaiser Aluminum's bauxite reserves in Jamaica are sufficient for more than 50 years' operation at its expanded capacity and we are augmenting these reserves every day.

Kaiser Aluminum has also acquired extensive coal reserves in Eastern United States, insuring an economic energy source for future power requirements.

The Corporation has achieved diversity through the development of new products and through the addition of fabricating plants for finished products—sheet and plate—foil—containers—rod—bar—wire—cable—forgings—and extrusions.

Kaiser Aluminum's chemical operations consist principally of the production of basic refractory brick and ramming mixes to fulfill the needs of the steel, copper, lead, cement and glass industries throughout the United States. Chemical sales account for about 4% of the Corporation's total sales. The Corporation's expansion in chemicals and refractories during the last 10 years have paralleled its aluminum expansion. New and improved refractories developed by the company's research and development organizations have contributed largely to its growth.

In 1955, Kaiser Aluminum earned the highest percentage of net income and cash income on net sales in the United States' primary aluminum industry. Cash flow is currently running at the rate of $70 million per year.

All of these factors — plus a sound financial structure—provide a solid base for our future growth in a great growth industry.

Permanente Cement Company

Henry J. Kaiser Company owns 30% of the common stock of Permanente Cement Company. The success of Permanente Cement and its wholly-owned subsidiary, Kaiser Gypsum, as in Kaiser Steel, has been due in part to the phenomenal growth of population in the Western States. Immediately prior to World War II there were 11½ million people in the area. Today there are over 20 million, an increase of over 72%, and still on the way up. In California alone we are averaging about 1,400 new citizens every day of the year—over 44,000 new people each and every month. Let's visualize for a moment a town of about 40,000 population with its houses, schools, churches, service stations; stores, public buildings — and when we add items like storage tanks, sewers, transportation facilities and new industrial plants, etc., you have some idea of the construction going on in the far West month in and month out. Add to this the effect of the new highway program that is just getting underway, and the ever increasing demand for kilowatts which means more Western dams. Permanente's cement sales during the past five years have increased 40% while the West Coast cement industry has increased 31%.

Permanente built its first plant in 1939 at the location near San Francisco. This plant has operated at capacity since 1948, and is now one of the largest plants in the world, having an annual capacity of 8,500,000 barrels. Its costs of operation are among the lowest in the industry. Unique in Permanente's business are its bulk distribution facilities on tidewater which permit the company to serve markets in Hawaii, Alaska, Portland and Seattle at a delivered cost far below any competitor. Approximately one-third of Permanente's output is sold outside of Northern California through this bulk distribution system. Permanente's marketing area, with this distribution, has been increased to some 3,000 miles as compared with the normal marketing area of a cement plant of 250 miles.

The Company is now building a new cement plant in Southern California with an initial capacity of 2,500,000 barrels. There too a combination of raw material reserves, low cost operation and delivery to market should make it a formidable competitor in Southern California.

As a result of the favorable factors outlined above, the Company's cement operations have consistently enjoyed a high ratio of earnings to sales as compared with the industry.

Kaiser Gypsum

Kaiser Gypsum, a wholly-owned subsidiary of Permanente Cement, is one of the two largest producers of plaster and gypsum board products in the West. Upon the completion of its current expansion program, it will have approximately 30% of the production capacity in the West.

Basic to the company's business is its gypsum rock deposit on San Marcos Island in Mexico, one of the largest deposits of high-grade gypsum in the world. This is the Nova Scotia of the West. Gypsum rock is distributed to the company's three plants by bulk ore carrying ships owned by the company. The company's three gypsum products plants are located in the heart of the three principal Pacific Coast markets, providing low-cost distribution and fast service to its customers.

Early in November Kaiser Gypsum purchased the wood fiber insulating board business of Fir-

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Tex Insulating Board, Inc., including some 16,000 acres of timberland in Oregon and Washington.

Again the key to the success of Kaiser Gypsum's operations is its raw material reserve, low cost water transportation of raw material to tidewater plants, and low cost distribution to the Western market.

Other Operations

I wish I had time to tell you about our other operations even though they are over-shadowed by comparison with Steel, Aluminum, Cement and Gypsum. I am sure you would be fascinated to hear what Henry, Sr., is doing in Honolulu in connection with his 19 acre Waikiki beach resort hotel. I likewise know you would be interested in hearing the fabulous growth of our shopping centers in California which are being managed by our partner, Fritz Burns. In partnership with Sears, Roebuck & Company, we manufacture in Bristol, Pennsylvania, the Sears requirements of sinks, kitchen cabinets and bathtubs. We are also an important stainless steel fabricator for jet engines and guided missiles at our Bristol plant. You will hear more about our Kaiser Center in Oakland as it enters its construction phase—a 28 story office building for our general offices and a surrounding center covering eight acres in the heart of Oakland.

Kaiser Management

Early in my presentation, I told you that the story of Kaiser Industries is the story of our founder, Henry Kaiser and of the team of men he built around him. Each one of our operations is headed by a Vice-President and General Manager and in each case he has been a long-time associate of Mr. Kaiser. In each case the general manager is surrounded by a team of people who have had a terrific training. Responsibility trained these men. Henry Kaiser taught us to select men of good character and to give them responsibility — heavy responsibilities early in life.

Policy direction comes from Henry, Sr., Edgar Kaiser, Henry Kaiser, Jr., our financial adviser, George Woods, and me. During our period of expansion George has been an integral part of our top team. His contributions to our success have been inestimable and we are privileged to have his confidence and friendship.

Our Boards of Directors have independent representation with strong, able men, the tops in their fields. They are working Boards and vital to our success.

We consider that the keystone to our future is management development. We are only as strong as our people—and believe me, we are building depth in our organizations.

Kaiser Financing

I am sure that you would be interested in the magnitude of the financing required to accomplish the things I have been outlining to you. For the period 1945 to 1956 the aggregate financing from banks, insurance companies, other institutional investors and investment bankers amounted to approximately $1,300,000,000. Of this total, bank loans were $542 million; mortgage bonds $430 million; preferred and common stock issued $235 million; and miscellaneous other securities made up the balance. Of these funds, a total of approximately $1 billion went into the businesses I have been discussing with you—principally in new facilities. About $300 million were used in various refundings.

Bank loans have been substantially reduced. Kaiser Aluminum's bank loan today is $30 million—a reduction of $85 million. Kaiser Steel's bank loan today is $13,650,000—a reduction of $39 million.

None of the above figures include any government borrowings—and may I emphasize that all of our government borrowings have been repaid in full with interest. This statement we like to keep repeating because many still think we are operating on government money.

Your contribution to our growth has been great, and we are deeply grateful for your confidence in us. We fully recognize that we could not have had the major facilities, we could not have had the production and sales volume, and we could not have had the earnings which our industries are enjoying today without your cooperation and assistance. I am sure we will be talking with you again about additional requirements for funds to take care of the future expansion we foresee. The banks and institutional investors participating in this financing include the finest names in their fields and we are likewise deeply grateful to them for their confidence in us.

Kaiser Industries Corporation

I am taking the liberty of offering to each one of you as you leave this room a copy of a booklet we have prepared covering in somewhat more detail what I have been saying to you today. I think it will assist in your understanding of the various Kaiser companies — and particularly Kaiser Industries Corporation. Its direct operations and its interests in the various Kaiser affiliated companies are reflected on the balance sheet and operating statement of Kaiser Industries Corporation and its wholly-owned subsidiaries as of Sept. 30, 1956. Total assets based upon market quotations for its holdings at the end of September, and book values for all other assets, aggregate $575 million. Its three months earnings ending Sept. 30, 1956, were $4 712,000, which we believe is representative of the current earning power of the corporation. The asset value per common share, based upon market quotations at the end of September for the common stocks owned by Kaiser Industries Corporation, was $21.57. It is anticipated that the corporation's bank indebtedness of $90 million will be reduced to $65 million by April 1, 1957 by reason of cash earnings and the direct placement of a new security of Henry J. Kaiser Company and Kaiser Industries Corporation, subordinated to the present bank loan.

Although the company is owned approximately 95% by the Kaiser family, Henry J. Kaiser Family Foundation, and certain close business associates, there are 22,000 other stockholders and the stock is listed on the American and other stock exchanges.

Conclusion

In Kaiser Industries Corporation, a new entity has been created to assist in the future growth of all of our various Kaiser companies. Actually we foresee Kaiser Industries Corporation investing additional funds in its affiliated companies, thus participating in financing their expansion needs.

In addition, the new corporate structure puts us in a strong position to develop or acquire new businesses that don't necessarily fit into our existing operating companies. Thus we can continue to be a factor in establishing enterprises every bit as challenging as Permanente Cement, Kaiser Steel and Kaiser Aluminum — where hard working and aggressive management can prove its worth. Of course such development in the future can only be possible with your cooperation in providing new capital. We hope by our results to earn your continuing confidence.

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BOSTON, Mass. — Wallace G. Nyweide is now affiliated with Blair & Co., Inc., 105 South La Salle Street.

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FT. LAUDERDALE, Fla.—David S. Hammond is engaging in a securities business from offices at 3058 North Federal Highway under the firm name of David S. Hammond & Co.

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CHICAGO, Ill.—Gordon D. McFarnale has become associated with Webber-Simpson & Co., 208 South La Salle Street, members of the Midwest Stock Exchange. He was formerly with Detmer & Company.

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CLEVELAND, Miss. — William T. McGehee is conducting a securities business from offices in the Somerville Building.

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Report of IBA Oil and Natural Gas Securities Committee

attending depletion allowance." Such an economic interest or determinable fee represented a dollar amount in excess of the turn-key cost of the well. This was the premium paid for the contractor's risk and once the well was in the oil payment was salable at a reasonable discount. That was the origin of a financial practice which prevailed until the advent of commercial bank financing, although even today this practice is utilized to a limited degree, inasmuch as the oil payment can be financed by banks. But times and conditions have changed and this is not the type of oil payment we consider significant today.

Reserved Oil Payment

Mention has been made of increasing tax pressure. True, the petroleum industry has not been alone in this agony. As a result an insidious development has taken place; creeping, step by step, it has blossomed to arrest quite alarmingly the attention of economists, statisticians, and executive talent. The cost of finding oil, as judged by common standards, is now so high, and perhaps has been for some time, that it might be more profitable to buy rather than to explore, and this is where the **reserved oil payment** comes in. Until about seven years ago approximately 80% of a bank's annual dollar volume in oil and gas financing was in the field of development drilling, or type "A" as discussed in this paper. Since then the situation has been reversed; type "B" is the predominant procedure and will be related in some detail as follows:

Because of the peculiar nature of the oil industry, the whole oil picture, in relation to business and taxation, exists as a difficult problem when one endeavors to create any "pat" formula for dealing with oil. In view of the difficulties which may arise because of the very character of oil, production of oil, or the buying and selling of oil properties, the industry acquired an aura of relative uniqueness. Rules governing the industry and its practices are numerous, complicated and vague. To treat the industry taxwise in terms of ordinary business techniques, and to examine it with any concrete policy is making a mistake. The nature of the oil industry and its business transactions are as fluid in practice as the self-same product is in its physical state, and for any observer to reconcile himself to oil practices and privileges of the industry, he must consider the fact that oil is a comparative intangible as commercial products go.

The Element of Uncertainty

No one can be certain of a given quantity of oil, and no one can be sure of an exact production rate, for all this depends to a great extent upon the geological nature of the oil in place, and not entirely upon those producing it. In other words, the control of man over automobile manufacturing is complete; however, over the oil he produces man's control is relatively incomplete, for though he understands its nature and is constantly developing more effective means for discovering and producing it, to be absolutely certain of its existence, or production capacity, is somewhat of an impossibility. Too many problems that cannot be foreseen always exist in oil, but these unforeseen difficulties in the oil industry resulting from the very nature of the product, do not, necessarily, exist in other forms of business.

The laws governing the industry are varied, often contradictory; but to formulate any system which controls all the intricacies and complexities inherent in the industry is most difficult. Law governing oil is always changing as different, unprecedented situations arise. Because of the position of the industry, it has been forced to protect itself while simultaneously enabling its business practices to function efficiently. To transact business in oil is both delicate and complicated, due to the large amounts of money which often change hands.

Tax Treatment

This in itself is not the real problem, as such, but rather the taxation issues related to the large monetary situations that arise from the transfer of valuable producing properties. The Bureau of Internal Revenue, both in the Code and in its rulings, recognizes certain tax treatments applicable only to the oil industry. The most effective means whereby oil transactions can be made profitably from a tax standpoint is obtained by the utilization of the production payment, better known as the **reserved oil payment**. This serves two purposes, for not only does it protect, to a large extent, those connected with the transfer of producing properties taxwise, but it also enables the transfer, or sale, to be made, for it substantially reduces the actual cash outlay by the buyer of the properties. Without the oil payment, the party buying the properties, for instance, probably would not be able to afford to pay the entire asking price in cash, and thus the transaction could never take place. To illustrate the usefulness of the oil payment, and to show its significance, if not necessity, in the world of oil, it would perhaps be best to create a theoretical oil transaction and see what part the oil payment plays. In so doing, we will illustrate the most popular use of the reserved oil payment, the A-B-C transaction.

Example of Reserved Oil Payment

Let us suppose that A owns an oil lease, which he is willing to sell for $2 million cash. B, a prospective buyer, feels, except for the present tax structure, that the lease is worth $2 million, but, because of his tax position, he knows that he could not purchase the lease for that price, operate it, and then still realize any substantial profit. Faced with this problem, B accordingly proposes to A that he, B, will buy the lease subject, however, to an oil payment.

Because of the present provisions of the Internal Revenue Code, A would be entitled to capital gains treatment from the $2 million proceeds he will receive through the sale. By the oil payment route, A stands a good chance of obtaining a larger sum for his property for the payment reduces any purchaser's actual cash outlay, thus leaving him with more money with which to deal. Upon the sale of the **reserved oil payment** A has then received the full asking price for his property. It should be stated here that very seldom has A any real difficulty in finding a purchaser for his oil payment, for today corporations have been conveniently brought into existence just for the purpose of buying these payments.

Lending Agencies in Connection With Transactions

Before any transactions are culminated, a lending agency, usually a bank or an insurance company, is approached for the purpose of finding out how much that institution would lend if they were required to look only to the runs from the property for the satisfaction of the debt. Let us say, the lending institution in our hypothetical transaction agrees to lend $1,400,000 at the rate of 5% per annum on the security of an assignment of the runs from 80% of the production from the lease and that C, the company that purchases the oil payment for $1,400,000, plus 5½% interest, acquires a spread of ½%. With the essentials of the transaction completed, B has paid $600,000 for the producing properties, along with, of course, the $1,400,000 oil payment paid out of 80% of the runs until A shall have received the full $1,400,000. A, however, simultaneously with the closing of the deal, has sold the $1,400,000 payment, plus 5½% interest, to C, which then executed its note for $1,400,000 to the lending agency, with interest on the unliquidated balance of 5%, retaining, of course, its ½%.

Results Obtained

This transaction has the following results: A has realized the full $2,000,000 consideration, which was his asking price for the properties and has been treated on capital gains as if he had sold his property outright to B for $2,000,-

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000 cash. In B's case, he has actually acquired $2,000,000 worth of producing properties for $600,000, subject to a $1,400,000 oil payment, plus interest and taxes, payable out of production. Because of this, B is able to buy the property and realize more profit than if he had been able to buy the property on a 100% cash basis. During the period of payout, B pays taxes only on 20% of the runs which apply to his working interest. This 20%, in most cases, would probably just take care of operating expenses, and he would have little, if any, tax to pay in connection with his interest in the property. C paid $1,400,000 for the oil payment, and with 100% cost depletion he has the 5½% interest rate as taxable income. However, 5% goes to the bank, so C only has the ½% spread as taxable income, which is the difference between the interest carried by the oil payment and the interest rate at which the lending agency loaned the $1,400,000.

Acts As an Important Key

This transaction, as outlined above, is relatively simple, but a real transaction of this kind is accompanied by much painstaking effort. To incorporate a description, or an analysis of the detailed effort necessary in this type of deal would only complicate this report, and most likely be inapplicable to an examination of the mechanics or the utilization of an oil payment, as such, in this type of transaction. Nevertheless, the energy spent by the lending agency in evaluating the present worth of the property against which it lends the necessary money, the possible sale later of part of the payment to someone else, all goes to illustrate the possible, if not inevitable complexity of an A-B-C transaction. However, the real key which opens the door and enables oil operators to transfer producing property profitably is the reserved oil payment. This payment turns doubtfulness into plausibility in connection with the sale of producing properties, and because of this, the whole oil industry is benefited.

As for the credit requirements pertaining to the reserved oil payment, they are basically the same as those surrounding a direct loan to the operator.

Carved-Out Oil Payment

Finally, another form of available financing is that which is applicable to the "carved out" oil payment. Heretofore, an operator may have created through drilling during his taxable year a sufficient chargeoff to establish a tax credit. So that this credit may not be lost during the year in question, the oil payment is "carved out" and sold from production in an amount to approximate this credit. The bank finances the sale in the same manner as the reserved oil payment. This procedure, however, should become less utilized, inasmuch as the Revenue Code of 1954 offers a carry over provision against this excess credit.

Conclusion

From the foregoing, it is apparent that the institution which the investment banker would approach with an "oil payment" or "production loan" must perforce be a "knowledgeable" lender. Most major banks today have an oil department. Several of the larger insurance companies, and a good many of the pension and endowment funds are set up to look at these loans. Most of the major oil companies use some of their pension, retirement and employee thrift funds in this type of paper. In any event, the borrower must furnish authoritative engineering on his properties, which will likely be checked by independent sources by the lender.

* * *

The Natural Gas Situation

A review of the recent legislation and decisions affecting the Federal Power Commission's jurisdiction over the natural gas industry is necessary to place our topic in true economic perspective. The principle of jurisdiction over the natural gas industry was legislated by the Natural Gas Act in 1938 but the rate-base method of regulation practiced by the Federal Power Commission was and is a direct result of their regulation of interstate electric utilities and hydroelectric projects constructed on Government property. This concept was based on a depreciating capital investment with a modicum of risk, two factors which are not readily ascertainable within the producing segment of the gas industry. However, this utility cost of service approach received judicial approval in the Hope case when Justice Douglas said: "Under the statutory standard of 'just and reasonable' it is the result reached not the method employed which is controlling."

Rates Based on Cost Applied to Gas

This rate-base method existed in Federal Power Commission thinking through 1954. Then, the Commission drastically changed its approach and in the Panhandle decision charged that the rate of return based on cost principle resulted in arbitrary and unreasonable discrimination between gas produced by the pipeline company as compared with that produced by others, arbitrarily and unreasonably depressed gas prices which would result in accelerating consumption and discourage discovery and the discouragement of gas production by pipeline companies thus increasing their dependence upon purchase of gas from others. Shortly thereafter, however, the Circuit Court of Appeals of the District of Columbia reversed the Panhandle decision and in its findings did not preclude the use of the "fair field" price, but merely sent the case back to the Federal Power Commission, stating that the principal arguments advanced for using such a method of pricing were not adequately supported in the record, and that the whole matter should be re-examined. The Federal Power Commission had emphasized the argument of conservation of natural resources (not making them available at unjustifiably low prices), but the Court did not believe this an adequate reason. They also stated that as a result of the United States Supreme Court decision with respect to Phillips Petroleum Company, a company having its own gas reserves, such as Panhandle Eastern, was no longer in a better bargaining position with respect to purchasing gas from independent producers (a status which would be encouraged if it were to receive the fair field price for such gas).

The apparent reasoning behind the Circuit Court decision in the Panhandle case exhibited the idea that when a "fair field price" schedule was presented, the comparative cost of service schedule should also have been shown as a basis for decision. The Supreme Court has now been asked to review the Panhandle case and its decision, expected late this year, will be highly significant in establishing natural gas prices in the industry.

Supply and Demand

Last year when a total of 10.1 trillion cubic feet of natural gas was produced in this country, estimated proven recoverable reserves stood at 223.7 trillion cubic feet, indicating a 22 year supply at the present rate of withdrawal. The number of year's supply has been declining gradually from a 30 year rate during the 1935-1945 period.

The latest A. G. A figures on reserves and production point out that during the five year period, 1946-1950, a total of 30 trillion cubic feet of natural gas was produced in the United States, while at the same time a net total of 38 trillion cubic feet was added to reserves. For the latest five year period, 1951-1955, net production totaled 45 trillion cubic feet, but again only 38 trillion cubic feet of additional gas reserves were added to our national stockpile.

Falling Behind in New Natural Gas Sources

These two comparisons suggest that we are failing to uncover new sources of natural gas as rapidly as would seem necessary, especially in the face of an indicated annual demand of more than 12 trillion cubic feet by 1960. In order to supply gas at this rate by 1960, production during the next five years must approximate 57 trillion cubic feet. This would mean the required addition of 25% of present reserves or an additional 56 trillion cubic feet. Further, this would mean the development of new reserves of 113 trillion cubic feet in the five years or 22 trillion annually, the same rate at the record new development of 22 trillion in 1955.

One must not overlook the private estimates made of ultimate recoverable reserves within the United States, which range from 500 trillion to 725 trillion cubic feet, or many times the current rate of withdrawal. However, it is doubtful whether either of these figures will be approached without the necessary incentive to encourage more intensified search.

Selling Gas Locally

Over the years changes have taken place, both in the consumption of gas and in areas of supply. For some time Southwest gas was used near the point of production, either in field operations or in local industrial activities. During the last 10 years, a major expansion in use has occurred, as witnessed by an average annual rate of increase of 10%. Whereas interstate transportation of gas was one trillion cubic feet in 1945, it now approximates five trillion cubic feet annually. Residential and commercial customers now use one-third of the marketed production, but the largest consumption continues to be for industrial purposes. It is noteworthy that one-half of the natural gas is still consumed in the state where it is produced.

These facts are significant because, given the present unsettled atmosphere and the threat of Federal regulation all the way down the line, the producer is more and more disposed toward selling his gas to the local industrial market. This is true because he can avoid Federal regulation, not tie himself up for a long life contract and still obtain a good price.

* * *

The Canadian Situation

The regularity with which the exploration, development and production divisions of the Canadian petroleum industry make discoveries and shatter their previous drilling and other records in Western Canada, continues to widen the gap between maximum efficient recovery and markets, despite the strenuous efforts of the sales divisions to find new outlets. It has been estimated that before the end of 1956, the maximum permissive rate of produc-

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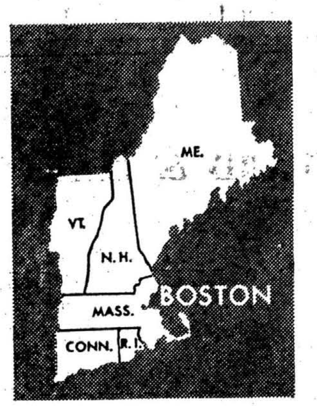

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Report of IBA Oil and Natural Gas Securities Committee

tion, as established by the Conservation Boards of the three prairie provinces, will be approaching a million barrels per day; an increase of roughly 200,000 barrels per day during the year.

Rapidly Increasing Production

Canadian crude production in 1955 totaled 129.5 million barrels, or an average of 354,000 barrels daily. During the first half of 1956 production was 78.3 million barrels, or 430,000 B/D. It is estimated that production for the full year will be 165 million barrels, or 451,000 B/D, with approximately 87% of the total originating in Alberta. Well drilling operations in Western Canada continued at a record rate, with 1,289 completions in the first half of 1956. Of this total, 952 were oil wells, 54 gas wells and 283 dry holes. The high rate of success may be attributed to the concentration on development drilling, particularly in the Pembina Field and in Southeastern Saskatchewan, and the moderate decline from 1955 in "wildcat" drilling.

The combination of the success of exploration in Western Canada in the post-Leduc discovery period; the presence of representatives of major oil companies of North America and Western Europe in the region, and upwards of 700,000 square miles of prime petroliferous sediments is one that provides support for the predictions of an MER (Maximum Efficient Recovery) of 1.5 million B/D by the end of 1960. On the other hand, the geographical isolation of the Western Canadian oil fields from the major markets of Canada and the United States is a natural handicap which is making competition with ocean-borne petroleum very difficult. In short, the major problem of the Canadian petroleum industry is the finding of markets for the rapidly increasing production potential before the lack of same tends to retard exploration and development work.

The Montreal refinery market area of 200,000 barrels daily has yet to be tapped. Hopes of new markets were raised at the beginning of 1956 by the initial tanker shipment of Alberta crude from Vancouver to California. Further shipments have been made, but for the most part they were experimental and in tankers that would otherwise be returning empty from the Seattle area.

Suez and Western Canadian Crude

Possible interruptions of the flow of Middle East oil to North America as a result of the Suez Canal situation could materially stimulate Western Canadian crude sales. With the introduction of the super-tanker, however, with its exceptionally low shipping tariffs, stiff competitive pricing on the Pacific and Atlantic Coasts is likely to return.

Canadian consumption of petroleum, both as a whole and on a per capita basis, is rising rapidly. A little more than 50% of Canadian petroleum consumption is now being supplied from domestic resources and it is anticipated that this percentage will rise moderately in 1957. Capture of the Montreal area market in the near future is problematical. The other logical outlets for Canadian crude are the deficiency areas of the Pacific Northwest states and the partially deficient areas of Minnesota, Wisconsin and Michigan. All these areas have been tapped, but the growth of volume of exports in recent months to the latter group of states has been disappointingly slow.

Natural Gas

The pressure of the increasing natural gas reserves in Alberta and Northeast British Columbia finally resulted in projects to market this commodity being started. Westcoast Transmission Company Limited has now laid more than one-third of its 30-inch line from the Peace River region to the International Boundary, where it will connect with the Pacific Northwest Pipeline Corporation. It is expected that this line will be in operation before the end of 1957, with the initial throughput estimated at between 300 and 400 million cubic feet daily.

Plans of Trans-Canada Pipe Lines Limited to pipe gas from Alberta through to Toronto and Montreal have been approved by the Canadian Legislature. Assistance is to be provided by the government, which will build the pipeline from the Manitoba-Ontario boundary through to Kapuskasing and rent it to Trans-Canada. It also made a short-term loan to the company of $80,000,000 to construct the first leg of the line from the Alberta boundary to Winnipeg. This line is now being laid. The company has plans for the sale of gas to the Tennessee Gas Transmission Company at the Manitoba border. Such plans are now under consideration by the Federal Power Commission (U. S.).

An important change was made in 1956 in the Canadian Income Tax Act as applicable to oil and natural gas companies. The new regulation provides that where an oil or mining corporation acquires the property of another oil corporation, it may deduct certain drilling and exploration expenses pertaining to the properties acquired which had not already been deducted at the time of the purchase. However, the deductions in any one year may not exceed the income derived during that year from the property acquired. This change in the tax act will no doubt tend to promote mergers of oil concerns, particularly smaller ones, which step, in the past, was considered unsatisfactory because of the loss of exploration expenses for tax write-offs. In this respect, Canadian oil companies were at a distinct disadvantage with their United States competitors operating in Canada.

* * *

The Threat of Atomic Energy As a Competitor

Last year the Oil and Natural Gas Securities Committee explored the possible effects on the oil and natural gas industry of the development of atomic energy. The Committee concluded that atomic energy as a source of power offers the industry no serious threat in the relatively near future, unless technological advances in the interim solve those problems posed by the high cost, and the weight and safety factors for even the smallest reactor.

Shortly before the turn of the century, when electric energy became a source of artificial light, the primary demand on the petroleum industry was for kerosene for lamps. A leading authority in the petroleum industry has suggested that perhaps introduction of the electric light bulb presented (or seemed to present) very much the same threat to the petroleum industry then as the atomic energy potential seems to present today.

As our last report indicated, and as it still appears, atomic fuel will probably receive its first widespread use in the generation of electric power; and here it seems to be a matter of long range planning for more extended and improved service rather than for expectation of immediate profits. Those who have studied the subject carefully believe that construction of unsubsidized atomic fuel plants will be slow and gradual and that they will not displace existing systems, but instead will supplement the nation's integrated power facilities in meeting constantly increasing demand.

Electric Utility Industry Builds Nuclear Power

To date the electric utility industry has been the source of most dramatic announcements relating to the peaceful use of atomic energy. Consolidated Edison of New York and Commonwealth Edison of Chicago each propose to build a large nuclear power station without financial assistance from the government; and the Yankee Atomic Electric Company of Rowe, Massachusetts, also will construct a nuclear power plant at its own cost, though the AEC will contribute to research and development costs and will lend certain other assistance.

In addition to these projected plants, several others are in various stages of planning and negotiation. The attached table supplied by Edison Electric Institute shows the present status of announced nuclear utility power plant programs.

Investor-Owned Electric Utility Participation in Development of Nuclear Power Plants

Name of Organization	Project Location	Electric Capacity	Type Reactor	Est. Operating Date	Status
Under Government Experimental Program					
Duquesne Light Co.	Shippingport, Pa.	60,000	PWR	1957	Construction half completed.
Southern California Ed. Co.	Santa Susanna, Cal.	7,500	Sodium Graphite	1957	Construction almost completed.
Under Power Demonstration Program					
Power Reactor Development Co. (The Detroit Edison, et al)	Monroe, Mich.	100,000	Fast Breeder	1960	Construction permit issued Aug. 4, 1956. Construction started Aug. 8, 1956.
Yankee Atomic Electric Co.	Rowe, Mass.	134,000	PWR	1960	Contract with AEC signed June 6, 1956. Construction to start Spring of 1957.
Under Independent Industrial Program					
Consolidated Edison of N. Y.	Indian Point, N. Y.	236,000	PWR Thorium-Uranium Converter	1960	Construction permit issued May 4, 1956. Construction to start Fall of 1956.
Nuclear Power Group*	Dresden, Ill.	180,000	Boiling Water	1960	Construction permit issued May 4, 1956. Construction to start in early 1957.
Pacific Gas & Electric Co.	Livermore, Cal.	5,000	Boiling Water	1957	Construction permit issued May 15, 1956. Construction to start in 1956.
Pennsylvania Pwr. & Lt. Co.	Central Eastern, Pa.	150,000	Homogeneous	1962	Research in progress. Detailed design and construction to proceed in 1958.
Florida Nuclear Power Group	Florida	200,000	Not Stated	1962	Various reactor types under study. Type and design to be determined by 1958.

*To be owned and operated by Commonwealth Edison Co.

At this writing the earliest likely date for the generation of power with unsubsidized atomic fuel is 1959 or 1960.

Sponsored by members of Congress generally associated with the public-power movement, considerable support was given during the last session of Congress to a measure designed to have the Federal Government build and operate six large atomic utility plants. Although this legislation failed to pass, it is expected to be an issue in the coming session.

Effect upon Gas and Oil

Since the electric utility industry is the most logical field in which the earliest replacement of conventional fuels may be expected, let us assume that it "corners the market" there. To the petroleum industry this would mean the loss of less than 3% of the domestic crude run and even less than that in terms of dollar volume. Not only that, but residual fuel oil—the type used—is a by-product, the industry's least profitable item normally selling for less than the crude oil from which it is derived. Approximately 13% of natural gas marketed is used to generate electricity. Whereas this is, of course, a greater percentage than that of displaced crude oil, the loss still would be almost negligible. To quote a leading authority on the subject, "If all incremental large power stations built after 1960 were to use atomic energy — an unlikely assumption — the estimated loss to the oil industry would amount by 1975 to 170,000 barrels daily, or 1.3% of the anticipated domestic demand; to the natural gas industry the loss in 1975 under the same conditions is estimated at 400 million cubic feet, or 2.7% of the anticipated demand. These are trifling losses."

Some concluding thoughts: The Navy Department recently stated that the advantages experienced

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by the submarine Nautilus far exceed its great cost; and expressed confidence in the use of atomic fuel for defense purposes by expanding substantially its plans for additional submarines and for surface vessels, including an aircraft carrier.

As against this, it appears that high cost of the reactor, heavy weight of the necessary shield and hazards of radiation, combine to prevent atomic fuel from becoming a threat (to oil and gas) in the field of land transportation and space heating. For like reasons—size, weight and cost—the use of atomic fuel in commercial aircraft does not seem feasible, from present indications, though it is conceivable that this source of power will be used within the next few years in military planes.

During this past year no significant developments have been announced indicating that atomic energy offers real threat to the oil and gas industry.

Respectfully submitted,

OIL AND NATURAL GAS SECURITIES COMMITTEE

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Growing Foreign Investments

industrial management, trained labor is scarce, and methods of distribution are primitive.

And, of course, events such as have taken place in the Near East over these past months naturally raise fears that elsewhere arbitrary action by governments may gravely affect foreign investment.

In view of all of such risks and problems one might ask whether American business or investors should venture abroad. The answer is, they venture because they see the rewards justify the risks. We all know that every American businessman wants to expand his sales. He sees abroad, particularly in the less industrialized countries, untapped markets which if successfully developed promise profit margins substantially higher than he can get at home. Frequently, where he has an established export market he is realizing that his competitors are prepared to manufacture within the country and threaten his business. He wants to beat them to the draw.

Those firms with experience abroad have found that though labor may be untrained it is abundant, relatively cheap and can be readily taught the necessary skills. Beyond this, they have found that, over a period, local people develop into satisfactory supervisors and executives.

The testimony of American companies which have operated overseas for considerable periods is that their foreign enterprises, on the whole, have been successful and profitable.

Investment Bankers' Role

It is interesting to consider what role you investment bankers may play in this growing activity of Americans overseas.

In the first place, it is important for you as individuals and as an Association to be informed of developments in the field of foreign investment. Through your Foreign Investment Committee, headed by Bob Craft and now by Joe Johnson; by your participation in the Inter-American Investment Conference held in New Orleans last year; by your sponsorship in the Stanford Industrial Development Conference to be held in San Francisco next year; in fact by your support for the creation of the International Finance Corporation itself—by all of these you have shown your interest in the field of foreign investment. And it is encouraging to me to see this Association playing an increasing role in this field.

It seems likely that especially the larger underwriting firms will increasingly be called on to advise with their industrial customers regarding their foreign projects, and I believe that those firms which are equipped to give informed advice will benefit.

More tangibly, there should be increasing opportunities for investment bankers to arrange private placement of participations in foreign enterprises with certain of their investor clients. This will carry with it a responsibility to confine such participations to sophisticated investors in position to take the risks involved. I hope that under present conditions there will not be offerings to the general public of securities in unproven foreign enterprises or of funds set up to invest primarily abroad. The risks are, in my opinion, not appropriate for the small or inexperienced investor.

Keep Small Investor Out

I believe that this Association and all the leaders in the investment banking business have a self-interest and responsibility to see that investment bankers shall not be responsible for inducing the general run of investors to assume the risks of foreign investments under current conditions.

And finally, I believe that there will emerge over a period opportunities for some of you to participate in investment banking in certain of the less developed countries. Generally, industry is still in the stage of individual or family ownership, but gradually the pattern of participation by the public is beginning to emerge in Latin America and elsewhere, India and Pakistan for example.

If industrialization is to proceed beyond a certain point there must be capital markets. These are already beginning to develop here and there, but facilities for underwriting, distribution and trading in securities are generally quite elementary. There should be attractive and profitable opportunities for some of you to take a hand in this business during the coming years.

Discusses F. F. C.

Now in closing let me take a few minutes of your time to speak of the International Finance Corporation which, as you know, was organized a few months ago. It was conceived out of the experience of the World Bank and is closely related to it. Only the members of the World Bank (now numbering 60 countries) may be stockholders in the Corporation. Already 35 have joined and others are on the way. They have put up the capital—now about $80 million—and provide the Corporation's Directors. The World Bank staff furnishes administrative services and makes available its wide range of experience regarding conditions around the world.

The Corporation itself has a small operating staff consisting of men with backgrounds in private business and finance in this country and abroad.

It is unique that a large number of governments spread over the world have joined together for the purpose of helping to develop private business, in which governments will not have a voice.

Our purposes and principles are simple:

To join with private business and management in establishing and expanding privately owned and managed enterprises—principally of an industrial character—in the less developed areas where the prospects are promising.

To take the risks and share in the profits with our private partners who will manage the enterprises.

To help get a business going and then to sell our our interest to private investors, and thus revolve our capital.

Under our Charter the Corporation cannot invest in capital stock and thus we must take some form of obligation. However, we intend to have our investments be of the type of venture capital. The normal pattern will be a debenture with a moderate fixed interest rate plus some participation in profits and carrying rights of conversion or stock warrants. IFC, although it cannot itself exercise the rights will seek to sell them to private purchasers and thus to realize appropriate gains on the successful enterprises.

I shall not take time to describe further the setup and procedure of IFC, as they are fully covered in a booklet which I believe many of you have seen and which we shall be glad to supply to others who may be interested.

Proposals Under Consideration

We have not yet made any investments, but we have been encouraged that responsible businessmen and investors here and abroad have presented to us interesting proposals that are under active consideration. A number of these have come from the top American corporations in their respective fields.

To me IFC has a particular appeal. In the first place I and my former associates in the World Bank have worked on this idea for some seven years, and now the baby is born. And most important, I am happy to finish my career dealing with private business.

I trust we can handle our affairs on a businesslike basis which will win the confidence and respect of those with whom we deal.

During the past 10 years with the World Bank I have had an opportunity to observe rather closely the economies of a large number of countries around the world. This experience has merely confirmed and strengthened my conviction that the American competitive private enterprise system is the best that man has evolved. It provides more opportunities for the individual, more and better goods and a better life for more people than any other system. There is no task more useful than promoting the spread of this system to other parts of the world. The benefits to the people of those countries can be immense. And beyond the economic benefits to this country I believe it can do much to protect our security and prosperity by promoting progress and stability in the world in which we and our children shall live.

This private enterprise is perhaps the only weapon which we have that the Communists lack, and where our system has the opportunity to bring its abundant benefits to the people, Communism will not grow.

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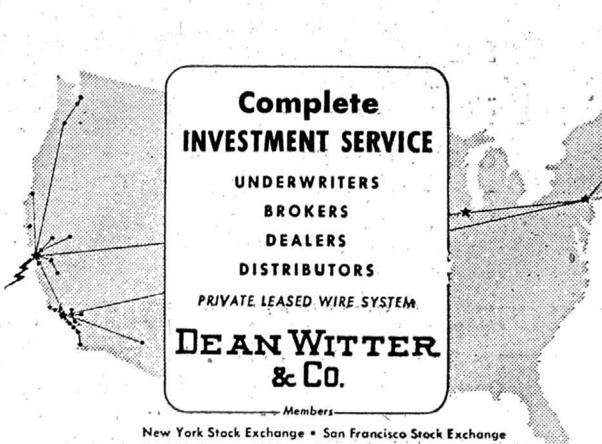
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Report of IBA Nuclear Industry Committee

Atomic Industry Forum last September 26th.

"Whenever it is feasible and less costly to do so, **all factors considered,** we are attempting to purchase materials and services rather than to build our own plants to supply them. Contracts which require the supplier to sell his entire output of a given material, service, or product to the AEC will be modified whenever the contract can be revised without loss to the Government so that the supplier can sell to commercial customers. New contracts are being written, when possible, to permit and encourage sales to commercial customers.

"In cases where the number of non-AEC reactors firmly planned or underway appears to us to be insufficient to provide a market for materials or services of a size to warrant private investment on a timely basis, we will consider contracting for some of the materials or services we normally supply for ourselves. Such contracts must generally not increase costs to the AEC for the materials and services, all factors considered."

Atomic Energy and Rare Metals

Elements like uranium and thorium have become reasonably well understood by investors, at least in terms of their general use in the nuclear industry. Less understood, but of increasing importance in nuclear technology are such elements as zirconium, beryllium, niobium, samarium, yttrium, etc. Each of these has a special property which is theoretically useful in solving one or more of the engineering difficulties facing the nuclear scientist. Like most new things, they have the usual major drawbacks of high cost and a lack of knowledge in handling and production. This, of course, is basically due to the absence of a significant commercial market for these elements.

Reactor technology covers several potential areas where demand for these metals may increase importantly such as control rods, moderators, structures and cladding components on fuel rods. Material used in any type of reactor must satisfy the ordinary engineering requirements of corrosion resistance, strength, ductility, thermal conductivity, etc. In a nuclear reactor, these ordinary requirements are definitely secondary with primary consideration going to the nuclear properties of the material. This refers to what the physicist calls the neutron absorption cross section. The common metals of construction such as iron and copper alloys have too high a cross section among other disadvantages for use in nuclear reactors. Thus, as the reactor technology has become more refined and demanding, the Atomic Energy Commission has begun procurement programs for several of these new metals. In previous reports of your Committee, we have discussed the generalities of reactor fuels, uranium, thorium and lithium; hence, they will not be covered here.

The program for rare metals has been and will continue to be quite profitable for many companies active in the field.

Moderators are materials used to slow down the so-called fast neutrons occurring in the fission process. Without such a step, U235 would not fission and the chainlike reaction would not occur. At the same time, the moderator should not absorb too many neutrons for that in itself would tend to extinguish the chain reaction. To date, heavy water (deuterium) and graphite have been the principal moderators.

Recently, the AEC has announced a purchase contract for beryllium metal. Beryllium Corporation and Brush Beryllium are each scheduled to deliver 100,000 lbs. ($5 million) per year for the next five years. It is speculated that the naval and aircraft nuclear programs may lie behind the emergence of beryllium. The importance of such a contract to companies of this size is significant. To date beryllium's commercial market has been in beryllium-copper alloys.

Structural Materials are used in a nuclear reactor to handle the coolant, as cladding to protect the fissionable fuel element from self-corrosion, and for other miscellaneous applications. The only common structural material that fits the requirements is aluminum. However, because of its limited strength and rapid corrosion at steam pressures of a few atmospheres, its use in power reactors is limited. Hence, the AEC has turned to zirconium, a hitherto little known metal. Recently, $75 million in zirconium contracts have been let on a competitive bid basis to National Distillers (1 million lbs. per year), National Research Corporation (700,000 lbs.) and Carborundum (500,000 lbs.). The last has been producing zirconium for the AEC since 1952. The potentials of the industry are indicated by the type of companies active in the field. In addition to the above companies, there is National Lead, Foote Mineral, Westinghouse and Allegheny Ludlum.

Another rare metal which is believed to have increasing importance is niobium, more commonly known as columbium. Its main use appears to be as an alloying agent in the cladding of uranium fuel elements to prevent corrosion of the fuel rods as the fission occurs.

Underlying the growing importance of these metals is the rapid expansion of power reactors especially the military needs for submarines, surface vessels and aircraft.

Control Rods, as the name implies, regulate a reactor by absorbing neutrons. The most widely used ones made of boron, cadmium and hafnium, all of which or derivatives thereof have important commercial markets.

Technical progress within the past few years in rare earth chemistry has resulted in an increased degree of interest by AEC in such elements as yttrium, europium and gadolinium, which have been extremely costly to date. Gadolinium would be a good example of the important interest in such rare metals. It has a neutron absorption factor 50 times greater than boron and 15 times greater than cadmium.

Yttrium, about which a tight cloak of secrecy is being kept, may be important in the structural-control field.

Companies active in these newer metals include Vitro Corp. of America, Lindsay Chemical, W. R. Grace, Michigan Chemical and Foote Mineral.

Shielding Materials include concrete, lead and brick. To date, the cheapest and, in most cases, the most satisfactory has been concrete. Current developments include the addition of metal aggregates to the concrete and the development of such lightweight shielding as Boral, a complex of boron and aluminum. Again the growing importance of the lightweight concept comes from the military needs for portable reactors.

It is also quite possible to have some of the previously mentioned metals find an application in this area.

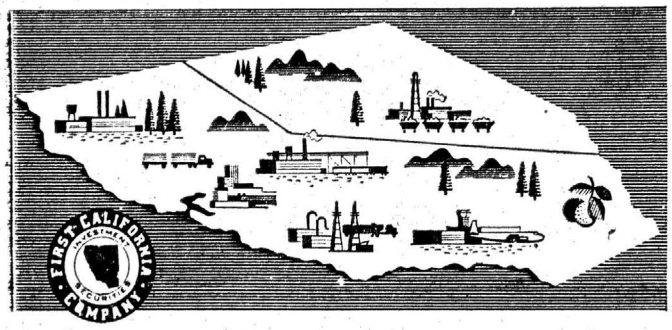
Reactor Coolants for power producing reactors where a high operating temperature is desired are liquid metals such as sodium, potassium, bismuth, lead and mercury or alloys thereof. Currently sodium and potassium appear to be the most promising. In this area of liquid metallurgy, Callery Chemical, a subsidiary of Mine Safety Appliance Co., has the undisputed leadership.

In summary, it would appear that nuclear technology has reached a point of technical refinement which is resulting in a demand for many theoretically attractive materials. On the other hand, it should be remembered that the future of many of the above-mentioned materials is far from clear. A procurement contract running into millions or even tens of millions of dollars is not large in relation to the government's total investment of $8-$10 billion in atomic energy. Hence, a multimillion dollar contract for a rare metal may be little more than an expensive "looksee."

Radioisotopes

Radioactive isotopes can be produced in reactors either by the separation of fission products or by subjecting stable materials in reactors to the bombardment of the neutrons emitted by fission. Naturally, stable atoms can also be made radioactive by the use of cyclotrons or other types of accelerators. These are proving to be among the most useful research tools in the entire history of science. Because they are radioactive, their radiation tells where they are, even if the amount is extremely small. Their location or movement within plant and animal tissues, and in industrial and chemical processes, can, therefore, be traced by sensitive recording instruments.

There seems to be an endless number of uses for radioisotopes. For example in the field of medicine they are used to diagnose various circulatory disorders, to locate malignant tumors and treat thyroid diseases and cancer. In agriculture they are used as tracers in studies on uptake of fertilizers, soil fertility, plant diseases and fungicides, moisture distribution, root growth and photosynthesis. Through their use in industry, significant developments have occurred in various types of gauging, luminescence, activation of chemical reactions, sterilization of foodstuffs, radioisotope battery development, wear studies, leak location and pipe line tracing and oil well studies and treatment. These are the best



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known uses but there are many more in a growing list.

One point that should be emphasized is the competition that radioactive isotopes face from particle accelerators and resonant transformers. Perhaps competition is too strong a word but even if cheaper radiation from fission waste products comes along, these machines will have definite advantages—inherent safety, high controlled intensity, etc. The current sales growth and backlog of High Voltage Engineering Corp. is an indication of the future of particle accelerators.

As in many other advanced fields of technical development, government expenditures are still the backbone of applied radiation research, despite the increasing number of research reactors being built and the large numbers of particle accelerators being purchased by industrial research and development laboratories. There is no better illustration of this than the planned food irradiation center to be built for the U. S. Army. The plant will have food output capacity sufficient to feed a city of 12,000 and will cost about $9 million—$3 million for the reactor, $1.5 million for a particle accelerator and $4.5 million for the buildings and equipment.

To date, while the prospects for radiation sterilization of foods for the civilian market do not appear too encouraging, application in the military field is promising. The military may accept foods lower in sensory appeal so long as they satisfy nutritional standards and fulfill military logistic requirements. Estimates of the cost of radiation sterilization will only be rough calculations until radiation processing is used widely enough for charges to become stabilized.

Before large-scale commercial application can begin, numerous nutritional and bio-chemical tests will have to be performed. The projected use of radiation techniques has given rise to a critical examination of how they can be accommodated by existing facilities. For some foods, radiation can fit into the current processing and packaging schemes. In other cases, a complete revamping of present methods is indicated. Thus, there may be a demand for specialized handling equipment in addition to special food irradiation machinery. While nobody can clearly see the dollar and cents cost of applied radiation, the breadth of research interest in the field is most impressive.

Foreign Nuclear Developments

The outstanding development that has taken place in the foreign field since our report of 1955 is, unquestionably, the creation of the International Atomic Energy Agency by unanimous standing vote of eighty-two U. N. members and U. N. affiliated states. This world body, when established, will implement a broad cooperative program for the development of the peaceful uses of atomic energy. James J. Wadsworth, Chief of the U. S. Delegation, has characterized this as "a turning point in history that makes it more likely that we and our children will live out our lives in peace." A twelve nation committee, which included the Russians, met last February in Washington to draft the statute. The United States has announced an initial U. S. contribution of 11,000 pounds of U-235, plus an additional amount to match the contributions of all other nations in the next four years. Britain and France have indicated their intention of making deposits. Prospects are bright that the statute will be quickly ratified by the required minimum of eighteen nations, and that this vitally important agency will start work next summer at Vienna, which has been selected tentatively as headquarters.

Nineteen hundred and fifty-six has been significant as marking the real emergence of atomic power stations from the drawing board to actual operation. As most of us had anticipated, the inauguration of nuclear power stations was motivated by the pressing needs of those nations less fortunate than ourselves who lack adequate supplies of coal, natural gas or hydro-electric power and whose industrial requirements make atomic power necessary to supplement conventional fuels. With this pressing need for early delivery, the plants are relatively primitive, and, from the United States' point of view, uneconomic. On Oct. 17 of this year, the Queen of England dedicated Calder Hall, the first nuclear power station in the world to supply large blocks of electricity. The main purpose of this large plant, however, is to produce plutonium, with electric energy as a by-product. It is interesting to note the following estimates for production of nuclear power in 1956:

United Kingdom	28,000 K.W.
Russia	5,000 K.W.
France	5,000 K.W.
United States	0

It is expected that these figures will look radically different when the United States starts in earnest in 1957.

France has initiated both an actual program with a plutonium power reactor known as G-1 which can use thorium as well as a basic fuel charge of uranium and contains many novel features which may be significant for the future, and, in addition, as might be expected from the largest uranium producer in Europe, she has in preparation large scale plans which are estimated to produce 15-35% of her total electric energy requirements by 1975, with cost factors accounting for the large spread.

The U.S.S.R. revealed more of its accomplishments than anyone in the outside world had seen, when a group of ninety-four visiting physicists from the United States and other major countries was conducted by Russia's top scientists through their various plants, including the new center at Volohaya Volga, with its 680 million electron volt cyclotron, 50% larger than our Berkeley Cyclotron. This great center includes, in a separate building, a proton synchroton to supply protons of 10 billion electron volts energy content which is almost double the potential of our Berkeley, California Installation. Top Russian scientists acted as hosts and were reported by the visitors as completely open in scientific discussion, including Pjotr Kapitza, builder of their first hydrogen bomb, L. D. Landon, dean of Russian scientists, and the notorious Bruno Potecorvo, who disappeared from England under mysterious circumstances some years ago. The American Physicists reported that Russia's research facilities appear superior to our own or Britain's in the realm of high energy physics. Their research on sub-atom particles accelerated to very high energy levels extend into the realm of cosmic energy. The size of the Russian program will, in the judgment of American physicists, carry them far beyond anything now contemplated by us, and while this field is related only indirectly to atomic weapons, new discoveries could very well implement the U.S.S.R.'s weapons program as well. Russian scientists spoke freely of the difficulties encountered in the Stalin era, including imprisonment of leading scientists, and of the vast resources practically without limit which are placed at their disposal by the present regime.

Major programs are being initiated in Germany. Isotope centers and experimental reactors and considerable work on the potentials of isotopes are being carried forward in Sweden, The Netherlands, Egypt, Switzerland, Japan, Venezuela, Denmark and Norway, together with ambitious programs for the adequate training of physicists. It is to be hoped that, as in other sciences, geniuses will appear in these smaller countries who will make substantial contributions to scientific knowledge and the welfare of mankind.

Corporate Developments

The outstanding development in the over-all nuclear industrial field is the really rapid strides that have been made in moving toward the commercial generation of electric power in atomic reactors and in the field of propulsion for ships and planes.

During the year, the U. S. program for reactor development has been pushed steadily ahead, and programs for the construction of major electric power generating stations have been carried forward at a rapid pace. As of Oct. 1 the Atomic Energy Commission has reported a total of 209 reactors of all kinds either in operation, under construction, or being planned.

Major work in the electrical generation reactor field is being done by companies such as ACF Industries, American Machine & Foundry, Babcock & Wilcox, Combustion Engineering, Foster-Wheeler, General Electric, Glenn L. Martin, North American Aviation, and Westinghouse Electric.

Because nuclear energy is at present more costly than other forms of energy, the most rapid strides toward putting nuclear power to immediate practical use have been made in a field where economy is not as important as effectiveness—the area of propulsion for military vehicles. The submarine NAUTILUS which has been operating successfully for many months is to be followed by the SEAWOLF, now completed and awaiting acceptance by the NAVY, and 13 other nuclear submarines for which funds have been appropriated. Furthermore, the Navy has announced that all submarines built hereafter will be nuclear-powered. It is expected that all major vessels of the Navy constructed after 1960 will be "atomic." The first step in shifting the surface craft to nuclear propulsion is the construction of a cruiser, for which $88,000,000 is included in the current budget. Also in this year's budget are $8,000,000 in funds for preliminary development of an atomic aircraft carrier expected to cost in the neighborhood of $250,000,000.

Playing major roles in the development and construction of vessels driven by nuclear power are Babcock & Wilcox, Combustion Engineering, General Dynamics, General Electric, Newport News Shipbuilding & Dry Dock, and Westinghouse Electric.

The Armed Services also are engaged in the development of what are termed "package reactors," small reactors which can be flown to distant places, and assembled to provide power at those distant sites. Among the firms doing important work in this field are: Alco Products, American Machine & Foundry, Stone & Webster, and Glenn L. Martin.

While not a part of a military program, the Atomic Energy Commission and the Maritime Administration are pushing forward with a program for the development and construction of a 36,000-ton merchant ship to be driven by atomic power.

Uranium

This major industrial growth has naturally resulted in expansion of the demand for materials needed in the construction and operation of reactors. The most important development here was the extension in a modified form of the guaranteed United States Government market for uranium oxide. The old guarantee covered uranium ore and is due to expire on March 31, 1962. That guarantee will continue in effect until that date, but thereafter the AEC has extended its guaranteed market for the oxide until Dec. 31, 1966. The new guarantee, therefore, changes from a program under which ore is purchased, to a program which calls for the payment of $8 per pound

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Report of IBA Nuclear Industry Committee

of uranium oxide concentrate, up to one million pounds per year from any one mine or mining operation. The new program, involving as it does purchase of concentrates from mills will eliminate certain "fringe" benefits paid under the guarantee running until 1962, chiefly the haulage allowance and the payments for vanadium oxide.

Another important expansion of the market for uranium is expected to be announced shortly, when it is believed that Great Britain will announce contracts with the Canadian Government to purchase some hundreds of millions of dollars worth of uranium concentrates over the next six to 10 years.

The clear vision of a sound and growing market for uranium has enabled the uranium mining industry to stabilize and to plan ahead. The hectic speculative activity which so strongly characterized the market for uranium shares a year or so ago has almost completely disappeared. At this time, there is developing a movement into the field of major companies—a move that seems to have been rather overlooked in articles about the industry. Phillips Petroleum, Texas Co., Kerr-McGee Oil Industries, are driving to become major producers of uranium ore, joining Anaconda, Climax Molybdenum, Union Carbide & Carbon, and Vanadium Corporation. While at the present time gross from the uranium sales is important to only a few of these companies, it bids fair to become a major portion of revenues for several more in the future. This indicates that forward-looking oil companies are taking steps to be prepared to participate in the distribution, in future years, of sources of energy other than oil and gas.

It has just been announced that Vitro Corporation has signed a multimillion dollar contract extension with the AEC for supplying uranium concentrates. The contract, which runs until March 31, 1962, is estimated to be in the neighborhood of $50 million. Vitro, which operates in many fields of the nuclear industry, including mining, milling, and research into the chemistry and metallurgy of uranium and rare earths, has in addition joined with Crane Company and a French concern to mine deposits in South Carolina containing thorium and rare earths.

Similarly, contracts with the Canadian Government and the forthcoming arrangement with Great Britain, mentioned above, has enabled the Canadian uranium mining industry to establish itself on a solid basis. A substantial number of contracts involving over a billion dollars has been signed by the Canadian authorities and mining companies. These contracts, in turn, have enabled the companies to finance themselves publicly on a basis that appears to be sound and conservative. While much of the Canadian ore is not as rich as that found in other places, the deposits are so large and consistent in grade that Canada, and particularly the Blind River area, bids fair to become the major uranium-mining center of the world in a very short time.

Contract Companies	Amounts of Contracts (millions of dollars)
Northspan	$275
Algom	207
Consolidated Denison	201
Stanleigh	90
Stanrock	90
Can-Met	79
Milliken Lake	77
Gunnar Mines	77
Lorado	60
Pronto	55
Bicroft	36
Dyno	32
Faraday	30
Cavendish	24
Greyhawk	18
Rayrock	16
Total	$1,367

Equipment used in the control of the difficult atomic processes is in growing demand. The makers of the delicate instruments required, such as Beckman Instruments, Consolidated Electro-Dynamics, Daystrom, Leeds & Northrup, and Nuclear Chicago are showing increasing volume of sales and are finally seeing the fruits of intensive and expensive research pay off in increased profits.

A most encouraging development in 1956 has been the continuation of the Atomic Energy Commission's program of turning over additional sectors of the program to private industry. In this year, for the first time, fuel elements for reactors were made by private industry in privately-owned plants by Babcock & Wilcox and by Sylvania. An important sector in the process of refining and purifying uranium has been opened to private industry, and the AEC is currently studying proposals from seven bidders for this work. This program involves the refining of uranium salts, an intermediate step between the milling of ore and the making of pure uranium. This part of the process has heretofore been handled by private industry operating government plants as agents of the AEC. As of this writing the acceptance of some or all of the proposals has not been announced. Those submitting proposals to the Commission were: Union Carbide Nuclear Company, (a division of Union Carbide); Koppers Company, Inc., and Kennecott Copper Corporation (joint proposal); Dow Chemical Company; Twentieth Century Materials Corporation; Climax Molybdenum Company and Mallinckrodt Chemical Company; General Chemical Division of Allied Chemical and Vitro Corporation of America.

Recommendations

There is an inclination to look forward to a "nuclear age," and we tend to resist it. These so-called "ages" — the "electronic," the "Chemical," the "Automation" —more or less over-lap, and that one depends for its development upon progress in another. They seem to be all but facets of the phenomena of Twentieth Century science as applied to economics.

Nevertheless, we are discovering that nuclear developments cannot be confined in an industrial category. It is true, of course, that there is a nuclear industry. It embraces the mining, milling and refining of ores for fuel elements and for better structural materials; it includes the engineering and construction enterprises that build our atomic plants and the very many smaller businesses that make instrument and control devices so essential to their operation; and, furthermore, we must include the associated businesses that provide services or directly use the products of nuclear fission. However, although these in the aggregate, may finally attain to respectable annual sales volume and thus qualify as industrially important, yet their significance in the economy can only be minor as related to the impact of nuclear energy as a force.

As we see it nuclear energy should be considered as a new "economic prime mover"; somewhat as the concept of mass production, or the modern credit system. Seen in this light, industry lines are dimmed and we find that our subject affects and is affected by all industry and all industrial developments.

We suggest, therefore, that we in the investment business refocus our vision from the trees of nuclear industry to the forest of the nuclear economy.

And this leads to a specific recommendation which your committee believes will enhance its effectiveness. It is our opinion that the membership of the Committee be enlarged and broadened to include:

(1) The Chairmen of other committees whose fields are closely affected by nuclear developments, and

(2) Representatives of member commercial banks employed in a technical rather than an investment capacity.

Respectfully submitted,

NUCLEAR INDUSTRY COMMITTEE

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Report of IBA Municipal Securities Committee

mittee on Metropolitan Area Problems), Mr. Rollin Bush, Mr. William Adams (Chairman of the Municipal Securities Committee) and Mr. Gordon Calvert (Municipal Director of the IBA).

At this conference it was concluded to establish a Continuing National Conference on Metropolitan Problems. The primary functions of the Conference would be to serve as a cooperating agency for groups and organizations concerned with metropolitan problems; to encourage and cooperate in such research and to prepare and cooperate in the preparation of such publications and to hold such national, regional and other meetings as may further the objectives of the Conference.

(3) Federal Legislation

Since several Federal bills adopted this year have a tremendous impact on state and municipal financing and several Federal bills which appear certain to be introduced in 1957 would have a similar impact, the Committee has followed these proposals closely and has submitted recommendations to the appropriate committees of Congress regarding certain of them.

(a) **Federal-Aid Highway Act of 1956.** The Federal-Aid Highway Act of 1956 was adopted as Public Law 627. Since the act authorizes the appropriation of an aggregate amount of $24,825,000,000 over the next 13 fiscal years for Federal grants to states for the interstate highway system (the Federal share paid on any project is limited to 90% of the total cost thereof except in certain cases were the Federal share may be 95%) and authorizes Federal grants for other highway systems (on which the Federal share paid on any project is limited to 50% of the total cost thereof), this act will be a key factor in the financing of highways for many years. It will obviously provide a stimulus to states to finance their share of the necessary funds; and it may help existing toll roads by bringing additional traffic on new approaches or connecting highways, if the Federal funds are not used to construct free highways which compete with toll roads. The principal provisions of that act were summarized in IBA Newsletter No. 4 (Aug. 3, 1956) and are also summarized in Appendix C attached to this report.

(b) **Proposed Amendment to Federal Public Facilities Loan Program.** This program authorizes Federal loans to assist local governments in providing certain essential public works or facilities where the loan is not otherwise available on reasonable

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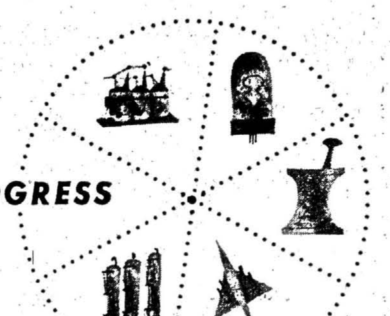
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terms (presently fixed for 30 year loans at 3¼% for loans secured by general obligation bonds and 4¼% for loans secured by revenue bonds or other types of obligations, with adjustment for longer or shorter maturities). The statute directs that priority in such loans be given to "smaller municipalities" (defined to mean 10,000 population or less). A bill introduced in the Senate this year would have increased the authorized funds for such loans from $100,000,000 to $1,000,000,000. When hearings were held on this proposal, this Committee submitted a statement opposing the proposal as unnecessary and undesirable, emphasizing that funds in large volume are being supplied to small municipalities at reasonable rates through the investment banking industry. The proposal was not adopted.

(c) **Federal Financial Assistance for Water Pollution Control.** Public Law 660 amended the Water Pollution Control Act to provide two types of Federal financial assistance. Section 5 of the Act authorizes the appropriation of $3,000,000 for each fiscal year through the fiscal year ending June 30, 1961, for grants to states and to interstate agencies to assist them in establishing and maintaining adequate measures for the prevention and control of water pollution.

Section 6 of the Act authorizes the Surgeon General to make grants to any state, municipality, or inter-municipal or interstate agency for the construction of necessary treatment works to prevent the discharge of untreated or inadequately treated sewage or other waste into any waters and for the purpose of reports, plans and specifications in connection therewith. No grant shall be made for any project under this section in an amount exceeding 30% of the estimated reasonable cost thereof as determined by the Surgeon General or in an amount exceeding $250,000, whichever is the lesser, and the grantee must agree to pay the remaining cost. The act also specifies other requirements for projects to receive Federal grants under this section. The act authorizes appropriations of $50,000,000 for each fiscal year for such grants, with a limitation that the aggregate of sums so appropriated shall not exceed $500,000,000 and at least 50% of the funds so appropriated for each fiscal year must be used for grants for the construction of treatment works servicing municipalities with a population of 125,000 or less.

(d) **Proposed Bank Underwriting of Revenue Bonds.** No action was taken by Congress on the bills which would authorize banks to underwrite revenue bonds.

(e) **Amendment of Federal College Housing Program.** Under the Federal college housing program the Federal Government is authorized to make loans (with maturities up to 50 years) to colleges for housing at an interest rate determined under a statutory formula if loans are not available from other sources upon terms and conditions equally as favorable. An amendment to the law in 1955, which was vigorously opposed in statements filed by this Committee during hearings on the proposed amendment, provides a statutory formula for determining the interest rate on Federal loans under the program which resulted in a rate of 2¾% until July 1, 1956, and a rate of 2⅞% on all loans for which reservations for funds are made after that date. Thus, the Federal Government is presently authorized to make college housing loans, secured only by college dormitory revenue bonds with maturities up to 50 years, at 2⅞% if such loans are not available from other sources at that rate—when the full faith and credit obligations of the Federal Government have recently been selling to yield 3.32% on 30 year bonds and to yield 3.24% on 40 year bonds.

Since the adoption of the amendment last year almost all college housing loans have been made by the Federal Government because private industry obviously cannot generally provide loans through college housing revenue bonds with maturities up to 50 years at an interest rate of 2⅞% when the Federal Government's full faith and credit obligations of a comparable maturity have been yielding more than ⅜% higher than that.

The last annual report of the Committee noted that when President Eisenhower signed the 1955 housing bill which included the objectionable amendment, he stated:

"In the matter of the college housing program . . . the reduction made by the bill in the interest rate to an artificially low level will curtail, if not completely eliminate, the availability of private investment funds which have begun to flow toward college housing. The result would be that instead of more capital being available for this kind of loan there will be substantially less in the aggregate."

"It is my hope that the defects in the Act will be corrected by the Congress at the earliest opportunity in the light of further study and of actual experience in its administration."

President Eisenhower in his budget message to Congress this year recommended that the law be changed to provide a different formula which would raise the interest rate at which Federal loans would be made if not available from other sources at that rate. Bills proposing to carry out this recommendation were introduced in the House and Senate and the Municipal Securities Committee of the IBA submitted statements supporting the bills in hearings before committees of the House and Senate. The recommendation was not adopted. During debate on the housing bill in the Senate an amendment was offered to provide the new formula to raise the interest rate on Federal college housing loans, but the proposed amendment was defeated 41-40.

The housing amendments of 1956 increased the authorized funds for Federal college housing loans from $500,000,000 to $750,000,000.

The Municipal Securities Committee, without attempting to determine the necessity or desirability of Federal financial assistance for college housing or whether a loan program is the most desirable and appropriate method of providing such assistance, strongly recommends that, if Federal financial assistance is provided through Federal loans, the law authorizing the program should be amended to embody the two following basic principles:

(i) Federal loans should be made available only where the loans are not available from private sources on reasonable terms, and determination of what constitutes reasonable terms should be based on a realistic consideration of rates for comparable loans in the money market.

(ii) A Federal loan should be limited to a fraction of the required funds for any project so that authorized Federal funds could be used to help more borrowers and the Federal loans would **supplement** but not replace financing from private sources.

Recognizing the need for greatly expanded college facilities and for financing the construction of such facilities at low interest rates, this Committee further recommends that, if Federal assistance is to be provided, consideration be given to substituting for the Federal college housing loan program some other type of Federal financial assistance which would permit greater private financial participation at low interest rates and extension of such assistance to a greater number of institutions.

These recommendations would make it possible for private industry to supply at least a substantial portion of the funds necessary to finance the construction of greatly expanded college housing facilities. These recommendations are wholly in keeping with the supposedly fundamental concept of our economic system, that the Federal Government should not take over functions of private industry which can be performed at reasonable rates by private industry.

President Eisenhower several months ago appointed a committee on education beyond high school under the chairmanship of Mr. Devereaux Colt Josephs, Chairman of the Board, New York Life Insurance Company. This committee is to study and submit recommendations regarding education beyond high school, and it is certain that these recommendations will involve financing of college facilities.

(f) **Proposed Tax-Exempt Dividends for Investment Companies Holding Municipals.** No action was taken on bills (H. R. 12252 and H. R. 12253) to amend the Internal Revenue Code to exempt from Federal income tax "exempt interest dividends" paid to shareholders by a regulated investment company holding the bulk of its assets in tax-exempt securities.

(g) **Proposed Federal Aid to Education.** A bill embodying a program of Federal financial assistance for the construction of public elementary and secondary school facilities (H. R. 7535), through Federal grants, loans and advances to a reserve fund, was not adopted. After an amendment was added to the bill to provide that no Federal funds shall be allotted or transferred "to any state which fails to comply with the decisions of the Supreme Court," thereby denying funds to segregated schools, the bill was defeated by a vote of 194 to 224. It appears certain that similar legislation will be introduced in Congress in 1957.

(h) **Banking Study.** The Senate Committee on Banking and Currency is conducting a study of proposed changes in the Federal banking laws. The Committee requested five Federal agencies (Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board and Bureau of Federal Credit Unions) to submit recommendations for revision of the Federal banking laws and recommendations were submitted by those agencies in October. Hearings were held on the proposals on Nov. 9 and 10. It is expected that a bill will be drafted within the next few weeks embodying many of the proposals and that further hearings will be held in January.

An Advisory Committee of representatives from private industry has been appointed to assist the Senate Banking Committee in the study. The Chairman of that Advisory Committee is Mr. Kenton R. Cravens, President of the Mercantile Trust Co. of St. Louis.

(i) **Amortization of Premiums on Tax-Exempt Bonds Held by Dealers.** On Nov. 7 the staffs of the Joint Committee on Internal Revenue Taxation and the Treasury Department submitted to the Subcommittee on Internal Revenue Taxation of the House Committee on Ways and Means a list of "substantive unintended benefits and hardships and additional problems for the technical amendments bill of 1957." One of the recommendations included in the list was the following:

"*(2) Amortization of premium on tax-exempt bonds held by dealers.*

"Under the present law where

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Report of IBA Municipal Securities Committee

tax-exempt State and local government bonds are purchased at at premium, the premium generally must be amortized over the life of the bond and, in effect, offset against the tax-exempt interest income. Exceptions are provided to this general rule for dealers in tax-exempt securities with respect to bonds disposed of within 30 days, and bonds with a maturity or call date more than five years from the time they were acquired. Since amortization of the premium is not required by a dealer under these circumstances, he realizes an ordinary loss upon sale or redemption of bonds disposed of within 30 days, or for bonds maturing more than five years from his date of acquisition. This loss, which may be offset against taxable income, is attributable to the interest payments the taxpayer is not required to include in his taxable income.

"It is suggested that these 30-day and 5-year rules be removed with the result that dealers in tax-exempt bonds will be treated the same as other holders of tax-exempt bonds. This might be made effective with respect to bonds purchased after the date of this report."

On Nov. 20 at hearings on the proposal to require dealers to amortize premiums on all tax-empt bonds held by them, before the Subcommittee on Internal Revenue Taxation of the House Ways and Means Committee, the Chairman of the Municipal Securities Committee testified and submitted a statement on behalf of the Committee **opposing** the proposed change. The statement pointed out that a provision specifically designed to remedy the problem was adopted in the Revenue Bill of 1950 and that the proposed change isolates a single phase of the dealers' tax situation without recognizing the overall tax inequities that would be imposed by the proposal, gives no consideration to the unduly complicating and burdensome accounting procedures which would be imposed upon dealers and ignores the effect on financing by states and municipalities.

(4) Cooperation With Other Organizations

While the Committee has in the past attempted to cooperate closely with other organizations interested in municipal finance, during the past year the Committee has attempted to work even more closely with such organizations.

The Liaison Committee between the IBA and the Municipal Law Section of the American Bar Association have done much effective work to facilitate cooperation between the two organizations, particularly in the preparation of the two model laws referred to above. The Chairman of the IBA Liaison Committee of the Municipal Law Section of the American Bar Association during the past year has been Mr. L. Eugene Marx (Bear, Stearns & Co., New York) and the Chairman for the coming year will be Mr. David Wood (Wood, King and Dawson, New York). The members of the IBA Committee for Liaison with the Municipal Law Section of the American Bar Association are John S. Linen (The Chase Manhattan Bank, New York) Chairman, Walter W. Craigie (F. W. Craigie and Co., Richmond) and Pat G. Morris (The Northern Trust Co., Chicago).

This year a Liaison Committee has also been established with the American Bridge, Tunnel & Turnpike Association. Members of this Liaison Committee are as follows: Walter H. Steel (Drexel & Co., N. Y.); William Morgan (Blyth & Co., N. Y.); Wilbur M. Merritt (First Boston Corp., N. Y.); Frank H. Morse (Lehman Bros., N. Y.), George J. Gruner (John Nuveen & Co., N. Y.); and C. Cheever Hardwick (Smith, Barney & Co., N. Y.).

In addition, representatives of the Committee have this year attended meetings of the National Conference on Public Works, The Highway Research Board, The National Conference on Metropolitan Area Problems, The Municipal Finance Officers Association, and the American Bar Association. The President of the Municipal Forum of New York has been included as a member of this committee in order to facilitate cooperation with that organization.

We believe that such cooperation should be helpful to underwriters and dealers in municipal bonds and to municipalities and municipal officials.

(5) Educational Activities

The annual Institute of Investment Banking, sponsored by the IBA and the Wharton School of Finance and Commerce at the University of Pennsylvania, was held this year on April 2-6. The program included a panel on municipal bonds. The Chairman of the Committee served as moderator; Mr. Walter W. Craigie (F. W. Craigie & Co., Richmond) discussed general obligation municipal bonds and Mr. T. Henry Boyd (Blyth & Co., Inc., New York) discussed revenue bonds.

At the Conference on the American Securities Business sponsored by the Industrial Council of Rensselaer Polytechnic Institute at Troy, N. Y., in October, one of the principal addresses was presented by Mr. Walter W. Craigie on "Funds for Schools and Other State and Local Governmental Projects." The municipal securities business was represented at the Conference by the following participants:

William M. Adams, Braun, Bosworth & Co., Detroit; Walter C. Cleave, Blyth & Co., Inc., Chicago; Walter W. Craigie, F. W. Craigie & Co., Richmond; Marquette de Bary, F. S. Smithers & Co., New York; Andrew S. Mills, Newhard, Cook & Co., St. Louis; John M. Maxwell, The Northern Trust Co., Chicago; William H. Morton, W. H. Morton & Co., Inc., New York; J. Creighton Riepe, Alex. Brown & Sons, Baltimore; Allen D. Sapp, Schmidt, Poole, Roberts & Parke, Philadelphia; Francis Schanck, Jr., Bacon, Whipple & Co., Chicago; Walter H. Steel, Drexel & Co., New York; George B. Wendt, First National Bank of Chicago, Chicago.

The Committee is also considering preparation of a "Handbook on Municipal Bonds." Section 5 of the Fundamentals of Investment Banking published by the IBA, was devoted to municipal securities; but that section is out of print and we are unable to fill requests for copies of that section. We believe that it would be a service to the municipal business to expand Section 5 of Fundamentals of Investment Banking into a Handbook on Municipal Securities which could be used both in training new personnel in municipal bond departments and for distribution to municipal officials, customers and college students.

(6) Statement on Tax Exemption In Legal Opinions

At the Spring Meeting in May the Board of Governors of the IBA adopted a resolution recommended by the Committee, as follows:

"WHEREAS, a statement in legal opinions on state and municipal bonds, that the interest on such bond is exempt from Federal income taxes and that such bonds and the interest thereon are exempt from state taxes, increases the marketability of such bonds and many municipal bond attorneys presently include such statements in their legal opinions on such bonds:

"NOW, THEREFORE, BE IT RESOLVED, that the Board of Governors of the Investment Bankers Association of America requests that:

"(1) municipal bond attorneys include in their legal opinions on state and municipal bonds a statement that the interest on such bonds is exempt from Federal income taxes and, if such bonds or the interest thereon are exempt from state taxes, a statement of such exemption from state taxes; and

"(2) a copy of this resolution be sent to all municipal bond attorneys listed in the 'Bond Buyer Directory.'"

Copies of the resolution were subsequently sent to all municipal bond attorneys listed in the "Bond Buyer Directory." Practically all of the bond attorneys who replied indicated a willingness to cooperate in the recommendation, but a few replies indicated that it would not be practical to include statements regarding exemption from state taxes in particular states.

(7) Statistical Program

In October there was published the first issue of the IBA Statistical Bulletin containing detailed information regarding the municipal bond market. Tables in this Bulletin include the following:

Table 1: Bond Elections Scheduled.

Table 2: Bond Election Results (quarterly).

Table 3: New Municipal Bonds Issued (quarterly).

Table 4: New Municipal Bonds Issued by Type Issuer and Use of Proceeds (quarterly).

Table 5: Principal Managing Underwriters of New Municipal Issues by amount and number, for general obligation and revenue bonds (quarterly).

Table 6: Method of Offering New Municipal Bond Issues (quarterly).

This Statistical Bulletin is prepared by Mr. Frank Morris, the Research Director of the IBA, and will be published quarterly. There will also be press releases bringing the information up to date on a monthly basis.

Under this Statistical Research Program the IBA is keeping a detailed record of all new municipal issues since July 1, 1956, for

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which information is available to us. Attached as Appendix D is a list of the items of information recorded on new municipal bond issues. We believe that the availability and publication of summaries of this statistical information will be of value to the members and to the Committee in its work.

(8) State Legislative Developments and Court Decisions

Attached as Appendix E is a summary of some of the principal state legislation adopted this year of interest to the municipal bond business. Attached as Appendix F is a summary of some of the court decisions this year of particular interest to the municipal bond business.

Respectfully submitted,

MUNICIPAL SECURITIES COMMITTEE

William M. Adams, Chairman
Braun, Bosworth & Co., Incorporated, Detroit

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Jacksonville, Fla.

Paul E. Youmans
Bosworth, Sullivan & Company, Inc., Denver

MUNICIPAL SECURITIES COMMITTEE REPORT

APPENDIX A

Model Form of Bill Relating to "Nuisance Suits"

SECTION 1. Any county, municipality, taxing district or other political district or subdivision, commission, authority, department or other public agency of the State authorized by law to borrow money and issue bonds, notes or other evidence of indebtedness (hereinafter called the "Issuer"), prior to the issuance of any particular issue of bonds, notes or other evidences of indebtedness which it proposes to issue (hereinafter called "the securities"), may file a petition for validation for the purpose of obtaining an adjudication as to its authority to issue the Securities and the legality of all proceedings taken and/or proposed to be taken in connection therewith, including, in proper cases, any assessments of taxes levied or to be levied, and the lien of such taxes, the levy of rates, charges, or tolls, and of proceedings or other remedies for the collection of such taxes, rates, charges or tolls. Such petition may be filed in the __________ Court in the county in which such Issuer may be located or have its principal place of business, against the State of __________ and the taxpayers, property owners and citizens of such Issuer, including nonresidents owning property or subject to taxation therein, and all other persons interested in or affected by the issuance of the Securities. If the Securities are to be issued by any of the State agencies, authorities, commissions or departments, such petition may be filed in the __________ Court of the county in which the proceeds of such Securities are to be expended or in the __________ Court of the county in which the seat of State government is situated, and such petition shall be brought against the State of ______ and the taxpayers, property owners and citizens thereof, including non-residents owning property or subject to taxation therein, and any other persons affected by or interested in the issuance of the Securities.

SECTION 2. The petition for validation shall briefly set out, by proper allegations, references or exhibits, the petitioner's authority for issuing the Securities, the holding of an election and the results thereof where an election is required, the ordinance, resolution or other act or proceeding authorizing the issuance of such Securities and the adoption thereof, all other essential proceedings had or taken and/or proposed to be taken in connection therewith, the amount of the Securities to be issued, the rate of interest or maximum rate of interest they are to bear, and, in case of a district established for the purpose of constructing or acquiring a public improvement for which the Securities are to be issued, the authority for the creation of such district, the consideration to be received by the Issuer for the Securities, the county or counties in which the proceeds of the Securities, or any part thereof, are to be expended, and all other pertinent matters.

SECTION 3. The judge of the __________ Court wherein the petition is filed, shall, upon the filing and presentation thereof, make and issue an order in general terms in the form of a notice directed against the State of __________ and against "all property owners, taxpayers, citizens and others having or claiming any right, title or interest in any property or funds to be affected by the issuance of the Securities or affected in any way thereby," requiring, in general terms and without naming them, all such persons and the State of __________ through its __________ attorney or attorneys of the circuit (or district) where in the Issuer has its principal place of business, to appear at a time and place within the circuit (or district) wherein the petition is filed, to be designated in such order, and show cause why the prayers of the petition should not be granted and the proceedings and the Securities valiated and confirmed as therein prayed. A copy of the above mentioned petition and order shall be served upon the __________ attorney of the circuit (or district) in which such proceedings are pending, and in cases where the Issuer lies or functions in more than one circuit (or district), upon each __________ attorney of each of such circuits (or districts), at least twenty (20) days before the time fixed in said order for hearing as aforesaid. Said attorney or attorneys shall carefully examine the petition and if it appears, or there is reason to believe, that the petition is defective, insufficient or untrue, or if in the opinion of said attorney or attorneys, the issuance of the Securities has not been duly authorized, defense shall be made thereto as may seem proper by said attorney or attorneys. Said attorney or attorneys shall have access, for the purposes aforesaid, to all records and proceedings of the Issuer and any officer, agent or employee having charge, possession, custody or control of any of the books, papers or records of the Issuer shall, on demand of said attorney or attorneys, exhibit for examination such books, papers or records and shall, without cost, furnish duly authenticated copies thereof, which pertain to the proceedings for the issuance of the Securities or which may affect the legality of the same, as may be demanded of him.

In case the Securities are to be issued by any State agency, authority, commission or department, a copy of the above mentioned petition and order shall be served upon the __________ attorney of the circuit (or district) in which such proceedings are pending and, if the proceeds of the sale of the Securities, or any portion thereof, are to be expended in any county other than the county in which the proceedings are pending, upon the __________ attorney of each county in which it is proposed to expend such proceeds or any part thereof.

SECTION 4. Upon motion of the petitioner, whether before or after the date set for hearing as provided in Section 3, the judge may enjoin the commencement by any person of any other action or proceeding contesting the validity of the Securities described in the petition, or the validity of the taxes, assessements, tolls, rates or other levies authorized to be imposed or made for the payment of such Securities or the interest thereon, or the validity of any pledge of revenues, or property to secure such payment, and may order a joint proceeding in any court in the State, and may order all such actions or proceedings consolidated with the validation petition pending before him, and may make such orders as may be necessary or proper to effect such consolidation and as may tend to avoid unnecessary costs or delays or multiplicity of suits. Such orders shall not be appearable.

SECTION 5. Prior to the date set for hearing as provided in Section 3, the clerk of the court wherein said petition is filed, shall cause a copy of said order to be published in the county wherein the petition is filed, or, if the petitioner lies or functions in more than one county, then in each of such counties in each of any

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three consecutive calendar weeks, in a newspaper of general circulation, in each instance upon any business day of the week and in any such newspaper, but the publication in the first calendar week in each county to be not less than twenty (20) nor more than thirty (30) days prior to the date set for hearing. By the publication of said order, all property owners, taxpayers, citizens or others having or claiming any right, title or interest in or against the petitioner or property subject to taxation thereby or otherwise affected by or interested in the issuance of the Securities described in the petition, shall be considered as and are made parties defendant to said proceedings, and the court shall have jurisdiction of them to the same extent as if individually named as defendants in said petition and personally served with process in the cause.

In the case of proceedings to validate the Securities of any State agency, commission or department, the order shall be published in the manner herein provided in a newspaper of general circulation in each of the counties wherein the proceeds of the Securities, or any part thereof are to be expended, and in a newspaper of general circulation published in the county in which the seat of State government is located.

SECTION 6. Any property owner, taxpayer, citizen or person affected by or interested in the issuance of the Securities may become a named party to said proceedings by pleading to the petition on or before the time set for hearing as provided in Section 3, or thereafter by intervention upon leave of court. At the time and place designated in the order for hearing, as provided for in Section 3, the judge shall proceed to hear and determine all questions of law and fact in said proceedings and may make such orders as to the proceedings and such adjournments as will enable him properly to try and determine the same and to render a final decree therein with the least possible delay.

SECTION 7. Any party to the cause, whether petitioner, defendant or intervenor or otherwise, dissatisfied with the final decree may appeal therefrom to the Supreme Court within twenty (20) days after the entry of such decree. Such appeal may be effected by the filing and recording, in the book wherein said decree is recorded, a notice of appeal returnable in the Supreme Court not less than fifteen (15), nor more than twenty (20) days after the filing and recording of such notice of appeal. On or before the return day of said appeal, the appellant shall file in the Supreme Court a certified copy of all the said proceedings, including a transcription of all the evidence taken therein before the court. Upon application of any party, such evidence shall be duly certified by the judge who heard said cause and rendered the decree appealed from.

A certified copy of all of said proceedings as aforesaid, duly filed in the Supreme Court, shall constitute the record upon which said appeal shall be heard in the Supreme Court.

Within ten days after the return day of such appeal the appellant shall file his brief in the Supreme Court and shall deliver a copy thereof to the appellee or his attorney or record, who shall within ten (10) days thereafter file his brief, and shall deliver a copy thereof to the appellant or his attorney of record, who may reply thereto within five (5) days. After the time for filing briefs, as aforesaid, has expired, the Supreme Cort shall proceed to consideration of said cause upon the record and briefs; provided, however, that if either party shall file a request in writing for oral argument by the return day of such appeal, the court may enter an order setting down said cause for oral argument at the earliest practicable date. Thereafter the Supreme Court shall give immediate consideration to said appeal and render its decision thereon in due course. Such decision shall be final after ten days and mandate shall issue forthwith, if no petition for rehearing has been filed.

Such appeal shall take priority in the Supreme Court over all other civil cases therein pending, except habeas corpus.

SECTION 8. In the event the decree of the __________ Court determines that the Issuer has authority to issue the Securities for the consideration and upon the terms set forth in the petition for validation and adjudicates the legality of all proceedings taken and/or proposed to be taken in connection therewith, and no appeal is taken within the time above prescribed, or if taken and the decree of the __________ Court is affirmed, such decree shall be forever binding and conclusive, as to all matters adjudicated, against the petitioner and all other parties to the cause, whether mentioned in and served with said notice of the proceedings, or included in the description "all property owners, taxpayers, citizens and others having or claiming any right, title or interest in any properties or funds to be affected by the issuance of the Securities or affected in any way thereby", and shall constitute a permanent injunction against the institution by any person of any action or proceeding contesting the validity of the bonds, notes or certificates of indebtedness described in the petition or the validity of the taxes, assessments, tolls, rates or other levies authorized to be made for the payment thereof or the interest thereon or the validity of any pledge of revenue or property to secure such payment.

SECTION 9. The decree shall be recorded in the same manner as other decrees or judgments in each county in which notice of the hearing is required to be published by Section 5.

SECTION 10. Bonds, notes or certificates of indebtedness validated as herein provided shall have stamped or written thereon the following statement:—

> "Validated and confirmed by a decree of the __________ Court (specifying the date when such decree was rendered and the court in which it was rendered) which perpetually enjoins the institution of any suit, action or proceeding involving the validity of this bond or the provision made for the payment of the principal and interest thereof."

Said certificate shall be signed by the clerk of the court in which the decree was rendered, and said certificate shall be original evidence of said decree in any court of the State.

SECTION 11. The cost in each proceeding under this act shall be paid by the petitioner except in cases where a taxpayer, citizen or other person may appeal and contest the proceeding or intervene therein, the court may tax the whole or any part of the cost against such person as shall be equitable and just.

APPENDIX B

Model Bill Authorizing Use of Facsimile Signatures in Execution of Public Securities

Section 1. Public Securities heretofore or hereafter authorized to be issued and delivered at any one time in a principal amount of Ten Million Dollars ($10,000,000) or more may be executed with an engraved, imprinted, stamped or otherwise reproduced facsimile of any signature, seal or other means of authentication, certification, or endorsement required or permitted to be recorded thereon, if so authorized by the Board, body or officer empowered by law to authorize the issuance of such securities, provided that at least one signature required or permitted to be placed thereon shall be manually subscribed.

Section 2. The words "public securities" as used herein shall mean bonds, notes or other obligations for the payment of money issued by this State, by its political subdivisions, or by any department, agency or other instrumentality of this State or of any of its political subdivisions.

Section 3. This Act shall not repeal any other law authorizing the execution of public securities with facsimile signatures or seals.

APPENDIX C

Summary of Federal-Aid Highway Act (Public Law 627) of 1956

(1) Section 108 of the act authorizes the appropriation of an aggregate amount of $24,825,000,000 over the next thirteen fiscal years for federal grants to states for the interstate system.

These funds will be apportioned among the states under formulas specified in the act. The federal share payable on account of any project on the interstate system provided for by funds made available under this section will be 90% of the total cost thereof, plus a percentage of the remaining 10% of such cost in any state containing unappropriated and unreserved public lands and nontaxable Indian lands exceeding 5% of the total area of all lands therein, but the federal share payable on any project in any state shall not exceed 95% of the total cost of such project.

(2) Section 102 of the act authorizes the appropriation of $125,000,000 for the fiscal year 1957 (in addition to $700,000,000 already authorized for that year), $850,000,000 for the fiscal year 1958 and $875,000,000 for the fiscal year 1959, to be available 45% for projects on the federal-aid primary highway system, 30% for projects on the federal-aid secondary highway system and 25% for projects on extensions of these systems within urban areas. These funds would be apportioned among the states as federal grants and the Federal Government would pay 50% of the total cost of any project and the state would pay the other 50%.

Part of section 113 of the act contains the following provisions regarding toll roads, bridges and tunnels:

"(a) Approval As Part of Interstate System — Upon a finding by the Secretary of Commerce that such action will promote the development of an integrated Interstate System, the Secretary is authorized to approve as part of the Interstate System any toll road, bridge, or tunnel, now or hereafter constructed which meets the standards adopted for the improvement of projects located on the Interstate System, whenever such toll road, bridge, or tunnel is located on a route heretofore or hereafter designated as a part of the Interstate System: Provided, That no Federal-aid highway funds shall be expended for the construction, reconstruction, or improvement of any such toll road except to the extent hereafter permitted by law: Provided further, That no Federal-aid highway funds shall be expended for the construction, reconstruction, or improvement of any such toll bridge or tunnel except to the extent now or hereafter permitted by law.

"(b) Approaches Having No Other Use — The funds authorized under this title, or under prior Acts, shall be available for expenditure on projects approaching any toll road, bridge, or tunnel to a point where such project will have some use irrespective of

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its use for such toll road, bridge, or tunnel.

"(c) Approaches Having No Other Use — The funds authorized under section 108(b) of this title, or under prior Acts, shall be available for expenditure on Interstate System projects approaching any toll road on the Interstate System, even though the project has no use other than as an approach to such toll road: Provided, That agreement satisfactory to the Secretary of Commerce has been reached with the State prior to approval of any such project (1) that the section of toll road will become free to the public upon the collection of tolls sufficient to liquidate the cost of the toll road or any bonds outstanding at the time constituting a valid lien against said section of toll road covered in the agreement and their maintenance and operation and debt service during the period of toll collections, and (2) that there is one or more reasonably satisfactory alternate free routes available to traffic by which the toll section of the System may be bypassed."

(3) Section 114 of the Act contains the following statement regarding reimbursement for certain highways:

"It is hereby declared to be the intent and policy of the Congress to determine whether or not the Federal Government should equitably reimburse any State for a portion of a highway which is on the Interstate System, whether toll or free, the construction of which has been completed subsequent to August 2, 1947, or which is either in actual use or under construction by contract, for completion, awarded not later than June 30, 1957: Provided, That such highway meets the standards required by this title for the Interstate System. The time, method, and amounts of such reimbursement, if any, shall be determined by Congress following a study which The Secretary of Commerce is hereby authorized and directed to conduct, in cooperation with the State highway departments, and other agencies as may be required, to determine which highways in the Interstate System measure up to the standards required by this title, including all related factors of cost, depreciation, participation of Federal funds, and any other items relevant thereto. A complete report of the results of such study shall be submitted to the Congress within ten days subsequent to January 2, 1958."

(4) The points to be connected in the 40,000 miles of the Interstate System previously authorized have already been determined by the Bureau of Public Roads in consultation with state highway departments. The new act authorizes the addition of 1,000 miles to the Interstate System. The exact location of the highways between the selected points are determined by state highway departments, subject to approval by the Bureau of Public Roads.

A limited supply of copies of the new act are available on request from the Municipal Director of the IBA.

APPENDIX D

Information Collected on New Municipal Issues Since July 1, 1956 Under the IBA Statistical Research Program

(1) Name of issuer and issue
(2) Par amount of issue
(3) Offering date
(4) Type issue (12 classes of general obligation bonds, 6 classes of revenue bonds, plus a category for special assessment bonds which are not general obligations)
(5) Type of issuer (State, County, etc.)
(6) Type offering (competitive bidding, negotiated, etc.)
(7) Use of proceeds (99 categories)
(9) Rating
(10) Method of Retirement (Serial, term)
(11) Date of issue
(12) Average Maturities
(13) Range of Maturities
(14) Call Provisions (first call date and whether or not a premium is involved)
(15) Delivery Date (Month)
(16) Coupon Rates
(17) Syndicate Purchase Price
(18) Net Interest Cost
(19) Managing Underwriter
(20) Co-Manager
(21) Number of firms in winning account
(22) Number of competing bids
(23) Yields at offering prices (5, 10, 15, 20, 30 and 40 year maturities)
(24) Selling concessions.

In addition, the following data are collected on bonds authorized at elections:

(1) Name of issuer and issue
(2) Par amount of issue
(3) Election date
(4) Election results
(5) Type issuer
(6) Use of proceeds
(7) Record of bonds issued under the authorization
(8) Balance authorized but unissued.

APPENDIX E

State Legislation

This appendix contains summaries of some state legislation adopted in 1956 which is believed to be of interest to persons engaged in the municipal securities business.

CALIFORNIA

Senate Bill No. 5, effective immediately, amended Act 6850, the San Bernardino County Flood Control Act, regarding powers and duties of the San Bernardino County Flood Control District. The bill authorizes the district to expend tax revenues and incur bonded indebtedness for a zone for works or improvement located outside the zone but of benefit to the zone. The bill also revises the procedure with respect to the issuance of bonds.

Assembly Bill No. 6, effective immediately, amended Sections 4601, 4611, 4617, 4621 and 4622, H. & S. C., regarding municipal sewer districts. This Act authorthe purposes of districts to include sewage collection, treatment or disposal facilities, and related work. It also revises provisions with respect to authorization and issuance of bonds.

Assembly Bill No. 41, effective immediately, adds article 2(a) to Chapter I, Part 3, Division 5, H. & S. C., regarding municipal sewer districts. This Act authorizes formation of districts composed of one or more cities and any unincorporated areas in the county to provide sewage, storm water drainage and flood control works. It provides that one city may initiate proceedings for formation of such a district, and after receiving consent of any other cities, and from the county board of supervisors for any unincorporated portions, such initiating city has exclusive authority to carry out procedural steps for formation and to control and operate the district after formation. It also authorizes issuance of bonds with annual tax levied by county supervisors to service bonds, and an annual tax not to exceed $0.20 on each $100 of assessed value of property in the district for maintenance and operation.

Assembly Bill No. 59, contains a new Act creating the San Joaquin County Flood Control and Water Conservation District. This Act creates the district within the territory of San Joaquin County for controlling, conservation, diversion and storage of storm, flood, and other waters. It prescribes the organization, operation, management, financing, powers and duties of the district.

COLORADO

A model law authorizing execution of public securities with the use of facsimile signatures was adopted this year in Colorado, applicable to all public securities in a principal amount of $3,000,000 or more, provided at least one of the signatures required or permitted to be placed thereon shall be manually subscribed.

MISSISSIPPI

House Bill 865 amended Chapter 241 of the Laws of 1950 to provide that counties along the Mississippi Gulf Coast may issue bonds for the construction of boat landing ramps or wharfs.

NEW YORK

The New York legislature approved for referendum a proposal to authorize $500,000,000 New York State General Obligation Highway Bonds and the bond

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issue was approved at the election on November 6.

PENNSYLVANIA

Pennsylvania Act No. 333 amends the act of March 10, 1949, relating to the public school system to provide that:

"In all cases where the board of directors of any school district fails to pay or provide for the payment of any rental or rentals due any municipality, authority or non-profit corporation for any period in accordance with the terms of any lease entered into under the provisions of this section the State Superintendent of Public Instruction shall notify such board of school directors of its obligation and shall withold out of any state appropriation due such school district an amount equal to the amount of rental or rentals owing by such school to the municipality, authority or non-profit corporation and shall pay over the amount so withheld to the municipality, authority or non-profit corporation in payment of rental."

This Act means that upon notification of a non-payment of rental the State Department of Public Instruction must withold from the district out of any further subsidy payment of any type due the district an amount equal to the rentals the district owes; and that the Department must pay this money to the authority to satisfy the requirements of the Lease. In effect, the intent of this Act is to give added protection to bondholders.

SOUTH CAROLINA

Act No. 758 of the 1956 session amended article 6 of Chapter 15 of Title 21 of the Code of Laws of South Carolina, relating to state school board issues, to increase the limitation on bonded indebtedness to $175,000,000 for advances to school districts or operating units of counties and to increase the limitation on bonded indebtedness to $9,000,000 for acquisition of bus equipment. The Act also provided for the private placement of bonds issued for acquisition of bus equipment and for the issuance of bonds in denominations of $1,000 or multiples thereof and as fully registered bonds or as coupon bonds.

VIRGINIA

Chapter 29 of the laws of 1956 amends and re-enacts Section 22-175 of the Code of Virginia relating to the sale of school bonds to provide that the bonds shall be sold at public sale upon sealed proposals to the highest bidder at not less than par and accrued interest to date of delivery. There are also other provisions relating to notice of rates of interest.

House Joint Resolution No. 69 directs the Virginia Advisory Legislative Council to make a study and report, by not later than October 1, 1957, on the need for standarized procedures for the issuance of bonds by political subdivisions and agencies of Virginia.

APPENDIX F

Court Decisions

This appendix contains summaries of some recent court decisions which are believed to be of interest to persons engaged in the municipal securities business.

CALIFORNIA

Section 18 of Article XI of the California Constitution provides that no city, county or school district shall incur any liability or indebtedness in any year exceeding the income and revenues of that year without the assent of two-thirds of the electors voting at an election held for that purpose. The courts in many states have created an exception to such a provision which is commonly referred to as the "special fund doctrine," that is to say, that revenue bonds or other obligations are not a liability or indebtedness within the meaning of such a Constitutional provision (and hence need not be authorized by a two-thirds vote) if they are payable solely out of revenues or other special funds and not out of general funds or moneys raised by tax levy. A minority follow the so-called "limited special fund doctrine" under which the exception to the Constitutional requirement applies only where the obligation is payable solely from revenues from the particular work or improvement constructed with the proceeds of the bonds.

The California Supreme Court in a case in 1932 rejected the broad doctrine and followed the limited doctrine. In *City of Oxnard* v. *Dale*, 4 C. 2d 729 (Dec. 1955), the Supreme Court of California expressly overruled the decision in the 1932 case (except in certain particulars not material here) and followed the broad special fund doctrine, holding that revenue bonds (approved by only a majority vote as required under the Revenue Bond Law of 1941) to extend and improve the city's sewer system but payable out of revenues from the entire system were valid. This decision has been described as "probably the most important and significant California decision affecting municipal bonds rendered within the past 20 years".

FLORIDA

In *City of Dunedin* v. *Bense*, the Supreme Court of Florida on October 7, 1956, held unconstitutional certain provisions of the Florida bond validation statute which conferred upon the Supreme Court of Florida original jurisdiction on (i) applications for leave to institute actions questioning the validity of final decrees validating bond issues and (ii) petitions for injunction to prohibit the filing of actions attacking the validity of a validation decree. The Court held that the jurisdiction of the Supreme Court of Florida is specifically limited by the state constitution to appelate jurisdiction and to original jurisdiction on specified writs.

IDAHO

Article VIII, Section 3, of the Idaho Constitution, provides that no board of education or school district shall incur any indebtedness exceeding the income and revenue provided for it for the year without the assent of two-thirds of the qualified electors thereof. In *Keck* v. *Joint Class A School District No. 370, Owyhee and Canyon Counties*, 295 P. 2d 249 (Idaho, March 20, 1956), the court held, in effect, that where School District A was consolidated, by a statutory reorganization procedure, with School District B, the bonded indebtedness of District A could not constitutionally be assumed by the new reorganized district and spread over all of the property therein without the assent of two-thirds of the qualified electors of school District B.

NORTH CAROLINA

In *Constantian* v. *Anson County*, 93 S. E. 2d 163 (1956), a taxpayer sued to enjoin the county from issuing and selling $750,000 bonds which had been voted at an election in June, 1952, on the ground that when the bonds were authorized it was contemplated that the proceeds would be used to finance construction of segregated schools and that both the bond order and the election were invalidated by the action of the Supreme Court of the United States because the school authorities could not operate the schools in compliance with a provision in the North Carolina Constitution requiring segregated schools. The Supreme Court of North Carolina (after expressing the conviction that the interpretation placed on the 14th amendment by the Supreme Court of the United States in the Brown Case could not be reconciled with the intent of the framers and ratifiers of the 14th amendment, the actions of Congress and state legislatures, or the long and consistent judicial interpretations) held that the requirement in the state constitution for mandatory segregation was invalidated by the Supreme Court of the United States in the Brown Case, but that the other provisions of the Constitution remain in full force and effect and that the proposed issue of bonds was authorized under law and such bonds when issued would in all respects be valid obligations of the county.

OKLAHOMA

In *Morriss* v. *City of Oklahoma City*, a resident and taxpayer of the City of Oklahoma City brought action for himself and other taxpayers similarly situated, against the City of Oklahoma City, and others, praying for an injunction to prevent the City of Oklahoma City from leasing its airports to the Oklahoma City Airport Trust (a public charitable trust, created for the purpose of enabling the City to take advantage of the offer of the United States Government to lease from Trustees the buildings and facilities to be constructed by trustees of the Trust and to expand and enlarge its airport facilities, by the issuance of bonds by the Trustees and to be retired from the rentals agreed to be paid by the United States Government and the revenues of the trust estate) and declaring the Trust and all proceedings had and proposed under the plan of the Trustees be prohibited as unlawful and void.

The rental to be paid to the Trustees by the Civil Aeronautics Authority and interest income would not only pay the proposed bonded indebtedness, the cost of operations and all expenses of the Trust, but would leave a net balance accumulated unexpended at the close of the Trust period of $258,245, which would go to the beneficiary, the City of Oklahoma City. This balance of accumulated income would result entirely from rentals and interest income secured from the Civil Aeronautics Authority and investments in Government bonds.

The instruments involved, including the lease of its airports by the city, all expressly provide that the bonded indebtedness of the Trust would never become an obligation of the state, nor of the beneficiary, Oklahoma City. Under Oklahoma Trust law, the Trustees of Trusts for the furtherance of public functions are a state agency.

The Supreme Court of Oklahoma on June 26, 1956 (in an opinion in which five justices concurred while four justices dissented) denied the injunction and held that the trust indenture, the ordinance of the City of Oklahoma City accepting the trust indenture, the lease agreement and bond indenture and all instruments incident to the Oklahoma City Airport Trust, including the bonds issued thereunder, were valid and binding instruments. In reaching this decision the Court held that the bonds issued by the Trust did not constitute indebtedness of the state in violation of a constitutional provision prohibiting the contracting of debts against the state. The Court also held that there was no violation of a constitutional provision prohibiting indebtedness of a city to an amount exceeding in any year the income and revenue provided for

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such year without the consent of three-fifths of the voters.

WISCONSIN

In *State v. Peoples State Bank*, 76 N. W. (2nd) 370 (1956) the Supreme Court of Wisconsin upheld an amendment to article XI of Section 3 of the Wisconsin Constitution, approved in April, 1955, which changed from assessed value to equalized value the basis for computation of the restriction on indebtedness of school districts (5% of equalized value) and the indebtedness of certain cities (8% of equalized value). Prior to the amendment the indebtedness was required to be computed on the basis of assessed rather than equalized value. The equalized value for state purposes is generally higher than the local assessed value in Wisconsin. The decision also upheld statutory provisions adopted in 1955 which implemented the constitutional amendment and provided a method for computing equalized value.

TEXAS

In *C. H. King et al v. Carlton Independent School District* the Supreme Court of Texas early in November upheld the constitutionality of a 1955 State legislative act which liberalized local school debt limits by permitting school districts, by election, to approve bond issues up to 10 percent of assessed property values. In view of the Supreme Court's decision, only two elections for issuance of unlimited tax school bonds will hereafter be required, instead of the three which the Attorney General has required previous to this date. As has been the practice heretofore, both of the elections can be held at the same time and at the same place, since the Court did not rule out such a procedure. The act provides that tax rates sufficient to retire the bonds be set at the same election, so long as the total tax rates do not exceed about $2 on each $100 valuation. All bonds which have been voted in accordance with the Attorney General's requirements heretofore are in effect validated by the decision.

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Chicago Analysts to Hear

CHICAGO, Ill.—The Investment Analysts Society of Chicago will have John G. Searle, President of G. D. Searle Company as speaker at their luncheon meeting to be held Dec. 13 in the Adams Room at the Midland Hotel.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The surprise move by the Treasury in borrowing a billion dollars of new money through 95-day tax-anticipation bills was made necessary, according to reports, by the confused and uncertain world conditions. This new issue will also be payable through the tax and loan accounts of the commercial banks, which means a favorable borrowing rate to the Government.

Investors Still Apathetic

There is no apparent change in the demand for Government securities in spite of the better tone which has been in evidence in the market for non-Treasury bonds. The yields available in new issues of corporate and tax-exempt obligations are so much better than those which can be obtained on Government securities that investors with funds are not interested in making commitments in Treasury issues. Convertible corporate bonds, because of the improved equity market, have gone very well.

To be sure, there is a certain amount of buying going on in Government bonds, but these commitments, according to reports, are largely confined to public funds at this time. For tax purposes, considerable switching is still being done, with some of the intermediate-term issues evidently being looked upon with favor in not a few of these exchanges.

A sizable sum of money is still being put to work in the most liquid Government obligations, with the buying of Treasury bills still very substantial as far as corporations and some private pension funds are concerned.

Influence of 3% Rate on Savings Deposits

The announcement by the Federal Reserve Board, the Federal Deposit Insurance Corporation, as well as the New York State Banking Board, that commercial banks could raise the rates paid on savings deposits on Jan. 1, 1956, brought a number of notifications that the deposit institutions, especially those in New York State, would go to the maximum of 3% at the start of the new year. This means increased competition for the savings banks for deposits, even though they have been paying 3% for quite some time. The rush by the commercial banks, particularly the large ones in New York City, to push the savings deposit rate up the limit to 3% seems to indicate that these institutions expect money rates to remain tight for a considerable period of time.

Competition for Savers' Dollar

The upward trend in interest rates by the FHA and the rates increases recently allowed by Federal and State regulatory authorities on time deposits, seems to be bringing these rates in line with existing credit conditions. This means that competition for the savers' money is being intensified. However, it will take time to find out whether the higher rates which are going to be paid on savings deposits will provide enough incentive to slow down individual spending and borrowing on credit which has been going on at a very rapid pace.

Loan Trend Key to Discount Rate's Status

The money market continues to be as tight as ever, even though the monetary authorities have tended to keep it from getting to the unbearable point. The seasonal demand for money and credit has been very sizable and the flotation of new securities is still large, although a modest letdown in new offerings between now and the end of the year is to be expected. The trend of loans is being watched very closely by money market specialists because the peak demand for credit is generally reached by the middle of December.

The future pattern of borrowings is going to be very important to the money market. If the usual seasonal trend in loans should take place, namely a decrease in the demand starting soon, to be followed by a lessening in the need for funds, during January and February, then the money markets should show signs of easing.

On the other hand, if there should be no change in the current course of loans in the next two months or so, and the demand should continue to be as sizable as it is now or should increase, there will most likely be a further tightening in the money market, with the prospects quite good that the discount rate will again be pushed up, probably to 3¼%. If the Central Bank rate should be increased again, the prime bank rate as well as the other loaning rates would no doubt be increased in very short order.

Firmer Trend in Non-Government Bond Markets

Even though money market conditions are as restricted as ever, the market for certain fixed income bearing obligations has been showing an improved trend. Some of this may be attributed to a let-up in the tax selling, while on the other hand, buyers have been attracted to the new offerings of corporate and tax-free obligations because of the favorable yields which have been available in these securities. The successful flotation of two major offerings of high grade public utility bonds tended to have a beneficial effect upon nearly all bonds, including the older outstanding marketable issues. The exception was Government bonds which were unchanged or slightly lower because the competition from non-Government issues is not bullish on Treasury obligations.

The fact that the return on corporates and tax-exempt bonds is much better than on Governments is one of the main reasons for the lack of interest in the latter securities.

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Blyth & Co., New York
LEWIS, GUY W.
Peoples First National Bank, Pittsburgh

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IBA PAST PRESIDENTS

1952 - 53

Ewing T. Boles

1951 - 52

Joseph T. Johnson

1950 - 51

Laurence M. Marks

Mitchell, Hutchins to Admit New Partners

CHICAGO, Ill. — Mitchell, Hutchins & Co., 231 South La Salle Street, members of the New York and Midwest Stock Exchanges, on Jan. 1 will admit to partnership T. Stanton Armour, Ralph L. Kennedy, Gerard C. Specht and Henry H. Hawling, and to limited partnership, George A. Easley, Jr. Mr. Hawling and Mr. Easley will make their headquarters in the firm's New York office, 1 Wall Street.

E. F. Hutton to Admit G. H. Tullis to Firm

Garner H. Tullis, member of the New York Stock Exchange, on Jan. 1 will be admitted to partnership in E. F. Hutton & Company, 61 Broadway, New York City, members of the New York Stock Exchange. Mr. Tullis, who is a partner in Tullis, Craig & Bright, will make his headquarters in the New Orleans office of E. F. Hutton & Company.

William H. Doheny on Jan. 1 will become a limited partner in the firm.

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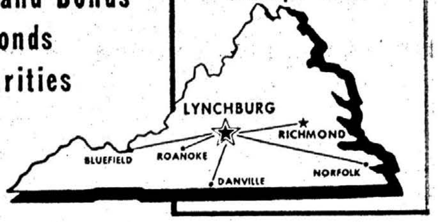

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Albert T. Armitage

1948 - 49

Hal H. Dewar

1947 - 48

Julien H. Collins

Piper, Jaffray Firm To Admit Gilman

MINNEAPOLIS, Minn.—Piper, Jaffray & Hopwood, 115 South Seventh Street, members of the New York and Midwest Stock Exchanges, on Jan. 2 will admit H. Neil Gilman, Jr. to partnership. Mr. Gilman has been with the firm for some time, representing them in Billings, Montana.

Schirmer, Atherton to Admit C. N. Miller, Jr.

Schirmer, Atherton & Co., members of the New York Stock Exchange on Jan. 1 will admit Carl N. Miller, Jr., member of the Exchange, to partnership. Mr. Miller who has been a partner in Cosgrove Miller & Whitehead, will make his headquarters in New York.

John Porteous II will withdraw from the firm on the same date.

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Continued from page 91

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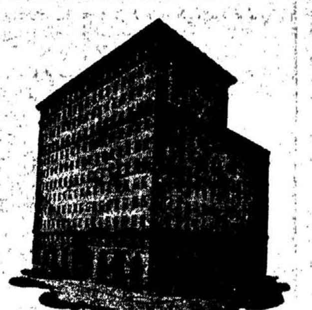

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IBA PAST PRESIDENTS

1946-47  E. Hopkinson, Jr.

1945-46  Charles S. Garland

1943-44-45  John Clifford Folger

Daniel Weston Acquires L. A. Exch. Membership

LOS ANGELES, Calif.—Daniel D. Weston, representing the firm of Daniel D. Weston & Co., has been admitted to membership on the Los Angeles Stock Exchange, it was announced by Exchange President W. G. Paul.

Mr. Weston is President of the investment firm he founded four years ago.

Spencer Trask 25 Year Club Holds Dinner

The ninth annual dinner of the 25 year Club of Spencer Trask was held Dec. 7.

John McNeil, the club's only 50-year member, and the firm's Senior Cashier was elected President. Membership of the club totals 46, with several who have been with Spencer Trask for more than 40 years.

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Continued from page 93

In Attendance at IBA Convention

STAFFORD, Jr., JOHN H.
Lee Higginson Corporation, New York
STALKER, ALFRED J.
Kidder, Peabody & Co., New York
STAPLES, JACK R.
Fulton, Reid & Co., Cleveland
STARRING, Jr., MASON B.
A. C. Allyn & Co., New York
STEARNS, GEORGE R.*
The Economist, Chicago
STEEL, WALTER H.*
Drexel & Co., New York
STEPHENS, DONALD B.
Cruttenden, Podesta & Co., Chicago
STEVENSON, G. C.*
Bacon, Stevenson & Co., New York
STEVENSON, III, ROBERT
Investment Bankers Association, Washington
STEVENSON, Jr., WALKER W.*
Hemphill, Noyes & Co., New York
STEWART, HAROLD S.*
Harold S. Stewart & Co., El Paso
STEWART, PERCY M.*
Kuhn, Loeb & Co., New York
STODDARD, DONALD A.
Guaranty Trust Company, New York
STRADER, LUDWELL A.*
Strader & Co., Lynchburg
STRAUS, FREDERICK W.*
Straus, Blosser & McDowell, Chicago
STRAVITZ, HENRY*
Swiss American Corporation, New York
STROUD, DONALD C.
McDonnell & Co., New York
SULLIVAN, Jr., MARK*
Anchincloss, Parker & Redpath, Washington
SYKES, MACRAE*
Shields & Co., New York
TALBOT, O. JACK
Northwestern National Bank, Minneapolis
TAYLOR, EATON
Dean Witter & Co., San Francisco
TAYLOR, Jr., FRANK E.*
Fulton National Bank, Atlanta
TAYLOR, GARRETT H.*
Wood, Gundy & Co., New York
TAYLOR, MEL
Semple, Jacobs & Co., St. Louis
TEGELER, JEROME F.
Dempsey-Tegeler & Co., St. Louis
TERRELL, ALLEN M.
Girard Trust Corn Exchange Bank, Philadelphia
TERRY, FREDERICK A.
Hamlin & Lunt, New York
THAYER, ROBERT L.
Lehman Brothers, New York
THIERIOT, Jr., CHARLES H.
Carlisle & Jacquelin, New York
THEIS, HARRY
Albert Theis & Sons, St. Louis
THEIS, MRS. HARRY
With Harry Theis, St. Louis
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Kuhn, Loeb & Co., New York
TOMASIC, ANTHONY E.*
Thomas & Co., Pittsburgh
TORREY, GEORGE R.
McCormick & Co., Chicago
TOWBIN, BELMONT
C. E. Unterberg, Towbin Co., New York
TOWNE, Jr., JOHN*
Government Development Bank, Puerto Rico
TOWNSEND, WILLIAM H. P.*
E. W. Clark & Co., Philadelphia
TREFETHEN, Jr., EUGENE E.*
Kaiser Industries Corporation, San Francisco
TRESCH, ARTHUR
A. E. Masten & Co., Pittsburgh
TREUHOLD, EUGENE*
L. F. Rothschild & Co., New York
TRIGGER, RAYMOND*
Investment Dealers' Digest, New York
TROSTER, OLIVER J.
Troster, Singer & Co., New York
TSOLAINOS, K. P.*
Baker, Weeks & Co., New York
TURBEN, CLAUDE F.
Merrill, Turben & Co., Cleveland
TURNER, ARTHUR C.*
New York Hanseatic Corporation, New York
UHLER, EDWARD A.
R. S. Dickson & Co., New York
UNDERWOOD, MILTON R.
Underwood, Neuhaus & Co., Houston
UPHAM, F. VAUGHAN, III
Securities and Exchange Commission, Washington, D. C.
VALENTINE, HENRY L.
Davenport & Co., Richmond
VANDERVOORT, HENRY
Nauman, McFawn & Co., Detroit
van HEUKELOM, CAREL W.
Television Shares Management Corp., New York
VAN INGEN, Jr., BERNARD J.
B. J. Van Ingen & Co., New York
van ZELM, HUGH H.
R. W. Pressprich & Co., New York
VARNEDOE, SAMUEL L.
Varnedoe, Chisholm & Co., Savannah
VEAZIE, WILDES W.
Mabon & Co., New York
VOYSEY, FRANK E.
Kidder, Peabody & Co., Chicago
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Dillon, Read & Co., New York
WAGNER, ROBERT L.
Leedy, Wheeler & Alleman, Orlando
WALBERT, RICHARD B.
Blyth & Co., Chicago
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McManus & Walker, New York
WALKER, JAMES H.*
Bethlehem Steel Corporation, Bethlehem
WANDERS, GEORGE*
The Bond Buyer, New York
WARDEN, FRANK B.
Central National Bank, Des Moines
WARNER, ELBRIDGE S.*
Hayden, Miller & Co., Cleveland
WARREN, EDWARD L.
J. P. Morgan & Co., New York
WARREN, ROBERT H.
Blair & Co., New York
WASSERMAN, JOHN
Asiel & Co., New York
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Stubbs, Smith & Lombardo, Birmingham
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WEEDEN, ALAN N.
Weeden & Co., New York
WEHMANN, GILBERT H.
White, Weld & Co., New York
WEHRHEIM, ROBERT V.*
The Philadelphia National Bank, Philadelphia
WEHRWEIN, A. C.
Sun-Times, Chicago
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Bear, Stearns & Co., New York
WELCH, F. B.
F. S. Yantis & Co., Chicago
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Putnam Fund Distributors, Boston
WERNER, CHARLES S.
Shearson, Hammill & Co., Chicago
WEST, GERALD B.
Stone & Webster Securities Corporation, New York
WHITBECK, BRAINERD H.
The First Boston Corporation, New York
WHITE, KELTON E.
G. H. Walker & Co., St. Louis
WHITE, MRS. KELTON E.
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Chace, Whiteside, West & Winslow, Boston
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Arthur Wiesenberger & Co., New York
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WILDE, BERTRAM M.
Janney, Dulles & Co., Philadelphia
WILEY, JOHN E.
Gairdner & Co., New York
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Brown Brothers Harriman & Co., New York
WILLETT, JAMES F.
American Security & Trust Co., Washington
WILLIS, BENJAMIN S.
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WILSON, ALFRED G.
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Continued from first page

As We See It

ever, does not alter the basic nature of the existing situation.

There are, in any event, certain key questions that we must ask ourselves about all this — and some of them plainly should be occupying the minds of Britons and Frenchmen too. One of the first and most obvious is this: If these countries can not keep out of avoidable trouble and are not able to take care of themselves when they blunder, how valuable as allies are they likely to be as the years pass? Another is this: If neither of them is able to stand on its own economic feet, but must be nursed and coddled by the people of this country, had we better not be looking for some other road to safety? We should suppose that such questions as these would be troubling Britishers and Frenchmen of foresight and wisdom. They certainly should be.

Other Matters

Other matters which should be occupying our attention, our prayerful attention, can be quickly enumerated. One of the most important of these has to do with the question of how much aid we can, no matter what we should like to do in the premises, grant in the circumstances now existing without serious inflation or other disturbance here at home. Another has to do with what can be done, if anything, to enlarge our capacity to give substantial aid without damage to our own economy. We are for all practical purposes operating at full capacity with all our resources and manpower fully occupied — that is, assuming hours and diligence now being devoted to production is all that we are willing to give.

Unless we can find ways and means of becoming more productive, and unless at the same time we are willing to give up a larger portion of current income in taxes, there is not a great deal that we can do in the way of economic aid without trouble here at home. The American people, then, must sit down and search their own minds carefully to determine whether they are willing to work harder or longer, produce more and give up the resulting increase in income to pay for the things that they give away to their friends abroad. If the answer to either of these questions is in the negative, then we had better not go on with plans for greatly enlarged international giving. The authorities at Washington would do well, so we believe, to face these questions squarely.

Let us not deceive ourselves that the problem can be painlessly solved by resort to the Monetary Fund or to any other device to avoid higher taxes or greater borrowing on the part of the Federal Government. We may take it for granted that any money on which the British and French lay their hands now will be largely placed in our markets for things in short supply abroad. This would mean that either we increase our production and consume proportionally less of the output ourselves — or find ourselves in a situation where many more dollars are chasing no greater supply of goods and services.

Another Moral

This whole situation, particularly the inability of the British to meet interest payments due on former borrowings, points another moral. It is that in all too many cases in recent years, we had almost said in recent decades, gifts have been camouflaged as "loans." Those old World War I debts, which have never been paid or, for long years, even serviced, should have put us all on notice. But they did not do so altogether, it would seem. A number of "loans" were made after the end of World War II, among them the loan to Britain, interest on which is now being passed. And there is now talk of "lending" further large sums to Britain and France, as well as to various other countries. It would be better in the long run if gifts or largesse or grants in aid or other forms of generosity were labeled for what they really are rather than to pretend to ourselves that we are "investing" funds with reason to expect their return with interest in due course.

True foreign investment is a different kind of animal. Private enterprise is constantly investing money abroad. Of recent years most of it has been in the form of purchase of private property abroad or of establishing branches or businesses in foreign countries. Doubtless this process will continue. One is often obliged to wonder whether all the foreign investment that will stand the test of time will not occur of itself without government sponsorship or artificial incentives, certainly without pleas for such action in the name of foreign assistance. If we feel we must for any reason now advance large further funds to Britain or France, let us tell ourselves the facts of the matter—they are likely in the event to turn out to be gifts, no matter what we call them.

These are all matters or questions which must be weighed against any belief that Britain and France must be rescued as a matter of broad foreign policy.

Bennett-Gladstone-Manning Co. Formed

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif.—Bennett-Gladstone-Manning Company has been formed with offices at 8417 Beverly Boulevard to engage in an investment business. Officers are Hyman Bennett, President; Henry Manning, Vice-President; and Delmar Gladstone, Secretary-Treasurer. All were formerly with S. Logan & Co.

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Jay N. Whipple

1941-42

John S. Fleek

1939-40-41

Emmett F. Connely

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Morris, Pennington Retire as Partners of Brown Bros. Harriman

Ray Morris, partner since 1921, and Harold D. Pennington, partner since 1945, will retire on Dec. 31, it has been announced by

Ray Morris H. D. Pennington

Brown Brothers Harriman & Co., 138-year-old banking firm with offices in New York, Boston, Chicago, and Philadelphia.

Both have been prominent in the financial community for many years. Mr. Morris, who was born in New Haven, Conn., in 1878, joined the editorial staff of the "Railway Gazette," now "Railway Age," in 1901, and was managing editor of that publication from 1903 through 1910. He went with the firm of White, Weld & Co. in 1911 as a partner and joined the firm of Brown Brothers & Co., now Brown Brothers Harriman & Co., as a partner in 1921.

Mr. Morris was formerly a director of American Woolen Co., Bank of New York & Trust Company, Best Foods, Inc., Sidney Blumenthal & Co., Engineers Public Service Co., Grace National Bank, Grand Union Co., Munson Steamship Lines, Punta Alegre Sugar Corp., SKF Industries, and a trustee of Vassar College, Society of St. Johnland, and Sarah Lawrence College. He was President of the Investment Bankers Association in 1926. Mr. Morris has been an occasional contributor on various subjects to the "Atlantic Monthly," "Yale Review," "World's Work," and other publications. At the present time, he is a director of Symington-Gould Corp. and Wayne Pump Co., a trustee and member of the Finance Committee of the American Scandinavian Foundation, a director of the Norwegian American Chamber of Commerce, Inc., and a founder member of the senior council of the Swedish Chamber of Commerce of the United States of America. Mr. Morris made regular business trips to Scandinavia over a long period of years and received several decorations by reason of his work in developing banking relationships between America and Scandinavian countries. These include the Danish Order of Dannebrog, the Order of St. Olav of Norway, and the Finnish Order of the White Rose (Second Class).

Mr. Pennington, born in Hollis, New York, in 1890, attended Jamaica High School and New York University, entering the banking business with the National City Bank in 1911. He was later for a time Office Manager of Art Metal Construction Company, Jamestown, New York, before going with the West India Oil Co., a subsidiary of Standard Oil of New Jersey, as Assistant General Manager in Valparaiso, Chile, and Montevideo, Uruguay. He later became Assistant Secretary and then a Vice-President in the Foreign Department of the old American Exchange National Bank, and following that, was a Vice-President in the Foreign Department of the Irving Trust Company.

In 1928, Mr. Pennington joined the banking firm of Harriman Brothers & Co. and was made a partner in that firm in 1930. When Harriman Brothers & Co. and W. A. Harriman & Co., Inc., were merged with Brown Brothers & Co. in 1931, he became Manager of Brown Brothers Harriman & Co. He was made a partner in 1945. In 1952, the Dutch Government decorated Mr. Pennington with the Order of Orange-Nassau in recognition of his work in the financial rehabilitation of the Netherlands following World War II. He is a former director of the Netherlands Chamber of Commerce, John G. Paton & Co., Inc., Valspar Corp., Valentine Co., Wessel, Duval & Co., and West Coast Line, Inc. He is a member of the Wheatley Hills Golf Club.

Asiel & Co. to Admit Three Partners

Asiel & Co., 11 Wall Street, New York City, on Jan. 1 will admit E. Nelson Asiel and Louis Sidorsky, member of the New York Stock Exchange, to general partnership, and Robert R. Asiel to limited partnership.

A. J. McArdle to Be Partner in Carter Co.

Alfred J. McArdle on Jan. 1 will be admitted to partnership in Carter & Co., 14 Wall Street, New York City, members of the New York Stock Exchange. Mr. McArdle in the past was with Vilas & Hickey.

Herbert Greef will withdraw from the firm Dec. 31.

Robt. Garrett to Admit Partners

BALTIMORE, Md.—William L. Reed and Truman T. Semans on Jan. 1 will become partners in Robert Garrett & Sons, South and Redwood Streets, members of the New York and Philadelphia-Baltimore Stock Exchanges.

Briggs, Schaedle Co. Promotes Four

Briggs, Schaedle & Co., Inc., 44 Wall Street, New York City, dealers in United States Government Securities and Bankers Acceptances, announce the following promotions: Robert H. Britton, Vice-President; John M. Jones, Treasurer; Miss Eleanor M. Metzger, Secretary, and Russell J. McDermott, Assistant Treasurer.

Joins Sheffield Staff

(Special to THE FINANCIAL CHRONICLE)

NEW LONDON, Conn. — Frederick A. Stein is now associated with Sheffield & Co., 325 State St.

Boris Martynow Opens

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Boris P. Martynow is conducting a securities business from offices at 1010 Franklin Street. He was formerly with Hannaford & Talbot.

M. J. Cambia Assoc.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Mike J. Cambianica is conducting a securities business from offices at 3337 West Olympic Boulevard under the name of Mike J. Cambia & Associates.

RESULTS OF GOLF TOURNAMENTS AT THE IBA CONVENTION

1956 Convention — Hollywood, Fla. — November 25-30

Alden H. Little Trophy—18 Holes Low Net:
1st—Russell M. Ergood, Stroud & Company, Incorporated, Philadelphia—73-3-70
2nd—Andrew J. Lord Jr., Lord, Abbett & Co., New York—76-6-70

Senior Championship—18 Holes Low Gross:
1st—A. R. Hughes, Lord, Abbett & Co., New York—73
2nd—Stanley McKie, Weil, Roth & Irving Co., Cincinnati, won second from Walter Schmidt, Schmidt, Poole, Roberts & Parke, Philadelphia

18-Hole Handicap Low Net:
1st—A. H. Aldinger, Fordon, Aldinger & Co., Detroit—77-6-71
2nd—J. N. Mitchell, Caldwell, Marshall, Trimble & Mitchell, New York—82-10-72 (on a draw with Andrew Peck, Clark, Dodge & Co., New York)

Robert E. Christie Memorial Trophy—18 Holes Low Net:
1st—Gerald P. Peters, Peters, Writer & Christensen, Denver—91-17-74
2nd—William R. Barrow, Barrow, Leary & Co., Shreveport—98-23-75

18-Hole Handicap Low Net:
1st—T. C. Cafone, W. E. Hutton & Co., New York—76-6-70
2nd—J. E. Osborne II, Dominick & Dominick, New York—77-6-71

18-Hole Kicker Handicap:
Warren Chiles, Chiles-Schutz Co., Omaha

Mixed Foursome Tournament—18 Holes:
1st—Low Gross:
Mrs. Paul Frederick, Baxter & Company, New York and Gilbert Hattier, White, Hattier & Sanford, New Orleans—78
1st—Low Net:
Mr. & Mrs. Carl Doerge, William J. Mericka & Co., Cleveland
2nd—Low Gross:
Mr. & Mrs. David McElroy, Morgan Stanley & Co., New York
2nd—Low Net:
Mr. & Mrs. Macrae Sykes, Shields & Company, New York

Kickers Handicap:
Mrs. E. Vans Morgan, Hanover Bank, New York

18-Hole Tournament:
1st—Low Gross:
Mrs. Edward Hope, E. S. Hope & Co., San Diego
2nd—Low Gross:
Mrs. Paul Frederick, Baxter & Company, New York
1st—Low Net:
Mrs. W. J. Price, Alex. Brown & Sons, Baltimore
2nd—Low Net:
Mrs. Dana Baxter, Hayden, Miller & Co., Cleveland

18-Hole Tournament—Low Net:
Mrs. Miles Watkins, Stubbs, Smith & Lombardo, Birmingham

TENNIS TOURNAMENT

Men's Doubles:
Wallace Latour, Merrill Lynch, Pierce, Fenner & Beane, New York, and Henry Lee Valentine II, Davenport & Co., Richmond, Va., won 7-5, 6-3 from Richard A. Buck, Putnam Fund Distributors, New York, and A. P. Everts, Paine, Webber, Jackson & Curtis, Boston

Mixed Doubles:
Mr. & Mrs. Richard Buck, Putnam Fund Distributors, New York, won 6-1, 6-2 from Mr. & Mrs. Eugene Black, Jr., Lazard Freres & Co., New York

Jack Mingo Opens

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, Calif. — Jack Mingo is engaging in a securities business from offices at 1313 Twenty-first Street.

Joins Bache Staff

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Donald G. Felton has become connected with Bache & Co., 445 North Roxbury Drive.

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Railroad Securities

By GERALD D. McKEEVER

Northern Pacific Railway

An extra year-end dividend of 10 cents per share has just been declared by the Northern Pacific, and this is in addition to having increased the regular rate from $1.50 to $1.80 coincident with the final payment in 1955. What this amounts to is that the greater part of this year's estimated $2.2 million increase in net earnings is being passed on to the stockholders. It is estimated that this year's net will amount to about $4.25 per share as against $3.83 in 1955.

The $4.25 per share estimate for this year appears quite sound, not only that it is the mean of the $4-$4.50 range that was given out as the official estimate of the road about two months ago, but also because it is finding some confirmation in the subsequent trend of earnings. Net earnings for the month of October were up about a third over those of the 1955 month. If we may be so bold as to apply the same rate of increase to the net income for the final two months of this year, it would place this figure at $4.4 million and, added to the $17.4 million turned in for the first 10 months, this would seem to place 1956 net at about $21.8 million.

This is probably on the high side, however, since wage increases, retroactive only to Nov. 1, did not stand in the way of the smart October gain. Assuming that the entire across-the-board wage increase for both classes of employees will be retroactive to Nov 1—that is, that the operating brotherhoods will get the same treatment as the "non-ops" whose settlement has been made retroactive to Nov. 1—the additional wage bill looks like about $500,000 after taxes for the final two months of this year. This would reduce the above projected net income figure from $21.8 million to $21.3 million for the year, but the latter would still be equivalent to about $4.28 per share on the road's 4,962,494 shares of capital stock, which is all of one class.

Oil income, which has been taken into the road's income account since 1952 (but credited directly to the Land Department surplus prior thereto) will probably account for all of the $2.2 million estimated increase in the road's net. The Burlington dividend and other sources of non-operating income are not expected to show much change, while railway net operating income, actually about $1 million lower for the first 10 months of this year than for the corresponding 1955 period, is placed at about $500,000 less for the full year than the 1955 figure, even allowing for the pick-up in rail operating results. Receipts from oil and gas are officially estimated at $3 million gross for the current year as against less than $1.7 million for 1955, of which about $1.2 million was net.

There is no reliable estimate of the extent of the oil reserve in the Williston Basin where the oil lands of the Northern Pacific are located, or of what the road itself may have in the 3.2 million acres which are largely "checkerboarded" along 110 miles of the road's right of way in North Dakota and Montana. The road either owns this acreage in fee or has retained oil and gas rights and other mineral rights. The estimated oil and gas receipts are almost double the $1,687,153 from this source in 1955, and the 1957 estimate is placed at $4.2 million. The Northern Pacific no longer works its oil and gas properties, but instead farms them out to oil operators including the major companies. Among those operating in the Williston Basin are Shell, Texas Company and Standard of Indiana.

Oil income is thus potentially a strong factor for the bolstering of the income of the Northern Pacific, and in time should do more than merely balance out lagging rail income as will be the case this year to a large extent. While the 6,900 mile Northern Pacific is distinctly in the growth class as to revenues, surpassing in the past several years both the average for its district and the Class I total as to uptrend, it is a relatively high cost operation because of light density. This year, however, the Northern Pacific has had the added difficulty, in company with the Northwestern District and, as a matter of fact, with roads in the South and the West generally, in having had a less than average increase in revenues. The 4.3% gain in gross for the first 10 months of this year barely reflected the 6% freight rate increase of last March 7. This increase applied to only the 90% of the road's revenues that are derived from freight, and for only 80% of the 10-month period in question.

As a result, the wage increases and fringe benefits provided in the 1955 settlement and higher costs otherwise affecting all operations, and not only freight that got the increase, and effective for the full 10 months in question, resulted in the erosion of net operating income that has been mentioned. The Northern Pacific has the relatively high wage ratio of about 52% and wage increases are thus particularly burdensome, and the present round of wage increases will likewise present a problem unless another increase in freight rates is granted along the lines of the 7% application now pending before the ICC.

The round of wage increases granted and pending which involves an increase of 12½ cents per hour including fringe benefits, or about 6%, for the first year of the 3-year contract, will add about $6 million to the road's wage bill. On the other hand, if the ICC grants even a 6% freight rate increase against the 7% application, as was done last March, the Northern Pacific would gain roughly $10 million before taxes if there are no important "hold-downs" on certain commodities. This would indicate a possible net gain of something of the order of $2 million annually or 39 cents per share after allowing for the full 52% Federal income tax. The Northern Pacific, however, accrued Federal taxes only at the rate of about 23% for the first 10 months of this year.

While the operating problems of the Northern Pacific stem partly from its light density, this road has the compensating advantage of a light capitalization per mile. Also, considerable relief should be gained from completion of dieselization which is called for in the course of the next two years according to present plans. There is little question that the Northern Pacific has been handicapped by its tardiness in this regard. At the close of last year the road still owned 426 steam locomotives as against 391 diesel units. This goes far in explaining the mediocre gain of only 35% in gross ton miles per freight train hour from 1946 to the end of last year. A better showing is in store from steps already taken. Orders were placed last April for 80 additional diesels and the 1956 program also called for additional CTC installation—in this case on 123 miles of road between Helena and Livingston, Mont.

Meanwhile, Northern Pacific stock is particularly attractive to those who are intrigued by the oil potential. The indicated yield of something less than 5% at the current price, and giving effect to the extra dividend, would not be outstandingly attractive for a rail stock of less than top quality if there were not the oil element, but the presence of growing oil value in the "package" makes all the difference. We can not think of an oil prospect with the same apparent potential which affords the income that is now obtained on "Nipper."

Edson Cooke Joins Smith, Moore & Co.

ST. LOUIS, Mo.—Smith, Moore & Co., 509 Olive Street, members of the New York Stock Exchange, announced that Edson B. Cooke, is now associated with their firm as a Registered Representative.

A graduate of Williams College, Mr. Cooke started his business career in the Advertising Sales Department of The "Chicago Tribune."

After duty with the Army, in the South Pacific during World War II, he joined the sales staff of, "Mademoiselle" a Street & Smith publication. Since 1949, and prior to joining Smith, Moore & Co., Mr. Cooke was Southwestern Advertising Manager of "Mademoiselle."

IBA PAST PRESIDENTS

1938 - 39

Jean C. Witter

1936 - 37

Edward B. Hall

1935 - 36

Orrin G. Wood

1934

G. W. Bovenizer

1931 - 32

Allan M. Pope

1930 - 31

Henry T. Ferriss

With Calif. Investors

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Edward Brightman, Allen Silver and Moe Solzman have been added to the staff of California Investors, 3932 Wilshire Boulevard.

Two With Lloyd Arnold

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif. — Eli Baker and Leo L. Wacker have become connected with Lloyd Arnold & Company, 404 North Camden Drive.

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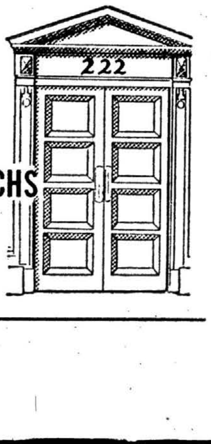

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1929-30 | 1926-27 | 1925-26


Trowbridge Callaway


Pliny Jewell


Ray Morris

John Maher, V.-P. of Amos Treat Co.

John R. Maher, has been elected Vice-President and director of Amos Treat & Co., Inc., at 79 Wall Street, New York City, in charge of trading. Until recently Mr. Maher headed Stamrowe Trading Co., Inc. Prior thereto he was advisor to the Employers' Beneficial Funds of the Springfield (Mass.) newspapers. His Wall Street experience extends back more than a quarter-century. Previous associations included E. F. Hutton & Co., Glore, Forgan & Co., and R. W. Pressprich & Co. He is a director of Allied International Investing Corp., Automatic Steel Products, Inc. and Buckeye Corp.

In addition to STANY, he has long been a member of New York Society of Security Analysts and has written a number of published articles on economics and investments.

Smith, Moore Admits

ST. LOUIS, Mo.—Norman W. Halls will become a limited partner in Smith, Moore & Co., 509 Olive Street, members of the New York and Midwest Stock Exchanges, on Dec. 31.

Robert B. Smith will withdraw from limited partnership in the firm Dec. 31.

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Bankers Offer City Of Montreal 4¼% And 4½% Debs.

An underwriting syndicate headed jointly by Shields & Company; Halsey, Stuart & Co. Inc.; Savard & Hart and Salomon Bros. & Hutzler on Dec. 12 offered $22,481,000 of City of Montreal (Canada) 1956 U. S. currency issue, 4¼% and 4½% local improvement debentures, due Jan. 1, 1958 to 1976, inclusive. The debentures are scaled to yield from 4% to 5.50%, according to maturity, plus accrued interest.

Net proceeds from the financing will be applied by the City of Montreal toward the payment of, or reimbursement of its General Fund for, the cost of various condemnations of property in order to open, extend and widen certain streets, and toward payment or reimbursement of the cost of certain other permanent local improvements, consisting of sewers, pavements and sidewalks.

The debentures will be redeemable as a whole or in part, at the option of the City, on any interest payment date prior to maturity, at redemption prices ranging from par to 102%, plus accrued interest. Principal of and interest on the debentures are payable in the City of New York in lawful money of the United States.

The debentures will be direct and unconditional obligations of the City of Montreal. In the opinion of counsel, income taxes presently imposed by Canada are not payable in respect of the debentures or the interest thereon by owners who are not residents of Canada.

Montreal, located in the Province of Quebec, has the largest population of any city in Canada and occupies a leading position in the commercial, industrial and financial life of Canada. According to the 1956 Canadian census, the estimated population of Montreal and its neighboring communities as of June 1, 1956 was 1,595,327 compared to 1,395,400 for 1951. It is situated at the head of ocean navigation about 1,000 miles from the open sea, and at the foot of the inland navigation system of the Great Lakes and St. Lawrence River; and the bulk of rail traffic between points east and west of Montreal must pass through the city. Leading industries in Montreal include women's clothing, slaughtering and meat packing, men's clothing, tobacco, cigars and cigarettes, miscellaneous electrical apparatus and supplies, leather footwear, printing and publishing, railway rolling stock, and breweries.

Geo. D. B. Bonbright To Admit to Firm

ROCHESTER, N. Y.—Philip H. Gerner, Jr. will be admitted to partnership in George D. B. Bonbright & Co., Powers Building, members of the New York Stock Exchange, on Jan. 1.

Janney, Dulles and Battles to Merge

PHILADELPHIA, Pa.—Janney, Dulles & Co., Inc., members of the New York Stock Exchange, and Battles & Company, Inc. will form Janney, Dulles & Battles, Inc. effective Dec. 31. Offices will be located at 1401 Walnut Street.

Winthrop H. Battles will become senior Vice-President of the firm.

Filor, Bullard Partner

Filor, Bullard & Smyth, 39 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Charles deTrenck to partnership.

Public Utility Securities

By OWEN ELY

Southwestern Public Service Company

Southwestern Public Service serves a large area in northern Texas and small contiguous areas in New Mexico, Oklahoma and Kansas, the whole being interconnected except for one very small section in New Mexico. The territory is highly diversified, the greatest industrial activities being centered around Borger, northern Texas, where the important oil refinery of Phillips Petroleum (the largest customer) is located. There are a number of carbon black plants in this area, producing about 45% of the nation's supply, and many other industries allied with oil and gas production.

Amarillo, the largest city served, is a wholesaling and distributing center located in the wheat and cattle belt. South of Amarillo are the "South Plains," where cotton, alfalfa, sorghum and truck crops are raised on a large scale with the aid of irrigation. This is the principal source of the company's irrigation water pumping load; the 217,000 acres now under irrigation compares with 70,000 acres two years ago. The Pecos Valley is also agricultural, with a high degree of irrigation. In this area the company serves potash mines near Carlsbad producing 95% of all U. S. Potash.

Oil and gas production in the Panhandle and Hugoton fields is important in the northern area, with considerable drilling activity in the deeper sands. Oil pumping is greatest in the South Plains where there are many new fields.

Growth in the territory has been rapid. The 1950 census figures show that the 25 communities served increased their total population by 75% in the decade 1940-50, with the rate of increase since World War II exceeding that experienced in the war. The company's own growth has been remarkable, as shown by the following comparisons of increases in the past decade:

	Electric Industry Increase	Company '55 over '54 Incr.
KWH sales	112%	318%
Revenues	127	282
Common stk. earns.	159	228
Gross plant	134	338

The company is aggressively promoting the sale of electric appliances, although it does not sell them itself. Dealers' sales in 1956 topped the previous year substantially with a particularly good showing in water heaters, ranges and dryers.

While there has been a drought condition over the past five years in much of the territory served by the company, with rainfall averaging about 60% of normal, some 15% of the area is irrigated and has consistently produced abundant crops. At present there are about 37,000 irrigation wells operating in the territory with some 6,000 pumped with electricity furnished by the company. The company has an adequate supply of water for condensing and other purposes at all its generating plants for a period estimated to exceed the life of these plants. The two largest cities in the company's territory have recently acquired water rights covering underground water supplies sufficient for at least 75 years, and smaller cities and communi-


W. Wallace Payne, *President*

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ties are taking definite steps in this direction.

The company's rapid growth has resulted in an increase in generating capability from 166,000 kw. in 1947 to 746,000 kw. this year and an estimated 814,000 kw. next year. In 1947 the margin of capacity over annual peak load was very small, but in 1955 it reached nearly 40%. This is larger than needed and it is probable that the reserve will be allowed to decline for a few years, with beneficial effects on share earnings.

The management has been active in introducing more efficient methods of operation. Mechanized accounting and billing systems have produced substantial economies. The company's Amarillo office building contains a control room which, through remote-control switching and carrier circuits on the transmission lines, directs the production of electricity generated at the ten principal plants on the most efficient basis under varying load conditions.

During the postwar period the company has followed a consistent pattern of financing. Beginning in February, 1947, there have been eight common stock offerings on a rights basis and all but the first have been heavily oversubscribed. The company plans to offer 292,000 additional shares Jan. 15, 1957, on a 1-for-14 basis. The equity ratio has been increased from 26% in 1951 to 30% this year, and may be further increased by the pending issue of common stock. No further equity financing is expected before 1961 or 1962. Directors and the principal officers of Southwestern are substantial common stockholders, the aggregate market value of their holdings and beneficial interests exceeding 2,700,000.

Share earnings increased rapidly from 58 cents (adjusted for stock splits) in 1945 to $1.36 in 1949, but the trend was then irregular until 1946 when $1.46 was reported. In the following fiscal year there was an increase to $1.54 and in the year ended Aug. 31, 1956, $1.64 was reported. Chairman Herbert Nichols has predicted share earnings of $1.80 in the next fiscal year ending Aug. 31, 1957, after allowing for the dilution of the pending stock issue.

The company has adopted a liberal dividend policy and there have been 12 increases in the dividend rate in the past 14 years, including the recent increase to $1.40. About 53% of dividends paid in the 12 months ended Sept. 1, 1956, were considered free of current Federal income tax and it is estimated that in the current fiscal year about 40% will be tax-free. A substantial part of dividends should remain tax-free through the 1958 fiscal year as a result of accelerated amortization.

At the recent price around 27 the stock yields 5.2% and sells at 16.2 times the latest share earnings of $1.67, for the 12 months ended Sept. 30.

Cameron, Tulcin to Be Dreyfus Partners

Dreyfus & Co., 50 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Duncan H. Cameron and Robert F. Tulcin to partnership. Mr. Cameron is office manager for the firm.

Fahnestock to Admit Smith, O'Neill, Jr.

On Jan. 1, Fahnestock & Co., 65 Broadway, New York City, members of the New York Stock Exchange, will admit John J. Smith and Grover O'Neill, Jr. to partnership.

Sutro & Co. to Admit Barnstron, Haas

SAN FRANCISCO, Calif. — Sutro & Co., 460 Montgomery St., members of the New York and San Francisco Stock Exchanges, on Jan. 1 will admit Alfred Barnston and Albert Haas, Jr. to partnership. Both have been associated with the firm for some time.

Samuel Franklin Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Alfred Arnett, Richard P. Eminger, Charles D. Green, Doyle B. Haney, Carl L. Herndon, LeRoy W. Klein, George A. Mitchell, Leon C. Quillin and Don M. Wilson are now with Samuel B. Franklin & Co., 215 West Seventh Street.

Northeast Airlines Offering Underwritten

Carl M. Loeb, Rhoades & Co. is Manager of an investment banking syndicate which on Dec. 12 offered 784,492 shares of Northeast Airlines, Inc. at $9.50 per share. 50% of the shares were offered to the general public; about 45% are being offered at the same price on a non-transferable subscription rights basis to present minority stockholders; and about 5% are being offered on the same basis to Atlas Corp. which presently owns 56% of the outstanding common stock. Atlas Corp. has further agreed to purchase any part of the 45% of the issue, offered to but not purchased by, the other stockholders.

The subscription offer to stock holders of record on Dec. 7, 1956 other than Atlas will be on the basis of four shares for each five shares held and will expire Dec. 20, 1956.

Net proceeds from the financing will be used by the company in connection with the expansion of its operations as a result of the extension of its route system south of New York City to Miami, Fla. It is anticipated that about $5,500,000 of the estimated proceeds of $7,000,000 will be applied toward the payment for 10 Douglas DC-6B aircraft and related equipment being acquired by the company. (Deliveries are to be made in 1957 beginning with one each in the months of January, February and March and the balance in the fall.)

In addition, the company has contracted to purchase five Bristol Britannia turbo-prop aircraft with cruising speeds of 400 miles per hour for delivery beginning in the fall of 1957.

Northeast Airlines, Inc., with its principal offices at Logan International Airport in Boston, Mass., operates as a certificated air carrier of passengers, freight and mail. The company has been serving 29 cities in New England and the city of New York and Montreal in Canada. Effective Nov. 27, 1956 the company was authorized to extend its route system southward from New England and from New York City to Miami, Fla. As a part of this new run, the company recently commenced service to Washington, D. C.

New York Stock Exchange Weekly Firm Changes

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

Sprayregen, Borinstein & Co., New York City, will be dissolved Dec. 31.

Tullis, Craig & Bright, New Orleans, will be dissolved Dec. 31.

William Kaelin will retire from limited partnership in Baker, Weeks & Co., Dec. 31.

Morris Sprayregen and Irving H. Mendelson, both members of the Exchange, will retire from partnership in Eisele & King, Libaire, Stout & Co.

William F. Bohner will withdraw from partnership in Orvis Brothers & Co.

Philip G. Volpe, member of the Exchange, retired from partnership in F. L. Rossman & Co., Dec. 10.

Alexander J. Leeds withdraws from partnership in Ungerleider & Co. Dec. 31.

Transfer of the Exchange membership of Robert L. Frank to Donald H. Peters will be considered by the Exchange Dec. 13.

Transfer of the Exchange membership of H. Albert Russell to Francis J. McCauley will be considered by the Exchange Dec. 13.

John E. Parker retired from limited partnership in Auchincloss, Parker & Redpath, Nov. 30.

IBA PAST PRESIDENTS

1920-21

Roy C. Osgood

1915-17

Lewis B. Franklin

Form Sunrise Capital

JACKSON HEIGHTS, N. Y.—Sunrise Capital Corporation has been formed with offices at 37-12 84th Street. Officers are Allan Gittleson, President; John C. Cronin, Vice-President; and Robert W. Terry, Treasurer. Mr. Cronin and Mr. Terry have been associated with Edwards & Hanly.

A. R. Harvey Inv. Opens

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—A. Ray Harvey is engaging in a securities business from offices in the First National Bank Building under the firm name of A. Ray Harvey Investment Co. He was formerly with First International Co.

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Gulf Interstate Gas
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Lisbon Uranium
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Securities Salesman's Corner

By JOHN DUTTON

First Comes Conviction

Basically there is one motivating force behind the successful culmination of every sales effort and that is **conviction.** It is the driving force behind creative selling that will bring success to any man who believes sufficiently in his job, his purpose, and his justification for the work he is doing. There is a worthwhile reason why a securities salesman should consider his work important—fundamentally his purpose should be to bring "Good to Others." I believe that every satisfactory effort must be indoctrinated with constructive idealism. No matter what is made, sold, and delivered by each of us to the other, unless there is a benefit that goes all the way—to the user, the buyer, the maker and the seller—the sound success and the lasting values will not be achieved.

There is a reason why so many "fly-by-night" firms have come and gone in the investment business, and every other business. You can't build your house on air and sand. It won't work. The times may be so prosperous that for a short while an organization can achieve a short run, and sometimes sensational success, doing business on an unsound basis, but sooner or later they go down the drain. The man who claims that you don't have to give your customers value, service, and genuine benefits, is only fooling himself. This has been said so often, it needs no further repetition.

How About Situations, Underwritings, Etc?

There are many struggling and worthwhile young business firms in this country that should have public support and are deserving of public financing through representative investment firms. It is to the lasting credit of the investment banking business, and all of the salesmen who have sold the securities of these young and growing companies during the past busy years, that many of these concerns have now become great national institutions which contribute so much to the welfare of all of us. At the time some of these offerings were made to the public, they were anything but conservative investments. The risk was high and the rewards were compensating — especially for those who had the stamina to stay and wait for their ship to come in.

I believe that young companies today that are worthy of public financing should have it. But it is one thing to do an underwriting that is based upon a solid and realistic view of the realities of the present and the possibilities which lie ahead, and it is something else again to finance any business and ask for public participation in a venture that is fundamentally weak as to its management, product, market, or capital.

A mature company can overprice its securities, a younger organization can set up an unsound capital structure. These factors are vital to the success of an underwriting initially and to the future of the company's securities over the longer term. An underwriting imposes an important responsibility upon the issuer and the investment banking firm that brings it to market.

The same holds true of special situations. If a security is priced too high, if it is offered at a price not realistically tied in with value, if it is not a special situation in all the term implies, then trouble lies ahead—for the buyer and the seller.

The Merchandise Makes Your Reputation

This may sound almost like a sermon this week. But I don't mean to convey the impression that honest mistakes of judgment cannot be made in this highly delicate task of evaluating the present and judging the future. But there is a difference between a constructive and painstaking analysis of all of the factors involved in an underwriting or a special situation, and a superficial going over that is based primarily on guesswork and hopeful anticipation of brighter days ahead.

The conviction of the buying and underwriting departments of an investment firm can only be conveyed to the sales organization if it is real. If the situation is sound, if the factors have been carefully studied, if the pros and cons have been carefully evaluated, **and then brought before the sales organization by a thoroughly convinced buying department, the conviction can be conveyed to the salesman and his clients.**

But unless the conviction is based upon a solid appraisal of the benefits which should flow eventually to the customers of any underwriting firm, and not upon a hope that all will be well because (after all we could use a deal right now), there is going to be trouble ahead. The only way you can create a sales organization, a loyal clientele, or a sound reputation is to BUILD YOUR CONVICTIONS ON REALITIES.

Russell With Aronson

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Kenneth D. Russell has become associated with Aronson & Co., 426 South Spring Street. Mr. Russell was formerly Los Angeles Manager for Daniel D. Weston & Co.

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Continued from page 9

Chemical and Pharmaceutical Industry Outlook for 1957

out the highly developed production and marketing skills which turn laboratory findings into products which reach the world-wide market place. Everyone will agree, I think, that production is not now a serious problem of our economy. We have weak spots to be sure—problems of supply here and there; problems of manufacturing costs that must be solved by technology improvements. But our more serious problems today generally lie in the field of marketing and sales—in developing markets both here and abroad to absorb the production we are capable of reaching, and equally important, in keeping a firm grasp on those markets which we already have. I am sure I need not stress the critical importance of aggressive marketing programs by our industry in the year ahead, especially in view of the resurgence of a strongly competitive industry abroad.

The American chemical industry has assumed world leadership, but with this leadership we face new problems in international trade—problems of keener competition and dollar shortages. Since these factors vary from country to country and from year to year, the industry has attempted to offset them as much as possible by increased capital investment abroad, or by the licensing of know-how under satisfactory terms. New American-built plants have been going up in a number of countries, and more are scheduled for completion in 1957. Our aim has been to meet overseas competition on its own ground.

Yet, attempting to plan the future of international trade in any detail is a notoriously difficult business. As the newspapers have been reminding us lately, economic and political storm clouds can gather quickly, and the rise of nationalism throughout the world has posed many complex problems for international trade in general.

In the international area at present, we have to face the fact that the Suez situation affects us directly, and the Hungarian tragedy will have repercussions upon international trade which will be no less large for making themselves felt indirectly. Most recent reports agree that clearing the Suez Canal will take a minimum of six months. Furthermore, even beginning the task must await political settlements in Egypt, which will decide just who is to do the work, and make arrangements for free access to the job. It seems to me that the United Nations offer us the best hope for such a settlement. But in the meantime, the effects of the closing of that lifeline are already being felt. European industry depends upon the Middle East for 65% of its oil, and the chronic dollar shortage in Europe and the unavailability of sufficient tankerage will make it impossible for many countries to make up the complete deficit with American oil. England and France have already announced gasoline and oil rationing.

Moreover, the crisis in the Middle East seems sure to affect the world balance of political and economic responsibility of the major nations with the United States and Russia emerging more forcefully than ever as the leaders of opposing ideologies. The tragic events in Hungary and the resurgence of Polish nationalism are almost certain to produce further changes in Soviet foreign policy and thus in her domestic economy and trade policies. All this makes plain that we are in for a period of "stepped-up competitive co-existence" which will place the United States under growing pressure to meet the manifold problems associated with world leadership. For has not Khrushchev recently promised us, —and I quote—"History is on the side of Communism. We shall bury you all."—end of quotation.

In facing these growing pressures, we can as industrial managers rely on the traditional business atmosphere of free enterprise that has made American industry the envy of the world. But now, more than ever, our industry also needs spokesmen capable of working for the interests of its membership — voices which can recommend action to Congress, to Customs, and to the Executive Branch of Government. Fortunately, we have among others such a voice in the Synthetic Organic Chemical Manufacturers Association. And it is encouraging to know that the Association's committees, which have gained such impressive stature in governmental circles, have more than once before been able to head off economic hazards that have threatened the industry and its members.

Where then, are we going in 1957? I shall not pretend that I can make precise predictions. If President Eisenhower's announced policy of working for peace through the United Nations succeeds, however — the first six months of next year seem to me to be reasonably predictable in at least five major areas of business.

(1) In our industry we can look forward to moderate increases in over-all sales volume, trading in a market of relatively stable prices.

(2) The profit picture is not quite so bright as the sales outlook. We have already seen some decline in chemical industry profit margins in 1956, and a further "squeeze on profits" seems to be in store next year, due largely to increasing costs of operation.

(3) In view of trouble in the Middle East, we can anticipate more defense spending and larger foreign aid appropriations. This increased spending makes it unlikely that industry will see any appreciable tax cuts in the year ahead.

(4) The money market will apparently continue to be tight for at least six or eight months, which may temporarily dampen plant expansions in some segments of industry.

(5) Labor relations are likely to be stable for the coming year. The recent steel contract appears to have set a wage pattern for industry in general and we can expect in accordance with this contract an increase in wages during late summer or early fall.

These five statements I have just made, of course, refer to our industry as a whole. Our individual companies may well vary up or down like the sine curve from this general pattern, as all companies must in a free, competitive economy. An individual company's position on the sine curve may well be dependent upon the success of its research and marketing programs.

Should there be any downtrend in the chemical industry, it is unlikely to persist for long. Our industry is now so intimately involved in every phase of life that its long-term growth is secure. That growth depends, in the long run, upon our contributions to a longer, healthier life in a more bountiful world. All of us here, I believe, are dedicated to continue to make these contributions that will insure progress and prosperity for our industry and for people throughout the world. This, then, can be evidence of our devotion to the "heritage of freedom" toward a time and a world where all men shall be free.

E. Rodney Burnett

E. Rodney Burnett passed away Dec. 9 at the age of 76 following a short illness. Mr. Burnett had been a member of the New York Cotton Exchange for many years prior to his retirement in 1950.

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The State of Trade and Industry

pairs and de-mothballing by the United States to make up the deficit, declares this trade weekly.

Steel mills resent backstage government pressure to force "voluntary" channelling of plate and structurals to shipbuilding. They are already under the gun to sustain the freight car building program and some old-time customers in other fields are taking the consequences.

While more plate and structural capacity is on the way, production of these two products will suffer until the new mills are in place. A large Eastern producer will curtail sheared plate production by 40% while a new mill is being installed. The cutback will begin in January, continues this trade authority.

Steel demand from other industries is holding steady, or mounting. Auto producers are beginning to see daylight and their new cars have taken the public's fancy. First quarter steel requirements are beginning to rise.

After rising more or less steadily since last October, the steel scrap market has settled down momentarily and prices have leveled off after reaching record heights.

But the scrap industry can look back on its best year in history. Purchased scrap shipments to the nation's mills and foundries will total 36,000,000 tons, a new record. Exports also are likely to set a new mark of 5,000,000 tons. Sales may reach, or exceed $2,000,000,000.

An "Iron Age" survey shows that steady expansion has made the scrap industry a major consumer of capital equipment. Capital spending this year will approach $54,000,000 and contemplated spending in 1957 will approximate $46,000,000.

Sales by wholesalers in October rose more than seasonally from the September level to a total of $11,700,000,000, the United States Department of Commerce reported.

The October volume compared with sales of $10,400,000,000 the previous month and $10,500,000,000 in October last year.

Wholesale inventories also increased in October, the report stated. At the end of the month book value of stocks amounted to $13,500,000,000, compared with $13,100,000,000 the month before and $12,600,000,000 a year earlier.

The department said the October sales increase was more than usual at this time of the year. Its seasonally adjusted index rose to $10,600,000,000 from $10,300,000,000 the month before.

In the automotive industry the past week, record 1956 passenger car output, on the eve of the National Auto Show, was scheduled by United States assembly plants at 170,398 units.

"Ward's Automotive Reports" stated the program is 6.5% above the 1956 high set in the preceding week and only 6% below the industry all-time 180,754-unit record of the Nov. 7-12, 1955 week.

The statistical agency observed that the upsurge "paves the way" for attainment of the industry goal of 613,000 car completions this month following sharp deficits in November and October, adding it is being accompanied by strong dealer sales.

The auto dealers retailed an estimated 465,000 new cars in November, for a 12.3% gain over 414,000 in October and are pointing towards the 500,000-plus sales level this month. It was the second-best postwar November sales.

However, the reporting service cautioned that dealer inventories remain out of balance, with shortages in 4-door hardtop, station wagon and convertible body styles clouding the scramble for competitive shares of the auto market.

Last week's passengar car volume was set as follows: 50.1% by G. M. Corp., 28.9% by Ford Motor Co., 18.3% by Chrysler Corp. and 2.7% by remaining producers.

Truck output, "Ward's" declared, held steady last week following 92,754 completions in entire November. Car output last month totaled 581,088. The entire 1956 outlook is for 5,800,000 car and 1,100,000 truck completions in United States plants.

Outlays for new construction put in place dropped 8% in November from October but topped the like month of last year by 3%, a joint report of the United States Departments of Commerce and Labor disclosed.

New construction spending last month totaled $3,800,000,000 and compared with $4,100,000,000 spent in October and $3,700,000,000 spent in November of last year.

Despite the drop from the October level, the departments said November construction spending was the highest for the month on record, rising above the previous peak reached a year ago.

With seasonal factors included, the report said outlays for new construction last month were at an annual rate of $44,600,000,000, the highest rate since June.

During the first 11 months of this year, new construction expenditures amounted to nearly $40,800,000,000. This was a climb of about 3% over last year's 11-month total of $39,700,000,000.

Steel Output Placed This Week At 102.0% of Capacity

Industrial production is moving into new high ground, and momentum will carry prosperity well into the first half of 1957, "Steel" magazine, the national metalworking weekly, stated on Monday last.

It declared that its industrial production index today eclipsed the previous high mark of 164 (1947-1949=100) which was established in 1955.

Two of the four segments in the index will put it still higher. Auto production is expected to reach its 1956 high point in mid-December. The electric utility industry in the week ended Dec. 1 moved above the 12,000,000,000 kwh-hr mark for the first time. The previous weekly record was 11,600,000,000 kwh-hr set in 1955.

The steel mills are expected to keep at or above capacity, while freight car loadings are in a seasonal decline. They are the other segments of the index.

The magazine said signposts pointing to continued good business in the first half include the new order index compiled by the American Gear Manufacturers Association, which is now at a peacetime record. Further, the index of the American Supply & Machinery Manufacturers Association rose to a postwar high in October. This index, which covers everything from nuts and bolts to cranes, influences the planning of members for at least 60 days.

New orders reported by the Industrial Heating Equipment Association in the first ten months of this year are 27% ahead of those in the same period last year.

"Steel" predicted metalworking dollar sales in 1957 will hit $145,000,000,000 compared with $135,000,000,000 this year. One exception to the upward trend was noted, it said housing starts may be down to 1,000,000 or less next year due to the tight money situation. This could mean a sales loss of $300,000,000 or more in home components, with major appliance makers also feeling the impact.

Pressure from finished steel shipments in the United States is expected to mount as the squeeze on certain products, notably plates, tightens.

Despite the heavy production loss caused by the strike, finished steel shipments this year will fall only slightly below the total for 1955—84,000,000 net tons, against 84,417,444. "Steel's" explanation is that a higher yield from ingots will approximate 73.04%, versus 72.39 in 1955, 71.51 in 1954 and 71.81 in 1953.

"Steel's" price composite for finished steel is unchanged at $137.66 a net ton. For the first time since 1948, steelmaking scrap is selling above basic pig iron. The composite price on pig iron stands at $62.18 a gross ton. The price composite on scrap is at $66.17 a gross ton, up $1.50.

The American Iron and Steel Institute announced that the operating rate of steel companies having 96.1% of the steelmaking capacity for the entire industry will be an average of 102.0% of capacity for the week beginning Dec. 10, 1956, equivalent to 2,511,000 tons of ingot and steel for castings as compared with 101.3% of capacity, and 2,493,000 tons (revised) a week ago.

The Industry's ingot production rate for the weeks in 1956 is based on annual capacity of 128,363,090 tons as of Jan. 1, 1956.

For the like week a month ago

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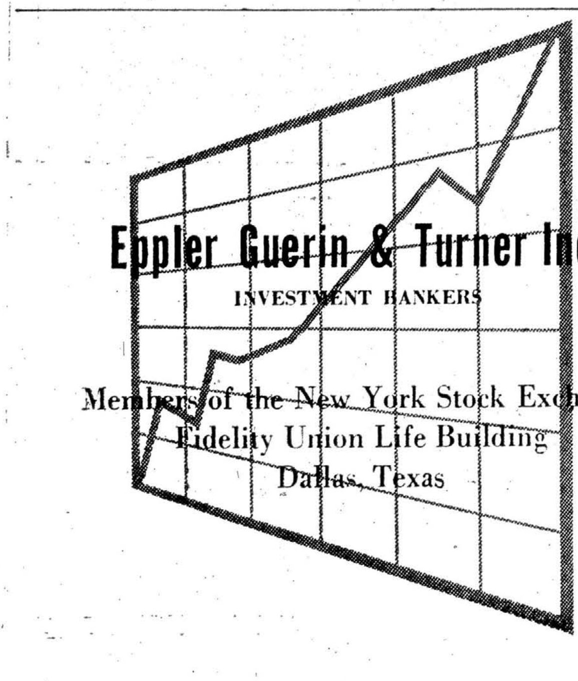

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Four With Boren

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif.—Margorie Maltun, Ralph Rosenberg, Marvin J. Saul and John W. Wakefield are now with Boren & Co., 9640 Santa Monica Boulevard.

Joins Eastman Dillon

(Special to The Financial Chronicle)

LOS ANGELES, Calif. — David E. Glatt has joined the staff of Eastman Dillon, Union Securities & Co., 3115 Wilshire Boulevard. He was formerly with Dempsey-Tegeler & Co.

Hooker & Fay Open New Offices

SAN FRANCISCO, Calif.—Hooker & Fay, members of the New York and San Francisco Stock Exchanges have opened offices at 925-A North Fulton Street, Fresno, with Leland E. Scott as Manager; at Hotel Covell Lobby, Modesto, with William Warner as Manager, and at 108 South Church Street, Visalia, with Glen Nielsen as Manager. All were formerly with Davidson & Company.

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Form A. J. Cortese Co.

A. J. Cortese & Co., members of the New York Stock Exchange, will be formed with offices at 40 Wall Street, New York City, effective Dec. 20. Partners will be Anthony J. Cortese who will acquire a membership in the New York Stock Exchange, and Barbara A. Frantz, general partners, and Joseph Fanelli, Bernard T. Wilens, Edward M. Carlson, Lewis R. Diamond and Maurice Di Miceli, limited partners.

With Edward Cronin

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Robert S. Menzies has become connected with Edward T. Cronin Co., 548 South Spring Street.

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The State of Trade and Industry

the rate was 100.2% and production 2,466,000 tons. A year ago the actual weekly production was placed at 2,421,000 tons or 100.3%. The operating rate is not comparable because capacity is higher than capacity in 1955. The percentage figures for 1955 are based on annual capacity of 125,828,310 tons as of Jan. 1, 1955.

Electric Output Drops Moderately Under New All-Time High Set In Preceding Week

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, Dec. 8, 1956, was estimated at 12,047,000,000 kwh., a moderate drop below the week ended Dec. 1, 1956, according to the Edison Electric Institute.

The past week's output fell 28,000,000 kwh. under that of the previous week, which registered a new all-time high since the week ended Dec. 24, 1955 when output reached 11,614,000,000 kwh.; it increased 621,000,000 kwh. or 5.4% above the comparable 1955 week and 2,201,000,000 kwh. over the like week in 1954.

Car Loadings in Week Ended Dec. 1, Rose 15.6% Above Preceding Holiday Week

Loadings of revenue freight for the week ended Dec. 1, 1956, were 101,230 cars or 15.6% above the preceding holiday week, the Association of American Railroads reports.

Loadings for the week ended Dec. 1, 1956, totaled 752,150 cars, an increase of 28,364 cars or 3.9% above the corresponding 1955 week and an increase of 90,373 cars, or 13.7% above the corresponding week in 1954.

U. S. Car Output Last Week Rose 6.5% Above Previous Week's High Record for 1956

Car output for the latest week ended Dec. 7, 1956, according to "Ward's Automotive Reports," was set at the highest level of 1956.

Last week the industry assembled an estimated 170,398 cars, compared with 159,976 (revised) in the previous week. The past week's production total of cars and trucks amounted to 194,586 units, or an increase of 9,548 units above that of the preceding week's output, states "Ward's."

Last week's car output advanced beyond that of the previous week by 10,422 cars, while truck output declined by 874 vehicles during the week. In the corresponding week last year 178,409 cars and 27,870 trucks were assembled.

Last week the agency reported there were 24,188 trucks made in the United States. This compared with 25,062 in the previous week and 27,870 a year ago.

Canadian output last week was placed at 10,090 cars and 2,242 trucks. In the previous week Dominion plants built 9,405 cars and 2,128 trucks and for the comparable 1955 week 6,422 cars and 860 trucks.

Business Failures Advance Further In Latest Week

Commercial and industrial failures increased to 270 in the week ended Dec. 6 from 254 in the preceding week, Dun & Bradstreet, Inc., reports. The toll was up sharply from the 219 last year and the 223 in 1954, but it remained 9% below the prewar level of 297 in the comparable week of 1939.

Failures involving liabilities of $5,000 or more rose to 225 from 219 a week ago and 186 last year. An increase also occurred among small casualties with liabilities under $5,000, which climbed to 45 from 35 in the previous week and 33 in the similar week of 1955. Twenty-five of the failing businesses had liabilities in excess of $100,000 as against 20 in the preceding week.

All industry and trade groups except wholesaling had more failures during the week. The retailing toll rose to 141 from 129, commercial service to 27 from 20, while milder increases raised manufacturing to 43 from 39 and construction to 43 from 37. In contrast, failures of wholesalers declined to 16 from 29 last week. Neither manufacturing nor wholesaling had as many casualties as a year ago, but marked increases from the 1955 level occurred in other lines.

The week's rise was concentrated in the Pacific States where the toll climbed to 89 from 68 and in the East North Central States with 39 as against 27. While failures edged up to 14 from 12 in the West South Central States, four other regions reported lower tolls, including the Middle Atlantic States, down to 79 from 93. No change from last week occurred in the West North Central States with 6 or the East South Central with 8. Failures exceeded the 1955 level in five regions, dipped slightly below a year ago in three regions and held even in the Mountain States.

Wholesale Food Price Index Registers First Decline in Four Week Period

Registering the first drop in four weeks, the wholesale food price index, compiled by Dun & Bradstreet, Inc., fell to $6.14 on Dec. 4, from the six-month peak of $6.16 a week ago. The current figure represents a rise of 2.5% over the year-ago level of $5.99.

Higher in wholesale cost the past week were rye, bellies, coffee, tea, potatoes and hogs. Lower were flour, wheat, corn, oats, beef, lard, butter, milk, cocoa, eggs, steers and lambs.

The index represents the sum total of the price per pound of 31 raw foodstuffs and meats in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Extended Advance of Prior Week to Establish a Further New High Since Mid-April 1952

The general commodity price level continued to advance last week and reached a further new high since mid-April 1952. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., registered 300.18 on Dec. 4, as compared with 299.96 a week previous and 276.91 on the corresponding date last year.

Grain markets were irregular the past week with some grains, particularly wheat, being subjected to heavy profit-taking as demand subsided following the easing of war tensions in the Middle East.

Some selling of wheat futures resulted also from the reported sale of CCC wheat at St. Louis and other markets in the Southwest. Although demand for rye was limited, relative firmness in that grain was attributed to an improved technical position after its recent severe decline. Moderate advances in corn reflected strength in cash markets and continued light producer marketings. Oats prices trended slightly lower on reported sales of Canadian oats to this country. Soybean prices advanced due largely to higher soybean oil prices. Volume of trading in grain and soybean futures on the Chicago Board of Trade expanded and totaled 59,500,000 bushels for the week, against 55,000,000 bushels the previous week.

Reflecting the gradual upward trend in the raw sugar market, the price of refined sugar was moved up 15 cents a hundred pounds last week to $9.10, the highest in 33 years.

Domestic raws were easier at the week-end following announcement of an increase in domestic sugar quotas to a record 9,000,000 tons. Domestic demand for all types of flour remained very slow with buyers content to draw upon balances in the absence of any important price developments and a belief that wheat prices have reached levels where greater marketings will be attracted.

Cocoa prices were steady to firm reflecting moderate purchases for manufacturers' account and declining warehouse stocks which fell to 300,723 bags from 307,988 bags a week earlier. A year ago these holdings were 273,248 bags. Active buying of lard lifted prices for that commodity to the highest levels of the season. Live hog prices trended higher at the week-end, while heavy receipts depressed both cattle and lamb prices.

Spot cotton prices moved in a narrow range and finished slightly lower than a week ago. Contributing to the easiness was selling prompted by the improvement in the international situation and uncertainties as to the probable loan rate next season.

Tending to support values were month-end price-fixing and an unexpected increase of 25 points in the parity price for upland cotton as of Nov. 15.

Trading in the 14 markets was active. Purchases during the week ended Nov. 30 totaled 511,900 bales against 540,500 the previous week and 255,500 in the same

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week a year ago. CCC loan entries in the week ended Nov. 23 were reported at 232,900 bales, against 277,200 a week earlier and 336,000 two weeks ago.

Trade Volume in the Latest Week Declined Slightly Below Level of A Year Ago

Although consumers noticeably stepped-up their purchases of apparel, furniture and linens in the period ended on Wednesday, of last week, total retail trade was slightly below that of a year ago.

While volume in new passenger cars rose sharply, interest in major appliances was sluggish.

The total dollar volume of retail trade in the week was from 3% to 1% above a year ago, according to estimates by Dun & Bradstreet, Inc. Regional estimates varied from the comparable 1955 levels by the following percentages: New England —5 to +1; Middle Atlantic and West South Central —4 to 0; East North Central —1 to +3; West North Central, South Atlantic and Mountain 0 to +4; East South Central +1 to +5 and Pacific Coast —6 to —2%.

Consumer buying of apparel expanded noticeably last week, but slipped somewhat below that of the similar period last year.

Christmas sales promotions boosted sales of fashion accessories, with considerable increases in hosiery and handbags.

Furniture dealers reported increased sales of bedding and occasional chairs, but interest in upholstered chairs and dining room sets slackened.

Despite a slight rise in purchases of automatic dishwashers and laundry equipment, sales of major appliances were below both those of the previous week and last year.

Grocers reported a noticeable decrease in food buying the past week. The call for fresh meat, butter, cheese and canned goods was sluggish. Purchases of poultry, frozen foods and fresh produce remained at the level of the preceding week.

While orders for food products and textiles fell somewhat a week ago, increased buying in some lines of apparel and home furnishings held the total dollar volume of wholesale trade at the level of the preceding week.

Department store sales on a country-wide basis as taken from the Federal Reserve Board's index for the week ended Dec. 1, 1956, declined 1% below those of the like period last year. In the preceding week, Nov. 24, 1956, an increase of 1% was reported. For the four weeks ended Dec. 1, 1956, an increase of 1% was also recorded. For the period Jan. 1, 1956 to Dec. 1, 1956, a gain of 3% was registered above that of 1955.

Retail trade volume in New York City the past week dropped 5% to 10% below the like period a year ago, due in part to warm weather and the fact that two more days remain for shopping than was the case last year, trade observers note.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period ended Dec. 1, 1956, showed no change from the like period of last year. In the preceding week Nov. 24, 1956, no change was recorded. For the four weeks ending Dec. 1, 1956, no change was also registered. For the period Jan. 1, 1956 to Dec. 1, 1956, the index recorded a rise of 4% above that of the corresponding period in 1955.

Continued from page 4

Population Growth Concepts And the Economy of Tomorrow

does take account of the children which the women in each age group have already had.

What of the future? I don't think I am revealing neighborhood secrets when I say that the girls who have had three or more children in their 20s are not planning to make any further substantial contributions to the birth rate in their 30s. Thus, for that age group, 30 to 40, the birth rate is almost certain to decline as compared with the past 10 years. What of the new group in the 20 to 30 age category? The plain fact is that there will be fewer of them because of the exceptionally low birth rate in the 1930's. The number of girls in their middle 20s (the most fertile age group) will not begin to turn up appreciably for about 10 years, and the postwar bumper crop will not make a big impression until about 1971.

Larger Families to Decline

My second reason for believing the birth rate will turn down concerns the number of births per family. There has been a trend in recent years towards larger families. I do not think that trend will continue, and I rather expect that there may be some movement in the opposite direction. Most observers say that economic circumstances have a large influence upon the number of children that people wish to have. I agree, but it seems to me that the absolute level of income is of little consequence, while the direction and rate of change of income is by far the more important factor. Let me expand on this point a bit. Many people attribute the high birth rate to the prosperity of recent years. It is true that incomes are at record levels. But the really significant point, in my judgment, is not that most people are more prosperous than they ever were, but that the rate of increase in income in the past 20 years has been so rapid that they are more prosperous than they ever expected to be. It seems to me that the level of living that people aspire to is determined to a considerable extent while they are quite young. When people say "we can afford to have more children" or "can't afford it," it is usually in terms of material standards which were formed while they themselves were growing up.

The 1930's provide a clear example of this. We are told that the low birth rate of that period can be explained by the fact that people "couldn't afford to have many children." What does that mean? Even in the 30's, the standard of living in the United States was much higher than it has ever been in most of the world. In terms of absolute income, that explanation makes no sense at all. But in relative terms, it does. We know that measured against an aspirational level formed in the 1920's, incomes did seem too low.

Future Per Capita Income

What does the future hold in store on this count? This may come as a shock to some of you, but it seems highly unlikely that per capita income will increase as rapidly in the next 20 years as it did in the last 20.

Let us look at Table 2 where I have presented some approximate figures which lead me to this conclusion. Between 1935 and 1955 the real Gross National Product (in 1955 dollars) increased from $153 billion to $385 billion, a gain of 152%. Population increased by 30% during that period so that the gain in real per capita income was 94%.

What was the source of this increase? There were two principal factors. First, there was an increase in output per worker amounting to 66% for the 20 years. But in addition, and this is the key point, there was an increase in employment of 52%. More people working, plus greater output per worker.

Productivity Gains to Slow Down

We are now at full employment, or close to it. We no longer have a backlog of unemployed as a potential source of increase of output per capita. From now on, the entire increase must come from increased productivity. And what an increase that would have to be! Consider, for example, the

Continued on page 104

TABLE 2

Economic Changes 1935-1955

	1935	1955	% Change 1935-1955
Real Gross National Product (in 1955 dollars)	$153 bill.	$385 bill.	152%
Real GNP per capita	$1,200	$2,333	94%
Real GNP per person employed	$3,617	$6,012	66%
Population	127 mill.	165 mill.	30%
Labor force	53 mill.	66 mill.	25%
Employment	42 mill.	64 mill.	52%

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Population Growth Concepts And the Economy of Tomorrow

following predictions by Peter Drucker, published in "Harper's Magazine" last year. He foresees an increase in population over the next 20 years of "at least two-fifths." He also says the labor force will increase by one-fifth. This means that if the rate of increase of per capita income is to be maintained, productivity will have to increase by 123% (assuming full employment in 1975) as compared with 66% in the past 20 years. Even if Drucker's population estimate is high, as I believe it is, the gains in productivity would have to be far greater than we have any reason to expect they will be.

If we examine past productivity increases in the various sectors of the economy, we find further reason why we should not expect per capita income to grow as rapidly in the next two decades as in the past two. Table 3 shows that productivity has risen much faster in agriculture than in either industry or the rest of the economy.

Twenty years ago, one out of every four workers was employed in agriculture. At present, only a bit over 10% of our working population is employed in that sector. Therefore, even if productivity in agriculture should triple in the next 20 years (as it may well do), it can have only a small effect on the over-all total. To some extent this is even true of industry, which employs only about 30% of the labor force. The greatest number of workers, about 60% are not in agriculture or industry, but are in the so-called tertiary or services sector of the economy. If this country is going to be a great deal richer, healthier, and happier 20 years from now, it will have to be principally because of improvements in this third sector. But this is precisely the sector where productivity gains seem to have been smallest in the past.

Cannot Measure Service Sector

I say "**seem** to have been smallest" because when we talk about productivity in this third sector, there is some question as to whether we know what it is or how to measure it. In agriculture or industry this problem is not as severe. When a worker produces two autos instead of one, or when the same amount of wheat can be produced by half as many men, most reasonable men would agree that there has been an increase in productivity. But what about this all important third sector? Has there been any increase in the productivity of teachers, ministers, doctors or social workers? Do major league baseball players produce more now than they used to? We really don't know the answers to these questions, and what is perhaps more important, we hardly know how to go about getting the answers. As long as we are talking about output in agriculture or industry, we can concentrate on a fairly specific, measurable characteristic—quantity. But when we look at output in the third sector, we have to come to grips with another dimension, quality, and this is something which statisticians and economists find very difficult to measure.

Let us consider television, for example: Let us simplify the problem and think of productivity in television as having two avenues for development—number of sets produced and quality of programs. If the former increases, we have a clear case of increase in national product. But what if the quality of program deteriorates? Can we measure this? And how much deterioration offsets how much of an increase in number of sets? Or vice versa? The same kind of questions apply to the quality of education, which I mentioned earlier. In fact, this variable of **quality** is directly connected with the question of population growth as well.

Wealth Not Based on Population

After having gone to some length to show why the rate of population increase may slow down, it may come as a surprise to you that my reaction to this finding is—So what! Why all this emphasis on counting noses anyway? It would seem to be a great deal more important to be concerned with the quality of our population rather than in the mere quantity.

Ah, but they tell us that rapid population growth is the key to economic prosperity and economic growth. I wonder! If that were true, wouldn't China and India be the richest countries in the world? Are we to believe that if the population of this country ever reached a stable plateau, we could no longer look forward to high employment or increasing productivity? It seems to me that there is a misplaced emphasis on the demand side of the question of economic growth, if you are talking about the long pull. I don't think we have come anywhere near satisfying peoples' wants for goods and services. In the short run, demand (that is, effective demand) may fall short, but this is primarily a problem for monetary and fiscal policy. Over the long run, the limiting factor of economic growth is our ability to produce. It is appropriate, therefore, to examine the real factors which are the basis of all gains in productivity and economic growth. They are: better workers, more resources per worker, and innovation. Let us look briefly at each.

Workers' Quality

"Better workers" covers a lot. It refers to health, education, training, emotional stability, morale, and attitude towards work. While the major emphasis is usually given to capital expenditures or new inventions, let us not underestimate the importance of the individual man and what he can and wants to produce. We, who are relatively healthy and relatively well educated, tend to take these things for granted. But anyone who has tried to increase output where there is widespread illiteracy or disease will tell you what a difference this makes.

Even in this country, consider the terrific losses in output which can be attributed to alcoholism, emotional disturbances, mental disease, or the death of leading men at the peak of their ability. Consider how many situations there are (and you probably know of some) where output could be increased 20 or 30% if the workers **wanted** to, even without any new inventions or large scale investments.

Improvement of the individual worker has always been important in this country; it will continue to be so. But this will require new advances in health, in education, and in providing security without sacrificing mobility or incentives.

Capital Formation Rate

What about new resources, by which I mean principally capital. It is obvious that the more equipment each worker has the more productive he can be. Will the rate of new capital formation continue as rapidly as in the past? This depends in large part upon saving. Under full employment, the only way that capital can come into existence is by people not consuming, or saving. People must be willing to give up the chance to consume now in order to consume more in the future, and there must be an efficient mechanism whereby their not consuming is translated into production of capital equipment. It is very difficult to speculate about peoples' saving habits, but it is my feeling that saving, and capital formation, will not be at an increased rate in the years ahead, and may actually fall off a bit.

The third source of increased productivity is innovation, by which I mean doing things differently (and better). Let us consider first two technological innovations that have been stealing the headlines, atomic energy and automation.

Atomic Contribution

The future potential of atomic energy is undoubtedly great, but at present, and over the next two decades, I cannot see atomic energy bringing about any revolu-

TABLE 3
Approximate Indexes of Output, Labor Input, and Productivity in 1955 (1935 = 100)

	Agriculture	Industry	Other
Physical output	150	300	250
Labor input	70	190	170
Productivity	220	160	150

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tionary changes in productivity in the United States.

The limitations of fissionable materials for powering vehicles was pointed out by Gordon Dean in his talk here last Dean's Day. Its principal use in the next two decades is likely to be as a new type of fuel to generate electric power in conventional steam plants. Its commercial application depends primarily upon costs relative to other types of fuels. That is why I say that it will not bring about any revolution in the United States, where other fuels are relatively cheap, and where fuel costs are only a small part of the cost of electricity. Atomic energy could be a very important factor in other countries not well endowed with more conventional fuels.

Automation's Contribution

What of automation, by which I mean the use of machinery to control machinery, especially where there is a feed-back from the output to correct for errors and to control input machinery. Most experts say "no revolution," merely a continuation of mechanization, something which has been going on in this country for a long, long time. One writer, John Diebold, says, "the nature and rate of population shifts due to automation are both of an order of magnitude with which we are historically familiar and with which we are able to cope." But this means that over-all gains in productivity attributable to automation will not be of revolutionary proportions. For individual forms, and individual industries, it will be, of course, but not for the economy as a whole.

There is another kind of innovation which we should take note of, which is quite different from inventing new machines, new processes, or new products. It concerns the discovery and development of new ways of combining and directing resources, both within industry and for the economy as a whole. For the lack of a better name, I will call this organizational innovation. Here are some examples of it in the past: the Federal form of government, the modern corporation, the assembly line, the Federal Reserve System.

For the future, the following are some areas which seem to be badly in need of organizational innovation. On the world level, it is clear that unless we find some method of controlling the weapons of mass destruction, all our other plans and programs will be meaningless. Also, we need to develop institutional devices to expedite the flow of investment from the United States to capital-hungry nations. These devices must both protect the investor and meet the needs and assuage the fears of the countries to be developed.

Private Power Concentration

Here at home, I will mention just two problem spots, although there are many others. First—the giant corporation. These institutions have power which is relatively unchecked by market forces, their control is largely out of the hands of the owners, and their economic, political, and social influence is enormous. How do you cope with this? *Laissez-faire* won't do, and the anti-trust laws, while useful, are not a sufficient answer, and sometimes even obstruct economic progress. Perhaps Federal incorporation laws would help, or placement of public representatives on the boards of directors. I don't know the answer, but I do know that such concentrations of private power are contrary to the fundamental economic and political philosophy of our country, and some innovations will be required to meet the problem.

Second, consider the city. It is becoming increasingly clear that many of today's problems cannot be satisfactorily handled within geographical boundaries established generations ago. Problems of transit, water supply, sewerage, traffic and air pollution cross city and even state lines, and we seem to need new organizational devices for handling them. New York City has its full share of problems. Some of you may have done as I did, moved to the suburbs, thinking to escape them. But we cannot, for not only do similar problems arise in our own communities, but the problems of the city are still ours, and we neglect them at our own risk. One simple lesson that history tells us is that the decline of the city will mean the end of civilization; it always has in the past. If I may venture one more prediction, it is that our well being in the economy of tomorrow will depend more upon organizational innovations for meeting these and similar problems than on anything else.

Will We Have Innovators?

What are our chances of getting such innovations? The point I would stress here is that they do not come automatically. They depend upon **innovators,** people who are willing to dare to think and act differently, and, upon there being a sufficient number of other people who are willing to respect and encourage their right to do so.

In my judgment, the greatest single key to American growth in the past has been the freedom of thought, expression, and action, and the mobility of our society which gave the innovator a chance. Are we in danger of losing this in our search for security, for uniformity, for normality? Remember, the innovator usually threatens someone's security, and may not be "normal" or "adjusted." He may be the boy who goes to the young socialist league meetings, or the one who sits in the library on Saturday afternoons reading a big book. He's usually different. And he's always dissatisfied with the status quo. But he is the hope of the future.

A recent statement by Nathan Pusey, President of Harvard, seems to summarize a great deal of what I have tried to say here about population and economic growth. Dr. Pusey wrote:

"It is a truism that the continued growth in quality of civilization depends less on numbers . . . than on fresh insights, extraordinary efforts, and novel achievements by a few individuals of exceptional ability. . . .

"It is the exceptional person—one might almost say the eccentric person — who all along has been opening the way toward a fuller life for all of us."

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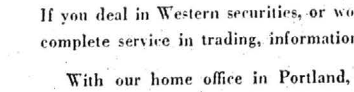

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Looking at Our Domestic Economy And International Repercussions

sion to the troubles of the world. We have solid work to do to help to cure those troubles.

We face challenges, domestic and international, with an economy that is vital and active and so far generally sound. This is true because it has been permitted and encouraged to grow—but has been restrained from running wild. For this our thanks must go in large measure to the policy and actions of the Federal Reserve System. May it never lose its independence! May it never become Housebroken, whether to the White House or the Houses of Congress — never in politics. May it never be shackled into a lock-step with other government departments so that all may go marching off in what at one time or another would surely be the wrong direction.

Praises Federal Reserve

No, the Federal Reserve has been our principal defense against rampant inflation. It has held the money supply within bounds and let the cost of money rise in response to demand. It has sustained prosperity; it has not prevented growth. Just take a look across the face of this great country, listen to the hum of its factories, ride its roads, fight its traffic, line up at the counters of its stores, watch its buildings rise, and you will see the most active America that you and I or any American who has ever lived has ever seen. But if you look at your price tags, your budgets, and your costs, and if you'll study the debt figures, you will see that prices have been rising—some of them rather sharply through all restraints—and you'll see that credit hasn't been choked off but is being created in the capital markets and in the commercial banks, billions upon billions. No, there is no money panic—far from it. Credit is available to worthy borrowers to buy or build almost anything, and at interest costs which, even after a sharp rise, are with possible minor exceptions the lowest in the free world. The very purpose of the restraint policy is to prevent such unhealthy developments as sharp price rises, cost spirals and excesses of debt. These harbingers of danger have made an appearance on the scene of our great forward progress and, though still not too bold, they could suggest that the restraints may have been too little, not too much—too late, not too early.

Before the international difficulties became so acute there was some feeling which I shared—that a number of forces were working toward the squeezing out of the more unhealthy aspects in our economy and the establishment of a more sustainable pace. These forces included the money-restraint policy, the effects of which are gradual but cumulative. Areas where growth had become too hasty gave some evidence of curbing their pace. Some capital expansion plans were being given a second look and a third look. Resistance to higher prices was starting to show. Profit margins had begun to level off in some cases and to dip in others. Even in their earlier stages, six or more weeks ago, the international uncertainties were having some unsettling effect on business optimism. I rather felt that sometime reasonably soon, perhaps during the coming year, these factors would bring about less sharpness in our upward climb, perhaps some short-range downturn from which a long-term upward movement could begin.

Reappraising Our Entire Situation

But whatever our present economic situation is, and whatever its outlook may have been, the sharp worsening of international affairs requires a complete reappraisal of our whole situation in the light of the grave political and economic decisions that are in the making.

The eyes of the world are on the Middle East and on Hungary. The Suez Canal is out of operation for months at the very least, war has flared there, blood has been spilled, pipe lines have been cut, little oil is moving out, Russian and Chinese volunteers have threatened to move in, great stores of Soviet arms are said to be there, a man named Nasser stirs the Arab world and breathes fire and damnation in a voice that almost sounds as though we had heard it before. Hungary—poor Hungary—is the scene of mass murder, but also of a cry for freedom that seems willing to die in order to live.

And over this whole troubled complex of events hangs the shadow of Soviet intentions. With or without the mask of a smile, Soviet ambitions are unrelenting and world-wide. We cannot be sure when the Kremlin masters will move, nor where. But we know they covet the Middle East with its fabulous oil fields and its vital Suez Canal. If the Soviet should capture that prize, she could control much of Asia and Africa. She could bleed pale Europe's economic vitality, outflank the forces of NATO, and, I fear, be on her way to becoming a stronger world power than the United States.

Keep U. S. S. R. Out of Middle East

Unless warned off, quickly and convincingly, the Communist tide very likely will run into or seep into this soft but vital area. At stake here is more than oil as a commodity or convenience. At stake is the question whether our allies, the free nations of Western Europe, our co-defenders against Communist aggression, are to be allowed to exist in freedom and strength or whether they are to have the economic life choked out of them by a Soviet strangle hold on the Middle East and the Suez Canal.

Involved in this are the very foundations of the NATO military defenses which we and our allies have built in Western Europe at the cost of so much toil and treasure. They could not be maintained in effective strength if free Europe were permanently deprived of Middle East oil and its Suez artery. Disagreeable and disturbing as it may be for us to face, our choice is either to say, "No, all the power, energy and life that the Middle East represents shall not go to the Soviet side," or to watch the strength ebb out of Western Europe and finally to stand alone, outnumbered, and likely to be outpowered.

At their worst, the consequences of what may happen in the Middle East could be disastrous. But even at the best—even fulfilling the highest hopes for the best conceivable results in the shortest conceivable time, we already know that the Western World is to undergo a mighty wrench. We can't know, of course, where between worst and best the final outcome of these critical times will fall. Certainly, we of the United States must try to bring them to their best. What steps, therefore, governmental and private, are called for in order to safeguard not only our economy but our security, our entire national welfare, and our very freedom itself?

Program for U. S. A.

First, let me say what I suppose is really beyond controversy. In the present state of the world, we had better be armed good and proper. It is expensive and inconvenient and inflationary — a complete economic waste, but a complete necessity when brigands are about. One other thing you can be sure of: for our defense and our safety, there is no limit to what the American people and their institutions can and will pay. Let us be frightened about war with its unthinkable horror, but not about the cost of being strong enough to prevent it.

Second, as a nation, we should make our position about the Middle East clear to the Kremlin, to Nasser, to our allies, and to the world. I mean by this: we should define the points or areas beyond which the Kremlin and Nasser can not go without involvement with the whole Western World. Maybe we have done this with the Kremlin and Nasser — I don't know. When the Soviet sends arms and planes into Syria, we must do more than to say we are "concerned" about it. At the least, we ought to work around the clock to have the United Nations condemn such action, for if we are to place our trust in the United Nations as sole arbiter in international affairs, it must have the benefit of our firm convictions in dealing with our enemies, just as it did in condemning our allies.

The United Nations proved itself powerful when led by the United States against England and France, nations which heed the moral force of public opinion. It proved itself powerful when the United States led it and fought for it against Communist aggression in Korea. But the United Nations was helpless and futile when Egypt closed the Suez Canal to Israel. And it is helpless now in the face of the Soviet's barbarous war against the Hungarians. In both cases it bowed to despots who heed no moral force. We cannot abdicate to the United Nations. There should be an American doctrine for the Middle East, as there is an American doctrine for Greece and Turkey and as there is an American doctrine for Formosa, Quemoy and Matsu.

Third, we should lend our immediate aid to the United Nations in unplugging the Suez Canal. We should offer our engineering brains and our massive salvaging gear. And, to get the job done quickly, we should, by guarantee or otherwise, underwrite the cost. It would be the best foreign aid investment we ever made.

Fourth, we should get back on "speaking terms" with England and France. We must save our alliances. They are mainstays of our defense, the floodgates holding back the Communist tide. However unwise or impetuous our allies may have been in their military venture in Egypt, they are on our side and we have common interests that are urgent and vital. We need our allies—every one of them—and we need to win new ones.

Extend Aid to Allies

Fifth, we should make even broader and bolder our aid program for our allies in Western Europe. Even with the oil shipment program, which was announced a few days ago, working at its physical maximum, it seems clear that Western Europe faces for some time to come an oil shortage of 20 to 25%, and a consequent cutback in industrial activity of about 15%, carrying with it unemployment to some four or five million people. A heavy blow! In consultation with our allies, we should seek ways to cushion this blow—a blow to their strength and to our mutual defenses. The urgency is even greater than that which called forth the Marshall Plan and our response should be quicker and sharper—a real "crash" program.

Sixth, we should give still further haven and relief to the Hungarian refugees in recognition of their valor and as an act of humanity, and in this our private citizens and institutions should participate generously.

Seventh, we should continue to seek the peace, doing so always with honor.

These—all these—are not for decision by you and me. Our government must set our sails and steer our course. I wish only to submit an opinion upon at least some of the grave issues that confront our leaders. I hope others will do likewise.

Finally, here at home, I think it is well to conclude that in business and monetary matters, none of us knows what the effect of these great and grave international decisions and events will be. They will have their reflection here all right, but it is too early to diagnose with certainty their monetary effects or to prescribe the monetary medicine. These effects will undoubtedly be mixed — some inflationary, some deflationary. At the moment, I should guess—and it is only a guess—that the gravity of the issues involved, and the repercussions here of economic difficulties abroad, will throw the balance to the side of restraining the boom, or even bringing on some recession. But we can't be sure.

Recommends Restraint at Home

Meanwhile, and until we are surer of what is ahead, we should stand fast by our policy of moderation and restraint, keeping things from day to day as even and smooth as possible in our economy, without tampering too drastically with our money or the cost of it.

And in all our policies and practices, we must keep life and health in our American system, in our free enterprise system, and defend with all our peaceful might, our currency and our vital economy, while we keep our military power at unrivaled strength and pay as we go. No time for play, and very little for politics!

Continued from page 6

Business Situation and Outlook

equipment are now at extremely high and unsustainable levels. New orders in this sector have begun to decline and are now below the level of current sales. Finally, the very tight monetary and financial situation which now exists will hasten the cut-back in the level of capital expenditures. The financial argument goes as follows: Financial stringency in the past year has already reduced corporate liquidity to its limits. It has also driven interest rates to much higher levels. These rates not only make it more expensive to borrow; they also tend to raise the minimum earnings rate by which the acceptability of new capital projects are judged. These factors will force companies to eliminate a number of projects previously regarded as worthwhile.

My own view is that neither line of argument goes far enough into the total situation that now prevails. It is true that money is tight, in the sense that abundant demand relative to supply has driven interest rates to the highest level since 1930. But in an **absolute** sense, the volume of total available funds is large enough to sustain the present rate of capital formation and possibly an increase in this rate.

The use of internal funds has indeed put companies in a tight liquidity position. But the increased use of external funds has provided and can continue to provide an increasing total volume of financing. What is more, the growth in inventory, which used about $6 billion of funds in the last 12 months, is going to be much lower in 1957. This will allow more funds for capital expenditures.

Finally, the argument that the level of the interest rate will inhibit new capital formation is also an incomplete one. Debt funds are more expensive today. But the cost of equity capital, however this is measured, is now at its lowest level since World War II. Assuming there is no drastic fall in stock prices, these funds will continue to be available in 1956 at low cost and in greater quantities than at any time since the late 1920's.

On balance, the financing side of the picture does not support the thesis that capital expenditures must decline from present levels.

What about the non-financial aspect of demand in this sector? Concrete clues for 1957 in the form of intention surveys are not yet available, and the argument must rely on more general analysis. My own estimate of underlying demand is that the present level of capital formation is high, but there is no evidence that it is too high. Expected changes in population and in population structure continue to indicate a very large need for new and improved capacity. Our prodigious expansion of productive capacity is being met by an equally prodigious expansion in our capacity to consume. In addition there are two factors which continue to create new demands for capacity. One is the rising backlog of technological research and development which have not yet been translated into operating capacity. The other factor is the tremendous pressure of Russian competition and its economic and military implications.

Is Capital Outlay Too High?

It is also necessary to remember that dollar figures for gross domestic investment appear deceptively high. These figures include a substantial amount of spending for replacement. Exact estimation is not possible, but certainly not more than one-half of current spending is creating net new capacity. The enormous dollar figures also reflect sharply increased price-levels in the capital goods sector. Take construction spending, for an example. In the seven years ending 1956, we will have invested over $250 billion in construction of all types. This is more than we invested in the preceding 27 years. If we adjust for the price factor, however, construction volume in the past seven years is only one-half of that in the preceding 27. If we further adjust for our larger population, construction volume per capita in the last seven years is somewhat less than the corresponding volume was in the seven years from 1923-1929. Finally, adjustment for the higher standards now prevailing and for the fact that more construction is now needed for replacement purposes would change the comparison even more, and it is no longer so obvious that we have been purchasing construction at unsustainable levels.

In fact, throughout the postwar boom in business capital spending, the construction component has lagged the equipment component. This factor, plus the trend in new contracts for business con-

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struction, indicates a continuing increase in non-residential construction in 1957. Futhermore, developments we are now witnessing in the machinery and equipment sector will themselves induce further developments in plant, office and commercial construction. Even if equipment purchases fall off, total business investment spending is likely to rise.

The Outlook for 1957

Let us turn now to the total level of demand which can be expected from all segments in the economy in 1957. Expectations for the third quarter of 1957 are shown in the table, and there is time only for a brief comment on key sectors in the total picture:

Federal Expenditures and Net Foreign Purchases. These two elements of demand have been lumped together in the forecast because it is not possible at this time to predict the exact way in which an increased flow of goods and services to the rest of the world will be financed. However, there is little doubt that this flow must increase in 1957. Federal expenditures at home have also been increasing, and will possibly increase even more than has already been anticipated. There can also be little doubt that state and local spending will continue their long-term postwar rise. Together, the expenditures listed together under Group I in the table should increase by at least $5 billion.

Consumer Investment. A decline in this sector was the prime source of weakness a year ago. A similar decline in 1957 is not evident today and there is a very good chance of a rise.

Residential construction will probably continue to fall. New starts are now about 10% below the average rate for the first nine months of 1956, and considerably below the peak rate of 1,400,000 registered in early 1955. The fall in unit starts has been offset in part and will continue to be offset by the increased size and costs of units being built. Thus dollar expenditures are still at higher levels than we have ever had, except in 1955.

Clearly a good part of the decline in this sector is a result of increased competition in the money markets. Some circles have been pressing for relief in the form of easier mortgage credit. Under our present system of monetary control, such relief is neither feasible nor desirable.

There is no *absolute* shortage of loan funds. The construction industry as a whole is doing a record volume of business and using a record volume of financing. However, a greater proportion of men and materials and of financing is going into non-residential construction. Creating easier credit through traditional means will not alter the relative position of residential construction in this total. It would simply increase the amount of competitive bidding within the industry and thus lead only to an even greater rise in prices and wages than we have already had.

Suggestions have also been made for some special, non-traditional cheapening of credit directly only to the residential sector. This could achieve its purpose but it would be just as inflationary under present circumstances. In addition, it would involve a breach in our system of allocating men and materials through the free play of market forces. Neither aspect of this approach is desirable. Thus far, however, the attempts to bolster housing through the use of such special devices have been tried only on a very limited scale and as such are not likely to achieve a turnaround in housing starts. A more effective, and more desirable, move would be to change the FHA and VA rates so that they are once more in line with the rest of the money market. [Editor's note: An increase from 4½ to 5% FHA interest rate was made since this article was written.]

Consumer Durables to Offset New Homes

The small decline in consumer investment in new homes will probably be more than offset by increased demand for durable goods, especially autos. The principal factor at work here is the relation between extensions and repayments of instalment loans. In the third quarter of 1954, extensions and repayments are roughly equal. The introduction of new car models stimulated an increase in the level of extension. At the same time, loan maturities were also lengthened. As the repayment rate tended to lag the extension rate, the rate of net extensions grew. By the third quarter of 1955, these net extensions were running at about a $6 billion rate, and one result was a record volume of consumer durable sales. Although gross extensions remained at the new high level, the repayment rate continued to increase. By the third quarter of 1956, net extensions were once again down to nearly zero. At this point, demand in the new car market, as well as in other durable markets, is once again being subjected to the stimulus of new and better products. Under the circumstances, it is highly likely that gross extensions will again show a rise. The repayment rate will lag, and the effect of net credit will again swell the volume of consumer durable purchases.

Consumption and Inventory Developments. Business inventories at the end of September were at the record level of $86½ billion—a rise of $6½ billion in book value from a year ago. This rise has not been fully matched by a corresponding rise in product sales. Both prudence and the tight money situation suggest that further inventory accumulation cannot be expected in the near future. On the other hand, the expected growth in sales, even at a minimal rate, can be expected to bring the inventory-sales ratios down to year-ago levels without any need for general inventory liquidation. In short, inventory acquisitions cannot be expected to provide the extra demand they have been providing this year, but it is unlikely that inventory liquidation will act as a net deterrent to high production rates next year.

Sales to the consumer sector have continued to grow even in the face of a number of economic uncertainties in 1956. In the absence of similar uncertainties in 1957, there is no reason to expect a slowdown in this growth.

The total outlook adds up to a gross products of about $433 billion by the third quarter of 1957 with a corresponding rise in personal income. Two sectors of income have been subject to pressure in recent years: farm income and small business income. Measures to increase farm income are now meeting with some success and this sector should strengthen. Similar relief to small business has been widely suggested and it is likely that this will be achieved soon through tax reduction in the under-$25,000 corporate tax bracket. Both factors will tend to widen the scope of expected increases in personal income.

Monetary Policy

No analysis of 1956 and 1957 is complete without some attention to the matter of monetary policy. This is already a controversial subject and the controversy is likely to increase rather than diminish in the near future. Many basic issues of significance are involved, particularly during periods such as we are now having—periods of high level activity within which there are continuous readjustments of demand and supply among sectors in the economy.

Monetary management has three tasks to fulfill. It must encourage the smooth flow of resources between sectors in response to changing patterns of demand. I put this first, because it is frequently forgotten. The second task is to encourage long-term growth and to prevent over-all declines from developing. The third task is to prevent a general price rise.

In theory, there is some precise level of monetary ease or stringency which will serve all three aims perfectly. In practice, it is becoming increasingly apparent that there is no single level of monetary ease or stringency which will achieve all three of these aims perfectly within the kind of economic and institutional environment we now have in the United States.

The arguments which underlie this judgment are as follows:

The various sectors of the economy have not been moving up and down in unison even in a broad sense of the term. Instead, we have had a complex of opposing and conflicting shifts in demand. This is all to the good, but it makes over-all monetary management extremely difficult. The amount of credit (even if it could be precisely determined) which is just "right" for keeping the economy as a whole at a desirable level *can* lead to excess demand in specific sectors and to price rises in these sectors. These rises get built into our price system.

Price Stickiness

Because of institutional practices and attitudes, price declines in the not-so-prosperous sectors do not take place readily to offset the effect of rising prices in the booming sectors. Thus, with alternating sectors of high and rising demand, the general price level tends to creep upward even if there is no demonstrable excess in over-all demand relative to over-all supply. This movement of prices is aggravated by the fact that rising prices in the expending sectors are not only **not** offset by declining prices in the sectors with shrinking demand; they actually cause price rises in all sectors. This is a result of a number of institutional practices with respect to price and wage policies such as cost-of-living wage increments, cost-plus pricing policies, long-term wage bargaining, and farm price supports. An additional fact of importance is that, in order to reverse a general downturn in business, when this occurs, the monetary authorities must create a situation of genuine ease in the money market. When recovery does take place, it is usually sparked by very high activity in one or two sectors accompanied by continued shortage of demand in other sectors. Price rises then begin even before full employment conditions are achieved. As we have seen, these price rises can spread to other sectors without the development of excess demand. Since the entire apparatus of monetary control operates through its influence on demand, there is no precise level of action that can possibly produce both the right level of demand and a perfectly stable price level.

I am not suggesting that these observations should lead us to abandon our newly achieved reliance on general control by an independent Federal Reserve System. In fact, any move to subject the Federal Reserve to administrative controls on the grounds that it cannot do a perfect job would simply ensure that an even less perfect job would be done. The solution lies elsewhere. One way would be for the government to control the kind of wage and price practices that lie at the root of price inflation during periods in which excess demand cannot be demonstrated. The other way would be to face the fact that we cannot achieve full economic growth and high levels of activity without a general secular rise in the price level of about the magnitude we have had since late 1952. Even during this period of near-perfect monetary and fiscal management, and in spite of one mild downturn in aggregate activity and many downturns in segments of activity, the price level has risen about 1% per annum. Excluding the farm sector, the rise has been even greater.

$500 Billion GNP by 1960

These observations have important consequences for long-range planning at all levels of economic analysis. Four years ago, for example, the President talked about a $500 billion economy by 1965. At our expected rate of growth, and taking the minimum, inevitable, price rise into account, I would be very much surprised if we are not at the threshold of a $500 billion economy by next election day.

GROSS NATIONAL PRODUCT
SEASONALLY ADJUSTED ANNUAL RATES
(Billions of Dollars)

	3rd Quarter 1954 Actual	3rd Quarter 1955 Actual	3rd Quarter 1956 Estim.	3rd Quarter 1957 Forecast
(1) Government and Foreign Sector—				
Federal purchases of goods and services	$47.7	$46.6	$47.2	....
Net foreign purchases	—0.6	....	1.7	
Sub-total	47.1	46.6	48.9	51.5
State and local purchases	28.0	30.0	33.1	35.5
Total	75.1	76.6	82.0	87.0
(2) Business Investment Sector—Total	36.9	41.4	47.6	49.0
(3) Consumer Investment Sector—				
Residential Construction	14.2	17.2	15.4	14.5
Consumer durables	29.4	37.2	33.0	36.5
Total	43.6	54.4	48.4	51.0
(4) Consumer Non-durables & Services	208.5	220.5	234.0	246.0
(5) Inventory Accumulation	—4.4	3.6	2.0	....
(6) Total Gross National Product	$359.5	$396.5	$414.0	$433.0

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News About Banks and Bankers

President on Jan. 1, 1947 and became officer in charge of the bank in Roanoke on Sept. 1, 1948. He was elected Senior Vice-President on Oct. 7, 1955. Mr. Orgain was elected Assistant Cashier of the bank Jan. 11, 1946, and Assistant Vice-President Dec. 12, 1949. On Jan. 17, 1950, he became Assistant Manager of the Fourth and Grace Streets office and was named officer in charge of that office on Nov. 21, 1955.

Mr. Deane joined The Bank of Virginia on Aug. 3, 1953, as Assistant to the President. Mr. Campbell joined the bank's staff in Norfolk, July 1, 1952 and was elected Assistant Cashier Dec. 10, 1954. Mr. Gills entered The Bank of Virginia in Roanoke in March, 1949, and was elected an Assistant Cashier Dec. 5, 1952. Mr. Smith was elected Assistant Cashier of the Bank of Virginia in June 1951. Mr. Whitt began his banking career with The Bank of Virginia in April, 1937, and was made Assistant Cashier in July, 1948.

* * *

As of Nov. 27 the **Midland National Bank of Minneapolis, Minn.**, reported a capital of $2,000,000, enlarged from $1,000,000 by a stock dividend of $1,000,000, consisting of 20,000 shares, par value $100 each.

* * *

The formation of a new bank in **Lake Worth, Fla.**, is announced by the U. S. Comptroller of the Currency. The bank has been chartered under the name of the **Commerce National Bank in Lake Worth**, with a capital of $350,000 and surplus of $150,000. H. G. Baur heads the primary organization as President while O. G. Locher is designated as Cashier.

* * *

The issuance of $100,000 of new stock by the **First National Bank of Lafayette, La.**, has increased the capital of the bank from $500,000 to $600,000 effective Nov. 29. The new stock consists of 60,000 shares, par value $10 per share.

* * *

Announcement has been made by the **Citizens National Trust & Savings Bank of Los Angeles** that on Nov. 20 the directors of the bank had declined a new proposal dated Sept. 20, 1956, made by **First Western Bank and Trust Company, of San Francisco**, for a statutory merger of **Citizens** into **First Western** under the name of **Citizens First Western Bank**. The proposal, it is stated, was on a basis of one and three-quarters shares of First Western stock for each full share of Citizens stock.

To quote from the announcement of the Citizens:

"This is the second merger proposal received by Citizens from First Western within 14 months. The first proposal dated Aug. 15, 1955, was on the basis of one and one-half shares of First Western stock for one share of Citizens stock. The first offer was declined by Citizens board of directors on Sept. 15, 1955. The resolution of Citizens board of directors declining the new merger proposal stated that in the opinion of the board the proposal would not be in the best interests of Citizens National Trust & Savings Bank or its shareholders."

* * *

E. C. Sammons, President of the **United States National Bank of Portland, Ore.**, has announced the appointment of a new branch manager and a number of assistant managers for Oregon's statewire banking system. Manager of the bank's new Eastport Plaza branch, which opened in Portland on Dec. 15, is J. Allan Gard. William W. Taylor was named to the staff of the new branch as Assistant Manager. Other new Assistant Managers and their branches are: Frank L. Chambers, Peninsula branch in Portland; Harold H. Searcey, Athena; Shirrel R. Doty, Medford; Carroll D. Ashbaugh, Corvallis; and Theodore A. Bergold, Grants Pass.

* * *

The board of directors of the **Canadian Bank of Commerce**, head office, **Toronto**, have declared a dividend at the rate of 35 cents per paid share in Canadian funds on the outstanding capital stock of the bank for the three months ending Jan. 31, 1957. An extra dividend has also been declared at the rate of 20 cents per paid share in Canadian funds on the outstanding capital stock of the bank. Both dividends are payable at the bank and its branches on Feb. 1, 1957 to shareholders of record Dec. 31, 1956.

Joins Frank N. Warren

(Special to THE FINANCIAL CHRONICLE)

EMPORIA, Kans. — Donald L. Clugston has joined the staff of Frank N. Warren & Company, Inc., Citizens National Bank Building. Mr. Clugston was formerly with Reinholdt & Gardner and Dempsey-Tegeler & Co.

William B. Fullerton

William B. Fullerton, member of the New York Stock Exchange, passed away Nov. 27th after a brief illness.

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Tight Money and Business Volume

was in new issues net of retirements.

Fixed capital expansion on the part of industry is tangible evidence that enterprisers' expectations about the future are good. Business men are optimistic about what lies ahead and some expect a 30% increase in volume within the next 10 years. Under such circumstances, especially when corporate income taxes are as high as at present, it would take much higher interest rates than now prevailing to deter business borrowing. After all, an increase of 1% in interest charges actually costs most borrowing companies less than half of 1%. Accelerated depreciation acts as an additional stimulant.

Consumer Spending

When we turn our attention to individual demand for credit, we find that despite some efforts toward restriction, individuals have increased their demand for loanable funds to a record level. Outstanding non-farm residential mortgages in June of this year amounted to over $94 billion, which was $12 billion more than in June of 1955. It is true that residential construction, in terms of number of dwelling units built, is down from 1.3 million in 1955 to an annual rate of less than 1.1 million this year; but dollar volume is not far from its last year's level due to higher costs and to the construction of bigger houses.

For the first eight months of this year, consumer credit was running about $5 billion ahead of last year, with about two-thirds of the increase taking the form of installment credit.

Without further analysis, it is clear that in the aggregate the demand for money has not only remained very active, but it has increased in every category. Coming at a time when the economy is operating at near capacity, with a minimum of unemployment, credit expansion would seem to be inflationary. On the other hand, one can argue that with (1) a growing population, (2) an ever-rising standard of living, (3) a continued need for a major defense program, and (4) new industrial horizons made possible by scientific progress, we are facing a period of economic expansion which could last several years. If the latter position be true, then the economy requires credit to sustain that expansion—and that is important to you as a Sales Manager.

Insufficient Savings

Funds to support an increase in the aggregate amount of loans and investments must come from either savings or from the creation of new money, or from a combination of these. The current "tight money" situation indicates clearly that supply has not kept up with demand. In other words, the flow of money into savings institutions, the retention of business income, and the creation of new money this year have been insufficient to meet increased requests for loanable funds and for investment money. And the same was true in 1955.

This does not contradict the fact mentioned earlier that credit has been available. What has happened is that lending institutions have drawn upon their previously accumulated super-liquidity position to meet the excess of current demand over current supply. In other words, commercial banks, as an example, have reduced their holdings of government securities to obtain funds to lend at more attractive rates. Life insurance companies and other institutions have done likewise.

It is significant to observe that since 1940, there have been seven different years in which gross private savings failed to match gross investment (which includes loans). These years were the six of the seven years immediately following World War II, beginning with 1946 and extending through 1951. On the other hand, the war years 1941-1946 were years when savings greatly exceeded private demand for funds, largely due to the effects of deficit Federal financing for military purposes and to restrictions on non-military spending. In other words there was sufficient carry-over of savings from the war period to meet large credit and investment demands in the postwar period. When war-time conditions returned with the Korean conflict, deficits also returned, and again in the years 1952-1953 and 1954, gross private savings exceeded gross investment.

When life insurance companies, savings and loan associations, savings banks, and commercial banks began to sell their governments to obtain funds for other uses, we most assuredly would have experienced a "tight money" condition in the early postwar period had not the Federal Government supported the market for its own securities. This was accomplished through Federal Reserve policy and through purchases of securities for U. S. Government investment accounts.

Sound Money Since 1951

The support of government securities had the effect of turning part of the Federal debt into money and, of course, was inflationary.

Sound dollar money policy came into existence in 1951. In 1955 the term "tight money policy" of the Federal Reserve System came into being. Under this system, the Federal Reserve did not take any currency out of circulation, they just declined to further augment the money in circulation. The raises that were announced in the rediscount rate followed the increased interest rates by private lenders. The Federal Reserve did not lead the interest rise parade.

As a result of this policy, we are seeing a depressed bond market—not just the market for government securities but for industrials and all credit issues bearing a coupon rate below the current yield on money. On Oct. 31, only two out of 33 issues of marketable Federal securities were selling at par or above, and both of these were issues carrying special tax concessions, being subject to surtax only. Together these two issues amount to only $2.4 billion out of a total of $133 billion of marketable Federal securities, excluding Treasury bills. Aggregate market value of Federal bonds, notes, and certificates was $5 billion below par on Oct. 31. Some issues were selling at almost 10% below par. A year ago, the largest discount on any Federal issue was only about 4½%.

Some of us here remember what happened following World War I. Government bonds were allowed to seek their level without support; and they went to as much as 20% below par, despite the fact that the coupon rate on some of the Liberty Loan issues was as high as 4¼%. The shorter term Victory notes actually bore rates as high as 4¾%.

The demand for funds following World War I was so great relative to supply, that money market interest rates conceded coupon rates of governments and drove bond prices down — just as has been happening recently.

Reducing Federal Debt

However, government bonds climbed back to par in the '20s as demand for loanable funds began to equate with savings and as the Treasury retired the Federal debt from $25 billion in 1919 to $16 billion in 1930.

The current situation is somewhat different. The Federal debt is over 10 times as great as the World War I debt, and there are no prospects of our being able to reduce it by 36% in a short period of 10 years as was the case in the '20s. In order to do so, we would need a Treasury surplus of almost $10 billion a year. That is well-nigh impossible.

Of course, the demand for money by other users may be so great that further advances in interest may develop. At present, that seems quite likely, and if it does develop, the bond market will be depressed even more.

It is difficult to prove convincingly that "tight money" has caused any serious trouble to date in the nation's economy. Business is operating near full capacity and is setting new records in many of its segments this year. Employment is at an all-time high. Personal disposable income is the greatest in our history. Sales in most lines have surpassed anything we have ever seen. The Christmas season of 1956 promises to eclipse all others in dollar volume of sales—as all of you Sales Managers know.

Interest Rates Are More Normal

Looking as objectively as possible at the financial situation, I see nothing alarming about what has developed. Interest rates today are more nearly normal than they have been in a long time. Certainly the cost of money is more in line with costs of everything else. Further inflation, which we all said we did not want, would have been inevitable had the government and the Federal Reserve repeated the policy of the postwar years.

We should keep in mind, however, that the primary cause of the "tight money" condition arises from the expansion of credit demand at a greater rate than savings and new money are created. No one knows how long this will continue—and all of you should think about this in your Sales plans for the months ahead!

Money supply and money demand may stabilize the latter part of 1957, and, if so, interest rates will no longer rise. This need not mean that credit use would fall off. A high level of business activity could be maintained merely from the revolving of credit; maturing obligations supplying funds to meet the demand for credit.

Interest Rate Costs

We have reason to believe that if the monetary situation does begin to show convincing evidence of having a depressing effect upon the economy, the Federal Reserve will take appropriate action. In the meantime, it seems that inflationary forces have been reduced to such an extent that we can hazard the assertion that the increase in interest costs to business are meager compared with the increased costs of materials and other things bought by business that would have resulted from further inflation. The same would hold for the consumer—that is the key for a Sales Manager to recognize and be ready to act in your own business!

Barring involvement in World War III and assuming no development of a wild speculative orgy, I see no reason to suppose that credit demand and supply will not ultimately come into balance.

Tight Money Results

Getting back to my subject "Tight Money and Sales," let's review briefly the results as of 45 days ago of the "tight money policy."

(a) The government is paying a higher rate of interest on all new offerings.

(b) Corporations and individuals are paying higher rates of interest.

(c) The price of government and municipal bonds and corporate issues have been depressed.

(d) Automobile sales are below the same period for 1955, and the lack of sales has been charged to "tight money"; however, we are led to believe that overselling of the market in 1955 is the major cause. It is well to know that as of July of 1956, automobile installment notes totaled $15 billion as against $13 billion in 1955. Credit is available for financing automobiles.

(e) Fewer homes were started this year than last. In fact, 559,000 units were started in 1956 as compared to 685,000 for the same period last year. Some of the slump in starting is evidently due to unrealistic interest rates on GI and FHA loans. I am inclined to believe that over-building in some sections is the main reason for the falling off of new homes. Even so, one million houses a year is good.

(f) Business inventories are larger than last year. At the end of July, 1956, there were $85 billion as against $79 billion in July of 1955. This increase was due partly to the rise in prices and I doubt whether the present money policy contributed to any great extent to the rise in inventory.

(g) There are approximately $130 billion in government bonds now selling below par, and several billion municipal securities are doing likewise. They are out of circulation and their withdrawal had the same effect as practically freezing movement of that much currency.

(h) The great impact of "tight money policy" has been most pronounced on Commercial banks. Loans have increased $17 billion since Jan. 1, 1955. Securities have been sold to make this amount of lending possible and deposits have not increased in keeping with the increase in loans. Banks are collecting more interest and they are paying more interest.

From the problem of a Sales Manager, it is well to enumerate what the "tight money policy" has not done from a standpoint of your sales results.

Little or No Effects

"Tight money" has had little or no effect on sales of consumer goods as of the end of September, as evidenced by an increase in sales in 1956 over the same period for 1955.

Commodity sales are higher except automobiles and automobile accessories.

Retail food store sales increased by 6%.

Eating and drinking places sales increased by 6%.

General merchandise sales increased by 5%.

Furniture and appliance store sales increased by 7%.

Apparel store sales increased by 8%. Gasoline sales increased by 11%.

All-over sales of every kind increased by 4% over last year.

"Tight money" did not stop plant expansion.

$20 billion in 1954
26 billion in 1955
36 billion in 1956

$82 billion in all three years.

High interest rates have deterred some corporations from making public offerings and many of them have called on banks to supply their need temporarily. The expansion of business and not "tight money" has brought about the shortage of available funds.

"Tight money" did not affect the purchase of goods by local governments as evidenced by $32.6 billion in the second quarter of 1956 as compared to $29.5 billion in the same period of 1955.

No Effect on Wages

"Tight money" has had no effect on wage rates. This is no oddity since labor unions as a rule concern themselves with obtaining the largest possible increase in wages without giving attention to money markets and inflationary pressures.

Regardless of "tight money policy," so long as wages are raised at intervals and passed on to the public, we shall have inflationary tendencies.

It is well to make the following comments in conclusion. The advancing sections of our economy counteracted the declining sections, and there was weakness only in automobiles and housing. All others were strong.

Personal income kept step with personal debt, and it is encouraging to note that more than one-half of the family spending units in America have no installment debt at all. Only 12% of all spending units have fixed payments for installment credit which require more than 20% of their disposable income. Individuals are more cautious and are more careful in safeguarding their budget requirements.

No Sight of Decline

Fortunately, Salesmen and Sales Managers have to be smart, keen and optimistic — and the "key team member" of our great economy. Then we might ask—when will a business decline begin? No exact date can be anticipated. We believe this will not come until unemployment materially increases thus reducing purchasing power. Unemployment can come only if construction is greatly curtailed for any reason, or when the capacity for the production of goods has been exercised to the extent that we have large unsold inventories. These negative forces do not seem to be in the offing at this time to the extent that anxiety should develop; therefore, tight money should not greatly reduce sales within the immediate foreseeable future.

Our economy is essentially dynamic and sound. The population is increasing at the rate of three million persons per year; the standard of living is rising, and research is opening new horizons every day. We would hazard an opinion that the first six months of 1957 will see even greater activity and that plant expansion will reach its peak. Money will be tighter than now and prices will be up a little. Interest will likely make some further advances. Business confidence is high and salesmen may be sure they will have every opportunity to demonstrate their keen sales acumen and reap satisfying results.

So let's proceed with confidence.

Form Basic Investors

Basic Investors, Inc. has been formed with offices at 150 Nassau Street, New York City, to engage in a securities business. Officers are Jay M. Marcus, President and Treasurer; Reubin Marcus, Vice-President; and Marris A. Marcus, Secretary.

Form Nance Inv. Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Nance Investment Company has been formed with offices at 417 South Hill Street to engage in a securities business. Officers are Guy R. Nance, President; Stuart A. Cummings, Vice-President; and Houston H. Slate, Secretary-Treasurer.

George S. Braun

George S. Braun passed away at the age of 75 following a long illness. A former member of the Philadelphia Stock Exchange, he had in the past been with the firm of Ware & Keelips.

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Continued from first page

Reserve Policy During Inflation and Deflation

in judgment—sincere differences. We do not undertake—and I do not see how it could be otherwise, short of some form of dictatorship—to say how a given supply of credit shall be allocated.

Reliance Upon Market's Judgment

Experience would seem to demonstrate that allocations of credit determined through the market process are to be preferred to judgments — or guesses — of public authorities, however well-intentioned. I was told recently of a tongue-in-cheek sign that hung in a Washington office some years ago. It read: "Our guess is always best." It may be that collective judgments expressed through the market process are not always best, but that process is consistent with our heritage and our institutions under which direct governmental intervention in economic affairs is confined largely to broad, general policies necessary to protect and promote the public interest.

At any given time the economy is capable of producing a volume of goods and services limited by currently available resources, human and material. The difficulty throughout this year has been the attempt to crowd too much into a given time period—demand, in brief, has been pressing strongly against the supply of labor and materials.

Is More Money Needed?

Creating more money won't produce more things when the economy is running at peak levels. A choice has to be made—and the public in the end has to make the choice of whether we shall have more of this and less of that. We can have, in a given period, just so many houses, automobiles, household appliances, schools, manufacturing plants, and a myriad other things, including ships, planes, submarines, and other essentials of defense. Under present conditions, something has to be given up at least for a time. Throughout this year the combined demand for funds — for credit—coming from virtually all sectors of the economy has been at an all time high. It has outrun the available supply. Contrary to some impressions, the Reserve System has not reduced the money supply; in fact the money supply has continued to increase this year though at a lesser rate than in 1955. Moreover, the turnover—the velocity—of the existing money supply has greatly increased. Although the so-called "tightness" of credit is often attributed to an insufficient supply of money, the fact is that the tightness results from the volume and intensity of demand.

Would Not Create More Goods

The great bulk of loanable funds represents savings of the community made available to borrowers directly or through financial institutions other than commercial banks, such as mutual savings banks, insurance companies, savings and loan associations, private and public pension funds, finance companies, corporations, and individuals. It is often forgotten that when the commercial banking system expands its loans and investments, it generates new money. When, as has been the case this year, aggregate demands for credit have exceeded savings, the only way to finance them all would be by an even greater expansion of bank-credit — that is, by generating still more money. And as I have emphasized, creating more money will not create more goods. It can only intensify demands for the current supply of labor and materials. That is outright inflation.

The Reserve System—and it is a nationwide system of 12 Federal Reserve Banks with 24 branches having all told some 260 directors representing varied walks of life—is united in the conviction that the best course is to do what the System can do, to restrain excesses arising from monetary causes. It has been estimated that a rise of only one point in the consumer price index (BLS) would cost the American public $2½ billion a year.

The Federal Reserve System has been devoting its efforts, through varying times and circumstances, to assuring monetary and credit conditions that would help to foster high levels of business and employment, maintain the stability of the currency, and promote sustainable growth in the economy.

Leaning Against the Breezes

The System has sought to keep constantly alert to changes in economic and financial conditions, and to adapt its operations accordingly — leaning against the breezes of inflation and deflation alike, as I have put it a number of times.

Thus, when the economy had a downturn in 1953, the Reserve System acted promptly to stimulate credit expansion to help halt the decline and foster the recovery that began in 1954 and carried through into 1955. As we moved from recovery to boom in 1955 and on through 1956, and as the economy in general pressed against the limits of immediate capacity, the System took steps to keep expansion of credit within the limits of the growth in resources so as to discourage excesses that would inevitably produce higher prices and severe economic maladjustments.

Focussing more closely on the events of 1956, it was apparent there were positive inflationary dangers inherent in superimposing a massive increase in business investment on an economy already featuring high utilization of resources and upward price pressures. In this situation, to supply on easy terms all of the credit desired by prospective investors would have increased inflationary bidding for available resources, especially in the sectors of capital equipment and construction. It also would have involved a rise in the volume of outstanding credit, and in commercial bank credit and demand deposits in particular, that would compound the threat to economic stability and sustained growth.

Despite the restraint on credit growth and spending capabilities imposed by monetary policy, demands in many sectors have risen more rapidly than was consistent with price stability. The price advances that began in 1955, after several years of stability, continued during 1956, as output in a number of key areas pressed against the limits of capacity. Price increases have been particularly marked in sectors affected by investment expenditures, in machinery and construction lines and, affected in part by them, in metals and metal products. These are the areas in which the restraint imposed upon current expenditures by monetary policy was, quite possibly, the heaviest. It is in these sectors that such additional demand as would have resulted from easier credit would have been concentrated.

Bank Credit and Money Supply

Despite the strength of credit demands, growth in total commercial bank credit was limited to a moderate rate, below the average of the postwar period and somewhat lower than in the corresponding period in 1955. Thus, the increase in total loans and investments of commercial banks in the 12 months ending with October was held to 2%, and growth in the privately held money supply — demand deposits and currency—to about 1½%.

Restraint on expansion in bank credit and the money supply this year contrasts with the rapid increase that occurred from mid-1953 through 1954, even though loan demands then were generally less active. During that period, policy was directed toward assuring ready availability of credit in the economy generally, and toward creating liquidity conditions favorable to revival and expansion. In part the developments since 1954 should be interpreted as a transition from a time of ready availability of resources, reduced demands for credit, and a monetary policy of active ease to a time of intense utilization of resources, very strong credit demands, and a monetary policy directed to restraint of inflationary forces.

Just now, the year is coming to a close with demands still outpacing savings, with personal income at a new high annual rate of over $332 billion in October—$21 billion above the rate a year ago — and international disturbances that could add to further overstraining of our resources. It is a situation that calls for alertness, as well as prudence and restraint, on the part of Government, business, finance, labor and agriculture.

Today's Problem

Basically, the problem confronting us now—in contrast to that of the early 1930's — is not one of creating millions of jobs overnight to cure mass unemployment, but one of sustaining the millions of jobs we have today and fostering new job opportunities for an expanding working force tomorrow.

Meeting that problem requires that the efforts of all of us be directed to preserving the stability of the economy, and the stability of the dollar that underlies it, so that we may move steadily along the road to a higher standard of living for all.

Three With Calif. Investors

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Roy T. Margrave, Samuel Publicker and Jack R. Schoen are now with California Investors, 3932 Wilshire Boulevard.

With Fusz-Schmelzle

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, Ill. — Harvey H. Green has been added to the staff of Fusz-Schmelzle & Co., Inc., 230 West State Street.

R. F. Campeau Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Richard J. Gutow is now affiliated with R. F. Campeau Company, Penobscot Building.

Form Safeway Inv. Corp.

ORLANDO, Fla.—Safeway Investment Corporation is engaging in a securities business from offices at 64 North Court Street. Officers are Carr W. Turner, President; Hershell G. Stuart, Vice-President and Treasurer; and Donald Walker, Secretary. Mr. Turner was previously with Eastern Securities Corp.

Frank E. Gernon

Frank E. Gernon, Partner in Carl M. Loeb, Rhoades & Co., passed away Dec. 1 at the age of 71.

Business Man's Bookshelf

Aetna Life Insurance Company: Its First Hundred Years—Richard Hooker—Aetna Life Insurance Company, Hartford, Conn. (cloth).

Automatic Technology, an annotated bibliography—U. S. Department of Labor, Bureau of Labor Statistics, 341 Ninth Avenue, New York 1, N. Y. 45c.

Business English—J. Harold Janis, Edward J. Kilduff and Howard R. Dressner — Barnes & Noble, Inc., 105 Fifth Avenue, New York 13, N. Y. (paper) $1.75.

Capital Gains Opportunities for The Average Taxpayer — Included with trial subscription to "Research Institute Recommendations" at $24 — Research Institute Recommendations, 589 Fifth Avenue, New York 17, N. Y.

Employee Interest in Company Success—John W. Riegel—Bureau of Industrial Relations, University of Michigan — U-M Publications Distribution Service, Administration Building, Ann Arbor, Mich. $6.00.

Everyday Tax Planning to Increase the Family's Spendable Income — Journal of Taxation, Inc., 147 East 50th Street, New York 22, N. Y. (paper) $2.95.

Facts and Figures on Government Finance 1956-57 — The Tax Foundation, 30 Rockefeller Plaza, New York 20, N. Y. (paper) $2.00.

Federal Wage-Hour Handbook for Banks, 1956 Edition—American Bankers Association, 12 East 36th Street, New York 16, N. Y. (paper) $1.

Forecasting Business Trends — Leonard S. Silk—McGraw-Hill Book Co., Inc., 327 West 42nd Street, New York 36, N. Y. $15.

Gross and Net Spendable Average Weekly Earnings in Manufacturing Industries in New York, Northeastern New Jersey Metropolitan Area — U. S. Department of Labor, Bureau of Labor Statistics, 341 Ninth Avenue, New York 1, N. Y.—On request.

Holidays in the United States, Alaska, Canal Zone, Guam, Hawaii, Puerto Rico, Virgin Islands, 1957 — International Department, Manufacturers Trust Company, 55 Broad Street, New York 15, N. Y.

How the Businessman Can Use Air Freight in an Expanding Economy — Stuart G. Tipton — Air Transport Association of America, 1107 Sixteenth Street, N.W., Washington 6, D. C.

Incentive Wage Systems — A selected Annotated Bibliograph—Industrial Relations Section, Department of Economics and Sociology, Princeton University, Princeton, N. J. (paper) 50c.

Journal of Retailing, Fall 1956—Including articles on "Coordination of Advertising with Display and Personal Selling," "Economic Characteristics of Retail Trade: Size and Volume," "Pursuit of Profits," "Trends in Branch-Store Organization," "How to Work With Other People's Money," etc.—New York University School of Retailing, Washington Square Center, New York 3, N. Y. (paper) $1.

Magnesium Association—Complete proceedings of 12th annual convention — Magnesium Association, 122 East 42nd Street, New York, N. Y. $5.00.

Middle East Crisis — James P. Warburg — Current Affairs Press, 25 Vanderbilt Avenue, New York 17, N. Y. (paper) 25c (quantity prices on request).

Modern Archives: Principles and Techniques—T. R. Schellenberg—University of Chicago Press, 5750 Ellis Avenue, Chicago 37, Ill. $5.00.

National Income Accounts and Income Analysis—Second Edition—Richard Ruggles and Nancy D. Ruggles—McGraw-Hill Book Company, Inc., 330 West 42nd Street, New York 36, N. Y. $6.50.

Professional Ethics of Certified Public Accountants — John L. Carey — American Institute of Accountants, 270 Madison Avenue, New York 16, N. Y. (cloth) $4, (paper) $3.

Public Relations, Edward L. Bernays and the American Scent—Addenda to bibliography — F. W. Faxon Company, 83-81 Francis Street, Boston 15, Mass. (paper).

Readings in Marketing (Second Edition) — Malcolm P. NcNair & Harry L. Hansen—McGraw-Hill Book Company, Inc., 330 West 42nd Street, New York 36, N. Y. $6.50.

Realistic Depreciation Policy — George Terborgh—Machinery & Allied Products Institute, 1200 Eighteenth Street, N.W., Washington 6, D. C. $6.00.

Reference Manual of Steel Equipment—Equipto Division of Aurora Equipment Co. Aurora, Ill. On request.

Renewing America's Cities—Analysis of Title I of Housing Act of 1949—U. S. Department of Labor, Bureau of Labor Statistics, 341 Ninth Avenue, New York 1, N. Y. On request.

Role of Air Freight in Physical Distribution — Graduate School of Business Administration, Harvard University, Soldiers Field, Boston, Mass. $2.50.

Securities Diary — A simplified accounting system for recording profits, losses, capital gains, interest and dividends—Edward L. Weaver Associates—Securities Diary, P. O. Box 166, Arlington 10, Va. $2.

Standards and Levels of Living of City Worker Families — U. S. Department of Labor, Bureau of Labor Statistics, 341 Ninth Avenue, New York 1, N. Y. On request.

Treasury of Spices — Illustrated encyclopedia on 50 different spices and herbs — American Spice Trade Association, 82 Wall Street, New York 5, N. Y. $4.50.

Trends and Problems in the Distribution of Property-Liability Insurance — John S. Bickley — Bureau of Business Research, Ohio State University, Columbus, Ohio (paper) $2.

United States Business Performance Abroad: The Firestone Operation in Liberia — Wayne Chatfield, Taylor—National Planning Association, 1606 New Hampshire Avenue, Northwest, Washington 9, D. C. (paper) $1.

Working Creatively for the Good of Business and in the Public Interest—Chamber of Commerce of the United States, Washington, D. C. (paper) On request.

Harvey Shields Opens Own Inv. Office

FRESNO, Calif. — Harvey H. Shields, Jr. has opened offices at 145 West Garland Avenue to engage in the securities business. He was formerly a partner in Davidson & Co.

Lewis C. Herwig

Lewis C. Herwig, Partner in B. C. Christopher & Co., Kansas City, Mo., passed away Dec. 2.

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★ Adams Engineering Co., Solon, Ohio (12/18)
Dec. 3 (letter of notification) 25,000 shares of common stock (par $1). **Price**—$8.50 per share. **Proceeds**—For construction of additional facilities and working capital. **Office**—31711 Solon Road, Solon, Ohio. **Underwriter**—The First Cleveland Corp., Cleveland, O.

Amalgamated Minerals, Ltd.
Nov. 23 (letter of notification) 3,000,000 shares of common stock (par five cents). **Price**—10 cents per share. **Proceeds**—For mining expenses and development of oil properties. **Office** — 901 Sherman St., Denver, Colo. **Underwriter**—Lackner & Co., Denver, Colo.

★ American Communications Co., Inc.
Dec. 3 (letter of notification) 590 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share). **Proceeds**—To acquire a small telephone company and for extensions and betterment of facilities. **Office**—Telephone Building, Haddam, Kan. **Underwriter**—None.

American Federal Finance Corp., Killeen, Texas
Sept. 5 filed 40,000 shares of class B common stock (par $5) and 400,000 shares of preferred stock (par $5) to be offered in units of 10 preferred shares and one common share. **Price**—$55 per unit. **Proceeds**—To purchase used car paper and to extend the company's operations into the field of new car financing. **Underwriter**—None. J. J. Fain is President.

★ American Investment & Income Fund, Inc.
Dec. 11 filed 100,000 shares of common stock. **Price** — At market. **Proceeds**—For investment. **Office**—Washington, D. C.

★ American Mutual Fund, Inc., Los Angeles, Calif.
Dec. 11 filed (by amendment) 1,000,000 shares of capital stock. **Price**—At market. **Proceeds**—For investment.

★ American Trusteed Funds, Inc., New York
Dec. 5 filed (by amendment) an additional 200,000 Lexington Trust Fund Shares. **Price**—At market. **Proceeds**—For investment.

★ Atlantic City Electric Co. (1/23)
Dec. 12 filed $10,000,000 of first mortgage bonds due 1987. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Drexel & Co. (jointly); Eastman Dillon, Union Securities & Co. and Smith, Barney & Co. (jointly); Blair & Co. Incorporated; White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers; Blyth & Co., Inc. **Bids**—Expected to be received on Jan. 23.

● Atlantic Oil Corp., Tulsa, Okla.
April 30 filed 2,000,000 shares of common stock (par $1). **Price**—$1.50 per share. **Proceeds**—For working capital and general corporate purposes. **Underwriter** — To be named by amendment. Statement effective Nov. 29.

Atlas Credit Corp., Philadelphia, Pa.
June 11 filed $600,000 of 6% convertible subordinated debentures due June 15, 1968. **Price**—100% of principal amount. **Proceeds**—To retire indebtedness of the company to its affiliates for money borrowed for working capital. **Underwriters**—Hallowell, Sulzberger & Co. and Charles A. Taggart & Co., Inc., both of Philadelphia, Pa., and Weill, Blauner & Co., Inc. of New York.

Automation Development Mutual Fund, Inc.
Aug. 24 filed 300,000 shares of common stock. **Price**—At market. **Proceeds**—For investment. **Office**—Washington, D. C. **Distributor**—Automation Development Securities Co., Inc., Washington, D. C.

Automation Industries Corp., Washington, D. C.
May 11 filed 179,000 shares of common stock (par $1). **Price**—$5.25 per share. **Proceeds**—For working capital and other corporate purposes. **Underwriter** — None. Harry Kahn, Jr., of Washington, D. C., is President and Treasurer.

Baton Rouge Water Works Co.
Sept. 11 (letter of notification) 6,946 shares of common capital stock (no par). **Price**—$43 per share. **Proceeds**—For extensions and betterments to water system. **Office**—131 Lafayette St., Baton Rouge, La. **Underwriter**—None.

● Beauty Counselors Inc. (12/14)
Nov. 15 filed 22,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders. **Underwriters** — Spencer Trask & Co., Lee Higginson Corp., and Homer O'Connell & Co., all of New York; Laird, Bissell & Meeds, Wilmington, Del.; and Chas. A. Parcells & Co., Detroit, Mich.

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Beckjord Manufacturing Corp.
Oct. 12 (letter of notification) $50,000 of series A 6% debenture bonds, $50,000 of series B 6% debenture bonds and 207,500 shares of common stock (par 10 cents) to be offered in units as follows: 100 "A" units (each consisting of a $500 "A" bond and 50 shares of stock); 100 "B" units (each consisting of a $500 "B" bond and 50 shares of stock); and 1,975 "C" units (each consisting of 100 shares of stock). **Price**: Of series "A" and "B" units, $500 each; and of series "C" units, $100 each. **Proceeds**—To acquire or lease plant; for dies and machinery; production equipment and materials; inventory; and working capital. **Business** — Manufactures "Unit-Inch" electric convector heaters. **Office**—7 West Water Street, Toms River, N. J. **Underwriter**—Berry & Co., Newark, N. J.

★ Bing & Bing, Inc.
Dec. 3 (letter of notification) 3,465 shares of common stock (par 10 cents). **Price**—47.62 cents per share. **Proceeds**—To William J. Williams, the selling stockholder. **Office**—119 West 40th St., New York, N. Y. **Underwriter**—None.

Bridgehampton Road Races Corp.
Nov. 20 (letter of notification) 55,075 shares of common stock (par $1). **Price**—$5 per share. **Proceeds**—For construction, improvements, etc. **Business**—To construct and operate an automobile road racing course. **Address**—P. O. Box 506, Bridgehampton, L. I., N. Y. **Underwriter**—None.

Bridgford Packing Co., Anaheim, Calif.
Aug. 13 (letter of notification) 222,222 shares of common stock (par $1). **Price**—$1.35 per share. **Proceeds**—To pay obligations, purchase equipment, etc. **Office**—1308 No. Patt Street, Anaheim, Calif. **Underwriter**—J. D. Creger & Co., 124 North Bright Avenue, Whittier, Calif.

Brookridge Development Corp.
Oct. 29 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For working capital. **Office**—67-12 62nd St., Ridgewood, Queens, N. Y. **Underwriter**—Wagner & Co., New York.

Burma Shore Mines, Ltd., Toronto, Canada
July 26 filed 600,000 shares of capital stock, of which 500,000 shares are to be offered publicly, and 100,000 shares to promoters. **Price**—At par ($1 per share). **Proceeds** — For equipment, exploration, drilling, working capital and other general corporate purposes. **Underwriter**—To be named later.

Burroughs Corp., Detroit, Mich.
Nov. 9 filed $30,154,700 of 4½% convertible subordinated debentures due Dec. 1, 1981, being offered for subscription by common stockholders on the basis of $100 of debentures for each 20 shares of stock held of record on Nov. 30, 1956; rights to expire on Dec. 17, 1956. **Price**—At par (flat). **Proceeds**—To reduce bank loans and for expansion program. **Underwriter** — Lehman Brothers, New York.

Centers Corp., Philadelphia, Pa.
July 30 filed $8,000,000 of 5½% sinking fund debentures due Aug. 1, 1971, and 1,600,000 shares of common stock (par one cent); subsequently amended to $4,500,000 of debentures. **Price** — To be supplied by amendment. **Proceeds** — About $4,100,000 will be used to acquire seven shopping center sites and a Penn Fruit supermarket adjacent to one of them; the balance will be used to develop shopping centers at the seven sites and to acquire and develop additional sites for related real estate activities, and for general corporate purposes. **Underwriter** — Blair & Co. Incorporated, Philadelphia and New York. Latter has agreed to purchase an additional 300,000 common shares and reoffer them to persons selected by it at $1.10 per share. **Offering**—Date indefinite.

Century Controls Corp., Farmnigdale, N. Y.
Aug. 27 filed $600,000 of 10-year 6% debentures. **Price**—90% of principal amount. **Proceeds**—For research and development; expansion; equipment; and other corporate purposes. **Underwriter** — None.

Century Controls Corp.
Oct. 4 (letter of notification) $150,000 of 6% subordinate convertible debentures. **Price**—90% of principal amount (in denominations of $100 each). **Proceeds** — To pay notes payable, reduce accounts payable and to pay other current liabilities; also for working capital. **Office**—Allen Boulevard, Farmingdale, L. I., N. Y. **Underwriter**—None.

Chinook Plywood, Inc., Rainier, Ore.
Sept. 4 filed 200 shares of common capital stock. **Price**—At par ($3,000 per share). **Proceeds**—For acquisition of a plant site, construction of a mill building, purchase and installation of machinery and equipment, and as operating capital. **Underwriter** — Industry Developers, Inc.

● Commercial Discount Corp., Chicago (12/18)
Nov. 21 filed 100,000 shares of 6% cumulative and participating preferred stock. **Price**—At par ($10 per share). **Proceeds** — For working capital, etc. **Underwriters**—Julien Collins & Co. and Cruttenden, Podesta & Co., both of Chicago, Ill.

★ Consumer Acceptance Corp., R. I.
Nov. 30 (letter of notification) 11,960 shares of class A common stock (par 10 cents). **Price**—$3 per share. **Proceeds** — For general corporate purposes including the making of loans. **Office**—904 Hospital Trust Bldg., Providence, R. I. **Underwriter**—None.

★ Crown Central Petroleum Corp.
Nov. 29 (letter of notification) an undetermined number of shares of common stock (par $5) to be issued under the company's 1957 Employees' Savings Plan. **Proceeds**—For purchase of stock in the open market. **Office**—American Bldg., Baltimore 2, Md. **Underwriter**—None.

Diversified Oil & Mining Corp., Denver, Colo.
Aug. 29 filed 2,500,000 shares of 6% convertible non-cumulative preferred stock, first series (par $1), and warrants to purchase 500,000 shares of common stock (par 10 cents) to be offered for subscription initially by common stockholders in units of 25 preferred shares and a warrant to purchase five common shares. **Price**—$25.50 per unit (each warrant will entitle the holder to purchase one common share at any time prior to Dec. 31, 1957 at $2 per share). **Proceeds**—To repay mortgages, to $1,312,500 of five-year 6% sinking fund debentures, and for further acquisitions and working capital. **Underwriter**—To be named by amendment.

Douglas Corp., Fort Collins, Colo.
July 27 filed 4,000,000 shares of common stock (par one cent). **Price** — 10 cents per share. **Proceeds** — For exploration, development and acquisition of properties and for working capital. **Underwriter**—Columbia Securities Co., Denver, Colo.

★ Economics Laboratory, Inc., St. Paul, Minn.
Dec. 12 filed 100,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes. **Underwriters**—W. E. Hutton & Co., Cincinnati, O., and Kalman & Co., Inc., St. Paul, Minn.

★ Erie Natural Gas Co., Inc.
Dec. 4 (letter of notification) 75,000 shares of common stock (par 50 cents). **Price**—$2 per share. **Proceeds**—To drill and prospect for natural gas. **Office**—317 Baldwin Bldg., Erie, Pa. **Underwriter**—McDonald, Holman & Co., Inc., New York.

● Eternalite, Inc., New Orleans, La. (1/15)
Sept. 24 filed 200,000 shares of class A common stock (par 50 cents). **Price**—$4.50 per share. **Proceeds**—To repay loan; for maintenance of and increase of inventory; for development of branch offices; and for research, laboratory tests, and testing equipment. **Underwriter**—Vickers Brothers, New York.

Faraday Uranium Mines, Ltd., Toronto, Canada
Nov. 30 filed 595,000 shares of capital stock (par $1) to be issued upon exercise of stock purchase warrants which were issued early in 1956 in connection with a public offering of $8,500,000 of 5½% sinking fund debentures. These warrants are exercisable on and after Jan. 1, 1957. **Price**—$1.75 per share. **Proceeds**—To retire some of the debentures. **Underwriter**—None.

★ First Investors Corp., New York
Dec. 11 filed (by amendment) $100,000 additional periodic payment plans and single payment plans.

Flakewood Corp., San Francisco, Calif.
Nov. 14 filed 100,000 shares of common stock. **Price**—At par ($10 per share). **Proceeds**—For construction of manufacturing plant and to provide working capital. **Underwriter**—None. Robert E. Evju is President.

Florida Growth Fund, Inc.
Nov. 23 filed 2,000,000 shares of common stock (par 10 cents). **Price**—$5 per share. **Proceeds**—For investment. **Underwriter**—Frank B. Bateman, Ltd., Palm Beach, Fla.

★ Flowers by Wire Corp., Marion, Ind.
Dec. 3 (letter of notification) 100,000 shares of common stock. **Price** — At par ($3 per share). **Proceeds** — For working capital. **Office**—1115 S. Washington St., Marion, Inc. **Underwriter**—None.

Freiberg Mahogany Co.
Oct. 11 filed $2,000,000 of subordinated debentures due 1971 and 450,000 shares of common stock (par 10 cents), of which $1,500,000 of debentures and all of the stock are to be offered publicly in units of $500 of debentures and 150 shares of stock; the remaining $500,000 of debentures to be sold to Texas Industries, Inc., which owns about 75% of Freiberg's outstanding common stock. **Price**—To be supplied by amendment. **Proceeds**—From sale of units to retire short-term loans and for working capital; etc., and from sale of debentures to Texas Industries to retire a subordinated promissory note payable to the latter firm. **Office**—New Orleans, La. **Underwriters**—Howard, Weil, Labouisse, Friedrichs & Co., New Orleans, La.; Rauscher, Pierce & Co., Inc., Dallas, Texas; and Russ & Co., Inc., San Antonio, Texas. **Offering**—Postponed.

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★ Fruit Juices, Inc.
Dec. 3 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For working capital. **Office**—1115 South Washington St., Marion, Ind. **Underwriter**—Sterling Securities Co., Los Angeles, Calif.

General Credit, Inc., Washington, D. C.
Aug. 17 filed $2,000,000 of 6% subordinated sinking fund debentures, due Sept. 1, 1971, with detachable warrants to purchase 160,000 shares of participating preference stock, to be offered in units of $500 of debentures and 40 warrants. **Price**—$500 per unit. **Proceeds**—For expansion and working captal. **Underwriter** — None named. Offering to be made through selected dealers.

General Telephone Co. of California (1/10)
Nov. 13 filed 500,000 shares of 5% cumulative preferred stock (par $20). **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—Paine, Webber, Jackson & Curtis, New York, and Mitchum, Jones & Templeton, Los Angeles, Calif.

Genisco, Inc., Los Angeles, Calif. (12/17-21)
Nov. 23 filed $300,000 of 12-year 6% subordinated debentures due Dec. 1, 1968 (with stock purchase warrants attached) and 33,000 shares of common stock (par $1), of which 23,000 shares are to be offered for the account of a selling stockholder. **Price** — To be supplied by amendment. **Proceeds**—To retire short-term borrowings, for machinery and tools, and to increase inventories and for other general corporate purposes. **Underwriter**—Wilson, Johnson & Higgins, San Francisco, Calif., and Lester, Ryons & Co., Los Angeles, Calif.

Gold Mountain Lodge, Inc., Durango, Colo.
Aug. 23 filed 5,000 shares of class A voting common stock (par $1), 295,000 shares of class B non-voting common stock (par $1), and $700,000 of 4% debentures due Dec. 31, 1975, to be offered for sale in the States of Texas and Colorado in units of 50 shares of class A stock, 2,950 shares of class B stock and one $7,000 debenture. **Price**—$10,000 per unit. **Proceeds**—For purchase of property, remodeling of present main building, for new construction and working capital. **Business**—Operates year-round resort hotel. **Underwriter**—None.

Guardian Chemical Corp.
Oct. 29 (letter of notification) $250,000 of 6% convertible debentures due Dec. 1, 1966 being offered for subscription by common stockholders of record Nov. 5, 1956 on the basis of $100 of debentures for each 200 shares of common stock, or fraction thereof held; rights to expire on Dec. 28. **Price** — At par (in denominations of $100 each). **Proceeds**—For working capital. **Office**—38-15 30th St., Long Island City 1, N. Y. **Underwriter**—None.

Guardian Consumer Finance Corp. (12/17-19)
Nov. 26 filed 75,000 shares of 60-cent convertible preferred stock (par $10). **Price**—To be supplied by amendment. **Proceeds**—To reduce bank loans. **Underwriter**—Van Alstyne, Noel & Co., New York.

Hancock Electronics Corp., Redwood City Calif.
Nov. 19 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For research and development. **Business**—Closed circuit television. **Office**—2553 Middlefield Road, Redwood City, Calif. **Underwriter**—Daniel Reeves & Co., Beverly Hills, Calif.

NEW ISSUE CALENDAR

December 14 (Friday)

Beauty Counselors Inc.________________Common
(Spencer Trask & Co.; Lee Higginson Corp.; Homer O'Connell & Co.; Laird, Bissell & Meeds; and Chas. A. Parcells & Co.) 22,000 shares

Ling Electronics Inc.________________Debentures
(Perkins & Co., Inc.) $1,000,000

Ling Electronics Inc.________________Common
(Offering to stockholders—to be underwritten by Perkins & Co., Inc.) 183,333 shares

Mohawk Airlines, Inc.________________Debentures
(Mohawk Valley Investing Co.; Allen & Co., and Gregory & Sons) $694,900

Rose Marie Reid________________Common
(Van Alstyne, Noel & Co.) $2,250,000

Texas Fuel Corp.________________Common
(Franklin Securities Co.) $300,000

December 17 (Monday)

Genisco, Inc. ___________Debentures and Common
(Wilson, Johnson & Higgins and Lester, Ryons & Co.) $300,000 debentures and 33,000 shares of stock

Guardian Consumer Finance Corp.______Preferred
(Van Alstyne, Noel & Co.) $750,000

Kromex Corp.________________Debentures
(Lee Higginson Corp. and P. W. Brooks & Co. Inc.) $1,000,000

Kromex Corp. ________________Common
(Lee Higginson Corp. and P. W. Brooks & Co. Inc.) 130,000 shares

May Stores Realty Corp.________________Bonds
(Goldman, Sachs & Co. and Lehman Brothers) $25,000,000

Peerless Life Insurance Co.______________Common
(Newborg & Co.) $287,500

Reading Co.______________Equipment Trust Ctfs.
(Bids noon EST) $5,250,000

December 18 (Tuesday)

Adams Engineering Co.________________Common
(First Cleveland Corp.) $212,500

Atlantic Coast Line RR.__________Equip. Trust Ctfs.
(Bids to be invited) $5,340,000

Commercial Discount Corp.____________Preferred
(Julien Collins & Co. and Cruttenden, Podesta & Co.) $1,000,000

K D I Corp.________________Preferred
(McDonald, Holman & Co., Inc.) $499,996

Murphy (A. A.) & Co., Inc.____________Preferred
(Piper, Jaffray & Hopwood) $300,000

December 19 (Wednesday)

Northern Pacific Ry.___________Equip. Trust Ctfs.
(Bids to be invited) about $7,700,000

December 20 (Thursday)

Maine Fidelity Fire & Casualty Co.______Common
(McLaughlin, Cryan & Co.) $1,243,750

December 27 (Thursday)

Chesapeake & Ohio Ry.____Equipment Trust Ctfs.
(Bids to be invited) $4,200,000

December 28 (Friday)

Hawaiian Pineapple Co., Ltd.___________Common
(Offering to stockholders — Underwritten by Dean Witter & Co.) 413,920 shares

January 3, 1957 (Thursday)

Prince Marine Drilling & Exploration Co. Debentures & Common
(Shields & Co.) $1,375,000

Southern Pacific Co.___________Equip. Trust Ctfs.
(Bids to be invited) $9,600,000

January 7, 1957 (Monday)

Idaho Power Co.________________Bonds
(Bids to be invited) $20,000,000

Pacific Power & Light Co.________________Bonds
(Bids 11 a.m. EST) $20,000,000

Pacific Power & Light Co.____________Preferred
(Bids 11 a.m. EST) $9,000,000

January 8, 1957 (Tuesday)

New England Tel. & Tel. Co.__________Debentures
(Bids to be invited) $35,000,000

Southern Ry.__________Equipment Trust Ctfs.
(Bids to be invited) about $5,600,000

January 9, 1957 (Wednesday)

National Bank of Commerce, Memphis, Tenn. ______________Common
(Offering to stockholders—to be underwritten by Leftwich & Ross) $1,000,000

Wabash RR.______________Equip. Trust Ctfs.
(Bids to be invited) about $2,000,000

January 10, 1957 (Thursday)

General Telephone Co. of California____Preferred
(Paine, Webber, Jackson & Curtis and Mitchum, Jones & Templeton) $10,000,000

Missouri Pacific RR.__________Equip. Trust Ctfs.
(Bids to be invited) $4,875,000

New Jersey, Indiana & Illinois RR.__Equip. Tr. Ctfs.
(Bids to be invited) $1,400,000

January 15, 1957 (Tuesday)

Eternalite, Inc.______________Class A Common
(Vickers Brothers) $900,000

Louisiana Power & Light Co.______________Bonds
(Bids noon EST) $20,000,000

Southwestern Public Service Co.________Common
(Offering to stockholders—to be underwritten by Dillon, Read & Co.) 292,000 shares

Valley National Bank______________Common
(Offering to stockholders — may be underwritten by William R. Staats & Co. and Blyth & Co., Inc.) 105,000 shares

Winters National Bank & Trust Co.________Common
(Offering to stockholders—to be underwritten by Green & Ladd and Grant Brownell & Co.) $3,850,000

January 16, 1957 (Wednesday)

Norfolk & Western Ry.__________Equip. Trust Ctfs.
(Bids to be invited) about $4,650,000

January 22, 1957 (Tuesday)

Cincinnati, New Orleans, Texas & Pacific Ry.__________Equip. Trust Ctfs.
(Bids to be invited) approximately $4,000,000

Pacific Gas & Electric Co.______________Bonds
(Bids to be invited) $35,000,000

Southern Indiana Gas & Electric Co.________Bonds
(Bids to be invited) $5,000,000

Southwestern Gas & Electric Co.__________Bonds
(Bids to be invited) $10,000,000

January 23, 1957 (Wednesday)

Atlantic City Electric Co.______________Bonds
(Bids to be invited) $10,000,000

January 24, 1957 (Thursday)

Pittsburgh & Lake Erie RR.____Equip. Trust Ctfs.
(Bids to be invited) $6,720,000

January 29, 1957 (Tuesday)

Mountain States Tel. & Tel. Co.__________Debentures
(Bids to be invited) $35,000,000

Oklahoma Gas & Electric Co.______________Bonds
(Bids to be invited) $20,000,000

February 4, 1957 (Monday)

Public Service Co. of Oklahoma______________Bonds
(Bids to be invited) about $12,000,000

Hartfield Stores, Inc.
Oct. 2 filed 240,000 shares of common stock (par $1). **Price**—$9 per share. **Proceeds**—To certain selling stockholders. **Underwriter**—Van Alstyne, Noel & Co., New York; and Johnston, Lemon & Co., Washington, D. C. **Offering**—Postponed.

★ Hartford Gas Co., Hartford, Conn.
Dec. 11 filed 60,000 shares of common stock (par $25), issuable against conversion of $1,500,000 3½% 10-year convertible debentures due July 1, 1965. Owners of the debentures will be entitled on and after Jan. 1, 1957 to convert such debentures into common shares by exercising the conversion privilege conferred by the indenture. The conversion price is initially $27 per share of common stock acquired and is payable by the surrender of $25 principal amount of debentures and payment of $2 in cash.

Hawaiian Pineapple Co., Ltd. (12/28)
Nov. 29 filed 413,920 shares of common stock (par $7.50) to be offered for subscription by common stockholders of record Dec. 28, 1956 on the basis of one new share for each four shares held. **Price**—To be supplied by amendment. **Proceeds**—To reduce bank loans and for working capital. **Underwriter**—Dean Witter & Co., San Francisco, Calif.

★ Hensen Manufacturing Co., Cleveland, Ohio
Dec. 11 filed 133,200 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders. **Underwriters**—Hayden, Miller & Co. and Ball, Burge & Kraus, both of Cleveland, O.

Hilton Hotels Corp.
Nov. 23 filed 278,733 shares of 5½% cumulative convertible voting preferred stock, series A (par $25) and 278,733 shares of common stock (par $2.50) to be offered in exchange for outstanding capital stock of Savoy-Plaza, Inc., at the rate of three shares of series A preferred and three shares of common stock of Hilton Hotels for each class A and class B share of Savoy-Plaza. The exchange offer will not become effective unless at least 80% of the class A and class B stock of Savoy-Plaza is tendered.

★ Idaho Power Co. (1/7)
Dec. 7 filed $20,000,000 first mortgage bonds due 1987. **Proceeds**—To repay bank loans and for construction program. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Blyth & Co., Inc., Lazard Freres & Co. and The First Boston Corp. (jointly); Kidder, Peabody & Co., and White, Weld & Co. (jointly); Salomon Bros. & Hutzler; Lehman Brothers, A. C. Allyn & Co. and Wood, Struthers & Co. (jointly); Kuhn, Loeb & Co. **Bids**—Tentatively expected to be received on Jan. 7, 1957.

International Bank of Washington, D. C.
Sept. 28 filed $1,000,000 of time certificates, series B, C and D. **Price**—At 100% of principal amount. **Proceeds**—For working capital. **Underwriter**—Johnston, Lemon & Co., Washington, D. C.

International Capital Corp., Des Moines, Iowa
Nov. 29 filed 370,000 shares of common stock (par 10 cents), of which 185,000 shares are to be offered by The Equity Corp. on a share-for-share basis in exchange for Equity Corp. common stock, and the remaining 185,000 shares by Financial General Corp. on a basis of 1⅔ shares of International common stock in exchange for one share of Financial common stock. Equity and Financial are to receive the 185,000 shares each of International common stock in exchange for all the outstanding shares of common stock of Investors Financial Corp. and Group Equities, Inc. International has been informed that 142,000 shares of Equity common owned by Fremont Corp. will be tendered in acceptance of the Equity exchange offer. **Underwriter**—None.

International Postal Supply Co. of New York
Oct. 31 (letter of notification) 4,256.6 shares of capital stock (no par) to be offered for subscription by stockholders at the rate of one new share for each five shares held. **Price**—$17 per share. **Proceeds** — For expansion, research and development of new products, and to purchase equipment. **Office**—634 Prospect Place, Brooklyn, N. Y. **Underwriter**—None.

Investment Corp. of Florida
Aug. 24 filed $515,000 of $60 cumulative preferred stock to be offered in units of $1,000 each and 5,150 shares of common stock to be offered to purchasers of preferred stock at 10 cents per share at rate of ten shares for each preferred share bought. **Proceeds**—For working capital. **Office**—Fort Lauderdale, Fla. **Underwriter**—None.

★ Investors Group Canadian Fund, Ltd.
Dec. 5 filed (by amendment) 15,000,000 additional shares of common stock (par $1). **Price**—At market. **Proceeds**—For investment. **Office**—Winnipeg, Manitoba, Canada.

Jacobs (F. L.) Co.
Oct. 4 filed $3,000,000 of 6% convertible debentures due Nov. 1, 1966. **Price**—100% of principal amount. **Proceeds**—To pay short-term loans and for working capital. **Underwriters**—McLaughlin, Cryan & Co. and Gearhart & Otis, Inc., both of New York.

Joa Co.
July 27 (letter of notification) 110,000 shares of common stock (par 20 cents). **Price**—$2.50 per share. **Proceeds**—For sales promotions and operating capital. **Office**—411 No. Scenic Highway, Lake Wales, Fla. **Underwriter**—Anderson Cook Co., Inc., Palm Beach, Fla.

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● K D I Corp., Rochester, N. Y. (12/18)
Nov. 16 filed 81,428 shares of 7% participating cumulative preferred stock (par $5), of which 71,428 shares are to be offered to public. **Price**—$7 per share. **Proceeds**—For machinery and equipment, working capital and other corporate purposes. **Underwriter**—McDonald, Holman & Co., Inc., New York.

Kerr Income Fund, Inc., Los Angeles, Calif.
July 30 filed 100,000 shares of capital stock (par $1), of which 9,300 shares will be initially sold at $10.98 per share. Additional shares will be offered at a price equal to the net asset value of the Fund, plus a sales load of 8½% of such price. **Proceeds**—For investment. **Investment Manager** — California Fund Investment Co., of which John Kerr is also President.

Kinney Loan & Finance Co.
Sept. 11 (letter of notification) $150,000 of 6% sinking fund capital debentures, series A, due Sept. 1, 1971. **Price**—At par in denominations of $1,000 each. **Proceeds**—For working capital. **Office** — 911 Tenth St., Greeley, Colo. **Underwriter**—Wachob-Bender Corp., of Omaha and Lincoln, Neb.

★ Klamath Machine & Locomotive Works, Inc.
Nov. 29 (letter of notification) $210,000 of participating sinking fund debentures due Nov. 1, 1971 (with fixed interest of 6½% and contingent interest of an additional 1½%). **Price**—At face amount (in denominations of $500 and $1,000 each). **Proceeds**—For general corporate purposes. **Office**—720 N. State St., Ukiah, Calif. **Underwriter**—None.

● Kromex Corp., Cleveland, Ohio (12/17)
Nov. 21 filed $1,000,000 of 6% convertible debentures due 1976. **Price**—To be supplied by amendment. **Proceeds**—To purchase machinery and equipment, to retire indebtedness and for working capital. **Business**—Aluminum and chrome-plated kitchenware and giftware. **Underwriters**—Lee Higginson Corp. and P. W. Brooks & Co. Inc., both of New York.

● Kromex Corp., Cleveland, Ohio (12/17)
Nov. 21 filed 130,000 shares of capital stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders. **Underwriters** — Lee Higginson Corp. and P. W. Brooks & Co. Inc., both of New York.

● Libby, McNeill & Libby, Chicago, Ill.
Nov. 9 filed $10,468,500 of 5% convertible sinking fund debentures due Dec. 15, 1976, being offered for subscription by common stockholders at the rate of $100 of debentures for each 35 shares held as of Nov. 29, 1956; rights to expire on Dec. 17. **Price**—At par (flat). **Proceeds** — To reduce bank loans. **Underwriter** — Glore Forgan & Co., Chicago, Ill.

Libby, McNeill & Libby, Chicago, Ill.
Nov. 9 filed 610,664 shares of common stock (par $7) being offered for subscription by common stockholders at the rate of one new share for each six shares held as of Nov. 29; rights to expire on Dec. 17. **Price**—$12 per share. **Proceeds**—To reduce bank loans. **Underwriter**—Glore, Forgan & Co., Chicago, Ill.

Life Insurance Co. of South Carolina
Oct. 15 filed 339,600 shares of common stock (no par) to be offered for subscription by stockholders of record Sept. 12, 1956 at the rate of two shares of new stock for each share held. **Price**—To stockholders, $10 per share; and to public, $15 per share. **Proceeds**—For expansion and working capital. **Underwriter**—None. Public offering will be made by employees of the company and qualified licensed dealers.

Ling Electronics, Inc., Los Angeles, Calif.
Nov. 5 filed $1,000,000 of 6% convertible debentures due Dec. 1, 1966. **Price**—100% and accrued interest. **Proceeds**—For general corporate purposes. **Underwriter**—Perkins & Co., Inc., Dallas, Texas. **Offering**—Expected this week.

Ling Electronics, Inc., Los Angeles, Calif.
Nov. 5 filed 183,333 shares of common stock (par 50 cents) to be offered for subscription by common stockholders at the rate of one new share for each six shares held. **Price**—$3 per share. **Proceeds**—For general corporate purposes. **Underwriter** — Perkins & Co., Inc., Dallas, Texas. **Offering**—Expected this week.

Lorain Telephone Co.
Oct. 1 (letter of notification) 4,994 shares of common stock (no par) being offered to stockholders on the basis of one share for each 20 shares of record Sept. 24; rights to expire Jan. 2, 1957. **Price**—$25 per share. **Proceeds**—To reimburse company for additions to property in Ohio and for other corporate purposes. **Office**—203 West Ninth St., Lorain, Ohio. **Underwriter**—None.

Los Angeles Drug Co.
Oct. 11 filed $500,000 of 6% convertible subordinated debentures due Aug. 1, 1971. **Price**—At par (indenominations of $500 and $1,000 each). **Proceeds**—For equipment, inventory and working capital. **Underwriter**—Quincy Cass Associates, Los Angeles, Calif.

Louisiana Power & Light Co. (1/15)
Dec. 4 filed $20,000,000 of first mortgage bonds due 1987. **Proceeds**—For reduction of bank loans and construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp. and Eastman Dillon, Union Securities & Co. (jointly); Kuhn, Loeb & Co.; Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and Harriman Ripley & Co. Inc. (jointly); Salomon Bros. & Hutzler; The First Boston Corp., and Glore, Forgan & Co. (jointly); White, Weld & Co. and Shields & Co. (jointly). **Bids**—Expected to be received up to noon (EST) on Jan. 15, 1957.

Loyal American Life Insurance Co., Inc.
Sept. 28 filed 230,000 shares of common stock (par $1) to be offered for subscription by common stockholders of record Oct. 15, 1956 at the rate of one new share for each three shares held (with an oversubscription privilege). **Price**—To be supplied by amendment. **Proceeds**—To increase capital and surplus. **Underwriters**—J. H. Goddard & Co., Inc., Boston, Mass., and Thornton, Mohr & Farish, Montgomery, Ala.

Lucky Stores, Inc.
Oct. 11 filed 630,000 shares of common stock (par $1.25) being offered for subscription by common stockholders of Foremost Dairies, Inc. of record Nov. 30. In the ratio of one Lucky Stores share for each 12½ shares of Foremost common stock held (with an over-subscription privilege); rights to expire on Dec. 17. **Price** — $11.25 per share. **Proceeds** — To Foremost Dairies, Inc., the selling stockholder. **Office** — San Leandro, Calif. **Underwriters**—Allen & Co., New York, and Dean Witter & Co., San Francisco, Calif.

Macinar, Inc.
July 23 (letter of notification) 400,000 shares of common stock (par 50 cents). **Price**—75 cents per share. **Proceeds**—For general corporate purposes. **Business** — Manufactures steel and aluminum specialty products. **Underwriter**—C. J. Montague, Inc., 15 William Street, New York 17, N. Y.

Maine Fidelity Fire & Casualty Co. (12/20)
Nov. 28 filed 99,500 shares of capital stock (par $5). **Price**—$12.50 per share. **Proceeds** — To increase capital and surplus. **Office**—Portland, Me. **Underwriter**—McLaughlin, Cryan & Co., New York.

● May Stores Realty Corp. (12/17-21)
Nov. 23 filed $25,000,000 general mortgage bonds due Feb. 15, 1977. **Price** — To be supplied by amendment. **Proceeds**—Approximately $18,000,000 is to be used to purchase properties from parent, The May Department Stores Co.; to pay existing indebtedness to parent and for acquisition or construction of additional properties to be leased to parent. **Underwriters**—Goldman, Sachs & Co. and Lehman Brothers, both of New York.

★ McRae Tungsten Corp., Boise, Idaho
Nov. 30 (letter of notification) 100,000 shares of common stock (par one cent) and 100,000 stock purchase warrants (each two warrants to entitle holder thereof to purchase one share of Idaho Rare Minerals Corp. 6% cumulative convertible sinking fund preferred stock, par $10, and one share of Idaho Rare common stock, par one cent at $11 per unit). **Price**—$3 per unit, consisting of one McRae share and one warrant. **Proceeds** — For mining expenses. **Office**—c/o Robert J. McRae, 1704 Gourley St., Boise, Ida. **Underwriter**—Von Gemmingen & Co., Inc., 320 North Fourth St., St. Louis, Mo.

Michigan Wisconsin Pipe Line Co.
July 2 filed $25,000,000 of first mortgage pipe line bonds due 1976. **Proceeds**—To pay off short term bank loans and for construction program. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc. **Bids**—Three bids were received on Aug. 1, all for 4¾s, but were turned down. No new date for bids has been set.

Midnite Mines, Inc., Wellpinit, Wash.
Nov. 6 (letter of notification) 223,980 shares of common stock (par 10 cents). **Price**—$1.25 per share. **Proceeds**—To go to selling stockholders. **Underwriter** — Standard Securities Corp., Spokane, Wash.

Minerals, Inc., New York
June 22 filed 2,500,000 shares of common stock (par one cent). **Price**—$1.50 per share. **Proceeds**—To acquire for $2,400,000 the Chavin lead-zinc-copper-silver mine located in South Central Peru, and for general corporate purposes. **Underwriter** — Gearhart & Otis, Inc., New York. **Offering**—Postponed.

● Mohawk Airlines, Inc., Ithaca, N. Y. (12/14)
Oct. 26 filed $794,000 of 5½% convertible subordinated debentures due Aug. 1, 1966, of which $100,000 principal amount will be offered in exchange for outstanding 6% convertible notes. **Price** — 100% and accrued interest. **Proceeds** — For general corporate purposes. **Underwriters**—Mohawk Valley Investing Co.; Dempsey-Tegeler & Co.; and Gregory & Sons.

★ Murphy (A. A.) & Co., Inc., St. Paul, Minn. (12/18)
Dec. 3 (letter of notification) 6,000 shares of 6% prior preferred stock. **Price**—At par $50 per share). **Proceeds**—To reduce bank loans and for working capital. **Underwriter**—Piper, Jaffray & Hopwood, Minneapolis, Minn.

National By-Products, Inc.
June 19 (letter of notification) 2,000 shares of common stock (par $1). **Price**—$5 per share. **Proceeds**—To pay Federal estate taxes. **Office**—800 Bankers Trust Bldg., Des Moines, Iowa. **Underwriter**—T. C. Henderson & Co., Inc., Des Moines, Iowa.

National Cash Register Co.
Nov. 9 filed $28,170,500 4½% convertible subordinated debentures due Dec. 15, 1981, being offered for subscription by common stockholders of record Dec. 4, 1956 at the rate of $100 of debentures for each 25 shares of stock held; rights to expire on Dec. 19, 1956. **Price**—At par. **Proceeds**—For working capital to finance company's expanding volume of sales and the consequent increase in customers' accounts receivable, and to carry increased inventories; also for improvement and replacement of plant and other production facilities. **Underwriter**—Dillon, Read & Co. Inc., New York.

★ National Fidelity Insurance Co.
Nov. 30 (letter of notification) 33,000 shares of common stock (par $1.25) to be offered to stockholders on the basis of one share for each seven shares held. **Price**—$8 per share. **Proceeds**—For working capital. **Office**—314 Pine St., Spartanburg, N. C. **Underwriter**—None.

National Life of America, Mitchell, S. Dak.
Sept. 21 filed 86,784.7 shares of common stock (par $5) to be offered for subscription by each of the company's 23,279 policyholders on and as of July 31, 1956 at the rate of 1½ shares of such stock and the balance of the shares to be exchangeable for Founders certificates and coupons issued by National Life as a part or feature of certain life insurance policies. **Price**—$7.50 per share. **Proceeds**—For working capital and other corporate purposes. **Underwriter**—None.

National Old Line Insurance Co.
Nov. 15, 1955 filed 50,000 shares of class A common stock (par $2) and 50,000 shares of class B common stock (par $2). **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders. **Office** — Little Rock, Ark. **Underwriter** — Equitable Securities Corp., Nashville, Tenn., and New York, N. Y. **Offering** — Indefinitely postponed.

New England Electric System
Dec. 3 filed 819,000 shares of common stock (par $1) to be offered in exchange for capital stock of Lynn Gas & Electric Co. on the basis of two NEES shares for each Lynn share. **Dealer-Managers**—Paine, Webber, Jackson & Curtis and F. S. Moseley & Co., both of Boston, Mass.

New South Wales, Australia (Electricity Commission of)
Oct. 26 filed $7,500,000 sinking fund bonds. **Price**—To be supplied by amendment. **Proceeds**—To redeem $6,976,000 3½% sinking fund bonds, of The Sydney County Council due Jan. 1, 1957, the holders of which may exchange same for the new bonds; and for construction work. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Indefinitely postponed.

Norfolk & Carolina Telephone & Telegraph Co.
Nov. 14 (letter of notification) 2,000 shares of common stock to be offered for subscription by stockholders on a one-for-five basis. **Price**—At par ($100 per share). **Proceeds**—For the retirement of a short-term note and other debts and additional new plant. **Underwriter**—None.

● Northeast Airlines, Inc.
Nov. 20 filed 784,402 shares of $1 par value common stock, of which approximately 45% of the shares are being offered for subscription by common stockholders of record Dec. 7, 1956, other than Atlas Corp. on a 4 for-5 basis (rights to expire on Dec. 20); approximately 5% of the shares to Atlas Corp.; and the balance of the shares, or 50% of the offering, were on Dec. 12 offered to the public. **Price**—$9.50 per share. **Proceeds** — For expansion of operations; toward payment of 10 aircraft and related equipment; and for general corporate purposes. **Underwriter**—Carl M. Loeb, Rhoades & Co., New York. Atlas Corp. may purchase a portion of shares offered to other stockholders which remain unsubscribed by them.

Ocean City Pier Corp., Berlin, Md.
Oct. 4 filed $2,000,000 of 6% debenture bonds due July 1, 1976, and 4,000,000 shares of common stock (par one cent) to be offered in units of one $100 bond and 200 shares of stock. **Price**—$300 per unit. **Proceeds** — For construction and operation of amusement pier. **Underwriter** — Paul Korns, a director, of Johnstown, Pa. Lt. Col. James A. Grazier of Whaleysville and Ocean City, Md., is Chairman of the Board.

Ohio Power Co.
Sept. 20 filed 60,000 shares of cumulative preferred stock (par $100). **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: The First Boston Corp.; Blyth & Co., Inc.; Kuhn Loeb & Co.; Eastman Dillon, Union Securities & Co. and Salomon Bros. & Hutzler (jointly); Harriman Ripley & Co., Inc. and Stone & Webster Securities Corp. (jointly); Lehman Brothers. **Bids**—The two received up to 11 a.m. (EST) on Oct. 30 were rejected.

Orefield Mining Corp., Montreal, Canada
Oct. 15 filed 900,000 shares of capital stock (par $1), of which 200,000 shares are now outstanding. **Price**—To be supplied by amendment. **Proceeds** — For exploration costs. **Underwriter**—To be named later. Michael Tzopanakis, of Miami, Fla., and Denis Colivas, of Montreal, Canada, are large stockholders.

★ Pacific Power & Light Co. (1/9)
Dec. 6 filed $20,000,000 of first mortgage bonds due 1987. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers, Bear, Stearns & Co. and Salomon Bros. & Hutzler (jointly); Blyth & Co., Inc. and White, Weld & Co. (jointly); Eastman, Dillon, Union Securities & Co.; Kidder, Peabody & Co. **Bids**—Expected to be received up to 11 a.m. (EST) on Jan. 9.

★ Pacific Power & Light Co. (1/9)
Dec. 6 filed 90,000 shares of serial preferred stock (par $100). **Proceeds**—For construction program. **Underwriter**—May be determined by competitive bidding. Probable bidders: Lehman Brothers; Blyth & Co., Inc.; Eastman Dillon, Union Securities & Co.; Kidder, Peabody & Co. **Bids**—Expected to be received up to 11 a.m. (EST) on Jan. 9.

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Pari-Mutuel Equipment Corp.
Aug. 24 (letter of notification) 60,000 shares of common stock (par $1). **Price**—$5 per share. **Proceeds**—For construction of 250 race ticket machines; for purchase of 40 machines for issuance of semi-blank race tickets; and for working capital and general corporate purposes. **Office**—527 Madison Avenue, New York 17, N. Y. **Underwriter**—Wistor R. Smith & Co., 40 East 54th Street, New York 22, N. Y.

Peerless Life Insurance Co. (12/17-21)
Oct. 8 (letter of notification) 11,500 shares of common stock (no par). **Price**—$25 per share. **Proceeds** — For general corporate purposes. **Office** — 1310 Gulf States Bldg., 109 North Akard St., Dallas, Tex. **Underwriter**—Newborg & Co., New York.

● Peoples Finance Corp.
Nov. 16 filed 50,000 shares of 60-cent cumulative convertible preferred stock (par $5). **Price**—$10 per share. **Proceeds**—To reduce bank loans and for working capital. **Office**—Denver, Colo. **Underwriter**—Paul C. Kimball & Co., Chicago. **Offering**—Expected this week.

★ Phoenix Engineering & Manufacturing Co.
Nov. 30 (letter of notification) 8,600 shares of common stock of which 557 shares were sold to employees. **Price**—At par ($10 per share). **Proceeds**—For the purchase of additional inventories and equipment. **Office** — 1320 North 52nd St., Phoenix, Ariz. **Underwriter**—None.

Pigeon Hole Parking of St. Louis, Inc.
Oct. 29 filed 300,000 shares of class A common stock (par 25 cents). **Price**—To be supplied by amendment (proposed maximum offering price is $3.25 per share). **Proceeds** — To construct and operate two multi-level automobile parking structures, utilizing a patented mechanical device. **Underwriters**—A. G. Edwards & Sons and Dempsey-Tegeler & Co., both of St. Louis, Mo.

Pittsburgh Consolidation Coal Co.
Oct. 3 filed 2,678,697 shares of common stock (par $1) being offered in exchange for common stock of Pocahontas Fuel Co. on the basis of 2⅝ shares of Pittsburgh for each Pocahontas common share. The offer, which has been declared effective, has been extended until 3 p.m. (EST) on Feb. 1, 1957.

★ Prince Marine Drilling & Exploration Co. (1/3)
Dec. 6 filed $1,250,000 of 5½% sinking fund debentures due Jan. 1, 1969 and 125,000 shares of common stock (par 50 cents) to be offered in units of $100 of debentures and 10 shares of stock. **Price** —$110 per unit. **Proceeds**—To acquire certain oil, gas and other mineral leasehold properties, including properties now producing gas and oil; to acquire equipment; and for working capital. **Office**—Houston, Tex. **Underwriter**—Shields & Co., New York.

● Puerto Rican Jai Alai, Inc.
July 27 filed $1,500,000 of 12-year 6% first mortgage bonds due 1968, and 300,000 shares of common stock (par $1) to be offered in units of a $500 bond and 100 shares of stock. **Price** — To be $500 per unit. **Proceeds** — For construction of fronton and related activities. **Office**—San Juan, Puerto Rico. **Underwriters**—Crerie & Co., Houston, Texas; Dixon Bretscher Noonan, Inc., Springfield, Ill.; and Aetna Securities Corp., New York. **Offering**—Date indefinite.

Pyramid Development Corp., Washington, D. C.
July 27 (letter of notification) 300,000 shares of common stock (par 10 cents), of which 25,000 shares are to be reserved for issuance upon exercise of options. **Price**—$1 per share. **Proceeds**—To purchase real property and mortgage notes. **Underwriter**—Coombs & Co. of Washington, D. C.

Pyramid Productions, Inc., New York
Sept. 27 filed 220,000 shares of common stock (par $1), of which 200,000 shares are to be offered to public and 20,000 shares issued to underwriter. **Price**—$5 per share. **Proceeds**—To retire $125,000 of outstanding 15% debentures as well as a $173,180 debt to Trans-Union Productions, Inc.; and for working capital. **Business**—Television releases. **Underwriter**—E. L. Aaron & Co., New York.

★ Race & Race, Inc., Winter Haven, Fla.
Nov. 29 (letter of notification) $300,000 of 6% convertible debentures due Dec. 15, 1966 to be offered in units of $100. **Price**—At face amount. **Underwriter**—None.

Redi-Food Co., Inc.
Oct. 8 (letter of notification) 150,000 shares of common stock (par 10 cents). **Price**—$2 per share. **Proceeds**—To purchase plant and equipment. **Office**—2505 Butler Place, New York City. **Underwriter**—Hopp & Co., Passaic, N. J.

● Rose Marie Reid, Inc. (12/14)
Nov. 26 filed 250,000 shares of common stock (par $1), of which 80,000 shares are for account of company and 170,000 shares for selling stockholders. **Price** — $9 per share. **Proceeds**—To increase inventories, finance expansion and for working capital and other corporate purposes. **Business**—Manufacture and sale of swim suits. **Office**—Los Angeles, Calif. **Underwriter**—Van Alstyne, Noel & Co., New York.

● St. Regis Paper Co.
Oct. 26 filed 750,000 shares of common stock (par $5) being offered in exchange for outstanding common stock (par $10) of J. Neils Lumber Co. at rate of 2½ St. Regis shares for each Neils common share. The offer will expire on Dec. 31, 1956, unless extended. **Exchange Agent**—The First National Bank of Portland, P. O. Box 3457, Portland, Ore.

Samson Uranium, Inc., Denver, Colo.
Aug. 21 (letter of notification) 25,000,000 shares of capital stock. **Price**—At par (10 cents per share). **Proceeds**—For core drilling, including geological research and core assays; for mining shaft; to exercise purchase of option agreement on additional properties; for working capital and other corporate purposes. **Underwriter** — Indiana State Securities Corp. of Indianapolis, Ind., for offering to residents of Indiana.

★ Schuster (Ed.) & Co., Inc.
Dec. 3 (letter of notification) 2,000 shares of common stock (par $10). **Price**—At market. **Proceeds**—To go to selling stockholders. **Office**—2153 N. 3rd St., Milwaukee, Wis. **Underwriter**—Robert W. Baird & Co., Inc., Milwaukee, Wis.

★ Scott Paper Co., Chester, Pa.
Dec. 5 filed 10,500 membership in Employees' Stock Purchase Plan for 1957, together with 54,585 shares of common stock which may be purchased under the Plan.
Dec. 5 filed 500,000 shares of common stock, representing the maximum number of shares for which options may be presently granted pursuant to the Stock Option Plan for key employees of the company or its wholly-owned subsidiaries.

Southern General Insurance Co., Atlanta, Ga.
Sept. 24 filed 95,714 shares of common stock (par $5), of which 50,000 shares are to be offered publicly; 20,714 shares are to be offered in exchange for 10,357 shares of $10 par common stock of Progressive Fire Insurance Co.; and 25,000 shares are to be offered to certain other persons. **Price**—To public, $14.50 per share; and to certain persons, $13 per share. **Proceeds**—To pay bank loan. **Underwriter** — The Robinson-Humphrey Co., Inc., Atlanta, Ga. **Offering**—Date indefinite.

Southern New England Telephone Co.
Sept. 19 filed 679,012 shares of capital stock (par $25) to be offered for subscription by stockholders of record Oct. 1, 1956 at the rate of one new share for each eight shares held; right to expire on Nov. 2. **Price**—$30 per share. **Proceeds**—To pay advances from American Telephone & Telegraph Co. (approximately $15,800,000) and for property additions and improvements. **Underwriter**—None. **Offering**—Delayed indefinitely by company on Oct. 4. (See also next paragraph.)

Southern New England Telephone Co.
Sept. 19 filed 1,173,696 rights to purchase 146,712 shares of new capital stock (par $25) to be issued to American Telephone & Telegraph Co., which owns 21.61% of the outstanding stock of Southern New England Telephone Co. **Proceeds**—To American Telephone & Telegraph Co. **Underwriter**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; White, Weld & Co.; Putnam & Co.; Chas. W. Scranton & Co., and Cooley & Co. (jointly); The First Boston Corp.; Salomon Bros. & Hutzler. **Bids**—Had been expected to be received up to 11 a.m. (EDT) on Oct. 10. (See also preceding paragraph.)

Southern Union Oils Ltd., Toronto, Canada
Aug. 24 filed 750,000 shares of capital stock (par $1). **Price**—64½ cents per share. **Proceeds**—To selling stockholders. **Underwriter**—None.

Southwest Grease & Oil Co.
Sept. 27 (letter of notification) 40,000 shares of common stock. **Price**—At par ($7.50 per share). **Proceeds**—For purchase of new equipment and working capital. **Office**—220 W. Waterman St., Wichita 2, Kan. **Underwriters**—Small-Milburn Co., Inc., Brooks & Co. and Lathrop, Herrick & Clinger, Inc., all of Wichita, Kan.

Southwestern Resources, Inc., Santa Fe, N. M.
June 8 filed 1,000,000 shares of common stock (par 25 cents). **Price**—$5 per share. **Proceeds**—To exercise options, purchase additional properties and for general corporate purposes. **Underwriter**—Southwestern Securities Co., Dallas, Texas.

Southwide Corp., Anniston, Ala.
Sept. 12 filed 450,635 shares of common stock (par $1), of which 211,681 shares are to be offered publicly 238,954 shares are to be offered in exchange for the class A stock of Capital Fire & Casualty Co. and common stock of Allied Investment Corp. **Price**—$2 per share. **Proceeds**—For purchase of stock of Capital and Allied firms and for purchase of U. S. Government bonds. **Underwriter**—None, but a selling commission will be allowed to dealers for sales effected by them. Elvin C. McCary, of Anniston, Ala., is President.

Spar-Mica Corp., Ltd.
Oct. 29 filed 400,000 shares of 5% convertible preferred stock (par $5). **Price** — To be supplied by amendment (proposed maximum offering price is $6 per share). **Proceeds**—For construction costs. **Office**—Montreal, Canada. **Underwriters**—Hamlin & Lunt, Buffalo, N. Y.; Allen & Co. and Cowen & Co., both of New York, N. Y.: and Straus, Blosser & McDowell, Chicago, Ill. **Offering**—Temporarily postponed.

● Sunrise Fund, Inc., New York, N. Y.
Dec. 3 filed 500,000 shares of capital stock. **Price**—$5 per share. **Proceeds**—For investment. **Business**—Presently is a closed-end investment company but will become an open-end company in March, 1957. **Distributor**—Sunrise Capital Corp., 37-12 84th St., Jackson Heights 72, L. I., N. Y.

★ Syndicate West End Avenue Corp.
Dec. 4 (letter of notification) $84,500 of 10% registered debenture notes due Jan. 1, 1977 and 169 shares of common stock (par $1) to be offered in units of one $500 note and one share of stock. **Price**—$501 per unit. **Proceeds**—To acquire property. **Underwriter**—None. Offer to be made through Management Syndicate Corp., 15 William St., New York 5, N. Y.

Teachers Mutual Fund of California, Inc.
Nov. 8 filed 700,000 shares of capital stock (par $1) to be offered only to members and employees of the California Teachers Association (Southern section) and their families. **Price**—Initially at $7.14 per share. **Proceeds**—For investment. **Office**—Los Angeles, Calif. **Underwriter**—None.

Texas Calgary Co., Abilene, Texas
Sept. 25 filed 3,700,000 shares of capital stock (par 25 cents). **Price**—At market from time to time on the American Stock Exchange or the Toronto Stock Exchange or by private sale. **Proceeds**—To A. P. Scott, the selling stockholder. **Underwriter**—None.

● Texas Fuel Corp., Clarksville, Texas (12/14)
Nov. 29 (letter of notification) 120,000 shares of common stock (par $1). **Price**—$2.50 per share. **Proceeds**—To pay bank loans, financing of time payment sales of appliances and air conditioners and for working capital. **Underwriter**—Franklin Securities Co., Dallas, Texas.

Theatrical Interests Plan, Inc., New York City
Oct. 30 filed 52,000 shares of class A stock (par five cents) and 28,000 shares of class B stock (par five cents). **Price**—Of class A, expected at $10 per share in lots of not less than 25 shares; of class B, expected at par. **Proceeds**—For investment in theatrical and entertainment fields. **Business**—A non-diversified closed-end management investment company. **Underwriter**—None.

Thermoray Corp.
June 29 (letter of notification) 380,000 shares of common stock (par 10 cents). **Price** — 75 cents per share. **Proceeds**—For inventory, working capital, etc. **Business**—Electrical heating. **Office**—26 Avenue B, Newark, N. J. **Underwriter**—Eaton & Co., Inc., New York.

Title Guarantee & Trust Co., New York
Nov. 21 filed 61,902 shares of capital stock (par $8) of which 35,750 shares are to be offered for subscription by stockholders on the basis of one new share for each eight shares held; and the remaining 26,152 shares are to be offered, together with cash, in exchange for stock of Abstract & Title Insurance Corporation of Buffalo, Rochester and Lockport, N. Y., on the basis of $15.25 in cash and 4/10ths of a share of Title Guarantee stock in exchange for each share of Abstract. The subscription offer to Title Guarantee stockholders becomes effective if latter company acquires at least 85% of the Abstract stock. The purchase offer will expire on Jan. 10, 1957, unless extended to Feb. 28, 1957. **Price**—To be supplied by amendment. **Proceeds**—To acquire Abstract stock. **Underwriter**—None.

★ Tower Acceptance Corp., Houston, Tex.
Dec. 7 filed 200,000 shares of class A common stock (par $1). **Price**—$5 per share. **Proceeds**—For working capital. **Underwriter**—S. D. Fuller & Co., New York. **Offering**—Expected sometime in January.

Trans-Canada Pipe Lines, Ltd.
Nov. 26 filed $80,000,000 (Canadian) of subordinated debentures due 1986 and 4,000,000 shares of common stock (par $1-Canadian) to be offered in units of $100 of debentures and five shares of stock. **Price**—$150 per unit. **Proceeds**—For new construction. **Underwriters**—In United States: Lehman Brothers, Stone & Webster Securities Corp. and White, Weld & Co. In Canada: Nesbitt Thomson & Co. Ltd.; Wood, Gundy & Co. Ltd.; McCloud, Young, Weir & Co., Ltd.; and Osler, Hammond & Nanton, Ltd. **Offering**—Expected in the last half of January.

Tri-State Rock Material Corp., Leesburg, Va.
Nov. 28 filed 500,000 shares of 6% cumulative convertible preferred stock. **Price**—At par ($1.50 per share). **Proceeds** — For asphalt plant, equipment, working capital and other corporate purposes. **Underwriter**—None.

Tyrex Drug & Chemical Corp.
Nov. 5 (letter of notification) 150,000 shares of class A stock (par one cent). **Price**—$2 per share. **Proceeds**—For equipment, raw materials, working capital and other corporate purposes. **Office**—42 Newark St., Hoboken, N. J. **Underwriter**—Dennis Securities Corp., Hoboken, N. J.

United States Air Conditioning Corp.
Sept. 27 filed 600,000 shares of common stock (par 10 cents), of which 50,000 shares are to be offered to employees, distributors and dealers; 50,000 shares, plus any of the unsold portion of the first 50,000 shares, are to be offered to the public; and the underwriter will be granted options to acquire the remaining 500,000 shares for reoffer to the public. **Price**—At market prices. **Proceeds**—For working capital and general corporate purposes. **Office**—Philadelphia, Pa. **Underwriter**—Mortimer B. Burnside & Co., Inc., New York. **Offering**—Date indefinite.

Universal Lithium Corp., Washington, D. C.
Nov. 15 filed 1,320,000 shares of class A voting stock and 1,587,500 shares of class B non-voting stock. **Price**—Six cents per share. **Proceeds** — For drilling program, and for plant and equipment for rendering ore marketable. **Underwriter** — William O'Connor, Secretary of company, of Arlington, Va. Malcolm W. Ater, of Falls Church, Va., is President, and Robert G. Baumann. of Ritchie, Md., is Treasurer. Statement to be withdrawn.

Venezuela Diamond Mines, Inc., Miami, Fla.
Aug. 31 filed 1,500,000 shares of common stock. **Price**—At par (20 cents per share). **Proceeds**—For exploration and mining operations in Venezuela. **Underwriter**—Columbia Securities Co., Inc., of Florida, Miami, Fla.

Venture Securities Fund, Inc., Boston, Mass.
Sept. 4 filed 200,000 shares of capital stock (par $1). **Price**—Initially at $25 per share. **Proceeds**—For investment. **Underwriter**—Venture Securities Corp., 26 Federal St., Boston, Mass.

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★ Wallin Industrial Corp.
Dec. 5 (letter of notification) 5,000 shares of common stock. **Price**—At par $10 per share). **Proceeds**—For current liabilities, and for working capital and general corporate purpose. **Business**—Coffee-making machine. **Office**—358 East 44th St., New York City. **Underwriter**—None.

Western States Natural Gas Co.
Aug. 24 (letter of notification) 500,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Proceeds**—For development of oil and gas. **Office**—Felt Bldg., Salt Lake City, Utah. **Underwriter**—Us-Can Securities, Inc., Jersey City, N. J.

Wheland Co., Chattanooga, Tenn.
May 23 filed $2,000,000 of convertible subordinated debentures due June 1, 1976, and 136,000 shares of common the company's account and 61,000 shares for a selling stockholder. **Price** — To be supplied by amendment. **Proceeds**—Together with proceeds from private sale of $1,500,000 4¾% first mortgage bonds and $900,000 of 3-year unsecured 4½% notes to a group of banks, will be used to retire outstanding series A and series B 5% first mortgage bonds, and for expansion program. **Underwriters**—Hemphill, Noyes & Co., New York; Courts & Co., Atlanta, Ga.; and Equitable Securities Corp., Nashville, Tenn. **Offering** — Temporarily postponed.

★ Wicomico Hotel Co.
Dec. 3 (letter of notification) $110,300 of 6% convertible subordinated debentures due Dec. 15, 1971. **Price** — At face amount. **Proceeds** — For improvement to hotel. **Office**—Main & Division Streets, Salisbury, Md. **Underwriter**—None.

Wildcat Mountain Corp., Boston, Mass.
Aug. 13 filed $800,000 of 6% subordinated cumulative debentures due Dec. 1, 1976, and 6,000 shares of common stock (no par) to be offered in units of a $400 debenture and three shares of stock. **Price** — $500 per unit. **Proceeds**—For construction and working capital. **Business**—Mountain recreation center. **Underwriter**—None; offering to be made by officers and agents of company.

• William Penn Finance Corp.
Nov. 30 (letter of notification) $250,000 of 6% subordinated renewable debentures due Dec. 20, 1966. **Price**—At face amount. **Proceeds**—To repay outstanding indebtedness to Factors Corp. of America and other indebtedness. **Office**—2829 N. Broad St., Philadelphia, Pa. **Underwriters** — Walnut Securities Corp., Philadelphia, Pa.; and B. Ray Robbins Co., New York, N. Y.

Wilson & Co., Inc.
Aug. 28 filed $20,000,000 of 20-year sinking fund debentures due 1976. **Price**—To be supplied by amendment. **Proceeds** — To redeem presently outstanding first mortgage bonds, to repay bank loans and for expansion program. **Business**—Meat packing firm. **Underwriters**—Smith, Barney & Co.; Glore Forgan & Co. and Hallgarten & Co., all of New York City. **Offering**—Indefinitely postponed.

Prospective Offerings

★ Advance Mortgage Corp., Chicago, Ill.
Dec. 4 it was reported this company (to be surviving corporation following merger of First Mortgage Corp. and Irwin Jacobs & Co. of Chicago) plans a public offering of $1,000,000 class A 6% participating convertible stock (par $1). **Underwriter**—Baker, Simonds & Co., Detroit, Mich. **Offering**—Expected in February.

★ American Natural Gas Co.
Dec. 10, it was announced company proposes to sell 442,114 additional shares of common stock through a rights offering to its stockholders on the basis of one new share for each 10 shares held. **Price**—To be under the market. **Proceeds**—For construction program. **Underwriter** — To be determined by competitive bidding. Probable bidders: White, Weld & Co. and Drexel & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp. **Offering**—Expected early in 1957.

Appalachian Electric Power Co.
May 31 it was announced company plans to issue and sell in December $24,000,000 of first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp. and Kuhn, Loeb & Co. (jointly); The First Boston Corp.; Harriman Ripley & Co., Inc.

Associated Truck Lines, Inc.
Oct. 11 it was announced corporation plans to issue and sell $1,000,000 of 6% convertible subordinated debentures due Oct. 1, 1971 at par and 75,000 shares of common stock (par $3) at $11 per share (the latter for the account of selling stockholders). **Proceeds**—From sale of debentures, for expansion and working capital. **Business**—A short haul motor common carrier operating over 3,300 miles or routes in Illinois, Indiana, Michigan and Ohio. **Office**—Grand Rapids, Mich. **Underwriter**—Paine, Webber, Jackson & Curtis, Boston, Mass., and New York, N. Y. **Offering**—Indefinitely postponed. Probably not until January.

Atlantic Coast Line RR. (12/18)
Bids are to be received by the company on Dec. 18 for the purchase from it of $5,340,000 equipment trust certificates, series K, to be due annually from Jan. 1, 1958 to Jan. 1, 1972, inclusive. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler.

Bayless (A. J.) Markets, Inc., Phoenix, Ariz.
Nov. 27 it was reported company plans to issue and sell 750,000 shares of common stock. **Underwriter** — H. M. Byllesby & Co., Inc., Chicag,o Ill. **Registration**—Planned in January. **Offering**—Expected in mid-February.

Brazos River Gas Co. (Texas)
Nov. 12 it was reported that early registration is expected of approximately 200,000 shares of common stock of this company, formerly Upham Gas Co. **Price**—Expected to be about $5 per share. **Proceeds**—To selling stockholders. **Underwriters**—Shields & Co. and Shearson, Hammill & Co., both of New York.

Carolina Power & Light Co.
Oct. 15 it was reported company plans to issue and sell between $15,000,000 and $20,000,000 of first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and A. C. Allyn & Co. Inc. (jointly); W. C. Langley & Co. and The First Boston Corp. (jointly); Equitable Securities Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly). **Offering**—Expected in 1957.

Carolina Telephone & Telegraph Co.
Nov. 16 it was reported company has applied to the North Carolina P. U. Commission for authority to offer to its common stockholders an additional 58,310 shares of common stock on the basis of one new share for each four shares held. **Price**—At par ($100 per share). **Proceeds**—To reduce bank loans and for new construction. **Underwriter**—None. Southern Bell Telephone & Telegraph Co. in February, 1956, sold its rights to 14,464 shares (of a 66,640 share offering to stockholders) to R. S. Dickson & Co.

★ Chesapeake & Ohio Ry. (12/27)
Bids are expected to be received by the company on Dec. 27 for the purchase from it of $4,200,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Cincinnati, New Orleans, Texas & Pacific Ry. (1/22)
Bids are expected to be received by the company on Jan. 22 for the purchase from it of approximately $4,000,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Cleveland Electric Illuminating Co.
Nov. 12 it was reported company plans to issue and sell $25,000,000 of first mortgage bonds in the Summer of 1957. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Dillon, Read & Co. Inc.; Blair & Co. Inc., and Baxter, Williams & Co. (jointly); Glore, Forgan & Co.; White, Weld & Co.

Connecticut Light & Power Co.
Nov. 27 it was announced company will probably offer to its stockholders early in 1957 some additional common stock, to finance part of its construction program. **Underwriter**—None.

Consolidated Edison Co. of New York, Inc.
Nov. 20, Charles B. Delafield, Vice-President, announced company is planning an issue of approximately $55,000,000 of convertible debentures early in 1957, probably the latter part of February. They will be offered to common stockholders for subscription. Stockholders will be asked on Feb. 5 to approve an authorized issue of $125,000,000 convertible debentures. **Proceeds**—For construction program. **Underwriter**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp.

Consolidated Freightways, Inc.
Nov. 21 it was announced company has applied to the Interstate Commerce Commission for authority to issue and sell 250,000 shares of common stock (par $5). **Proceeds**—Together with funds from sale of up to $8,436,740 long debt securities, to acquire six Eastern lines. **Underwriter**—Blyth & Co., Inc., New York and San Francisco (Calif.).

Continental Copper & Steel Industries, Inc.
Nov. 28 it was announced company plans to offer to its common stockholders the right to subscribe for some additional common stock on a 1-for-10 basis. **Proceeds**—For construction program. **Underwritre**—Allen & Co., New York.

Douglas Aircraft Co.
Nov. 19, Donald W. Douglas, President, announced that the company plans to issue and sell $25,000,000 convertible subordinated debentures. **Proceeds**—For expansion of facilities in order to place the DC-8 jet airliner into production. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane and Kuhn, Loeb & Co., both of New York. **Offering**—Not expected until after Jan. 1, 1957.

Eversweet, Inc.
Oct. 15 it was reported that this company (a consolidation of Vita-Fresh Corp. and John H. King & Co.) plans early registration of 100,000 shares of common stock. **Price**—$5 per share. **Business**—Producers of fresh orange juice. **Underwriter**—Burton J. Vincent & Co., Chicago, Ill.

• General Public Utilities Corp.
Nov. 15, A. F. Tegen, President, announced that the stockholders are going to be offered approximately 647,000 additional shares of common stock (par $5) on the basis of one new share for each 15 shares held on or about March 11; rights to expire on March 29. Merrill Lynch, Pierce, Fenner & Beane acted as clearing agent in previous offering to stockholders.

★ General Tire & Rubber Co.
Dec. 4, M. G. O'Neil, Executive Assistant to the President, said the management was working on a plan to revamp the capital structure and that the company would like to come up with one issue of preferred stock. He added that close to $18,000,000 will be put into capital investments during the fiscal year to end Nov. 30, 1957.

Hawaiian Telephone Co.
July 30 it was announced that company plans to acquire a 15% participation with American Telephone & Telegraph Co. in a proposed $36,700,000 California-to-Hawaii cable and, if approved by the directors on Aug. 16, will be probably be financed by a debenture issue. Hawaiian Telephone Co.'s investment will be approximately $5,500,000. **Underwriter**—Probably Kidder, Peabody & Co., New York.

High Authority of the European Coal and Steel Community, Luxembourg
July 9 this Authority announced that an American banking group consisting of Kuhn, Loeb & Co., The First Boston Corp. and Lazard Freres & Co. has been appointed to study the possibility of a loan to be issued on the American market. The time, amount and terms will depend on market conditions. **Proceeds** — To be loaned to firms in the Community for expansion of coal mines. coking plants, power plants and iron ore mines.

Household Finance Corp.
Dec. 3 it was reported company may register this month an issue of $50,000,000 long-term debentures. **Underwriters** — Lee Higginson Corp. and White, Weld & Co., both of New York; and William Blair & Co., Chicago, Ill. **Offering**—Probably early in January.

★ Hubshman Factors Corp., New York
Dec. 10 it was reported company plans to issue and sell 200,000 shares of common stock. **Price**—Expected to be around $6.80 per share. **Underwriter**—H. M. Byllesby & Co. Inc., New York and Chicago.

Indianapolis Power & Light Co.
Nov. 21, H. T. Prichard, President, announced that present plans contemplate an issue of $6,000,000 of preferred stock some time in 1957 if market conditions make it feasible, and an issue of $8,000,000 in bonds in 1958. Temporary bank loans are available and probably will be utilized, during at least part of 1957. Additional securities will need to be sold in 1959 and 1960, amounting to approximately $14,000,000. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—May be Lehman Brothers, Goldman, Sachs & Co. and The First Boston Corp., who underwrote last equity financing.

Interstate Fire & Casualty Co.
Sept. 26 it was reported company plans to issue and sell 75,000 additional shares of common stock. **Underwriter**—White & Co., St. Louis, Mo. **Offices** — Chicago and Bloomington, Ill.

Jersey Central Power & Light Co.
Sept. 12, it was announced company plans to issue and sell $8,000,000 of first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; The First Boston Corp.; White, Weld & Co.; Eastman Dillon, Union Securities & Co., Salomon Bros. & Hutzler and Merrill Lynch, Pierce, Fenner & Beane (jointly).

Kaiser Industries, Inc.
Nov. 28, E. E. Trefethen, Jr., Executive Vice-President, stated that it is anticipated that a portion of the funds necessary to meet the $25,000,000 installment due April 1, 1957 on its 4¾% term loan may have to be provided by the creation of debt by, or the sale of equity securities, of this corporation or Henry J. Kaiser Co., or through the public or private sale of a portion of the securities of the companies owned by the Henry J. Kaiser Co., or of certain other assets. **Underwriter**—The First Boston Corp., New York.

Long Island Trust Co., Garden City, N. Y.
Nov. 28 it was announced stockholders of record Nov. 16, 1956, are being offered the right to subscribe on or before Dec. 14, 1956, for 14,000 additional shares of capital stock (par $10) on the basis of one new share for each eight shares held. **Price**—$32 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—A. M. Kidder & Co., New York.

Metropolitan Edison Co.
July 2 it was reported that company is considering the sale of $10,000,000 first mortgage bonds due 1986. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Blyth & Co., Inc.; Kidder, Peabody & Co. and Drexel & Co. (jointly); The First Boston Corp. **Bids**—Not expected to be received until May, 1957. Company presently plans to issue and sell $22,000,000 of bonds in the next 16 months.

Missouri Pacific RR. (1/10)
Bids are expected to be received by the company on Jan. 10 for the purchase from it of $4,875,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Mountain States Telephone & Telegraph Co. (1/29)
Nov. 20 the directors approved a proposal to issue and sell $35,000,000 debentures. **Proceeds** — To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Morgan Stanley & Co.; Drexel & Co. and Dean Witter & Co. (jointly). **Bids**—Expected to be received on Jan. 29.

National Bank of Commerce, Memphis, Tenn. (1/9)
Nov. 13 it was announced stockholders will vote Jan. 8 on approving a proposal to offer 25,000 additional shares of capital stock on the basis of one share for each five shares held. **Price**—$40 per share. **Underwriter**—Leftwich & Ross, Memphis, Tenn.

New England Electric System
Jan. 3, 1956, it was announced company plans to merge its subsidiaries, Essex County Electric Co., Lowell Electric Light Corp., Lawrence Electric Co., Haverhill Electric

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Co. and Amesbury Electric Light Co., into one company during 1956. This would be followed by a $20,000,000 first mortgage bond issue by the resultant company, the name of which has not as yet been determined. **Underwriter** — May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., Salomon Bros. & Hutzler, Eastman Dillon, Union Securities & Co. and Wood, Struthers & Co. (jointly); Lehman Brothers; The First Boston Corp.; Equitable Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly). **Offering**—Expected in first half of 1957.

New England Power Co.
Jan. 3 it was announced company now plans to issue and sell $10,000,000 of first mortgage bonds early in 1957. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., Salomon Bros. & Hutzler, Eastman Dillon, Union Securities & Co. and Wood, Struthers & Co. (jointly); Lehman Brothers; The First Boston Corp.; Equitable Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly).

New England Telephone & Telegraph Co. (1/8)
Oct. 16 it was announced that the company plans to issue and sell $35,000,000 of 29-year debentures. **Proceeds**—To repay temporary borrowings. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc; The First Boston Corp.; Morgan Stanley & Co. **Bids** — Expected to be received on Jan. 8, 1957.

New Jersey, Indiana & Illinois RR. (1/10)
Bids are expected to be received by this company on Jan. 10 for the purchase from it of $1,400,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

New Jersey Power & Light Co.
Sept. 12 it was announced company plans to issue and sell $5,000,000 of first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; Kuhn, Loeb & Co., Lehman Brothers and Salomon Bros. & Hutzler (jointly); Eastman Dillon, Union Securities & Co. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane.

New Orleans Public Service, Inc.
Nov. 13, Edgar H. Dixon, President, announced that this company plans to issue and sell $6,000,000 of first mortgage bonds. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Blair & Co. Incorporated; The First Boston Corp.; Equitable Securities Corp. and Eastman Dillon, Union Securities & Co. (jointly); Kuhn, Loeb & Co. and A. C. Allyn & Co. Inc. (jointly); Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly); Lehman Brothers. **Offering**—Expected in March, 1957.

New York, Chicago & St. Louis RR.
Bids are expected to be received by the company in January or February for the purchase from it of approximately $6,400,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

New York State Electric & Gas Corp.
Oct. 24 it was announced company plans to sell in the spring of 1957, $25,000,000 of debt securities and an additional $20,000,000 in 1958. **Proceeds** — To finance construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Blyth & Co. Inc. and Smith, Barney & Co. (jointly); The First Boston Corp. and Glore, Forgan & Co. (jointly); Harriman Ripley & Co. Inc.; Kidder, Peabody & Co. and Salomon Bros. & Hutzler (jointly).

Niagara Mohawk Power Corp.
Dec. 4, the directors authorized the issuance and sale to common stockholders of $46,224,200 convertible debentures due Feb. 1, 1972 on the basis of $100 of debentures for each 25 shares of stock held. **Price**—At 100% of principal amount. **Proceeds** — For construction program. **Underwriter**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Morgan Stanley & Co.; Kuhn, Loeb & Co. and Eastman Dillon, Union Securities & Co. (jointly). **Bids**—Expected in January.

Norfolk & Western Ry. (1/16)
Bids are expected to be received by the company on or about Jan. 16 for the purchase from it of approximately $4,650,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Northern Natural Gas Co.
July 19 it was reported company plans to finance its 1956 construction program (costing about $40,000,000) through issuance of debentures and treasury funds in latter part of year. **Underwriter**—Probably Blyth & Co., Inc.

Northern Pacific Ry. (12/19)
Bids are expected to be received by this company on Dec. 19, 1956, for the purchase from it of about $7,750,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Offshore Gathering Corp., Houston, Texas
Nov. 18, 1955, David C. Bintliff, Pres., announced company has filed an application with the Federal Power Commission for a certificate of necessity to build a 364-mile submarine gas pipeline off-shore the coast of Louisiana from the Sabine River to the Gulf Coast of the State of Mississippi. It is estimated that this gathering system will cost approximately $150,000,000. **Type of financing** has not yet been determined, but tentative plans call for private sale of first mortgage bonds and public offer of about $40,000,000 of securities (probably notes, convertible into preferred stock at maturity, and common stock). **Underwriter**—Salomon Bros. & Hutzler, New York.

Oklahoma Corp., Oklahoma City, Okla.
July 26 it was announced company has been authorized by the Oklahoma Securities Commission to issue and sell in the State of Oklahoma $20,000,000 of its capital stock ($10,000,000 within organization and $10,000,000 publicly). **Proceeds**—To organize or acquire seven subsidiaries. **Business**—A holding company. **Underwriter**—None.

Oklahoma Gas & Electric Co. (1/29)
Nov. 27, it was reported company plans to issue and sell $20,000,000 first mortgage bonds. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Blyth & Co., Inc. (jointly); The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Harriman Ripley & Co. Inc.; Kuhn, Loeb & Co. **Bids** — Tentatively expected to be received on Jan. 29.

★ Pacific Gas & Electric Co. (1/22)
Dec. 5, the company announced it has tentative plans to issue and sell $35,000,000 of first and refunding mortgage bonds. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. **Bids**—To be received on Jan. 22.

Pacific Northwest Power Co.
Aug. 13 it was reported company plans to sell about $32,000,000 of common stock to the organizing companies and that arrangements are expected to be made to borrow up to $60,000,000 on a revolving bank loan which will be reduced through the sale of bonds to institutional investors as well as the general public. **Proceeds**—To pay, in part, for cost of new power project to cost an estimated $217,400,000.

Pacific Petroleums, Ltd.
Nov. 19 it was reported company plans to offer $12,000,000 to $13,000,000 of debentures. **Underwriter**—Eastman, Dillon, Union Securities & Co. **Offering** — Expected in January.

Palisades Amusement Park, Fort Lee, N. J.
Aug. 21, Irving Rosenthal, President, announced that company plans to purchase another amusement park and merge the two and then sell stock to public.

Pan Cuba Oil & Metals Corp. (Del.)
April 9, Walter E. Seibert, President, announced that company will soon file a registration statement with the SEC preparatory to an equity offering planned to take place later this year. **Business**—To explore, drill and operate oil, gas and mineral properties in the United States, Cuba and Canada. **Office**—120 Broadway, New York, N. Y.

Pennsylvania Electric Co.
Sept. 12 it was announced company plans to issue and sell $6,000,000 of first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane, Eastman Dillon, Union Securities & Co. and White, Weld & Co. (jointly); Equitable Securities Corp.; The First Boston Corp.; Harriman Ripley & Co. Inc.; Kuhn, Loeb & Co.

Phillips Petroleum Co.
Sept. 24 it was indicated that the company next year will give consideration to refunding its $75,000,000 of short-term bank loans. After review, the company will decide the most appropriate type of long-term borrowing, whether it be insurance loans, long-term bank borrowing, convertible debentures or straight debentures. **Underwriter**—The First Boston Corp., New York.

★ Pittsburgh & Lake Erie RR. (1/24)
Bids are expected to be received by this company on Jan. 24 for the purchase from it of $6,720,000 equipment trust certificates to be dated Feb. 15, 1957 and to mature in 15 equal annual instalments to and including Feb. 15, 1972. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Pittsburgh Rys. Co.
May 4 it was announced that Standard Gas & Electric Co. will offer to its stockholders rights to subscribe for 540,651.75 shares of Pittsburgh Rys. Co. **Price**—About $6 per share.

Public Service Co. of Colorado
Oct. 8 it was reported company plans the issue and sale of $30,000,000 first mortgage bonds. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); The First Boston Corp.; Blyth & Co., Inc. and Smith, Barney & Co. (jointly); Lehman Brothers; Harriman Ripley & Co. Inc. **Bids**—Expected to be received early in 1957.

Public Service Co. of Indiana, Inc.
July 30 it was reported company may issue and sell about $30,000,000 first mortgage bonds. **Proceeds** — To retire bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.; Harriman Ripley & Co. Inc.; Glore, Forgan & Co.; Kuhn, Loeb & Co., Salomon Bros. & Hutzler and Eastman Dillon, Union Securities & Co. (jointly). **Offering** postponed.

★ Public Service Co. of Oklahoma (2/4)
Dec. 10 it was reported company plans to issue and sell about $12,000,000 of first mortgage bonds due 1987. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., Eastman Dillon, Union Securities & Co. and Carl M. Loeb, Rhoades & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp.; Equitable Securities Corp.; White, Weld & Co. and Shields & Co. (jointly); Glore, Forgan & Co.; Salomon Bros. & Hutzler. **Bids** — Tentatively scheduled for Feb. 4.

Puget Sound National Bank of Tacoma
Nov. 14 stockholders approved an offering of 25,000 additional shares of new capital stock (par $10) on the basis of one new share for each three shares held; rights to expire on Dec. 14. **Price** — $30 per share. **Proceeds**—To increase capital and surplus.

★ Reading Co. (12/17)
Bids will be received by the company up to noon (EST) on Dec. 17 for the purchase from it of $5,250,000 equipment trust certificates due semi-annually from July 1, 1957 to Jan. 1, 1972, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

St. Louis-San Francisco Ry.
Sept. 5 company offered not exceeding $61,600,000 of 50-year income 5% debentures, series A, due Jan. 1, 2006, 154,000 shares of common stock (no par), and cash equivalent to the unpaid portion of the preferred dividend which has been declared payable in 1956, in exchange for its 616,000 shares of $100 par value 5% preferred stock, series A, on the basis of $100 of debentures, one-quarter share of common stock and unpaid dividends of $2.50 per preferred share in exchange for each 5% preferred share. The offer will expire on Dec. 31, 1956, unless extended. **Dealer-Manager** — Eastman Dillon, Union Securities & Co., New York. **Exchange Agent**—The Chase Manhattan Bank, New York.

Scovill Manufacturing Co.
Nov. 29, it was announced directors have approved plans to raise $15,000,000 in January through the sale of some additional common stock (probably about 176,000 shares) to stockholders on a basis of not more than one new share for each eight shares held (there are 1,411,578 shares of common stock outstanding), and a debenture offering of about $9,000,000. **Proceeds** — For expansion and modernization program. **Underwriter** — Morgan Stanley & Co., New York.

Sears Roebuck Acceptance Corp.
Dec. 1, Theodore V. Houser, Chairman, announced that this company, a subsidiary of Sears, Roebuck & Co., plans early registration of $50,000,000 of long-term debentures. **Proceeds** — To purchase customer instalment receivable from parent. **Underwriters**—Goldman, Sachs & Co.; Halsey, Stuart & Co. Inc.; and Lehman Brothers; all of New York and Chicago. **Offering**—Scheduled for January, 1957.

Security National Bank of Huntington, N. Y.
Nov. 21 it was announced stockholders have approved an offering to stockholders of 19,784 additional shares of stock (par $5) on the basis of one new share for each 25 shares held as of record Nov. 20, 1956; rights will expire on Dec. 14. **Price**—$30 per share. **Proceeds**—To increase capital and surplus.

Seiberling Rubber Co.
Sept. 10 it was reported that the company plans long-term debt financing and/or issuance of additional common stock. **Proceeds**—To redeem preferred stocks and for expansion program, etc. **Underwriter** — Probably Blair & Co. Incorporated, New York.

Slick Airways, Inc.
Nov. 15 stockholders approved an increase in the authorized common stock from 1,000,000 no par shares to 2,000,000 $5 par shares. It was stated that the company may issue and sell a convertible debenture issue or some common stock in order to raise $5,000,000. **Proceeds**—For purchase of new aircraft and working capital. **Underwriters**—Auchincloss, Redpath & Parker and Allen & Co., both of New York, handled stock rights offering early in 1956.

Socony Mobil Oil Co.
Nov. 27 it was announced the company plans early in 1957 to offer additional capital stock to its stockholders on the basis of not more than one new share for each 10 shares held (at Sept. 30, 1956 there were outstanding 43,727,585 shares). The financing may also include an offering of debentures not exceeding $100,000,000. **Proceeds**—For exploration and development costs and for plant expansion. **Underwriter**—Morgan Stanley & Co., New York.

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Southern Electric Generating Co.
May 18, it was announced that this company, 50% owned by Alabama Power Co. and 50% by Georgia Power Co., subsidiaries of Southern Co., plans to issue debt securities. **Proceeds**—Together with other funds, to construct and operate a $150,000,000 steam electric generating plant on the Coosa River in Alabama. **Underwriter**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Eastman, Dillon, Union Securities & Co.; Equitable Securities Corp. and Drexel & Co. (jointly); Lehman Brothers; Harriman Ripley & Co. Inc. and Goldman, Sachs & Co. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Morgan Stanley & Co.

Southern Indiana Gas & Electric Co. (1/22)
Nov. 16 the company filed with the Indiana P. S. Commission an application for authority to issue and sell $5,000,000 30-year first mortgage bonds due 1987. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Blair & Co. Incorporated; Kidder, Peabody & Co.; Eastman, Dillon, Union Securities & Co.; The First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly). **Bids**—Tentatively expected to be received on Jan. 22.

Southern Pacific Co. (1/3)
Bids are expected to be received by the company on Jan. 3 for the purchase from it of about $9,600,000 of equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Southern Ry. (1/8)
Bids are expected to be received by the company on Jan. 8 for the purchase from it of about $5,600,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Southwestern Gas & Electric Co. (1/22)
Nov. 21 it was reported company plans to issue and sell $10,000,000 of first mortgage bonds due 1987. **Proceeds**—To repay approximately $6,000,000 of bank loans and for new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Salomon Bros. & Hutzler; Blyth & Co., Inc.; Lehman Brothers; Kuhn, Loeb & Co.; Merrill Lynch, Pierce, Fenner & Beane. **Bids**—Expected to be received on Jan. 22.

• Southwestern Public Service Co. (1/15)
Dec. 4 it was announced company plans to offer to stockholders 292,000 additional shares of common stock on or about Jan. 15 (with an oversubscription privilege) on a 1-for-14 basis. **Proceeds**—For construction program. **Underwriter**—Dillon, Read & Co., New York. **Registration**—Expected on Dec. 21.

Texam Oil Corp., San Antonio, Texas
Oct. 1 it was announced that the 1,000,000 additional shares of common stock, recently authorized by the directors, will provide the company with the additional working capital it will require for further expansion.

United States National Bank of San Diego, Calif.
Nov. 9 it was announced Bank plans to offer to its stockholders 75,000 additional shares of capital stock (par $10) on the basis of one new share for each 2⅔ shares held as of Nov. 15, 1956; rights will expire on Dec. 20. **Price**—$27.50 per share. **Proceeds**—To purchase Pasadena-First National Bank and its two branches in Pasadena, effective Dec. 7, 1956.

Valley National Bank, Phoenix, Ariz. (1/15)
Nov. 27 it was announced stockholders will vote Jan. 15, 1957 on approving a proposal of the bank to offer to its common stockholders of record Jan. 15, 1957 the right to subscribe for 105,000 additional shares of common stock (par $5) on the basis of one new share for each 12 shares held. **Price**—To be named later. **Proceeds**—To increase capital and surplus. **Underwriters**—A syndicate of local and national investment houses whose identity will be made public at a future date. William R. Staats & Co. and Blyth & Co., Inc. underwrote rights offering in July, 1954.

Wabash RR. (1/9)
Bids are expected to be received by the company on Jan. 9 for the purchase from it of approximately $2,000,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Washington Gas Light Co.
June 7 it was announced company proposes to finance proposed new construction of pipeline in Virginia to cost about $3,380,000 from funds generated by operations, sale of common stock and temporary bank borrowings. **Underwriter** — The First Boston Corp., New York; and Johnston, Lemon & Co., Washington, D. C.

★ West Penn Electric Co.
Dec. 5 it was reported company plans to offer to its common stockholders in March, some additional common stock. **Price** — To be named by company (sufficient to raise about $11,000,000 or $12,000,000). **Proceeds**—For construction program and to repay bank loans. **Underwriter**—To be determined by competitive bidding. Probable bidders: Carl M. Loeb, Rhoades & Co.; The First Boston Corp. and W. C. Langley & Co. (jointly); Lehman Brothers and Goldman, Sachs & Co. (jointly).

Western Pennsylvania National Bank
Nov. 13 it was reported Bank plans to offer to its stockholders 132,812 additional shares of capital stock on a 1-for-3 basis. **Price**—$30 per share. **Proceeds**—To increase capital and surplus. **Office**—McKeesport, Pa.

★ Winters National Bank & Trust Co. (1/15)
Dec. 3 it was announced Bank plans to offer to its stockholders on or about Jan. 15 the right to subscribe for 175,000 additional shares of capital stock on a 1-for-4 basis; rights to expire on Jan. 30. **Price**—$22 per share. **Underwriter**—Greene & Ladd and Grant Brownell & Co., both of Dayton, Ohio.

★ Wrigley Properties, Inc.
Dec. 6 it was announced this company, a newly formed subsidiary of ACF-Wrigley Stores, Inc., plans to offer its shares of capital stock for subscription by the latter's stock, debenture and option holders, the offering to stockholders to be on the basis of one share of Properties stock for each two shares of ACF-Wrigley. **Proceeds**—To develop locations principally for use by the parent company, which may include individual locations, warehouse sites and shopping centers. **Underwriter**—Allen & Co., New York. **Registration**—Expected shortly.

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Observations . . .

tions permitting accelerated amortization of plant machinery, having the effect of partially deferring registered earnings.

Among balance sheet items, remember that investor-wise at least, current assets are far more important than fixed assets; with added assurance derivable from a high working capital.

* * * *

Whatever the great uncertainties remaining in the way of appraising management, it does entail the constructive major benefit of impressing on the investor's consciousness the propriety of employing realism in the way of value criteria in lieu of vague glamour.

Your Status as a Public Stockholder

Overall there remain two main facets of stockholder impotence. The first hits him within his company, vis-a-vis management; stemming from the basic technique of our corporate system, under which ownership is separated from control—as originally delineated in the epochal volume by Adolph Berle and Gardiner C. Means, *The Modern Corporation and Private Property*. Again, in the community, the shareholder finds himself without power versus both other groups and government intervention. In contrast to other community sectors, and vocally effective pressure groups, the shareholder remains unorganized—the real "forgotten man."

In the absence of service from any large-scale trade association, the current safeguarding of his rights and interests is to a great extent vouchsafed in a few stockholder groups, as the Investors League and the United Shareholders of America; or in the activities of a few aggressive and colorful individuals largely concentrated in dramatized proxy fights or activity at annual meetings. In sum, the stockholder's protection is haphazard.

Part of his basic trouble is the persistence of public relations difficulty. He still carries the connotation of "Wall Street." Again, he is only a shareholder part time, leading to apathy in contrast to full-time concern by other categories in the community.

Vis-a-vis management, the two basic and constructive questions are not fully met; namely, is the management capable and worthy of confidence; and is it actually treating the stockholders fairly? Instead, too often attention is concentrated on superficial issues, as salaries. And too frequently, and in surprising quarters, is that inexcusably unwarranted and invalid "philosophy" subscribed to: "If you don't like it, sell your stock." This is akin to telling the citizen to leave his country if he finds some of his government's doings objectionable.

The stockholder should rather, either on his own or with reliable aid, exercise continuing judgment on such items as compensation, eliminating the influence of sensationalism and demagoguery; the stock option; dividend policy, a most difficult matter to weigh objectively; and the independence of the directors from the executives, an additional guarantee of good practice.

Possibilities of Reforming the Director System

The director system should be reformed in several ways. Cumulative voting could be universalized.

The Board might be composed of three sets of directors: (1) Managers, who are experienced in the business. (2) Owners, who are stockholders in substantial amounts. (3) Intelligent businessmen; accustomed to directing the affairs of others, and appraising their results. They would protect the nondirectors.

While director compensation, as tried in England and to a lesser extent here, is not the key; remuneration made in stock might be helpful, for ensuring community of interest. More effective than stock options, it would enhance the sense of trusteeship obligation.

Conclusion

In any event, the shareholder's most beneficial action for his own well-being in company relationships, under present conditions, lies along the constructive lines of behaving as a *business owner*; and thus conscientiously discharging his obligation to his capital investment.

$163,245,000 Memphis Electric Light Plant Revenue Bonds Offered for Public Investment

The largest revenue bond offering ever undertaken by any city for the construction of electric generating and distribution facilities is being made today with the public offering of $163,245,000 City of Memphis, Tenn., Electric Light Plant Revenue Bonds, Series A. The offering, considered the most important piece of new financing to come into the municipal market in the last six months of 1956, is being made by a nation-wide group of approximately 450 members headed jointly by Salomon Bros. & Hutzler; Smith, Barney & Co.; Blyth & Co., Inc., Halsey, Stuart & Co., Inc.; J. C. Bradford & Co., and Equitable Securities Corporation.

The offering consists of (a) $143,245,000 of 4.40% term bonds due Jan. 1, 1992, with a mandatory annual sinking fund beginning in 1963 and (b) $20,000,000 of 5%, 4%, and 4.20% serial bonds due Jan. 1, 1963-1977, inclusive.

The term bonds are being offered at 100% and accrued interest. The serial bonds are scaled from a yield of 3.50% to a dollar price of 100 (4.20% yield).

Proceeds from the offering will be applied by the City of Memphis, which has operated a municipal electric system for many years, to the cost of construction and acquisition of improvements to and extensions of the system of the City. Specifically, the proceeds will be used in connection with the construction of a generating station to provide the power requirements the City purchases from the Tennessee Valley Authority under a contract expiring on June 1, 1958.

Operating revenues of the electric system have increased steadily over the years, to $20,416,557 in 1955 from $5,356,129 in 1941. A projection of revenues indicates total operating revenues in the year 1965 will amount to $65,128,564.

The serial bonds maturing Jan. 1, 1968 to and including Jan. 1, 1967 are not subject to redemption.

The serial bonds maturing Jan. 1, 1968 to and including Jan. 1, 1977 and the term bonds are subject to redemption in whole or at any time on and after Jan. 1, 1967 on not less than 30 nor more than 60 days notice.

The serial bonds are not redeemable prior to the redemption of all of the term bonds. The term bonds are not redeemable as a whole for refunding purposes prior to Jan. 1, 1967.

The serial bonds maturing Jan. 1, 1968 to and including Jan. 1, 1977 and the term bonds are subject to redemption in part on Jan. 1, 1963 or on any interest payment date thereafter on not less than 30 nor more than 60 days notice in inverse order of maturity and by lot within a maturity through the operation of the sinking fund account and redemption fund.

Serial and term bonds call prices as a whole range from 104% to 100%, while sinking fund and redemption fund call prices range from 102% to 100%.

Interest on the bonds are exempt for Federal taxes under existing laws.

Dillon, Read Group Offers Texas Eastern Transmis'n 5½% Debs

Dillon, Read & Co. Inc. heads an investment banking group which is offering today (Dec. 13) $30,000,000 of Texas Eastern Transmission Corp. 5½% debentures due Dec. 1, 1976, priced at 100%.

The net proceeds from the sale of the debentures will be used by the company to prepay $28,000,000 of revolving credit notes and the balance will be added to corporate funds. The major portion of the revolving credit notes was originally incurred in connection with a $238,000,000 program which contemplates an increase of 250 million cubic feet of gas per day in the capacity of the company's system and the reconversion of a major portion of the "Little Big Inch" pipe line to transportation of petroleum products. Additional financing to the extent of approximately $100,000,000 will be necessary to complete the program. Approximately half of the gas for the new program is to be purchased from Petroleos Mexicanos, an agency of the Mexican Government, at a connection on the Rio Grande and the balance is to be purchased from producers in the Gulf Coast area of the United States. The reconversion of part of the "Little Big Inch" will enable the company to furnish petroleum products transportation service extending from Beaumont, Texas to Moundsville, W. Va. with a lateral to Chicago, Ill.

A semi-annual sinking fund, beginning Aug. 1, 1959, will retire approximately 96.3% of the issue prior to maturity. The debentures are also redeemable at the option of the company at any time after Dec. 1, 1961 at prices scaling from 105½% to 100%.

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Wellington Fund Sales at Record

Gross sales of Wellington Fund n November were the highest for ny one month in the 27-year hisory of the fund, according to A. J. Vilkins, Vice-President, who reorted $11,667,000 sales for Noember. This compared with $9,-60,000 in November last year.

Mr. Wilkins reported that the ecord volume in November rought sales for the first 11 onths this year to $95,574,000, he highest total for any similar eriod in the fund's history. This ompared with sales of $66,284,000 n the first eleven months a year go, for a gain of $29,290,000 or 4%.

Results in the first 11 months his year indicate that gross sales f Wellington Fund for the full ear 1956 will approach or exceed he $100 million mark for the first ime in the fund's history, Mr. Vilkins stated.

NATIONAL SECURITIES SEIES sales established a new allime high of $57,373,934 for the anuary through November period his year, and compared with sales f $49,467,535 for the correspondng months in 1955, it was anounced by E. Waln Hare, Vice-President of National Securities & esearch Corp., sponsors and mangers of the National Securities eries. In spite of the generally eclining market during the month f November this year, sales of he National Securities Series rose 6% over those for the same onth a year ago, Mr. Hare reorted. Total volume for Novemer was $4,357,123, against $2,-79,670 in November 1955, he dded.

Putnam Fund Sales

Purchases by investors of new hares of The Putnam Fund durng November were the largest or any month in the history of he fund, up 26% over November f last year and totalling more han $2,400,000. With redemptions or the month down 41%, the mount of net new money enterng the fund showed an increase f 49% over November, 1955. For he three months September hrough November, purchases of ew shares were up 24% over the orresponding period of last year. edemptions were down 22% and et new money represented an inrease of 44%.

WELLINGTON FUND
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Mutual Funds

By ROBERT R. RICH

Business Outlook Favorable

The business outlook over the near term continues to shape up favorably with indications that the last quarter of 1956 and the first half of 1957 may show the same rate of improvement as seen in the past year, A. Moyer Kulp, Vice-President and Chairman of the Investment Committee of the $500 million Wellington Fund stated. The business improvement in the past year has been running at the annual rate of 4% in the production index and 5% in gross national product, Mr. Kulp added.

The Wellington executive in his periodic review of the business situation, points out that a clue to business prospects will be the sales trend of 1957 automobiles. "The new car models are reported to have had a favorable reception and the next few months will provide a test of consumer attitudes. The industry, generally, is looking for about a 10% increase over 1956."

Reviewing the tight money situation, Mr. Kulp stated that the Federal Reserve's policy of restricting the available supply of credit to an approximate balance with available man-power and raw materials is hurting in spots, but has maintained a stable economy. Although there has been an upward pressure on commodity prices, caused by rising wages, the rise in the cost of living has been held down to an annual rate of about 2%.

Discussing corporate profit margins and profits, Mr. Kulp pointed out that it takes the best corporation managements a little time to offset higher wage and raw material costs. The last two quarters earnings reports reflect this. However, rising volume of business in the fourth quarter of 1956 and a good first quarter expected in 1957, should help considerably. In addition, managements will have had some time in which to effect economies and re-price products, the Wellington executive stated.

Delaware Fund Boosts Its Oil Holdings

Delaware Fund now has 16.6% of its total net assets invested in the oil industry, as compared with 13.8% on Sept. 30, last, according to the fund's latest semi-monthly Directors' Report.

W. Linton Nelson, President, in a commentary on the fund's increased oil position, says "Now it appears unlikely the Suez Canal will be back in operation within six months, and many qualified observers are even extending this estimate to a year. Consequently," he points out, "instead of oil moving to our Atlantic seaboard from the Middle East, we are being called upon to dip into our supplies and make up the deficits in Western Europe."

The fund's investment in this industry now consists of 10,000 shares of Anderson-Prichard; 9,000, Arkansas Fuel Oil; 15,000, Chicago Corp.; 8,400, Cities Service; 15,000, Ohio Oil; 2,000, Phillips; 5,000, Richfield; 1,500, Royal Dutch; 10,000, Shamrock; 8,500, Sinclair; $500,000, Sinclair 4⅜ Cv. Deb.; 10,000, Socony; 10,000, Stad. of Indiana; 10,000, Std. of N. J.; 12,000, Std. of Ohio; 20,000, Sunray Mid-Continent; and 8,000, Union Oil of Calif.

Delaware liquidated its holdings of Gulf and Standard of California early this past August.

Colonial Fund Plans Stock Split Of Two-for-One

Colonial Fund, Inc., America's oldest investment company now operating as a mutual fund, has announced plans for a 2-for-1 stock split.

James H. Orr, President of Colonial Fund, announced that the fund's shareholders will be asked to double the authorized capital. Mr. Orr said, "After the shareholders vote, the directors are expected to declare a 100% stock distribution to shareholders of record Dec. 31."

He also pointed out in the annual report just released that during the past year total net assets of the Fund had risen over $9,-000,000 to a new high of over $35,-000,000 at Oct. 31. "Per share net asset value at that date," he said, "was $19.43, up 10% for the fiscal year after allowance for security profits distributions of $1.30."

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Ten Million Dollar Florida Growth Fund Offering Expected Soon

The first offering of the shares of Florida Growth Fund, Inc., Palm Beach, is expected to be made in the near future when Frank B. Bateman Ltd. offers 2,-000,000 capital shares at $5 a share.

The fund which was incorporated on July 19, 1955 in Florida is presently a closed-end company, but will become an open-end diversified company, with redeemable shares, on and after the sale of all 2,000,000 shares of the initial offering or 30 days after the registration statement becomes effective, whichever is sooner. However, the board of directors may extend the time up to two 60-day consecutive periods. Until such time, the fund will not invest any of its funds in securities other than U. S. Government obligations.

The company's offices, and those of its investment manager—Florida Growth Co. — are at 243 South County Road, Palm Beach. Custodian, transfer and disbursing agent are Florida National Bank & Trust Co., of West Palm Beach.

The directors of the Fund are as follows: Frank B. Bateman (President) is managing partner of Frank B. Bateman, Ltd.; Arthur E. Burke (Vice-President) formerly connected with the Guaranty Trust Co., of New York; William M. Bateman (Secretary and Assistant Treasurer) is a member of the Philadelphia-Baltimore Stock Exchange and Sales Manager and a general partner of Frank B. Bateman, Ltd.

Alex. J. Disher, formerly with Tucker, Anthony & Co., New York, members of New York Stock Exchange; Jeremiah Maguire, Chairman of Federation Bank & Trust Co., New York, Chairman of Interstate Sanitation Commission, President and director of Railroad Utilities Co., director of Merchants and Mfgs. Insurance Co., Traveller's Aid Society and Wilson Bros., Chicago, President and a director, Fifth 912 Corp. and director and Treasurer of Palm Beach Playhouse Corp., Palm Beach, Fla.;

Henry F. Richardson, Jr., member of the New York and Florida Bars, partner, Coe, Richardson and Broberg, Palm Beach, Fla.; George R. Schneider, Chairman of the Board of Security Counselors, Inc., Chicago, Ill., and Chairman of the Board of Automation Fund, Inc., Chicago, Ill.; Charles G. Terry, formerly associated with Schoellkopf, Hutton & Pomeroy, Buffalo, N. Y., investment bankers for 28 years, from which he retired as Vice-President and director, later President and director of American Securities Corp., New York, director and Chairman of Finance Committee, Colorado Fuel & Iron Corp., Denver, Colo., and a director of U. S. Vitamin Corp., American Bosch Arma Corp., and ACF-Wrigley Stores, Inc., and Hall-Scott Motors, Inc.; and

Oliver Whipple, Vice-President of Gulf Insurance Co., Jacksonville, Fla., in charge of its investments, which office he has held in the Mutual Life Insurance Co., of New York, also he was formerly Vice-President, Union Securities Co., New York.

Carl I. Cassell, Cashier of Bank of Palm Beach & Trust Co., is Treasurer.

National Offers New Atomic Age Booklet

Investing in the "Atomic Age" requires the joint efforts of scientists and engineers as well as trained investment analysts, according to a new booklet prepared by National Securities & Research Corporation, sponsors and managers of National Growth Stocks Series and six other mutual investment funds with assets of almost $300,000,000.

"Unlike other present day technology," the booklet points out, "atomic energy has little history to study. The future must be projected through a technical understanding of these new engineering developments and their short and long term potentialities."

Entitled "Give Me A Place to Stand and I Will Move the Earth," the booklet outlines in simple language the investment potentialities of recent atomic developments. It was prepared by Robert Colton, manager of the National Securities' Atomic & Electronics Division, in collaboration with Nuclear Corporation of America, Inc., an organization staffed with nuclear physicists, chemists and electronic engineers. The scope of atomic technology, the main nuclear processes, and related radioisotopes technology are summarized; other specific subjects are also covered, including atomic fuels, reactor technology, chemical-nuclear processes, special materials, and nucleonic instruments, always emphasizing their relationship to investment opportunities.

Affiliated Fund Assets Now at $358 Million

Affiliated Fund, one of the largest investment companies, shows new year-end highs in net assets, shares outstanding and number of shareholders in its report for the year ended Oct. 31, 1956.

Net assets increased by $22,370,-920 to $357,977,445. Shares outstanding increased 4,148,343 to 60,137,555. Shareholders increased 6,684 to 133,757. The number of participants in the company's Periodic Investment Program continued to grow and reached an all-time high of 26,810.

Per-share net assets increased by 27 cents after adjusting the value a year earlier for a 31 cent distribution of net realized security profits to shareholders of record on the first day of the fiscal year.

Dividends from income, totaling 23 cents a share, were paid in cash toward the end of each quarterly period.

In his report, H. I. Prankard, II, President, points out that to those shareholders who accepted their year-end capital gain distributions in additional shares of stock, dividends from income have increased over 70% in the past 10 years, while the cost of living increased by 21%.

The company has substantially reduced its investments in many of the popular so-called "growth stocks," believing that the market prices for many reflect too full a valuation of their long-range growth prospects. Currently, its investments are largely in service companies, producers of nondurable goods and companies producing fuel and raw materials.

Philadelphia Fund total net assets crossed the $5 million mark for the first time, Roy R. Coffin, President, reported. Assets of the fund are now at an all time high of $5,101,000, equal to $18.72 per share on the outstanding stock. This represents an increase of $1,040,000 or 25% over total net assets of $4,061,000 equal to $18.31 a share at the start of 1956. Mr. Coffin attributed the increase in

Continued on page 119

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Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Dec. 16	§102.0	*101.3	100.2	100.3
Equivalent to—					
Steel ingots and castings (net tons)	Dec. 16	§2,511,000	*2,493,000	2,466,000	2,421,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Nov. 30	7,132,650	7,195,350	6,981,100	6,836,400
Crude runs to stills—daily average (bbls.)	Nov. 30	¶8,114,000	8,111,000	7,853,000	7,801,000
Gasoline output (bbls.)	Nov. 30	27,043,000	26,216,000	26,620,000	26,963,000
Kerosene output (bbls.)	Nov. 30	2,386,000	2,855,000	2,507,000	2,312,000
Distillate fuel oil output (bbls.)	Nov. 30	13,779,000	12,761,000	12,477,000	12,475,000
Residual fuel oil output (bbls.)	Nov. 30	8,567,000	8,458,000	7,835,000	8,350,000
Stocks at refineries, bulk terminals, in transit, in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 30	175,401,000	174,544,000	172,626,000	157,535,000
Kerosene (bbls.) at	Nov. 30	34,595,000	36,305,000	35,235,000	33,221,000
Distillate fuel oil (bbls.) at	Nov. 30	153,498,000	158,871,000	158,685,000	140,103,000
Residual fuel oil (bbls.) at	Nov. 30	44,389,000	45,745,000	48,071,000	44,156,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 1	752,150	650,920	800,272	723,736
Revenue freight received from connections (no. of cars)	Dec. 1	610,358	622,326	663,919	610,344
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 6	$323,209,000	$377,118,000	$281,014,000	$330,332,000
Private construction	Dec. 6	207,186,000	189,585,000	168,082,000	139,050,000
Public construction	Dec. 6	116,123,000	187,533,000	112,932,000	191,283,000
State and municipal	Dec. 6	79,848,000	171,104,000	97,772,000	163,099,000
Federal	Dec. 6	36,275,000	16,429,000	15,160,000	28,184,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 1	10,940,000	9,140,000	10,590,000	10,443,000
Pennsylvania anthracite (tons)	Dec. 1	659,000	447,000	498,000	581,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100	Dec. 1	196	148	124	197
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 8	12,047,000	12,075,000	11,522,000	11,426,000
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Dec. 6	270	254	219	219
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 4	5.622c	5.622c	5.622c	5.174c
Pig iron (per gross ton)	Dec. 4	$63.04	$63.04	$63.04	$59.09
Scrap steel (per gross ton)	Dec. 4	$65.17	$64.33	$59.83	$49.50
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 5	35.700c	35.700c	35.700c	49.925c
Export refinery at	Dec. 5	34.725c	34.325c	34.975c	44.500c
Lead (New York) at	Dec. 5	16.000c	16.000c	16.000c	15.500c
Lead (St. Louis) at	Dec. 5	15.800c	15.800c	15.800c	15.300c
Zinc (East St. Louis) at	Dec. 5	13.500c	13.500c	13.500c	13.000c
‡Zinc (delivered) at	Dec. 5	14.000c	14.000c	14.000c	13.500c
Aluminum (primary pig, 99%) at	Dec. 5	25.000c	25.000c	25.000c	Not Avail.
Straits tin (New York) at	Dec. 5	108.250c	110.000c	112.125c	103.750c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Dec. 11	89.73	89.78	90.83	95.07
Average corporate	Dec. 11	96.54	96.69	98.25	107.27
Aaa	Dec. 11	100.49	100.49	101.64	110.52
Aa	Dec. 11	98.73	98.88	100.49	109.24
A	Dec. 11	96.54	96.69	98.25	107.27
Baa	Dec. 11	90.91	91.34	92.79	102.13
Railroad Group	Dec. 11	97.21	95.16	96.54	105.52
Public Utilities Group	Dec. 11	97.31	97.47	98.41	107.62
Industrials Group	Dec. 11	97.47	97.62	99.52	108.70
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Dec. 11	3.32	3.34	3.25	2.87
Average corporate	Dec. 11	3.97	3.96	3.86	3.32
Aaa	Dec. 11	3.72	3.72	3.65	3.14
Aa	Dec. 11	3.83	3.82	3.72	3.21
A	Dec. 11	3.97	3.96	3.86	3.32
Baa	Dec. 11	4.35	4.32	4.22	3.62
Railroad Group	Dec. 11	3.92	4.06	3.97	3.42
Public Utilities Group	Dec. 11	3.92	3.91	3.85	3.30
Industrials Group	Dec. 11	3.91	3.90	3.78	3.2[illegible]
MOODY'S COMMODITY INDEX	Dec. 11	439.6	437.5	423.0	408.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 1	287,435	202,463	372,488	397,989
Production (tons)	Dec. 1	252,372	260,253	282,327	286,920
Percentage of activity	Dec. 1	36	89	90	98
Unfilled orders (tons) at end of period	Dec. 1	407,812	373,310	490,515	654,61[illegible]
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100	Dec. 7	109.56	109.62	109.48	107.17
STOCK TRANSACTIONS FOR ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON N. Y. STOCK EXCHANGE — SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—†					
Number of shares	Nov. 17	1,011,611	1,490,392	1,044,342	1,279,079
Dollar value	Nov. 17	$53,691,886	$77,141,062	$57,470,360	$74,162,912
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Nov. 17	759,690	912,396	755,729	1,117,375
Customers' short sales	Nov. 17	7,084	7,683	6,587	9,797
Customers' other sales	Nov. 17	752,606	905,213	749,142	1,107,578
Dollar value	Nov. 17	$37,982,944	$44,633,922	$37,294,134	$59,408,308
Round-lot sales by dealers—					
Number of shares—Total sales	Nov. 17	177,750	173,390	205,480	314,300
Short sales	Nov. 17	------	------	------	------
Other sales	Nov. 17	177,750	173,390	205,480	314,300
Round-lot purchases by dealers—					
Number of shares	Nov. 17	428,280	756,430	481,950	479,820
TOTAL ROUND-LOT STOCK SALES ON THE N. Y. STOCK EXCHANGE AND ROUND-LOT STOCK TRANSACTIONS FOR ACCOUNT OF MEMBERS (SHARES):					
Total round-lot sales—					
Short sales	Nov. 17	588,330	603,170	379,100	549,780
Other sales	Nov. 17	9,944,750	8,916,480	8,201,770	12,657,850
Total sales	Nov. 17	10,533,080	9,519,650	8,580,870	13,207,630
ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:					
Transactions of specialists in stocks in which registered—					
Total purchases	Nov. 17	1,471,320	1,334,200	1,058,420	1,727,660
Short sales	Nov. 17	332,930	395,130	185,960	245,270
Other sales	Nov. 17	1,100,100	1,131,390	900,990	1,345,820
Total sales	Nov. 17	1,433,030	1,526,520	1,086,950	1,591,090
Other transactions initiated on the floor—	Nov. 17	301,440	256,260	254,190	375,620
Total purchases					
Short sales	Nov. 17	33,000	49,400	22,600	47,400
Other sales	Nov. 17	277,040	260,500	279,910	346,980
Total sales	Nov. 17	310,040	309,900	302,510	394,380
Other transactions initiated off the floor—					
Total purchases	Nov. 17	437,360	396,485	406,350	703,430
Short sales	Nov. 17	86,080	84,620	79,090	94,800
Other sales	Nov. 17	546,779	544,221	504,230	614,40[illegible]
Total sales	Nov. 17	632,859	628,841	583,320	709,202
Total round-lot transactions for account of members—					
Total purchases	Nov. 17	2,210,120	1,986,945	1,718,960	2,806,710
Short sales	Nov. 17	452,010	529,150	287,650	387,470
Other sales	Nov. 17	1,923,919	1,936,111	1,685,130	2,307,202
Total sales	Nov. 17	2,375,929	2,465,261	1,972,780	2,694,672
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):					
Commodity Group—					
All commodities	Dec. 4	115.7	115.9	114.9	111.1
Farm products	Dec. 4	86.7	88.5	87.9	83.8
Processed foods	Dec. 4	102.9	*103.3	102.6	98.0
Meats	Dec. 4	78.7	*79.8	80.5	72.4
All commodities other than farm and foods	Dec. 4	124.3	124.2	123.0	119.4

*Revised figure. ¶Includes 923,000 barrels of foreign crude runs. §Based on new annual capacity of 128,363,000 tons as of Jan. 1, 1956, as against Jan. 1, 1955 basis of 125,828,319 tons. †Number of orders not reported since introduction of Monthly Investment Plan. ‡Prime Western Zinc sold on delivered basis at centers where freight from East St. Louis exceeds one-half cent a pound.

	Latest Month	Previous Month	Year Ago
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of October:			
New England	$25,235,912	$41,514,711	$26,053,663
Middle Atlantic	119,710,777	143,813,654	78,460,133
South Atlantic	35,899,804	36,035,444	44,435,779
East Central	108,670,922	100,331,047	102,814,486
South Central	73,323,093	75,695,241	73,156,089
West Central	39,656,257	28,676,526	54,193,249
Mountain	31,920,975	21,129,196	22,864,261
Pacific	95,517,231	79,313,394	85,415,091
Total United States	$529,934,971	$526,509,213	$487,392,751
New York City	72,251,619	96,679,762	44,087,975
Outside New York City	457,683,352	429,829,451	443,304,776
CONSUMER CREDIT OUTSTANDING—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—REVISED SERIES—Estimated short and intermediate term credit, in millions as of Oct. 31:			
Total consumer credit	$40,196	$40,074	$36,573
Instalment credit	30,811	30,707	27,968
Automobile	14,478	14,533	13,246
Other consumer goods	7,601	7,497	7,025
Repairs and modernization loans	1,781	1,758	1,648
Personal loans	6,951	6,919	6,049
Non-instalment credit	9,385	9,367	8,605
Single payment loans	3,310	3,361	2,804
Charge Accounts	3,875	3,780	3,715
Service credit	2,200	2,226	2,086
CONSUMER PRICE INDEX — 1947-49=100— Month of October:			
All items	117.1	117.1	114.9
Food	113.1	113.1	110.8
Food at home	111.7	111.7	109.4
Cereals and bakery products	126.8	126.6	123.9
Meats, poultry and fish	100.8	101.3	100.9
Dairy products	110.7	109.8	107.5
Fruits and vegetables	113.9	114.8	108.5
Other foods at home	115.8	115.4	113.9
Housing	122.8	122.5	120.8
Rent	133.4	133.4	130.8
Gas and electricity	112.0	112.2	111.2
Solid fuels and fuel oil	132.9	130.5	126.3
Housefurnishings	103.6	103.3	104.4
Household operation	124.2	123.7	120.1
Apparel	106.8	106.5	104.6
Men's and boys'	108.2	108.3	106.0
Women's and girls'	100.1	99.6	99.5
Footwear	126.2	126.0	118.4
Other apparel	92.1	92.0	91.0
Transportation	132.6	128.6	126.6
Public	173.0	173.0	167.1
Private	122.9	118.7	117.1
Medical care	134.1	134.0	128.7
Personal care	120.8	120.5	117.0
Reading and recreation	108.5	108.4	106.7
Other goods and services	123.0	122.7	120.6
COTTON SEED AND COTTON SEED PRODUCTS—DEPT. OF COMMERCE—Month of October:			
Cotton Seed—			
Received at mills (tons)	1,572,928	1,273,839	1,689,369
Crushed (tons)	721,835	596,375	707,751
Stocks (tons) Oct. 31	1,950,273	1,108,180	1,898,398
Crude Oil—			
Stocks (pounds) Oct. 31	147,953,000	96,275,000	155,640,000
Produced (pounds)	241,749,000	165,478,000	236,807,000
Shipped (pounds)	269,249,000	73,623,000	152,131,000
Refined Oil—			
Stocks (pounds) Oct. 31	197,188,000	157,521,000	283,477,000
Produced (pounds)	161,282,000	69,432,000	140,847,000
Consumption (pounds)	124,424,000	96,977,000	125,255,000
Cake and Meal—			
Stocks (tons) Oct. 31	170,814	140,916	170,721
Produced (tons)	346,400	249,069	228,503
Shipped (tons)	316,502	228,441	308,022
Hulls—			
Stocks (tons) Oct. 31	56,190	55,322	96,904
Produced (tons)	153,882	112,850	153,210
Shipped (tons)	153,014	112,651	122,648
Linters (running bales)—			
Stocks Oct. 31	192,955	145,109	113,781
Produced	215,984	157,352	216,101
Shipped	168,138	115,569	194,920
Hull Fiber (1,000-lb. bales)—			
Stocks Oct. 31	662	546	492
Produced	1,225	1,152	1,278
Shipped	1,109	940	1,233
Motes, Grabbots, etc. (1,000 pounds)—			
Stocks Oct. 31	2,425	2,115	4,690
Produced	1,458	1,042	2,749
Shipped	1,148	866	846
COTTON SPINNING (DEPT. OF COMMERCE):			
Spinning spindles in place on Oct. 27	21,695,000	21,688,000	22,194,000
Spinning spindles active on Oct. 27	18,839,000	18,780,000	19,302,000
Active spindle hours (000's omitted) Oct. 27	9,162,000	10,678,000	9,512,000
Active spindle hours per spindle in place Oct.	458.1	427.1	475.6
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of October:			
All manufacturing (production workers)	13,387,000	*13,299,000	13,440,000
Durable goods	7,701,000	*7,567,000	7,721,000
Nondurable goods	5,686,000	*5,732,000	5,719,000
Employment indexes (1947-49 Avge.=100)—			
All manufacturing	108.2	*107.5	108.7
Payroll indexes (1947-49 Average=100)—All manufacturing	167.7	*165.3	161.1
Estimated number of employees in manufacturing industries—			
All manufacturing	17,184,000	17,079,000	17,006,000
Durable goods	9,921,000	9,766,000	9,761,000
Nondurable goods	7,263,000	7,313,000	7,245,000
LIFE INSURANCE PURCHASERS—INSTITUTE OF LIFE INSURANCE—Month of Sept. (000's omitted):			
Ordinary	$2,634,000	$2,858,000	$2,345,000
Industrial	525,000	526,000	537,000
Group	981,000	1,160,000	836,000
Total	$4,140,000	$4,544,000	$3,718,000
MANUFACTURER'S INVENTORIES AND SALES (DEPT. OF COMMERCE) NEW SERIES— Month of September (millions of dollars):			
Inventories—			
Durables	$28,701	*$28,178	$25,182
Nondurables	21,381	*21,357	19,521
Total	$50,082	*$49,535	$44,703
Sales	27,691	*27,632	27,224
MONEY IN CIRCULATION—TREASURY DEPT.			
As of Sept. 30 (000's omitted)	$30,768,000	$30,757,000	$30,422,000

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Our Reporter's Report

The somewhat firmer undertone which developed in the corporate secondary and new issue bond markets a week or so ago, appeared to be holding in most directions.

This does not mean, however, that there has been any change in basic factors which have been making for higher yields in the money market. On the contrary, hearings staged by Congressman Patman's economic sub-Committee found opposing forces standing by their guns.

William McC. Martin, Federal Reserve Board Chairman, went on record as against any softening of the Board's efforts to fight off threats of new inflation. Meantime an array of "soft-money" advocates took the opposite tack.

There has been modest but further firming of yields on the more recently marketed offerings with those carrying coupons of 4% or better naturally making the more impressive showing.

The better general tone marketwise found reflection in the bidding for a small public utility deal, that of Sierra Pacific Power Co., which was up for bids on Tuesday.

The coast utility sought only $3 million, but was making its second trip to market, having turned down bids received a month ago. This time the best bid of 101.2199 for a 5¼% interest rate compared with a top tender of 100.02 entered for a 5⅜% coupon in the first go-round. So, while not always the case, sometimes it pays to take a second look.

New Issues Moving

Latest of corporate new offerings appeared to be going to investors in good style, with liberal yields giving a fillip to demand. Florida Power & Light Co. a $15 million of 30-year, first mortgage bonds, carrying a 4⅜% coupon and priced to yield 4.30% was reported better than half sold.

Meantime, Sierra Pacific Power's offering of $3 million of 30-year bonds, carrying a 5¼% coupon and priced to return the investor 5.10% to maturity, was reported to have been snapped up quickly.

The buying continued to come from a host of smaller insurance firms, and other fiduciary units which were attracted by the terms.

Good Demand Foreseen

The week's largest corporate undertaking, Texas Eastern Transmission Corp.'s $40 million of 20-year debentures, is slated for marketing today, via the negotiated route.

In underwriting circles it was indicated that preliminary inquiry building up for this prospect was of decidedly encouraging proportions.

The debentures, with their shorter than ordinary maturity, carry a 5½% interest rate and are priced at 100 thus offering a yield that attracts buyers.

Slender Calendar

It's quite a spell since the new issue market came down to the sparse fare which looms for the week ahead. Of course the letdown is partly seasonal as potential borrowers recognize that prospective purchasers of new securities will be clamping up the shutters for the ensuing fortnight.

Aside from the task of cleaning up any unsold portions of several "rights" offerings, namely Burroughs Corp., Libby, McNeill & Libby and National Cash Register, only a few railway equipment trust issues are slated.

These are Atlantic Coast Line's $5,115,000 of certificates on which bids will be opened Tuesday, and Northern Pacific's $7,700,000 issue which will be put on the block the following day.

Continued from page 117

Mutual Funds

assets to a combination of appreciation in the market value of securities in the fund's portfolio and sales of new shares to investors.

Sovereign Investors reporting as of Nov. 30, 1956 shows total net assets of $1,758,930.82 compared with $1,587,893.91 on Jan. 1, 1956. This represents an increase of 11% for the period. Outstanding shares of the fund rose 11% during the same period. The net asset value per share increased from $12.54 on Jan. 1, 1956 to $12.56 on Nov. 30, 1956.

Science & Nuclear Fund assets on Nov. 30, 1956 were $1,549,081—up $672,063 or 78% from a year ago. For the same period, net asset value per share rose from $10.23 to $11.11, an increase of 8.6%. During November, Combustion Engineering and High Voltage Engineering were eliminated from Science & Nuclear Fund. Northspan Uranium 5¾% bonds with warrants attached were added to the fund's holdings.

Vance Seminar In New Orleans

Vance, Sanders & Co., principal underwriters for Massachusetts Investors Trust, Boston Fund and other mutual investment companies, will present its seminar program on sound ways to sell mutual funds at the Roosevelt Hotel, New Orleans, on Dec. 13 and 14.

As with other similar meetings for independent investment dealers and their salesmen held earlier this year in Boston, Chicago, Cleveland, St. Louis and New York City, participation in the case history solutions will be limited to 12 "round tables" of 10 persons each.

Guest speaker at the opening session on Thursday morning will be Theodore T. Miller, of New York, President of the Polymer Chemicals Division of W. R. Grace & Co. and a director of Boston Fund.

Chairman of the meetings is Richard Platt, of Boston, a partner of Vance, Sanders & Company. Other partners and representatives of the firm who will participate are Thomas A. Baxter and Arthur H. Haussermann, of Boston; Kimball Valentine, of Washington, D. C.; Alec B. Stevenson and Henry Parkman III, of Nashville; and John A. Carter, III, of Los Angeles.

The funds for which Vance, Sanders & Company are principal underwriters, which also include Massachusetts Investors Growth Stock Fund, Canada General Fund, Century Shares Trust and The Bond Fund of Boston, had total net assets of approximately $1,435,000,000 at the close of last month.

With Eastman Dillon

(Special to The Financial Chronicle)

LOS ANGELES, Calif. — Richard M. Fischer has been added to the staff of Eastman Dillon, Union Securities & Co., 3115 Wilshire Boulevard. He was formerly with Dempsey-Tegeler & Co.

Paine, Webber Adds

(Special to The Financial Chronicle)

LONG BEACH, Calif. — Donald R. Bretting has been added to the staff of Paine, Webber, Jackson & Curtis, Locust at Fourth. He was formerly with Shearson Hammill & Co.

REDEMPTION NOTICE

ABERDEEN AND ROCKFISH RAILROAD COMPANY
Incorporated
First Mortgage Three and One-Quarter Per Cent Bonds Due July 1, 1960

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Deed of Trust dated as of July 1, 1945, between the undersigned and the Security National Bank of Greensboro, Raleigh, North Carolina, Trustee, there have been drawn by lot for redemption and it is the intention of the undersigned to pay and redeem on December 17, 1956, $6,000.00 principal amount of the above described bonds, bearing Nos.

27—40—49—59—64—74

The bonds so designated for redemption will become due and payable on said redemption date and will be redeemed on or after that date at the office of the Trustee, the SECURITY NATIONAL BANK, Raleigh, North Carolina, at par and accrued interest to redemption date. All such bonds are required to be presented for payment and redemption at said office of the Trustee on Dec. 17, 1956, on which date interest shall cease to accrue thereon.

ABERDEEN AND ROCKFISH RAILROAD COMPANY INCORPORATED
By: Forrest Lockey, Vice President
Dated: October 12, 1956

DIVIDEND NOTICES

DOME MINES LIMITED

December 3, 1956

DIVIDEND NO. 157

At a meeting of the Board of Directors of Dome Mines Limited, held this day, a quarterly dividend of Seventeen and One-half Cents (17½c) per share plus an extra dividend of Five Cents (5c) per share (in Canadian Funds) were declared payable on January 30, 1957, to shareholders of record at the close of business on December 31, 1956.

CLIFFORD W. MICHEL,
President and Treasurer.

THE GARLOCK PACKING COMPANY

December 7, 1956

COMMON DIVIDEND No. 322

At a meeting of the Board of Directors, held this day, a quarterly dividend of 25¢ per share and an *extra* dividend of 50¢ per share were declared on the common stock of the Company, payable December 28, 1956, to stockholders of record at the close of business December 14, 1956.

H. B. PIERCE, Secretary

DIVIDEND NOTICES

NATIONAL SHARES CORPORATION
14 Wall Street, New York

A special dividend of one dollar and seventeen cents ($1.17) per share has been declared this day on the Corporation's capital stock payable December 24, 1956 to stockholders of record at the close of business December 14, 1956. It is expected that approximately one dollar ($1.00) per share of this special dividend will be designated as a "capital gain dividend," pursuant to the provisions of the Internal Revenue Code.

The directors have also declared a dividend of twelve cents (12c) per share payable January 15, 1957 to stockholders of record at the close of business December 31, 1956.

JOSEPH S. STOUT, *Secretary*
December 6, 1956.

New York & Honduras Rosario Mining Company
120 Broadway, New York 5, N. Y.

December 12, 1956.

DIVIDEND NO. 417

The Board of Directors of this Company, at a Meeting held this day, declared a dividend of One Dollar and Seventy-five cents ($1.75) per share on the outstanding capital stock, payable on January 3, 1957, to stockholders of record at the close of business on December 21, 1956. This distribution is the final dividend for the year 1956.

G. E. McDANIEL, Secretary-Treasurer.

SUPERCRETE LTD., ST. BONIFACE, MAN.

NOTICE OF DIVIDEND

Notice is hereby given that the Board of Directors has declared a dividend of eight and one quarter cents ($.08¼) per share on the Common Capital stock of the company in respect of which dividends have not been waived, payable January 1, 1957 to shareholders of record at the close of business December 15, 1956.

Transfer books will not be closed.

J. E. DUMAS, Secretary-Treasurer.

DIVIDEND NOTICES

BROAD STREET INVESTING CORPORATION
A Diversified Mutual Fund

108th *Consecutive Quarterly Dividend*

from net investment income
27 cents a share

Distribution from realized gain on investments
$1.03 a share

Payable December 24, 1956
Record Date December 4, 1956

Kenneth H. Chalmers
Secretary
65 Broadway, New York 6, N. Y.

GENERAL TIME CORPORATION

Dividend

The Board of Directors has declared a dividend of 50 cents per share on the common stock, payable January 2, 1957 to shareholders of record December 18, 1956.

JOHN H. SCHMIDT
Secretary

December 5, 1956.

WESTCLOX · BIG BEN
SETH THOMAS
STROMBERG RECORDERS
HAYDON MOTORS

WAGNER BAKING CORPORATION

The Board of Directors has declared the regular quarterly dividend of $1.75 per share on the 7% Preferred Stock payable January 2, 1957, to stockholders of record December 14, 1956.

J. V. STEVENS, Secretary

Diebold
INCORPORATED
Canton 2, Ohio

DIVIDEND NOTICE

Manufacturers of Bank Vault Equipment . . . Fire-resistive Sales . . . Storage Files . . . Rotary, Vertical and Visible Record Files . . . Flofilm Microfilming Cameras and Processors

The Board of Directors of Diebold, Incorporated, at a meeting held on the 28th day of November, 1956, declared a dividend on the outstanding common shares of the corporation of twenty cents (20c) per share, payable December 31, 1956 to shareholders of record at the close of business at the office of the Transfer Agent on December 17, 1956.

A further dividend payable in common shares of the corporation at the rate of one-tenth (1/10th) of a common share for each common share of the corporation outstanding has been declared by the Board, payable January 16, 1957 to shareholders of record at the close of business at the office of the Transfer Agent on January 2, 1957.

The Board of Directors has also declared the regular dividend of twenty-eight and one-eighth cents (28⅛c) per share upon all outstanding preferred shares payable on January 1, 1957 to all preferred shareholders of record at the close of business at the office of the Transfer Agent on December 21, 1956.

RAYMOND KOONTZ
President

N-402-D1

INTERNATIONAL SHOE COMPANY
St. Louis

133RD CONSECUTIVE DIVIDEND
Common Stock

A quarterly dividend of 60¢ per share payable on January 1, 1957 to stockholders of record at the close of business December 14, 1956, was declared by the Board of Directors.

ANDREW W. JOHNSON
Vice-President and Treasurer

December 3, 1956

Tri-Continental Corporation

A Diversified Closed-End Investment Company

Final Quarter Dividends

60 cents a share on the COMMON STOCK
Payable December 24, 1956

67½ cents a share on the $2.70 PREFERRED STOCK
Payable January 1, 1957

Record Date December 11, 1956

Kenneth H. Chalmers
Secretary
65 Broadway, New York 6, N. Y.

DIVIDEND NOTICE

DIVIDEND NOTICE
ALLIED PRODUCTS CORPORATION
Detroit 23, Michigan

COMMON DIVIDEND NO. 75

On November 29, 1956, the board of directors of Allied Products Corporation, a Michigan corporation, declared a quarterly dividend of 40c per share on the Common shares of the Corporation, payable December 28, 1956, to shareholders of record at the close of business on December 14, 1956.

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Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Unless the dispute between the longshoremen and the shippers is settled prior to the expiration Feb. 12 of the Taft-Hartley Act injunction against this strike, one of the Eisenhower Administration's pet projects is going to be just a poor little lamb what lost its way.

That pet project is to see if it really can't be done this time, this business of debilitating the Taft-Hartley Act, to show that Republicans are genuine "modern Republicans" and deserve the full confidence of such public-spirited citizens as the bosses of organized labor.

Mr. Eisenhower was reported to be most angry with the labor boys for shutting off ocean shipping at the very time this nation was demonstrating that it was the "world's leader," and cooperating with Russia to thwart the evil designs of the French and the British, and otherwise playing god in international affairs.

For there is nothing so damaging to the self-respect of the chief of state of a world's leader as to be shown before the world as being unable to control things at home, while shiploads of beneficences to Europe as well as ordinary trade goods pile up on piers and in warehouses.

Just exactly the same kind of a virtuous emotion overcame Harry Truman in 1946, when railroad labor pulled its big strike. Harry in righteous anger persuaded the House quickly to pass a bill to draft labor into the Army. Just as quickly the late Senator Bob Taft stopped the project cold in the Senate.

Labor Plans for M-Day

Arthur S. Fleming, Director of the Office of Defense Mobilization, has turned over to the Department of Labor the complete job of planning how to handle manpower utilization, wage control, and the enforcement thereof in case of war.

This means that even if stabilization is operated by an independent agency, as the case with recent wars to win universal justice and secure the peace in perpetuity, the framework will be molded by the Labor Department boys, who have a strong and long reputation of favoritism to organized labor. This prophesy means that if in spite of the revolving buttocks foreign policy toward Russia (constantly turning the second buttocks to exposure from Red kicks of one sort or another while the other gets through smarting), there is a war, the set-up of "stabilization" will be pitched heavily for organized labor, as under Truman and Roosevelt's wars also.

Surplus Gas

One of the curiosities of the entire disruption of the world's distribution of petroleum and products, is that it is likely to lead to a still greater surplus of stocks of gasoline, now already much larger than normal.

For in order to get more oil for Europe the U. S. will produce more and in order to get more heating oil to counter the loss to this country of residual oil diverted to Europe, refiners cannot escape, oil people say, boosting still higher the production of gasoline.

Eventually, of course, crude will rise considerably in price and this will tend to offset the possibility of lowered gasoline prices in the face of a short world oil situation.

Immediately heating oil will be under the most price pressure, it is reported.

Committee Saved

When the Defense Production Act was up for renewal in the last session of Congress, Chairman Emanuel Celler (D., N. Y.) of the House Judiciary Committee did his best to kill off industry committees as an evil mechanism to hurt the multitudes.

One of these committees is the Foreign Petroleum Supply Committee. It is the Middle East Emergency Committee of the FPSC which is diverting tankers, re-aligning the oil trade of the world, and otherwise making it possible to alleviate the oil shortage in Western Europe.

If Mr. Celler's ideas had prevailed this committee would have been unable legally to undertake this job.

Two Aid Programs Confirmed

When he addressed the automobile people in New York a week ago tonight, Vice-President Nixon confirmed that the United States would come to the financial aid of the Middle East and of Britain.

"There must be generous aid in solving their (Middle East) very real economic problems so that their peoples may rise from the depths of poverty and disease," the Vice-President stated.

Incidentally, this correspondent predicted only one week previously, on Nov. 29, that an aid program for the Middle East as well as financial aid to Western Europe, would be involved in a Middle East settlement and a consequence of affairs that occurred there.

One has to move fast to beat the official announcement when predicting that the United States Government will be prepared to shell out large sums of money for foreign aid come any new problem in world affairs.

Universal Ointment

Money is set forth implicitly by the Eisenhower Administration as not only a universal ointment for world problems, but also for the domestic ills of peace time. At noon of the same day when Vice-President Nixon was telling the automobile people in New York how American money would solve the dislocations in Britain and help end poverty in the Middle East, Marion Folsom, Secretary of Welfare, was telling the National Press Club how generous the Federal Government is in health, welfare, and educational aids.

Spending Now Highest

Highlights of the Welfare Secretary's speech follow:

(1) While Congress did not grant in full a request for a 24% budget boost for such activities this year, "the level of Federal activities in these fields today is higher than ever before."

(2) More than 9 million persons now receive monthly social security checks, which go to three out of five retired persons. Benefits amount to almost $6 billion annually and the full impact of the SS system is yet to be felt. Benefits have almost doubled in the past four years alone.

(3) Some 5 million additional persons benefit from Federal public assistance payments, for the aged, blind, dependent children, and the disabled.

(4) The government is researching "for the first time" into the "underlying causes of poverty," and is helping to train welfare personnel.

(5) A program has begun, which in a few years time will reach $100 millions of expenditures annually, to provide medical care for the needy.

(6) Federal appropriations for the National Institutes of Health for medical research alone now amount to $180 million. Sixteen years ago they were only $1 million.

(7) In the past decade more than 2,000 hospitals and health centers have been built with Federal aid, and another 800 more are under construction or are planned.

Teacher Aid

(8) The government is aiding 6,000 student and teaching scientists this year and is helping to expand the supply of nurses and public health doctors and engineers.

New Projects

Secretary Folsom also outlined some of the major objectives of the Eisenhower Administration in the health, welfare, and educational fields for legislation in 1957. The highlights are summarized:

(1) The Federal aid to school construction program. Mr. Folsom, however, insisted this aid be dispersed among the states on a "needs" rather than a per capita basis, even suggesting that such states as New York probably did not need a cent of Federal money. Since there is not an important existing Federal aid program on a "needs" basis, so long as the Administration insists upon this viewpoint, the school construction bill is unlikely to pass.

(2) Expansion in various programs of the Federal Office of Education.

(3) Recommendations are expected in 1957 for "higher" education, which the Secretary expects will double or triple in the next 10 to 15 years.

(4) Expansion of the present 3-year, $90-million program for construction of medical research facilities (the Eisenhower Administration always expands programs once it gets them in initial modest amounts on the books). Mr. Folsom says the Administration also wants to add to this program provision for construction of teaching facilities for doctors.

(5) Further undefined programs for aiding older persons.

(6) Federal grants for aiding states in solving the problems of juvenile delinquency.

Comfortable Job

In the view of Secretary Folsom, when a professional welfare worker gets Federal funds to extend the scope of his work, this apparently has no influence in easing the man's job or building up his personal status and pay.

This was apparent when Mr. Folsom told his Press Club audience how much more congenial it was to be Secretary of Welfare than Under Secretary of the Treasury, his preceding job. Mr. Folsom observed that when he was in the Treasury all the people who came to him had selfish purposes, or axes to grind. They wanted to get their taxes lowered. On the other hand, he said, the people who came to see him at the Welfare Department were all devoted unselfishly to the help of others.

[This column is intended to re- flect the "behind the scene" inter- pretation from the nation's Capita and may or may not coincide wit the "Chronicle's" own views.]

BUSINESS BUZZ

"Frankly, Gentlemen, I'm shocked! —— Haven't you ever heard of the virtue of patience?"

COMING EVENTS

In Investment Field

Jan. 10, 1957 (Philadelphia, Pa.
Philadelphia Securities Association annual meeting at the Barclay Hotel.

Jan. 14-16, 1957 (Chicago, Ill.)
American Bankers Associatio 9th National Credit Conference

Jan. 18, 1957 (Baltimore, Md.)
Baltimore Security Traders Association 22nd Annual Mid Winter Dinner at the Souther Hotel.

Jan. 28, 1956 (Chicago, Ill.)
Bond Traders Club of Chicag annual winter party at th Sheraton Hotel.

March 8, 1957 (Toronto, Canada
Toronto Bond Traders' Association 25th anniversary dinne at the King Edward Hotel.

Mar. 18-20, 1957 (Chicago, Ill.)
American Bankers Associatio 11th National Instalment Credi Conference.

April 21-23, 1957 (Dallas, Tex.)
Texas Group of Investmen Bankers Association annua meeting at the Statler Hilto Hotel.

May 8-11, 1957 (White Sulphur Springs, Va.)
Investment Bankers Associatio Spring meeting at the Greenbrier Hotel.

Sept. 25-27, 1957 (Santa Barbar Cal.)
Investment Bankers Associatio Fall Meeting at Santa Barbar Biltmore.

Nov. 3-6, 1957 (Hot Springs, Va.
National Security Traders Association Annual Convention a the Homestead.

Dec. 1-6, 1957 (Hollywood Beach Fla.)
Investment Bankers Associatio Annual Convention at Hollywood Beach Hotel.

Oct. 29-Nov. 3, 1958 (Colorad Springs, Colo.)
National Security Traders Association Annual Convention a the Broadmoor.

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